



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# **Contract Delivery Service Cost Controls**

## **Management Advisory**

September 26, 2011

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**Report Number CA-MA-11-002**



# HIGHLIGHTS

## **IMPACT ON:**

The accuracy of contract delivery routes in the Caribbean District.

## **WHY THE OIG DID THE AUDIT:**

Our objective was to assess Contract Delivery Service (CDS) contracts with above average costs. Specifically, we determined whether CDS or rural delivery was the delivery option with the lowest cost; whether a cost comparison of CDS to rural was conducted; whether former U.S. Postal Service employees owned or operated CDS routes and; whether the number of deliveries per the contract was based on possible rather than active deliveries.

## **WHAT THE OIG FOUND:**

Generally, CDS contracts in the Caribbean District offered the lowest cost to the Postal Service. In addition, when a CDS contract is renewed, contract specialists compared contract costs to the cost of rural delivery. Further, controls were in place to prevent former Postal Service employees from obtaining a competitive advantage. However, administrative officials (AOs) did not always perform route surveys to verify the number of deliveries; therefore, the number of deliveries on some CDS contracts might not be accurate. Based on conversations with AOs and Caribbean District officials, the primary reasons route surveys were not completed for

47 CDS contracts were frequent changes in office management and the district's focus on other operational areas. If contract officials do not use current route information, it may be difficult for them to negotiate an accurate price for a contract and the Postal Service may be inappropriately paying contractors. We consider \$4.5 million of annual contract costs as unsupported questioned costs due to officials not completing route surveys.

## **WHAT THE OIG RECOMMENDED:**

We recommended the manager, Operations Support, Northeast Area, instruct AOs to conduct route surveys on 47 CDS routes and establish a system of accountability to ensure route surveys are completed the year before contract renewal.

## **WHAT MANAGEMENT SAID:**

Management agreed with all the findings and began implementing actions to resolve the issues identified in the report. They did not agree with classification of the 47 CDS contract costs as unsupported questioned costs.

## **AUDITORS' COMMENTS:**

The OIG considers management's comments responsive to the recommendations in the report.

[Link to review the entire report](#)



September 26, 2011

**MEMORANDUM FOR:** RICHARD P. ULUSKI  
MANAGER OPERATIONS SUPPORT, NORTHEAST AREA

E-Signed by Mark Duda  
VERIFY authenticity with e-Sign   
*Mark Duda*

**FROM:** Mark W. Duda  
Deputy Assistant Inspector General  
for Support Operations

**SUBJECT:** Management Advisory – Contract Delivery Service Cost  
Controls (Report Number CA-MA-11-002)

This report presents the results of our review of Contract Delivery Service Cost Controls (Project Number 11YG017CA000).

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

Attachments

cc: Steven J. Forte  
Susan M. Brownell  
Susan A. Witt  
Royale A. Ledbetter  
Jesus Galvez  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our review of Contract Delivery Service (CDS) Cost Controls in the Caribbean District (Project Number 11YG017CA000). This review was initiated based on concerns expressed by the National Rural Letter Carriers Association. We will conduct additional work in other districts to further address those concerns. This report addresses route surveys in the Caribbean District that are required to be conducted this fall. The objective of this review was to assess CDS contracts with above average costs. Specifically, we:

- Determined whether the number of deliveries per the contract was based on possible rather than active deliveries and if the number of deliveries were supported by route surveys.
- Determined whether CDS or rural delivery was the delivery option with the lowest cost.
- Determined whether a cost comparison of CDS to rural was conducted.
- Determined whether former U.S. Postal Service employees owned or operated CDS routes.

This review addresses financial and operational risks. See [Appendix A](#) for additional information about this review.

A CDS route is a contract agreement between the Postal Service and a private individual or firm for the delivery and collection of mail from homes and businesses. The services provided by the CDS carrier are similar to those provided by postal rural letter carriers, including delivery of mail and the sale of postal services. As of March 25, 2011, the Caribbean District had 279 CDS contracts, with a total value of \$11.6 million.

## Conclusion

Generally, CDS contracts in the Caribbean District offered the lowest cost to the Postal Service. In addition, when a CDS contract is renewed, contract specialists complete a cost comparison, comparing contract costs to the cost of rural delivery. Further, controls were in place to prevent former Postal Service employees from obtaining a competitive advantage. However, administrative officials (AOs)<sup>1</sup> did not always perform route surveys to verify the number of deliveries; therefore, the number of deliveries on some CDS contracts may not be accurate.

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<sup>1</sup> Any Postal Service official designated by a contracting officer (CO) to supervise and administer an awarded contract.

## Route Surveys

Of 101 CDS contracts reviewed, AOs did not conduct route surveys for 47 (46.5 percent) contracts, with a value of \$2,182,262, as required. According to Postal Service policy, highway contract routes (which include CDS routes) must be surveyed during the fall of the year before the contract expires<sup>2</sup>. The AOs did not always respond to the contracting officer's (CO) request to complete route surveys. Based on conversations with AOs and Caribbean District officials, the primary reasons route surveys were not completed were frequent changes in office management and the district's focus on other operational areas.

Route surveys assist contracting officials by:

- Determining if there is a need to continue the route.
- Identifying necessary adjustments in route operations.
- Identifying operational adjustments that result in additional cost savings to the Postal Service.

If contract officials do not use current route information, it may be difficult for them to negotiate an accurate price for a contract and the Postal Service may be inappropriately paying contractors. We consider \$4.5 million<sup>3</sup> of annual contract costs as unsupported questioned costs due to officials not completing route surveys, which is a significant component of calculating the contract amount<sup>4</sup>. [See Appendix B.](#)

## CDS Versus Rural Delivery Costs

We reviewed a sample of 101 contracts (70 random and 31 judgmental), with a value of about \$4.6 million. We compared the cost of each contract to the cost for rural delivery, using a cost analysis spreadsheet created by Postal Service Headquarters<sup>5</sup>. Based on our analysis, we generally found CDS lower in cost. We identified a slight cost advantage for rural carriers for nine of 101 contracts, with potential savings of \$61,700. Although there was a potential cost savings identified in nine of 101 contracts, there

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<sup>2</sup> Management Instruction SP-CS-2009-1, *Conducting Highway Contract Route Surveys*, January 15, 2009.

<sup>3</sup> We projected our audit results of \$2.2 million to a universe of \$11.6 million, based on a 90 percent confidence level that the projection is at least \$4.5 million annually. The U.S. Postal Service Office of Inspector General (OIG) limits the amount of unsupported questioned costs claimed in a contract audit to a 2-year window. Our projected total questioned costs for that 2-year window totals \$8,918,958. These amounts are not necessarily actual losses incurred by the Postal Service.

<sup>4</sup> These costs are questioned, because they are not supported by adequate documentation or because employees did not follow required procedures. The use of the category 'unsupported questioned costs' does not necessarily indicate actual loss incurred by the Postal Service.

<sup>5</sup> Cost analysis worksheet found on rural delivery growth management website.

were additional factors not taken into consideration; if taken into consideration, these additional factors might make CDS a cheaper option<sup>6</sup>.

### Cost Comparison of CDS to Rural Delivery

We found that when a CDS contract is renewed, contract specialists completed a comparison of rural delivery to CDS costs, although they were not required to do so. Of the 101 contracts reviewed, comparisons were completed for 80. All of these comparisons found that CDS was the cheaper delivery option.

### Former Postal Service Employees

Controls were in place to prevent former Postal Service employees from obtaining a competitive advantage. Specifically, the AO does not receive a copy of the contractors' cost statement, which would include sensitive and specific cost information. Since the AO does not receive a copy of the cost statement, there is less of a chance that a Postal Service employee could gain a competitive advantage by knowing what to bid on a contract route. Of 101 sampled contracts, we identified 16 contractors who previously worked for the Postal Service in a part-time capacity (casuals or file clerks); we did not identify any contractors who previously worked as managers or supervisors.

### Recommendations

We recommend the manager, Operations Support, Northeast Area:

1. Instruct administrative officials to complete route surveys for the 47 contract delivery service routes identified in this review.
2. Establish a system of accountability to ensure route surveys are completed the year prior to contract renewal.

### Management's Comments

Management concurred with all the findings and began actions implementing recommendations. Recommendation 1 is expected to be fully implemented by November 20, 2011, and actions to implement recommendation 2 are underway. Management did not agree with the monetary impact classification of the costs of 47 CDS contracts as unsupported questioned cost. Management stated that, though the \$2,182,262 cost for these routes is categorized as unsupported questioned costs, the financial risk to the U.S. Postal Service is minimal. See [Appendix C](#) for management's comments, in their entirety.

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<sup>6</sup> We calculated rural delivery costs using only factors we could verify (number of centralized boxes, number of regular boxes, number of miles, and average volume factor for each district). There are additional costs associated with rural delivery such as the number of collection boxes, parcel lockers, and weekly dismounts. Each of these factors increases cost, which might make CDS cheaper; however, we could not obtain this information without physically observing each route.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation(s) can be closed.

In regards to management's disagreement with the monetary impact, as we stated in the report, these amounts are not necessarily actual losses incurred by the Postal Service. We classified these amounts as unsupported questioned costs because a required procedure was not followed. Since officials did not conduct required surveys to confirm the costs and terms of CDS contracts, there is no assurance of the level of financial risk incurred by the Postal Service.

## Appendix A: Additional Information

### Background

A CDS route is a contract agreement between the Postal Service and a private individual or firm for the delivery and collection of mail from homes and businesses. The services provided by the CDS carrier are similar to those provided by postal rural letter carriers, including delivery of mail and the sale of postal services. The supplier, depending on contract requirements, performs specified duties such as casing mail; selling stamps, Certified Mail™, Collect on Delivery, Express Mail, Registered Mail™, Parcel Post, merchandise returns, or money orders; picking up mail from collection boxes; and markup and forwarding mail. A route may be operated personally by the supplier (owner-operator), or the supplier may elect to hire employees. If the supplier's hired employees are used regularly, they must be paid wages and fringe benefits in accordance with the Service Contract Act and the current wage determination attached to the contract. Also, the supplier is responsible for training its hired employees in accordance with standardized training programs established by the Postal Service for CDS. As of March 25, 2011, the Caribbean District had 279 CDS contracts, with a total value of \$11.6 million.

### Objective, Scope, and Methodology

Our objective was to assess CDS contracts with above average costs. Specifically, we:

- Determined whether CDS or rural delivery was the delivery option with the lowest cost.
- Determined whether a cost comparison of CDS to rural was conducted.
- Determined whether former Postal Service employees owned or operated CDS routes.
- Determined whether the number of deliveries per the contract was based on possible rather than active deliveries.

To accomplish our objective, we:

- Reviewed Postal Service policies and procedures pertaining to CDS contracts and the solicitation, evaluation, and award process, to gain an understanding of the CDS program.
- Interviewed Postal Service Headquarters personnel responsible for Transportation Contract Support System (TCSS)<sup>7</sup> data and CDS program policies and procedures.

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<sup>7</sup> An automated procurement contracting system for administering more than 17,500 Postal Service highway, rail, air, and ocean mail transportation contracts.

- Selected a statistical sample of contracts for review to ensure proper procedures were followed for evaluating and selecting a CDS contract.
- Held discussions with Caribbean District personnel to determine whether procedures for establishing a CDS route were followed.
- Interviewed the area manager, Transportation Contract (contracting officer), responsible for the selected contracts and reviewed contract files to determine whether important procedures for CDS contract administration were properly addressed. Specifically, for each sample contract we:
  - Verified whether contract personnel completed a cost comparison of CDS to rural.
  - Validated number of boxes as 'active' verses possible delivery.
  - Identified changes to box count and noted any increase or decrease.
  - Determined whether a route survey was performed or scheduled.
  - Determined if CDS contract was less costly than rural carrier when cost comparisons were performed.
  - Completed a cost comparison to determine if CDS contract was less costly than rural delivery.
  - Identified whether a grievance was filed.
- Compared contractors' identification against the Postal Service's employee database to determine whether the contractor was a former Postal Service employee.

We conducted this review from June through September 2011, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 1, 2011, and included their comments where appropriate.

We assessed the reliability of electronic data from TCSS by verifying the data to source documents. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

Our report titled *Conflicts of Interest: Facility Leases and Contract Delivery Services* (Report Number [DA-AR-11-008](#), dated June 8, 2011) concluded that the Postal Service entered into 78 of the 7,797 total CDS contracts (valued at \$3,005,818 annually) with current or former employees that, in some cases, resulted in apparent violations of federal regulations and Postal Service policies. Others also give the appearance of impropriety. Management agreed with the recommendations and planned to implement corrective action, with a planned completion date of September 2011.

**Appendix B: Monetary Impacts**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
Route Surveys	Unsupported Questioned Costs <sup>8</sup>	\$8,918,958

We projected our review results of \$2.2 million to a universe of \$11.6 million, based on a 90 percent confidence level that the projection is at least \$4.5 million annually. The OIG limits the amount of unsupported questioned costs claimed in a contract review to a 2-year window. Our projected total questioned costs for that 2-year window total \$8,918,958. These amounts are not necessarily actual losses incurred by the Postal Service.

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<sup>8</sup> A subset of questioned costs that is claimed because of failure to follow policy or required procedures but that does not necessarily connote any real damage to Postal Service.

## Appendix C: Management's Comments

NORTHEAST AREA OFFICE



September 20, 2011

SHIRIAN B. HOLLAND, ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory – Contract Delivery Service  
Cost Controls (Report Number CA-MA-11-DRAFT)

Northeast Area management has reviewed the subject audit report and is in concurrence with the findings of the audit.

### **Recommendation #1**

Instruct administrative officials to complete route surveys for the 47 contract delivery service routes identified in this audit.

### **Management Response/Action Plan**

The forty-seven (47) contract delivery service (CDS) contracts should have received a route survey prior to renewal. Though the \$2,182,262 cost for these routes is categorized as unsupported questioned costs, the financial risk to the U.S. Postal Service is minimal.

The 47 routes in question will be surveyed to identify inaccuracies in the current contracts. The Northeast Area will monitor this process to ensure compliance.

### **Target Implementation Date**

This will be completed by November 20, 2011.

### **Responsible Official**

The District Manager, Caribbean District will be responsible for implementation.

### **Recommendation #2**

Establish a system of accountability to ensure route surveys are completed the year prior to contract renewal.

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**Management Response/Action Plan**

In concert with the Caribbean District, the Northeast Area will review progress on a weekly basis.

**Target Implementation Date**

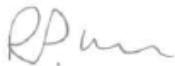
This is in progress and ongoing.

**Responsible Official**

The Manager, Delivery Program Support at the Northeast Area will monitor.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

Thank you for the opportunity to provide feedback. If you require any additional information, please contact me at (860) 285-7040.



Richard P. Uluski  
Manager, Operations Support

- cc: Steven J. Forte
- Susan M. Brownell
- Susan W. Witt
- Royale A. Ledbetter
- Jesus Galvez
- Manager, Corporate Audit and Response Management