July 21, 2004

The Honorable Charles E. Grassley
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Subject: The Federal Acquisition Streamlining Act of 1994 – Fair opportunity procedures under multiple award task order contracts

This responds to your request for our review of the Internal Revenue Service’s (IRS) issuance of certain task orders under its Treasury Information Processing Support Services (TIPSS-2) multiple award task order contract. Specifically, you asked whether the issuance of task orders for organizational modernization services placed under the TIPSS-2 contract complies with the “fair opportunity” requirement of the Federal Acquisition Streamlining Act (FASA) of 1994. FASA requires that all multiple award contractors must be provided a fair opportunity to be considered “for each task or delivery order” over $2,500 issued under a contract unless one of four statutory exceptions applies. As discussed in detail in the enclosure to this letter, we conclude that IRS’s selection of certain TIPPS-2 contractors to perform all task orders for organizational modification services, without giving other contractors a

---

1 You requested that GAO conduct this review as a follow-up to our prior audit of the TIPSS-2 contract, which resulted in the issuance of GAO’s report, IRS Contracting: New Procedure Adds Price or Cost as a Selection Factor for Task Order Awards, GAO-03-218, Dec. 2002. To develop the facts and IRS’s legal position in response to the instant review, we interviewed IRS officials and sent IRS two letters, dated February 4, 2004, and March 2, 2004, which framed the issues and requested documents. IRS replied to our letters in correspondence dated March 29, 2004. We conducted further fact-finding in letters to IRS dated May 14 and May 24, to which IRS responded on May 21 and June 3, respectively.

2 Pub. L. No. 103-355 (Oct. 13, 1994). FASA is codified in scattered sections of Title 10 of the United States Code for military agencies and Title 41 of the Code for civilian agencies. FASA provisions at Title 41 apply to IRS and will be cited herein.

3 41 U.S.C. § 253j(b).
fair opportunity to be considered for the individual task orders, violates FASA. A summary of the relevant facts and our legal analysis follows.

Since 1998, IRS has been engaged in efforts to reorganize its structure and modernize its technology. A key part of these efforts is organizational modernization ("OrgMod"), which includes changes to IRS’s organizational structure, management roles and responsibilities, business practices, performance measures, and supporting technology. IRS obtains services for the OrgMod program through its TIPPS-2 contract. The TIPPS-2 contract is a multiple award task order contract that encompasses not only the OrgMod program, but also a variety of other services. There are 18 multiple award contractors eligible to receive individual task order awards in some or all of the TIPSS-2 service areas.

In July 2002, IRS conducted a competitive procedure among the TIPPS-2 contractors to perform OrgMod services. It issued a master “Request for Information” (RFI) to all 18 TIPPS-2 contractors, inviting them to compete for four “task areas” of the OrgMod work. The master RFI stated that IRS would select a contractor to perform the services described within each task area, and that “[w]inning the competition will result in the award of any task order designated for that particular task area.” IRS selected Booz, Allen & Hamilton (BAH) as the contractor for two of the task areas, and two other firms (TRW, Inc. and Pragmatics Corp.) for the other two task areas. The July 2002 RFI has resulted in the issuance of 37 task orders in the OrgMod task areas (36 task orders were issued in the two areas awarded to BAH, and one was issued in TRW’s task area).

The relevant provision in FASA states: “When multiple [task or delivery order] contracts are awarded . . . all contractors awarded such contracts shall be provided a fair opportunity to be considered, pursuant to procedures set forth in the contracts, for each task or delivery order in excess of $2,500 that is to be issued under any of the contracts.” Here, there is no evidence that IRS gave any meaningful consideration to other contractors before issuing every one of the 37 OrgMod task orders to the pre-selected contractors. The fact that IRS gave all TIPPS-2 contractors an opportunity to be considered for the four OrgMod task areas does not satisfy FASA’s fair opportunity requirement, which applies to individual task orders and which IRS disregarded with respect to the 37 OrgMod task orders resulting from the master RFI. Because IRS gave no consideration to any contractor other than the pre-selected contractor for any of the individual OrgMod orders, we do not view these task orders as competitively placed, but as unjustified exceptions to FASA’s fair opportunity requirement.

By separate letter to the Commissioner of IRS, we are recommending that the IRS issue future OrgMod task orders in compliance with FASA’s fair opportunity requirement and, if feasible, terminate existing OrgMod task orders and issue replacement orders using fair opportunity procedures. Unless a statutory exception
applies, IRS should give all eligible TIPSS-2 contractors a fair opportunity to be considered for every OrgMod task order.

If you have any questions about this opinion, please contact Lynn Gibson, Associate General Counsel, at (202) 512-8153, Jan Montgomery, Assistant General Counsel, at (202) 512-5484, or Christine Davis, Senior Attorney, at (202) 512-8290.

/signed/

Anthony H. Gamboa
General Counsel

Enclosure
ORGANIZATIONAL MODERNIZATION TASK ORDERS
UNDER IRS’S MULTIPLE AWARD CONTRACT FOR
TREASURY INFORMATION PROCESSING SUPPORT SERVICES (TIPSS-2)

BACKGROUND

IRS’s Organizational Modernization Program and the TIPPS-2 Contract

Since 1998, the IRS has been in the midst of a massive effort to reorganize its structure and modernize its technology. Part of this effort is referred to as organizational modernization, or “OrgMod,” and includes changes to IRS’s organizational structure, management roles and responsibilities, business practices, performance measures, and supporting technology. To carry out organizational modernization, IRS obtains needed services through its TIPSS-2 contract.

The TIPSS-2 contract is a multiple award task order contract that encompasses not only the OrgMod program, but a variety of other services. The TIPSS-2 contract includes four broad service areas: information systems, telecommunications, organizational/management, and operational support. Successor to a similar program called TIPSS-1, TIPSS-2 covers multiple contracts awarded in 2000 with terms (including options) ending May 30, 2005. There are 18 multiple-award contractors under TIPSS-2 eligible to receive individual task order awards in some or all of the TIPSS-2 service areas.

FASA authorizes the use of multiple award task order contracts. FASA provides that, where an agency makes multiple awards, “all contractors awarded such contracts shall be provided a fair opportunity to be considered, pursuant to procedures set forth in the contracts, for each task or delivery order in excess of $2,500 that is to be issued under any of the contracts” unless a fair opportunity exception applies. Exceptions to the fair opportunity requirement include when an agency has an unusually urgent need, when the agency’s needs are so unique or specialized that only one contractor can provide the required quality; the promotion of economy and efficiency because the order is a logical follow-on to a previous competitively issued order; and satisfaction of a required minimum guarantee amount. Likewise, the regulations implementing FASA provide that each awardee must receive a fair opportunity to be considered for each order over $2,500 absent a fair opportunity exception and that the contracting officer “must set forth in the

---

4 Section F.3 of the TIPSS-2 contract authorizes an extension in the contract performance period solely for the purpose of completing any remaining active task orders issued before the contract expiration date. Thus, the performance of specific task orders may extend to May 30, 2006 under the TIPSS-2 contract, including the performance of any OrgMod task orders.

5 41 U.S.C. § 253j(b).

6 Id.
solicitation and contract the procedures and selection criteria that will be used to provide multiple awardees a fair opportunity to be considered for each order.”

Section J of the TIPPS-2 contract sets forth the ordering procedures that “will be used to provide multiple awardees a fair opportunity to be considered for each Order under TIPSS.” Section J states that all task order awards are preceded by the development of a requirements package and that the individual technical requirements would determine the selection procedure chosen by the government for a particular task order. Among the possible selection procedures, the contract provided for a “Request for Information” (RFI) procedure, which was to be used for items of moderate complexity and estimated dollar value.

Contractor Selection for Organizational Modernization Work

As of July 2002, IRS had been acquiring OrgMod services for over four years under the TIPSS-1 and TIPSS-2 contracts. Since the beginning of the OrgMod program, IRS had issued every OrgMod task order to contractor Booz, Allen & Hamilton (BAH), and BAH had received all but one of these orders based on an exception to the fair opportunity requirement. Based on our calculations, OrgMod task order obligations to BAH under the TIPSS-1 and TIPSS-2 contracts approached $300 million as of July 2002.

In July 2002, IRS changed its contracting approach to obtaining OrgMod services under the TIPSS-2 contract, deciding to conduct a competitive process among the TIPSS-2 contractors for these services. On July 2, IRS sent an RFI for OrgMod services to all 18 TIPSS-2 contractors soliciting technical and labor rate information in response to four major task areas: Program Management (RFI #1499), Business Process Improvements and Reengineering/Redesign (RFI #1500), Business Architecture and Integration (RFI #1501), and Systems Development and Technical Support (RFI #1482). IRS described the competition under this “master” RFI as the first step in a two-step contracting approach, as follows:

“In Step 1, the IRS defined four (4) task areas that will be specifically used to support the IRS’s OrgMod efforts and projects. . . Under Step 1, we will conduct a competition between all TIPSS-2 Prime Contractors. The IRS anticipates selecting one (1) contractor to perform the services as described within each task area. . . It is also anticipated that multiple task order awards will be issued to the selected contractor in each task area, based on the number of anticipated projects. Winning the competition will result in the award of any task order designated for that particular task area. In Step 2, the Functional/Operating Divisions will

---

7 Federal Acquisition Regulation (FAR) § 16.505(b)(1), (3) (FAC 97-12) (1999). We have cited the 1999 version of FAR, Subpart 16.5, because it governs solicitations issued before April 25, 2000, such as the TIPSS-2 solicitation. See Competition Under Multiple Award Contracts, 65 Fed. Reg. 24317 (2000). For purposes of this opinion, however, there are no material differences in the fair opportunity requirements between the 1999 and the current version of the FAR.

8 IRS subsequently amended the ordering procedures under the TIPSS-2 contract and no longer uses the RFI procedure.
finalize their contractor support requirements and will submit Statements of Work categorized in one of the four (4) OrgMod Task Areas.”

As stated, the master RFI did not include a statement of work for any of the four task areas, but asked contractors for project profiles in response to general statements of need describing the support services.

Multiple firms submitted project profiles and labor rate information in response to each task area. This information was evaluated according to the evaluation factors stated in the RFI: (1) the project profile demonstrates work similar in type and scope to that identified in three subfactors, (2) experience of the Project Manager, and (3) the Contractor’s submitted six-month labor rates compared to the independent government cost estimate. After evaluating RFI responses, IRS selected BAH as the contractor for two task areas (RFI #1499 and RFI #1500) and two other firms (TRW, Inc. and Pragmatics Corp.) for the other two task areas (RFI #1482 and RFI #1501, respectively). The designation of these contractors did not result in the issuance of four task order awards corresponding to the four task areas. Rather, as stated in the master RFI, IRS designated each contractor as the selected contractor for any future task orders within its RFI task area.

The July 2, 2002 master RFI has resulted in the issuance of 37 task orders, amounting to $38 million, as of May 21, 2004. Thirty-six of these task orders were within BAH's task areas, and one was within TRW's task area. Pragmatics has not received any task orders within its task area.

In its March 29, 2004 letter to our Office, IRS explained that the TIPSS-2 contracting officer is ultimately responsible for deciding whether a requirement should be issued within an OrgMod task area. According to IRS, this determination reflects “not only the work inherent in the requirement, but also customer expectations, past experience with the contractor recommended by the requesting customer, as well as cost considerations,” for example, the fact that the “incumbent” contractor might have acquired resident hardware and software capabilities to support the requirement during performance of an earlier OrgMod requirement. Requirements falling within one of the OrgMod task areas are not opened to all eligible TIPSS-2 contractors, but are issued to the pre-selected “incumbent” contractor for that task area. Although IRS did not give other TIPSS-2 contractors an opportunity to be considered for the 37 OrgMod task orders, IRS designated these task orders as “competitive” rather than “sole-source” by virtue of the competitive process conducted under the master RFI. For example, IRS provided the following rationale in designating OrgMod task order No. 103 as competitive: “RFI # 1500 was competed among all eligible TIPSS-2 contractors as an umbrella for future work that fell in the modernization arena. Based on the results of the evaluation of this RFI, Booz-Allen & Hamilton was selected as the winner. The work

---

9 TRW is now Northrop Grumman Space & Mission Systems Corp.
10 The term “sole-source” appears in IRS's task order documentation to denote the use of a statutory exception to FASA's fair opportunity requirement.
under this effort (TTS #1571) is covered under RFI #1500. Therefore, the selected Contractor is Booz-Allen & Hamilton.”

Although OrgMod task orders are issued to the pre-selected contractors, IRS stresses that other TIPSS-2 contractors are eligible to compete, and have competed, for task orders that are not for OrgMod services. IRS has identified 28 such task orders, amounting to $100 million, which have been awarded to a variety of TIPSS-2 contractors since August 2002.

DISCUSSION

At issue here is whether IRS’s issuance of OrgMod task orders is in compliance with the fair opportunity requirements set forth in FASA, its implementing regulations, and the ordering procedures of the TIPSS-2 contract.

As previously stated, FASA and its implementing regulations require that all multiple-award contractors must be provided a fair opportunity to be considered “for each task or delivery order” over $2,500 issued under any of the contracts pursuant to procedures set forth in the contracts, unless a fair opportunity exception applies. Consistent with FASA and the Federal Acquisition Regulations (FAR), the TIPSS-2 contract sets forth ordering procedures that will be used to provide multiple awardees a fair opportunity to be considered “for each Order” under the contract. In keeping with this, the TIPPS-2 contract states that all task order awards are to be preceded by the development of a requirements package and that the selection procedure chosen by the government for a particular task order would depend on the individual requirements.

Here, the July 2, 2002 master RFI was not intended to result in the award of an individual task order (nor did it), but was instead used as a means of pre-selecting a contractor to perform all future requirements within a particular OrgMod task area. The master RFI did not include a statement of work, but indicated that IRS would define its requirements during “Step 2” of the contracting process, when the pre-selected contractor from Step 1 would receive individual task orders within its task area. Once the contracting officer determined that an individual requirement was within one of the OrgMod task areas, no consideration was given to any contractor other than the pre-selected contractor.

IRS contends that it gave fair consideration to other multiple-award contractors in deciding whether it should award a requirement to a pre-selected OrgMod contractor or open the requirement to the universe of eligible TIPSS-2 contractors. IRS asserts that this choice involved the consideration of “numerous factors,” such as the nature of the work, customer expectations, and any advantages possessed by the “incumbent” that would reduce “startup” costs. As a result, IRS argues that the decision to award a

11 Contracting Officer’s Determination, November 13, 2002, from Task Information Package Cover Sheet for TTS #1571, which IRS ultimately issued as task order No. 103. While we did not receive Task Information Package Cover Sheets for each OrgMod task order, IRS’s agency response reflects that it did designate each OrgMod task order resulting from the RFI as competitive based on the rationale set forth in task order No. 103.
requirement to a pre-selected contractor involved the fair consideration of other multiple contractors.

We disagree that such a determination constituted fair consideration of the multiple contractors. FASA does not permit an agency to choose between issuing a requirement to a pre-selected contractor or opening the requirement to all multiple-award contractors. Rather, FASA mandates that all contractors be given a fair opportunity to be considered for every task order unless a statutory exception applies. Once IRS decided that a requirement fell within the scope of one of the OrgMod task areas, it gave no meaningful consideration to any contractor other than the one pre-selected for that task area. For example, IRS did not contact any contractor in deciding whether or not to issue a requirement within an OrgMod task area. IRS is correct that, under FAR § 16.505(b), the contracting officer “need not contact each of the multiple awardees under the contract before selecting an order awardee if the contracting officer has information available to ensure that each awardee is provided a fair opportunity to be considered for each order.” Here, however, there is no evidence that IRS gave any meaningful consideration to other contractors before issuing every one of the 37 task orders to the pre-selected contractors. Rather, IRS improperly committed to an exclusive ordering arrangement with the pre-selected contractors under the terms of the master RFI.

IRS claims that it complied with FASA’s fair opportunity requirement because it gave all TIPSS-2 contractors a fair opportunity to be considered for the award of the four OrgMod task areas under the master RFI. Allegedly having satisfied FASA’s fair opportunity requirement, IRS goes on to characterize the task orders resulting from the master RFI as “subtasks.” Neither FASA nor the FAR extends the fair opportunity requirement to subtasks.

While IRS labels the task orders as “subtasks,” the term “subtask” is absent from the RFI, and the 37 documents describe themselves as “task orders.” Neither the terms of the RFI nor the resulting task orders supports IRS’s claim that the RFI resulted in the issuance of task orders with multiple subtasks to the selected contractors. To the contrary, the RFI plainly states that “multiple task order awards will be issued to the selected contractor in each task area,” after specific contractor support requirements emerged during “Step 2” of the contracting process. During “Step 1”—the RFI phase—IRS had not defined any task or subtask order requirements to be issued to the selected contractors. The fact that IRS gave all TIPSS-2 contractors an opportunity to be considered for the 4 OrgMod task areas does not satisfy FASA’s fair opportunity requirement, which applies to individual task orders and which IRS disregarded with respect to the 37 OrgMod task orders resulting from the master RFI. Because IRS gave no consideration to any contractor other than the pre-selected contractor for any of the individual OrgMod orders, we do not view these task orders as competitively placed, but as unjustified exceptions to FASA’s fair opportunity requirement. In this regard, IRS has not asserted, either contemporaneously or in response to our request, that a fair opportunity exception applied to any of the orders.
The contracting approach represented by the master RFI can be described as a “downselection,” which is not consistent with the ordering procedures contemplated by FASA. Our Office has addressed “downselections” in the context of its bid protest function. Our Office has determined that downselections are incompatible with the ordering procedures required by FASA for multiple award contracts. FASA’s legislative history shows that the multiple-award contracting provisions were intended to promote an ongoing competitive environment in which each contractor was fairly considered for each order issued. H.R. Conf. Rep. No. 103-712, at 178 (1994), reprinted in 1994 U.S.C.C.A.N. 2607, 2608; S. Rep. No. 103-258, at 15-16 (1994), reprinted in 1994 U.S.C.C.A.N. 2561, 2575-76. Downselections are inconsistent with these ordering procedures because they eliminate other multiple award contractors from further consideration for individual orders under the contract. Once the downselection is made, only the pre-selected contractor is eligible to receive orders, and there will be no further ongoing competition for these orders as envisioned by FASA.

Our Office has held that downselections do not comply with the ongoing competitive process mandated by FASA because they constitute single competitive source selections for specific items that preclude further competition among the multiple awardees. See Global Communications Solutions, Inc., B-291113, Nov. 15, 2002, 2002 CPD ¶ 194; Teledyne-Commodore, LLC--Recon., B-278408.4, Nov. 23, 1998, 98-2 CPD ¶ 121 at 3-4; Electro-Voice, Inc., B-278319, B-278319.2, Jan. 15, 1998, 98-1 CPD ¶ 23 at 5. For example, in Electro-Voice, the Army issued delivery orders to the protester and another contractor for product demonstration models, which the agency intended to evaluate as a basis for downselecting one of the contractors for future task orders. Once the agency made the downselection, only the selected contractor would receive task orders for the production requirements. Similarly, in Teledyne, the Army issued a solicitation for multiple award task order contracts, which divided the work into three phases and required the multiple awardees to pass each phase before receiving the next task order. Our Office held that the Army’s phased procurement approach, which ultimately narrowed to a single competitive source selection, was incompatible with the ongoing, multiple source selections required by FASA.

IRS contends that Electro-Voice and Teledyne are distinguishable from the TIPSS-2 situation. IRS observes that the downselections in Electro-Voice and Teledyne resulted in pre-selected contractors filling all future task orders. In contrast, under the TIPSS-2

---

12 Although FASA generally prohibits our Office from exercising bid protest jurisdiction with respect to the issuance or proposed issuance of task or delivery orders, see 41 U.S.C. § 253j(d), we have held that Congress did not intend the restriction to apply to protests of “downselections,” because such selections are incompatible with FASA’s ordering procedures for multiple award contracts. While our Office has entertained protests of downselections, see Global Communications Solutions, Inc., B-291113, Nov. 15, 2002, 2002 CPD ¶ 194; Teledyne-Commodore, LLC--Recon., B-278408.4, Nov. 23, 1998, 98-2 CPD ¶ 121; Electro-Voice, Inc., B-278319, B-278319.2, Jan. 15, 1998, 98-1 CPD ¶ 23, we did not receive any bid protests with respect to the handling of the TIPSS-2 OrgMod work at issue here.

13 To be within our bid protest jurisdiction, the downselection was viewed as a single source selection subject to the Competition in Contracting Act (CICA) of 1984, 31 U.S.C. §§ 3551-56, rather than a task order subject to FASA. Thus, our Office did not consider the propriety of the downselection in terms of FASA’s fair opportunity requirement, as we do here.
contract, IRS has only reserved the OrgMod work for the pre-selected contractors, whereas all TIPSS-2 contractors have an opportunity to be considered for future TIPSS-2 task orders outside the OrgMod area. According to IRS, this differentiates the TIPSS-2 situation from Electro-Voice and Teledyne, in which the downselection applied to all future task orders.

While IRS is correct that the Electro-Voice and Teledyne downselections applied to all future task orders under the respective contracts, this is not the essential feature of a downselection. Rather, what distinguishes a downselection from the routine issuance of a task order is the agency’s intention to fill all future requirements for specific items through a single source selection, rather than the multiple selections contemplated by FASA. This was the case in Global Communications Solutions, Inc., B-291113, Nov. 15, 2002, 2002 CPD ¶ 194, in which a solicitation for a multiple award contract contemplated only a single source selection for specific contract line items, albeit multiple source selections for other contract line items. Notwithstanding that multiple award ordering procedures applied to some contract line items, our Office viewed the matter as a downselection, i.e., the designation of a “winning contractor” for the specified contract line items.

In the instant case, while it is true that IRS continues to issue TIPSS-2 task orders to various multiple-award contractors, this is only the case if the contracting officer determines that the task order does not fall within one of the four OrgMod task areas. Regardless of whether these contractors have an opportunity to be considered for TIPSS-2 work outside the OrgMod area, the fact remains that they are effectively foreclosed from receiving any OrgMod task orders, which only the pre-selected contractors have thus far received. Thus, as in Global, IRS has implemented a downselection for any OrgMod requirements arising under the TIPSS-2 contract.

IRS argues that the OrgMod work is analogous to a consolidated task order, which, according to our decision in The Intrados Group, B-280130, June 22, 1998, 98-1 CPD ¶168, does not constitute a downselection. The multiple award contract in Intrados covered technical assistance services in support of capital and financial markets throughout Central and Eastern Europe and the New Independent States of the Former Soviet Union. The protester in Intrados argued that the agency had implemented a downselection because it issued a single task order for its anticipated, remaining requirements in Romania. We disagreed, reasoning that “the fact that this protested task order arguably may be the last order for services in Romania does not convert this task order into a ‘downselection.’” Although the agency’s future requirements were “albeit probably not in Romania,” the protested task order did not foreclose other multiple-award contractors from competing for such requirements should they arise in Romania or, more probably, in other geographic sectors covered by the contract. In other words, the Intrados task order simply consolidated existing Romanian requirements without reserving any future, emerging requirements for a pre-selected contractor. In contrast, the master RFI in this case explicitly provides that all future orders for OrgMod services will be awarded to a pre-selected contractor. This is a downselection, consistent with our reasoning in Electro-Voice, Teledyne, and Global.
CONCLUSION

As previously stated, FASA and its implementing regulations require that all multiple-award contractors must be provided a fair opportunity to be considered “for each task or delivery order” over $2,500 issued under any of the contracts pursuant to procedures set forth in the contracts, unless a fair opportunity exception applies. Both the statute and the regulations require that the multiple-award contractors receive fair consideration for individual orders absent a fair opportunity exception. Downselections are inconsistent with FASA because they represent the agency’s intention to fill all future orders for specific items through a single source selection, rather than the multiple selections contemplated by FASA’s fair opportunity requirement. IRS implemented a downselection for its OrgMod requirements by designating particular contractors to perform any future orders arising under their OrgMod task areas. In particular, the master RFI indicated that the winning contractors from “Step 1” would receive any individual task orders arising under their task areas as specific requirements emerged during “Step 2” of the procurement process. IRS has accordingly given no consideration to any contractor other than the pre-selected contractor for any of the individual orders resulting from the master RFI, nor has it used a fair opportunity exception to justify any of them, contrary to FASA, FAR subpart 16.5, and the TIPPS-2 contract itself.

By separate letter, we are recommending that the Commissioner of IRS issue future OrgMod task orders in compliance with FASA’s fair opportunity requirement and, if feasible, terminate existing OrgMod task orders and issue replacement orders using fair opportunity procedures. Unless a statutory fair opportunity exception applies, IRS should give all eligible TIPSS-2 contractors an opportunity to be considered for every OrgMod task order.