



January 10, 2008

SUSAN M BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

**SUBJECT: Management Advisory – Estimated Supply Chain Management Impact
Associated with Waste, Trash, and Recycling Services
(Report Number CA-MA-08-001)**

This report presents the results of our review of the reasonableness of the estimated \$5.1 million fiscal year (FY) 2005 supply chain management (SCM) impact¹ associated with the U. S. Postal Service's national contracts for waste, trash, and recycling services (Project Number 06YG021CA000). We performed this review under the Value Proposition Agreement dated October 7, 2005. It is our third and final report under the agreement which covers the reasonableness of selected SCM impact methodologies and calculations.

Background

The Postal Service updated its approach to waste, trash, and recycling services contracts in FY 2004. Prior to this initiative, many of these contracts were local verbal agreements. During FY 2004, the four Supply Management Purchasing Service Centers (PSCs) began a systematic review of these contracts in their geographical areas of responsibility. This review was designed to reduce trash removal costs and receive maximum recycling rebates for recyclable items. Converting numerous local agreements into regional type contracts, this initiative was designed to leverage Postal Service spending for these services, reduce the number of suppliers, consolidate contracts, right size container requirements, and increase recycling locations and revenues.

There were more than 100 Postal Service waste, trash, and recycling contracts associated with the FY 2005 SCM impact calculation. Most of these were firm-fixed price contracts with varying terms and renewal options. A few were share-in-savings contracts where the contractor's share in the savings was contingent upon certain conditions or time limits. For FY 2005, the Postal Service claimed \$5.1 million in SCM impact related to 16 waste, trash, and recycling services projects. The impact was calculated by comparing baseline prices to new contract negotiated prices. The baseline prices were determined using various methods from previous contracts and/or

¹ SCM impact is the resulting value of a planned and deliberate action taken to reduce purchase and ownership costs; avoid a higher cost that would have otherwise been incurred; improve the total value of a purchased product, service, or activity; or generate revenue.

market analysis. These methods included using (1) prior costs, (2) reverse auction prices, and (3) market research.

The four PSCs transitioned into two Services Category Management Centers (CMCs) in January 2006. This realignment allowed the newly formed CMCs to further apply SCM techniques and to strategically manage and source commodities the PSCs formerly administered. The new Eastern Services CMC in Memphis, Tennessee became responsible for solid waste management (trash removal and recycling services) for the Postal Service.

Objective, Scope, and Methodology

Our objective was to review the reasonableness of the estimated FY 2005 SCM impact for waste, trash, and recycling services. To achieve our objective, we interviewed various Postal Service officials, including contracting officers (COs) and personnel responsible for preparing and reviewing the SCM impact reports. We reviewed the 16 waste, trash, and recycling service projects. There were numerous contracts under each project, all similar except for the supplier. For each project, we reviewed the methodology used to estimate the SCM impact for at least one of the associated contracts. We reviewed data associated with 19 contracts for which the Postal Service claimed an SCM impact totaling \$2.4 million.

We also assisted the Postal Service by participating in a study of backhauling² undeliverable standard mail for recycling purposes. As part of the study, we reviewed backhauling practices at the Houston Processing and Distribution Center. The results of the study are in the *Other Matters* section of this report.

We conducted this review from December 2006 through January 2008 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on October 29, 2007, and have included their comments where appropriate.

Prior Audit Coverage

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

² Equipment trucks and mail trucks are used to backhaul recyclables, which are clearly placarded as recyclables. Recycling does not have any effect on transportation schedules and does not hinder or delay the mail.

Results

We were unable to opine on the reasonableness of the estimated FY 2005 SCM impact. The methodologies used to estimate the impact were fair and reasonable and we were able to validate \$1.5 million of the \$2.4 million impact reviewed. However, we could not accurately verify baseline data for six of the 19 contracts. Supply Management staff stated they based several of their contract baselines on oral agreements for which the Postal Service paid the vendor with money orders or credit cards and for which they could not locate detailed data reports. We detail the results of our review in Appendix A. Additionally, we noted the following contract management issues that impacted our ability to express an opinion on the estimated impact.

Contract Management Issues

The Postal Service's *Supplying Principles and Practices*³ state that contract management activities include keeping contract documentation up to date. However, the payment records or receipts could not be located for six of the 19 contracts reviewed. This was mainly due to the transfer of files from the various PSCs to the Eastern Service CMC. Additionally, in some cases COs did not have adequate payment reports to assist in monitoring the contract payments. The Postal Service used four methods to pay contractors: (1) money orders, (2) credit cards, (3) payments made directly by Postal Service accounting, and (4) the eBuy⁴ process. Postal Service officials stated Postal Service accounting made the majority of payments and these were the only payments they could possibly track by contract number. They prefer to use the eBuy process; however, when they do, COs cannot obtain payment reports by contract number from the system. Supply Management officials have worked with eBuy system administrators but the reports are not yet available. Because the payment methods do not ensure the ability to track payments by contract number, we could not obtain adequate payment documentation for several of the contracts. In total, we could not validate \$1,040,212 of the payments. We will report this amount as disbursements at risk in our *Semiannual Report to Congress*.

In addition, for the contracts included in our review, the contract file documentation did not clearly reflect that the Contracting Officer Representatives (CORs) had received COR training. CORs should manage and oversee the contract requirements since they are usually on-site and should be knowledgeable of the daily workload. The CORs are supposed to monitor the work, forward vendor invoices for payment, receive and deposit the recycling revenue payments, and provide status reports to the CO. COs are responsible for ensuring the CORs are adequately trained and are retaining copies of signed designation letters and certificates of training or other proof of training in the

³ *Supplying Practices*, Process Step Three - Selecting Suppliers

⁴ eBuy is the Postal Service's Enterprise Tool for requisition workflow approval and catalog ordering of goods and services. Within the eBuy application, there is an electronic invoice certification process referred to as Pos-N-Certify.

contract file.⁵ Supply Management personnel stated they did not ensure that CORs were properly trained because of the volume of the waste, trash, and recycling contracts. During the review, they issued a memorandum requiring COs to ensure CORs receive the proper training.

When recycling revenue payments are received, CORs should deposit the checks into Account Information [REDACTED]. Once they deposit the money, it cannot be tracked by contract number and loses all contract identity. We were only able to verify recycling revenue receipts by contract number if the COR maintained copies of the checks. On several occasions the COs recommended that we contact the supplier to ascertain how much they had paid the Postal Service. None of the COs or CORs for the 11 recycling contracts included in our review had validated the tonnage or volume, the number of pickups, payment calculations, or proof that payments were made according to the contract requirements. In six of the 11 contracts reviewed, the CO was not even aware of who the COR was or knowledgeable about the contract revenue.

Without adequate contract management, there is increased risk of the Postal Service paying for waste, trash, and recycling services that are not performed or not collecting the appropriate recycling revenue.

This report focuses on issues surrounding the FY 2005 SCM impact. Since that time, the Postal Service has been working to better shape the focus and market knowledge for this commodity and to develop best practices. In February 2006, the Postal Service recognized the need to consolidate management of these contracts to one office to provide a more uniform national approach. Supply Management personnel believe this has led to a much more consistent system of identifying SCM impact results. In addition, the Eastern Services CMC has added supplier reporting requirements to contracts and has validated the names of the current CORs for all contracts expiring through calendar year 2008. Supply Management planned to conduct quarterly information sessions with the CORs beginning in late 2007. We believe these actions, and the recommendations described below, should strengthen waste, trash, and recycling services contract management.

To further strengthen the contract management over waste, trash, and recycling services contracts, we recommend that the Vice President, Supply Management, ensure the Eastern Services Category Management Center:

1. Develops standardized procedures for file management and payment tracking for waste, trash, and recycling services contracts.
2. Develops tracking mechanisms that allow for payment reports by contract number for waste, trash, and recycling services contracts.

⁵ Management Instruction PM-610-2001-1, *Contracting Officer's Representative Program*.

3. Develops reports and procedures that adequately account for recycling contract revenue.
4. Provides Contracting Officer Representatives for waste, trash, and recycling services contracts with adequate policies, procedures, and instructions to manage these complex contracts.

Management's Comments

Management generally agreed with the four recommendations. The Eastern Services CMC is reviewing and reworking the contracts they manage to ensure the files and required documentation are consistently maintained and organized. The CMC is working to develop and pilot a database during FY 2008 to input waste, trash, and recycling services contract information and assist with payment and rebate tracking. Also, during future requirements planning for automated systems, they will consider adding functionality to allow payment and revenue reporting by contract number. Additionally, the CMC developed a training initiative called "Trash Talk" to train CORs on Postal Service policy and procedures. The first session was conducted in the first quarter of FY 2008 and included CORs assigned to contracts expiring on or before December 2008. Future "Trash Talk" sessions will include CORs assigned to contracts expiring in later years and will be held quarterly to provide ongoing instruction and a discussion forum to improve the management of waste, trash, and recycling contracts. Management's comments, in their entirety, are included in Appendix B of this report.

Evaluation of Management's Comments

Management's comments are responsive to the recommendations and the actions taken and planned should correct the issues identified.

Other Matters

[REDACTED]

[REDACTED]

⁶ [REDACTED]

[REDACTED]

[REDACTED]

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, 
VERIFY authenticity with ApproveIt

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

Attachments

cc: H. Glen Walker
Lynn Sartain
Marie K. Martinez
Katherine S. Banks

APPENDIX A. SUMMARY RESULTS

Redacted

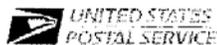
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APPENDIX B. MANAGEMENT'S COMMENTS

ROBYN M. BROWNELL
Vice President, North West Region



December 19, 2007

DARRELL E. BENJAMIN, JR.

SUBJECT: Draft Management Advisory – Estimated Supply Chain Management Impact
Associated with Waste, Trash, and Recycling Services (Report Number CA-MA-08-
DRAFT)

Thank you for your efforts associated with providing this third and final report under our value proposition agreement covering the reasonableness of our FY2005 Supply Chain Management (SCM) impact methodologies and calculations. While you were unable to validate the full \$5.1 million in SCM FY2005 impact for waste, trash, and recycling services due to contract management challenges, it was still encouraging to learn that the methodologies used for estimating impact were fair and reasonable. As you know, we have made significant progress towards consolidating and leveraging our demand for this commodity since the reporting of this FY2005 SCM impact and will continue to take steps to strengthen our management of these contracts.

We generally agree with the report's four recommendations and our detailed response is attached. Since your staff will continue to work with Supply Management under a future engagement on waste, trash, and recycling services, we consider the actions outlined responsive to your recommendations. We appreciate your ongoing support of this SCM initiative.




Attachment

cc: H. Glen Walker
Lynn Sartain
Marie K. Martinez
Katherine S. Banks

UNITED STATES POSTAL SERVICE
Washington, DC 20262-4200
PH: 202-268-4040
FAX: 202-268-4775
WWW.USPS.GOV

Attachment
Supply Management Response
OIG Report CA-MA-08-DRAFT
Page 1 of 1

To further strengthen the contract management over waste, trash, and recycling services contracts, we recommend that the Vice President, Supply Management, ensure the Eastern Services Category Management Center:

1. Develops standardized procedures for file management and payment tracking for waste, trash, and recycling services contracts.

Supply Management agrees with this recommendation and has taken appropriate actions towards implementation. In conjunction with this review, the Eastern Services Category Management Center (CMC) is reviewing and reworking contracts within their purview to ensure the files and required documentation are consistently maintained and organized using file flaps contained in our Contract Authoring and Management System (CAMs). In addition, if agreement is reached with the responsible District Finance Manager and supplier, we can modify contracts to segregate trash expense from recycling revenues (versus the practice of offsetting trash costs with recycling revenue). The issue will ultimately need to be addressed and resolved by Finance as it offsets field budgets. The Eastern Services CMC is also working to develop and pilot a local Access database during FY2008 to manually input waste, trash, and recycling services contract information and assist with payment and rebate tracking.

2. Develops tracking mechanisms that allow for payment reports by contract number for waste, trash, and recycling services contracts.

3. Develops reports and procedures that adequately account for recycling contract revenue.

Supply Management agrees with the intent of recommendations two and three. We believe the Access database described in response to recommendation one will provide capability for generating some reports locally at the Eastern Services CMC and associated efforts to track payments and rebates separately will greatly improve visibility into our waste, trash, and recycling services contracts. Unfortunately, the Postal Service's current contract and financial systems do not allow for a completely integrated process or centrally housed system that will allow payment and revenue reporting by contract number. During our future requirement planning efforts for automated systems, we will consider this improvement.

4. Provides Contracting Officer Representatives for waste, trash, and recycling services contracts with adequate policies, procedures, and instructions to manage these complex contracts.

Supply Management agrees with this recommendation and has completed the first round of targeted training for 101 participants during Postal Quarter 1. To do this, the Eastern Services CMC developed a training initiative, "Trash Talk" where presentations are given using MeetingPlace software. The first session included contracting officer representative (COR) training, consistent with governing Postal COR policies and procedures, and an Office of Inspector General contract fraud orientation. This first session included CORs assigned to contracts due to expire on or before December 2008. Future sessions will target other CORs assigned to expiring contracts in later years. In addition, "Trash Talk" will be used quarterly to provide ongoing instruction and a forum for discussion regarding improving our management of waste, trash, and recycling contracts.