

Office of Inspector General | United States Postal Service

Audit Report

Oversight of Contract Extensions

Report Number SM-AR-18-001 | March 20, 2018



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Highlights

Objective

Our objective was to determine whether U.S. Postal Service contracting officers (CO) are properly extending contracts.

The Postal Service may use options or renewals to extend contracts beyond the original agreement when doing so would represent the best value for the organization.

As of July 2017, the Postal Service had 313 open contracts over eight years old, with invoice activity within the last two years. The Postal Service paid over \$3.4 billion on these contracts. We judgmentally selected 62 contracts to review, for which the Postal Service paid over \$520 million.

What the OIG Found

COs were not consistently extending contracts in adherence with policies and procedures. Specifically, of the 62 contracts reviewed, COs:

- Added options after contract award that continuously extend 14 contracts.
- Inconsistently used option clauses when exercising options for 39 contracts.
- Improperly extended 33 contracts by repeatedly using one-time renewal clauses.
- Failed to incorporate required contract extension clauses into the contract language for 46 contracts.

Additionally, the Postal Service's Supplying Principles & Practices include conflicting language compared with actual contract clauses regarding written

notice requirements for extending contracts. Furthermore, COs did not close out 35 contracts properly.

These issues occurred because guidance on the use of option clauses is unclear and the review and approval process does not ensure that COs use and adhere to option and renewal requirements. In addition, conflicting contract language went unnoticed by management and COs stated that closing contracts is a low priority and a time-consuming task.

Without adequate processes over contract administration, there is an increased risk of noncompliance with policy and contracts can be improperly extended. This hinders competition, reducing the opportunity to obtain best value, and may impact the continuity of goods and services. Also, contracts that are not closed properly may still have funds obligated to them that the Postal Service could use for other purchases. For the 33 contracts improperly renewed, the annualized payments over a two-year period totaled \$4.5 million.

What the OIG Recommended

We recommended management revise policy and reiterate through formal communication and refresher training: the proper use of option and renewal clauses and the inclusion of required clauses in the contract language. We also recommended management revise the review and approval process to promote adherence and consistency for contracting officers when using options and required clauses when extending contracts. Lastly, we recommended management close out the remaining open contracts and reiterate the importance of proper contract closeout.

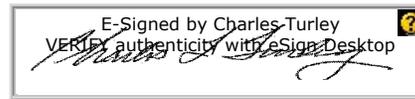
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 20, 2018

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



FROM: Charles L. Turley
Deputy Assistant Inspector General
for Supply Management and Human Resources

SUBJECT: Audit Report – Oversight of Contract Extensions
(Report Number SM-AR-18-001)

This report presents the results of our audit of the U.S. Postal Service's Oversight of Contract Extensions (Project Number 17SMG023SM000).

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

cc: Postmaster General
Corporate Audit Response Management

Attachment

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service’s Oversight of Contract Extensions (Project Number 17SMG023SM000). Our objective was to determine whether contracting officers (CO) are properly extending contracts.

As of July 2017, there were 313 open contracts in the Enterprise Data Warehouse (EDW),¹ over eight years old, with invoice activity within the last two years. The Postal Service paid over \$3.4 billion on these contracts. Our sample included 62 contracts, for which the Postal Service paid over \$520 million (see Table 1).

Table 1. Contracts Over Eight Years Old by Portfolio

Portfolio	Universe		Sample	
	No. of Contracts	Amount Paid	No. of Contracts	Amount Paid
Commercial Products and Services	38	\$ 611,588,838	7	\$ 121,874,123
Facilities	127	144,021,123	35	12,340,062
Mail and Operational Equipment	86	2,113,449,571	--	--
Technology Infrastructure	58	469,595,029	20	386,092,931
Transportation	4	143,699,243	--	--
Total	313	\$3,482,353,804	62	\$520,307,116

Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

1 A repository used to manage the Postal Service’s corporate data assets.
 2 This does not apply to Surface and Water Transportation contracts.
 3 SP&P 5-8 Contract Modifications.

Background

Postal Service COs play an essential role in the contracting process and are responsible for the solicitation, award, management, and termination of contracts. COs must incorporate the appropriate option and renewal clauses into the language of the contract that will allow the Postal Service to purchase additional items or services once the original term of the contract has expired. COs can extend contracts when there is a continuing need for goods and/or services and when maintaining the current supplier’s performance would represent the best value to the Postal Service.

“COs can extend contracts when there is a continuing need for goods and/or services.”

There are two primary avenues to extend a contract: renewals and options. Renewing a contract extends performance by mutual agreement of the parties for a specific period beyond the original contract term. Postal Service policy dictates the term of a renewal may not exceed four years and no contract may be renewed more than once.² Exercising an option is the Postal Service’s decision to use the clauses in the current contract to continue the supplier’s performance within the defined terms identified in the contract. The Postal Service uses three specific clauses related to contract extensions: Clause 2-19: Option to Extend, is used when there is an intention to exercise an option to extend the services to be performed, Clause 2-20: Option to Renew (with Preliminary Notice) and Clause B-78: Renewal will be used to continue performance of the contract by mutual agreement beyond its original term. Postal Service policy also allows COs broad authority to modify contract terms via bilateral modifications (supplemental agreements).³

Finding #1: Inclusion of Options After Contract Award

COs are using options to continuously extend contracts. In 23 percent (14 of 62) of the contracts reviewed, COs added and exercised additional options to extend the period of performance (option years), via modifications, after exhausting all the options included at contract award. Specifically:

- Within the Commercial Products and Services portfolio, there were four contracts that added a total of 17 additional years to the performance periods.
- Within the Facilities portfolio, there were five contracts that added a total of 31 additional years to the performance periods.
- Within the Technology Infrastructure portfolio, there were five contracts that added a total of 26 additional years to the performance periods.

The Supplying Principles & Practices (SP&P) state, “The exercise of an option is the Postal Service’s decision to use the clauses present in the current contract to continue the supplier’s performance. Options allow the purchase/Supply Chain Management team to purchase additional amounts of items or services than those required initially or to extend contract performance past the original period. Options are either priced or unpriced at the time of contract award.”⁴

COs are adding options years above and beyond the terms at contract award because the bilateral modification policy language provides broad authority to make any changes to the contract upon supplier agreement. Management stated using bilateral modifications to add option years to modify

“COs inconsistently used Clauses 2-19: Option to Extend and 2-20: Option to Renew as the authority to extend contracts when exercising option years for 71 percent (39 of 55) of the contracts reviewed.”

⁴ SP&P 2-19.2 Options.

⁵ Seven contracts are included in more than one category.

contract terms during the life of the contract is an acceptable practice; however, this is inconsistent with the intent of the policy to use options that were added at time of award to continue the supplier’s performance. Further, although policy provides limitations on the number of years that can be added to a contract using renewals, it does not provide any limitation on the number of option years.

Without clear restrictions over adding option years to contracts after award, there is an increased risk that contracts will continue to be extended multiple years beyond the prescribed term at contract award. The 14 contracts reviewed were extended, on average, five years longer than the terms negotiated at contract award. By continuously adding option years, these contracts become sole sourced contracts by default, which hinders competition, and fails to provide the Postal Service an opportunity to obtain best value.

Recommendation #1:

We recommend the Vice President, Supply Management, revise policy to establish restrictions on the number of option years included after contract award.

Finding #2: Inconsistent Use of Option Clauses

COs inconsistently used Clauses 2-19: Option to Extend and 2-20: Option to Renew as the authority to extend contracts when exercising option years. In 89 percent (55 of 62) of the contracts reviewed, there were option years included at contract award. For 71 percent (39 of 55) of these contracts, COs used varying clauses to extend contracts. Specifically:⁵

- Clause 2-20: Option to Renew was used in 35 of 55 contracts to exercise option years.
- Clause 2-19: Option to Extend was used in 11 of 55 contracts to exercise option years.
- Clause 2-19: Option to Extend and 2-20: Option to Renew were used in seven of 55 contracts in the same contract to exercise option years.

The SP&P state that Clause 2-19: Option to Extend is used when there is an intention to extend the services to be performed within the limits stated in the schedule and Clause 2-20: Option to Renew (with Preliminary Notice) will be used to continue performance of the contract by mutual agreement beyond its original term.

These issues occurred because communication and practices among the functions are inconsistent. For example, Supply Management Infrastructure personnel indicated COs should use Clause 2-19: Option to Extend to exercise option years; however, Category Management Center and Portfolio managers indicated the practice is for COs to use Clause 2-20: Option to Renew to exercise option years. In addition, the SP&P does not clearly state which clause should be used to exercise option years.

In addition, although COs are executing these contracting activities within their warrant authority, the current review and approval process does not ensure that COs are using the appropriate clauses when option years are exercised.

These issues were administrative in nature and did not have an impact on contracts being improperly extended; however, when there are administrative inconsistencies, there is an increased risk that contracts may be extended improperly.

Recommendation #2:

We recommend the Vice President, Supply Management, revise policy to clarify the use of contract clauses when exercising option years, and revise the current review and approval process to ensure appropriate clauses are used when extending contracts.

Finding #3: Improper Use of Renewal Clauses

COs did not consistently adhere to renewal Clauses B-78: Renewal or 2-20: Option to Renew requirements.

In 53 percent (33 of 62) of the contracts reviewed, COs used the one-time renewal clauses more than once. In these instances, the base contract included a specific renewal clause, which was then executed via a contract modification to extend the contract; however, once that contract modification term expired, COs used the same or another renewal clause to extend the contract further. Specifically:⁶

- Clause 2-20: Option to Renew was used more than once in 29 contracts.
- Clause B-78: Renewal was used more than once in four contracts.
- Clauses 2-20: Option to Renew and B-78: Renewal were used interchangeably in four contracts.

The SP&P state that “The term of any renewal may not exceed four years, and no contract may be renewed more than once.”⁷

COs are executing these contracting activities within their warrant authority; however, the current review and approval does not ensure that COs are renewing contracts appropriately. In addition, several COs stated they were unaware of the renewal restrictions, which would indicate the SP&Ps are not being utilized as guidance when renewing contracts.

Noncompliance with renewal clause requirements led to inappropriate extensions of contracts and \$4.5 million in unsupported questions costs.⁸ In addition, this practice may impede the Postal Service’s opportunity to ensure best value.

Recommendation #3:

We recommend the Vice President, Supply Management, reiterate through formal communication the requirements for renewal clauses, and revise the current review and approval process to ensure renewals are used appropriately.

⁶ Three contracts are included in more than one category.

⁷ SP&P, 2-19.1 Renewals.

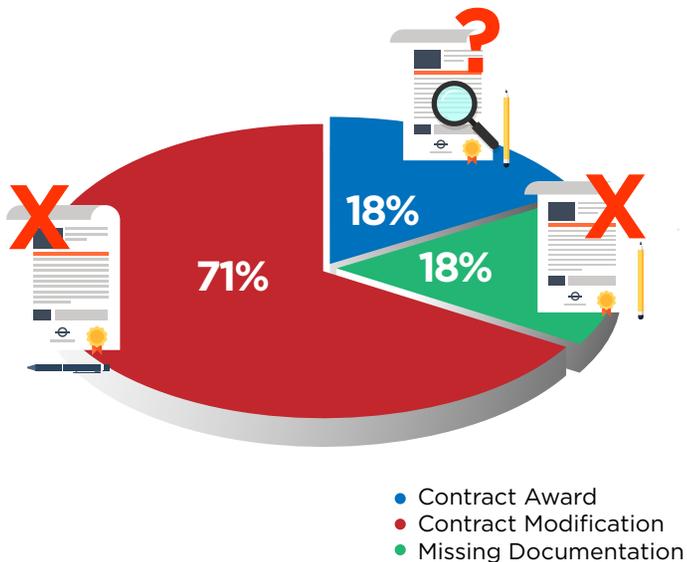
⁸ Unsupported questioned costs are claimed because of failure to follow policy or required procedures, but does not necessarily connote any real damage to Postal Service.

Finding #4: Missing Contract Clauses

COs did not consistently incorporate applicable extension clauses into the contract language for 74 percent (46 of 62) of the contracts reviewed (see Figure 1). Specifically:⁹

- In 18 percent (11 of 62) of the contracts, COs did not include the applicable extension clause in the contract.
- In 71 percent (44 of 62) of the contracts, COs did not cite the appropriate clause when exercising modifications to renew or extend contracts.
- In 18 percent (11 of 62) of the contracts, we could not determine if COs included the applicable clauses due to missing documentation, to include terms and conditions, and/or statement of work.

Figure 1. Clause Language



Source: OIG analysis.

⁹ Sixteen contracts are included in more than one category.
¹⁰ SP&P 2-19: Consider Use of Renewal and Options.

The SP&P state, “For a contract to be renewed or an option to be exercised, the contract must include the applicable clauses.”¹⁰

These contract activities are within the COs warrant authority; however, the current review and approval process does not ensure that COs are including applicable clauses in contracts. Additionally, there were instances where COs assumed responsibility of contracts that did not include the applicable clauses at the time of ownership transfer; however, once the CO assumed responsibility, the applicable clauses were still not included via a contract modification.

Without applicable extension clauses in the contract, COs do not have the authority to extend contracts which may impact the continuity of goods and services.

Recommendation #4:

We recommend the Vice President, Supply Management, reiterate through formal communication the proper inclusion of required contract clauses in the contract language, and revise the current review and approval process to ensure mandatory clauses are included in contracts.

“COs did not consistently incorporate applicable extension clauses into the contract language for 74 percent (46 of 62) of the contracts reviewed.”

Finding #5: Conflicting Policy Language

The SP&P¹¹ included conflicting language regarding written notification requirements when using Clause 2-19: Option to Extend to extend contracts services (see Table 2).

Table 2. Clause 2-19: Option to Extend Written Notice Requirements

Source	SP&P Section Language
SP&P Section 2.19.6	Used when it is intended to extend the services to be performed and <u>written notice of intent to extend the contract is not required.</u>
Clause 2-19 Language	The Postal Service may require the supplier to continue to perform any or all items of services under this contract within the limits stated in the schedule. The CO may exercise this option at any time in the period specified in the schedule <u>by giving written notice to the supplier.</u>

Source: SP&P.

This was an oversight issue that went unnoticed by management and was not reported by COs.

Conflicting language in policy could hinder the achievement of desired objectives and may inadvertently lead to inefficiencies, noncompliance, or negatively impacting supplier relationships.

Recommendation #5:

We recommend the Vice President, Supply Management, reconcile existing policy and clause language to clarify written notification requirements for Clause 2-19: Option to Extend.

Finding #6: Noncompliant Contract Closeout Practices

There were 35 contracts identified in our sample as open that should have been closed. The audit scope included contracts open for eight years or longer, with invoice activity within the last two years. Of the 35 contracts, 69 percent (24 of 35) still had committed funds at the end of FY 2017.

Contract closeout is an administrative procedure associated with the end of the business agreement with the supplier and the archiving of documents in the contract file. Contract closeout occurs after the supplier has successfully completed contract performance or when the contract is terminated for default or convenience. The primary purpose of contract closeout is to ensure the supplier has complied with all contractual requirements, the client's needs have been fulfilled, and any remaining funds are removed from the contract.

According to records management policy,¹² contract records must be closed at the end of the fiscal year in which they become inactive and retained six years thereafter.

COs indicated that contracts had not been closed-out due to several reasons: (1) it is a low priority in comparison to other responsibilities, (2) the process is time-consuming, (3) there are current resource restraints, and (4) there are pending outstanding invoices and/or payment disputes. Management also stated their goal is to close out contracts within 12 months of the end of the period of performance; however, at least three contracts have been open more than one year after the period of performance ended.

Contracts closed improperly may still have funds obligated to them that can put to better use. Improper contract closeout resulted in assets at risk¹³ of \$46,095,855. Based on our audit, COs took corrective actions to close 29 of the 35 contracts and stated they are in the process of closing the six remaining contracts.

Recommendation #6:

We recommend the Vice President, Supply Management, close the remaining six open contracts and reiterate to contract officers the importance of closing contracts properly.

¹¹ SP&P Section 2-19.6 and Clause 2-19.

¹² Handbook AS -353, *Guide to Privacy, the Freedom of Information Act and Records Management*, March 2016.

¹³ Assets (committed funds) that are at risk of loss because of inadequate internal controls.

Management's Comments

Management generally agreed with the report's findings of fact, but did not agree with all conclusions reached from the audit findings. Management also generally agreed with the monetary impact of "Unsupported Questioned Costs"; however, did not agree with the claimed other impact. Additionally, management agreed with recommendations 2, 3, 4, 5, and 6, and the monetary impact, but disagreed with recommendation 1.

Regarding recommendation 1, management stated that establishing restrictions on the number of option years after contract award would restrict the Postal Service's contracting flexibility unnecessarily and not serve its best interests. They contend that, should additional performance from a supplier be required past the original contract term, additional option period(s) may be necessary to support the needs of the Postal Service.

Regarding recommendation 2, management stated they will communicate to COs and purchasing staff the need to include and specifically cite the authority they are using to extend a contract's period of performance in the documentation file provided for review and approval. The target implementation date is December 2018.

Regarding recommendation 3, management stated they will formally communicate to COs and purchasing staff the requirements for extending contracts via renewals, including the need to specifically cite the authority they are using to extend a contract's period of performance in the documentation file provided for review and approval. The target implementation date is December 2018.

Regarding recommendation 4, management stated they will formally communicate to COs and purchasing staff the necessity of including required clauses in awarded contracts. The target implementation date is December 2018.

Regarding recommendation 5, management stated they will reconcile policy and clause language to address any written notification requirements associated with using the noted clauses. The target implementation date is December 2018.

Regarding recommendation 6, management stated they will close the six remaining open contracts as soon as practicable. They are also developing a

communication regarding contract closeout, which they will issue by the target implementation date of July 2018.

Management disagreed that the funds identified as other impact are assets at risk, stating that any remaining committed funds on closed contracts — contracts with a "Finally Closed" status in Postal Service's financial interface (APEX) — have all funds de-committed, leaving no assets associated with those contracts at risk. Finally, management stated the funds identified and associated with the released contracts remain subject to the inspection and acceptance process detailed in Sections 4-3 and 4-4 of the SP&P, leaving these assets no more at risk than any other open contract.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 2, 3, 4, 5, and 6 in the report and the corrective actions should resolve the issues identified in the report; however, management's comments to recommendation 1 are nonresponsive.

Regarding recommendation 1, we disagree with management's assertion that establishing restrictions on the number of option years after contract award would restrict the Postal Service's contracting flexibility and not serve its best interests. Adding option years after all option years are expired circumvents the intent of options for supplies and services included in the purchase plan and foreseen at contract award. Options should be used under proper contract planning procedures, not as a means to allow COs to purchase supplies and services when purchases are not planned. This practice does not promote competition to allow a direct comparison of proposals and lifecycle costs and does not capture quality and cost savings in the current market to determine best value. Without clear restrictions for adding option years to contracts after award, there is an increased risk that contracts will continue to be extended multiple years beyond the prescribed term at contract award. The intent of the recommendation is to establish limits and/or restrictions over continuously adding option years after contract award, not eliminate the practice on its entirety.

We disagree with management's assertion that the closed contracts identified as part of the other impact are no more at risk than any other open contract. The Postal Service's goal is to close out contracts within 12 months of the end of the period of performance; however, at least three contracts have been open more than one year after the period of performance ended. Contracts closed improperly may still have funds obligated to them that can be put to better use. Improper closeout resulted in committed funds that were at risk of loss because of inadequate internal controls.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 2, 3, 4, 5, and 6 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed. Recommendation 1 will remain open as we coordinate resolution with management.

Appendices

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Appendix A: Additional Information

Scope and Methodology

Our audit scope included all open contracts awarded prior to December 31, 2009, with invoice activity occurring during the last two years. We reviewed a statistical sample of 123 contracts. During the audit fieldwork, we determined that our statistical sample included contracts that COs should have closed prior to the start of the audit and excluded them from our review. Additionally, we excluded contracts identified during a site visit as basic ordering agreements.¹⁴ This decreased our original sample to a judgmental sample of 62 contracts.

To accomplish our objective, we:

- Obtained universe of all open Postal Service contracts awarded prior to December 31, 2009, with invoice activity occurring within the last two years, and identified the contract type and managing portfolio using OIG Supply Management tripwires.¹⁵
- Refined the data obtained from EDW by eliminating all out of scope contracts.¹⁶
- Met with the operations research analyst to determine sample size, methodology, and potential monetary impact.
- Selected 123 contracts from the universe to determine whether they were extended properly. We reduced the sample because we determined that it contained contracts that should have been closed. We also excluded contracts we identified during our site visit as basic ordering agreements. This resulted in a judgmental sample of 62 contracts.
- Met with OIG Office of General Counsel contracting personnel and determined their policies and procedures for exercising options and renewing contracts.

- Reviewed contract documentation and determined if contracts were open beyond the initial base period.
- Interviewed Supply Management Infrastructure personnel to gain an understanding of:
 - The policies and/or procedures in place for contract renewals and options.
 - The roles and responsibilities of contracting personnel responsible for the contracting renewals and options.

We conducted this performance audit from July 2017 through March 2018, 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on February 8, 2018, and included their comments where appropriate.

We assessed the reliability of EDW data by comparing it to reports extracted from the Contract Authoring Management System¹⁷ and interviewing Supply Management personnel involved into the contract extension process. To further validate the data, we provided it to Postal Service management to confirm that the information was accurate. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit in the last five years.

¹⁴ An ordering agreement is not a contract. It is a written agreement negotiated between a purchasing organization and a supplier that contains terms and conditions applying to future contracts between parties.

¹⁵ The OIG develops and monitors indicators-or-tripwires-to identify contract risks. Tripwire data is collected from the EDW.

¹⁶ OIG headquarters and Contract Postal Unit contracts were omitted.

¹⁷ A contract writing tool that facilitates the solicitation, award, and storage of various contracts.

Appendix B: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



March 8, 2018

LORI LAU DILLARD

SUBJECT: Oversight of Contract Extensions (Report Number SM-AR-18-DRAFT)

Thank you for providing the United States Postal Service with an opportunity to review and comment on the subject Office of the Inspector General (OIG) draft audit report, "Oversight of Contract Extensions." Management agrees that existing policy can be clarified as to the proper inclusion and use of option and renewal clauses within awarded contracts. Management generally agrees with the report's findings of fact, but does not agree with all conclusions reached from the audit findings. Management generally agrees with the OIG's monetary impact of "Unsupported Questioned Costs." Management appreciates that the OIG's report considered the issues involved in the reviewed extensions included within the monetary impact to be administrative in nature, and states that they did not have an actual impact on contracts being improperly extended. Management does not agree with the claimed other impact.

Regarding the claimed other impact of "Assets at Risk," this impact is attributable to 24 contracts reviewed by the OIG with remaining committed funds for which the period of performance has been completed, 19 of which are in a closed status. We disagree that these funds are assets at risk. Concerning any remaining committed funds on closed contracts, contracts with a "Finally Closed" status in the Postal Service's financial interface (APEX) have all funds de-committed leaving no assets associated with those contracts at risk. Finally, the funds identified that are associated with the five (5) released contracts remain subject to the inspection and acceptance processes detailed in Sections 4-3 and 4-4 of the Supplying Principles & Practices (SPs&Ps), leaving these assets no more at risk than any other open contract.

Management's response to the recommendations included in the draft report may be found below.

We recommend the Vice President, Supply Management:

Recommendation 1: Revise policy to establish restrictions on the number of option years included after contract award.

Management Response to Recommendation 1: Management disagrees with this recommendation. Establishing restrictions on the number of option years after contract award would restrict our contracting flexibility unnecessarily and not serve the Postal Service's best interests. Should additional performance from a supplier be required past the original contract term, additional option period(s) may be necessary to support the needs of the Postal Service. Review and approval procedures are applicable to such actions consistent with the SPs&Ps and Management Instruction SP S2-2015-1 "Noncompetitive Purchases".

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Recommendation 2: Revise policy to clarify the use of contract clauses when exercising option years, and revise the current review and approval process to ensure appropriate clauses are used when extending contracts.

Management Response to Recommendation 2: Management agrees that policy clarifications on the use of option clauses are required. Management will provide for communications to Contracting Officers and purchasing staff to include and specifically cite the authority upon which a contract's period of performance is being extended within file documentation provided for review and approval of option exercise actions.

Target Implementation Date: December 2018

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 3: Reiterate through formal communication the requirements for renewal clauses, and revise the current review and approval process to ensure renewals are used appropriately.

Management Response to Recommendation 3: Management agrees that policy clarifications on the use of renewal clauses are required. Management will also provide for formal communications to Contracting Officers and purchasing staff on the requirements for extending contracts via renewals. The communication will include the need to specifically cite the authority upon which a contract's period of performance is being extended within the file documentation provided for review and approval of contract renewal actions.

Target Implementation Date: December 2018

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 4: Reiterate through formal communication the proper inclusion of required contract clauses in the contract language, and revise the current review and approval process to ensure mandatory clauses are included in contracts.

Management Response to Recommendation 4: Management agrees that it will provide for formal communication to Contracting Officers and purchasing staff of the necessity for inclusion of required clauses in awarded contracts. An SM Communication will be provided as a Purchasing Policy Tip on the requirement to include proper contract extension clauses when an option period is included for potential exercise or a renewal is anticipated subsequent to completion of the base period of performance. Additionally, the communication will remind SM's purchasing staff to use SM's existing contract clause matrix which provides guidance for inclusion of required clauses in the drafting of contracts.

Target Implementation Date: December 2018

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 5: Reconcile existing policy and clause language to clarify written notification requirements for Clause 2-19: Option to Extend.

Management Response to Recommendation 5: Management agrees with this recommendation and will reconcile the policy and clause language to address any written notification requirements associated with the use of the noted clause.

Target Implementation Date: December 2018

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 6: Close the remaining six open contracts and reiterate to contract officers the importance of closing contracts properly.

Management Response to Recommendation 6: Management agrees with this recommendation. The six remaining open contracts will be closed as soon as practicable. Additionally, an SM Communication featuring a Purchasing Policy Tip on contract closeout is already in development and is anticipated to be issued to purchasing staff by the Target Implementation Date.

Target Implementation Date: July 2018

Responsible Official: Manager, Supply Management Infrastructure

Handwritten signature of Susan M. Brownell in cursive script.

cc: Manager, Corporate Audit & Response Management



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