



September 5, 2008

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Management of Contract Changes – Marriott Hotel Services, Inc., Contract Number 479984-90-B-0399 (Report Number CA-AR-08-010)

This report presents the results of our audit of the management of contract changes for the contract with Marriott Hotel Services, Inc. (Marriott), Contract Number 479984-90-B-0399 (Project Number 08YG003CA001). Our objective was to determine whether the U.S. Postal Service incurred unnecessary or inappropriate increased costs because of changes to the contract with Marriott. Specifically, we reviewed contract modifications to determine the reasons for changing the contract and determined whether the changes were necessitated by inadequate contract planning or inappropriate concessions to contractors. This audit was self-initiated as part of a series of reviews on the Postal Service's management of contract changes and addresses operational risks in the Postal Service's contracting process. Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

We did not identify any unnecessary or inappropriate increased costs to the Postal Service because of changes in the contract with Marriott. Modifications to the contract were administrative changes, no-cost modifications, or changes in the annual operating budget. Management of contractor operations and budgets appeared sufficient. However, the contract did not fully define the operational services and terms purchased after construction of the facility.

Operational Services and Terms

The contract did not fully define the goods and services to be delivered by Marriott after facility construction was completed. The Manager, Western Services Category Management Center (CMC), said he believed statements in the contract were sufficient to define the goods and services to be delivered.

We expressed concerns about two contract statements, which he specifically indicated he believed were sufficient:

- The contract statement that Marriott was to provide the Postal Service with a turnkey operational housing facility for use by Postal Service students and employees, and
- Contract amendments 1 and 2, which defined design and operation of the cafe and cafeteria service, vending, oversight of utility and repairs, and profit sharing; and the Postal Service's oversight of budget, processes, and operation.

We do not believe the term "turnkey operation" and the contents of the amendments were sufficient to thoroughly define the scope of services Marriott was to perform in operating the facility. For example, the contract does not specify how the hotel and training center are to be managed and it does not provide detailed requirements regarding the cafeteria. Because the contract did not contain a statement of work or other information on facility operation and oversight of contractor performance, we were unable to determine whether all modifications were within the scope of the original contract.

The Manager, Western Services CMC, and the contracting officer hold quarterly budget meetings with the contractor to review the facility's operation and budget. A customer survey is also performed, and the results are discussed at these meetings. However, the information to be provided by the contractor and the contracting officer's oversight, instructions, and approvals were not defined in the contract terms. The contract terms will govern the result of any disputes that may occur in the future. Because the contract terms are vague regarding facility operations, the Postal Service is at risk for any future claims Marriott may file. During our audit, management stated that this contract will expire in 2 years, and a statement of work is being developed for the follow-on contract.

The Postal Service's *Procurement Manual* defines a statement of work as a description of work to be performed, not results to be obtained.¹ According to the Postal Service's current policy, *Supplying Principles and Practices*, the statement of work must describe the work as precisely as possible and in enough detail to allow a best value decision and effective contract performance.²

We recommend the Vice President, Supply Management, direct the Manager, Western Services Category Management Center, to:

1. Modify the contract to incorporate documentation of the expected goods and services to be provided by Marriott Hotel Services, Inc., and the terms of acceptance and payment for those services. This could be achieved by incorporating into the

¹ Postal Service *Procurement Manual, Publication 41*, issued 1988.

² *Supplying Principles and Practices*, issued May 1, 2006.

contract the details of the quarterly operational and budget report submission and review and the annual budget process.

Management's Comments

Management agreed with the finding and recommendation and stated that the administrative efforts performed outside of the confines of the contract, such as holding quarterly budget review meetings, oversight, instructions, and implementation of performance surveys, should be included within the contract for clarity and to lessen further risk. Management agreed to prepare a contract modification within the next 30 days incorporating the details of the quarterly operational reviews, budget report submission and reviews and the annual budget process, into the subject contract. Management's comments, in their entirety, are included in [Appendix B](#).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendation, and the corrective action should resolve the issue identified in the finding.

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

E-Signed by Darrell E. Benjamin, Jr. 
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Daniel M. Carriglio
Vinay B. Kaul
Susan Witt
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

On September 18, 1990, the Postal Service Memphis Facilities Service Center entered into a 20-year facility service contract with Marriott, to provide a turnkey hotel/motel operation in Norman, Oklahoma. The intent of the original contract was to construct and operate a housing and recreation facility on the postal-owned site of the Technical Training Center (TTC) in Norman, Oklahoma. Under the contract terms, Marriott would construct a 1,000-room facility to house students attending training courses at the TTC. The Postal Service proposed to lease the site to the successful bidder for a term of 20 years. The successful bidder would finance, design, build, furnish, and fully equip the facility, lease it back to the Postal Service, and operate, service, and maintain the facility for a term of 20 years.

The contract required Marriott to design, construct, furnish, and equip the facility for [REDACTED]. An additional [REDACTED] per year was awarded to Marriott to provide the operations and management services of the contract. The contract specified that every 2 years, the Postal Service and Marriott would negotiate and adjust the management fee percentages and profit sharing for the subsequent 2-year period.

The facility was completed in 1992 and consists of a 400,000 square foot residence building with 1,000 sleeping rooms, 25 study lounges, a dining area, souvenir shop, lounge, fitness and recreation center, and health unit.

As of February 25, 2008, there have been 44 modifications to the contract, and the contract is currently valued at [REDACTED]. The contract expires on September 17, 2010.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether the Postal Service incurred unnecessary or inappropriate increased costs because of changes to the contract with Marriott. Specifically, we reviewed contract modifications to determine the reasons for changing the contract and determined whether those changes were necessitated by inadequate contract planning or inappropriate concessions to contractors.

To accomplish our objective, we reviewed the Marriott contract and its 44 modifications to determine whether the modifications were executed in a timely matter. We reviewed the modifications to determine whether significant changes were made to the original requirements for deliverables. We analyzed contract modifications to determine whether contract changes were appropriately priced and whether market research and price and cost analyses were performed for non-administrative contract modifications. Further, we interviewed the Manager, Western Services CMC, the contracting officer,

and contracting officer's representative regarding the contract modifications and overall management of the contract. In addition, we reviewed the appropriate Postal Service policies and procedures used in managing the Marriott contract.

We conducted this performance audit from May through September 2008 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 officials on July 17, 2008, and included their comments where appropriate. We did not rely on computer-generated data to support our audit findings.

PRIOR AUDIT COVERAGE

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

APPENDIX B: MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



August 20, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Management of Contract Changes – Marriott Hotel Services, Inc., Contract Number 479984-90-B-0399 (Report Number CA-AR-08-DRAFT)

This provides Postal management's response to the subject audit report. Thank you for the opportunity to review and comment. Management agrees with the intent of the finding and recommendation. The following addresses our complete response.

Recommendation 1: Modify the contract to incorporate documentation of the expected goods and services to be provided by Marriott Hotel Services, Inc., and the terms of acceptance and payment for those services. This could be achieved by incorporating into the contract the details of the quarterly operational and budget report submission and review and the annual budget process.

Management Response: As noted in this report, the contract has been in effect since September 1990. While the contract does not contain detailed requirements within a statement of work, it allows for a broad approach to the operation, service, and maintenance of the facility. The administrative efforts performed outside of the confines of the contract, such as; holding quarterly budget review meetings, oversight, instructions, and implementation of performance surveys, have lowered the risk of claims over the last 18 years. However, management agrees with the intent of the finding and recommendation that these external administrative items being performed should be included within the contract for clarity and to lessen further any future risk. Therefore, a modification will be prepared within the next 30 days incorporating the details of the quarterly operational reviews, budget report submission and reviews, and the annual budget process, into the subject contract.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

A handwritten signature in cursive script that reads "Susan M. Brownell".

Susan M. Brownell

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-6200
202-268-4040
FAX: 202-268-2755
WWW.USPS.COM