



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

**Contract Delivery Service Cost
Controls in the Suncoast District**

Management Advisory

February 27, 2012

Report Number CA-MA-12-001



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

HIGHLIGHTS

February 27, 2012

Contract Delivery Service Cost Controls in the Suncoast District

Report Number CA-MA-12-001

IMPACT ON:

The accuracy of contract delivery routes in the Suncoast District.

WHY THE OIG DID THE AUDIT:

Our objective was to assess controls over Contract Delivery Service contract awards and determine whether the number of deliveries per contract was based on possible, rather than active, deliveries.

WHAT THE OIG FOUND:

We found that no contracts were awarded based on possible, rather than active, deliveries. However, administrative officials (AOs) did not always perform route surveys to verify the actual number of deliveries. Route surveys were not completed because AOs were not aware of the requirements for performing the surveys and had not received training for performing their duties and responsibilities. Without current and accurate survey information, it may be difficult for contract officials to negotiate an accurate price for a contract and the Postal Service may be incorrectly paying contractors. We consider \$1.1 million in annual contract costs as unsupported questioned costs. We also found inconsistencies in the policy related to completion of route surveys in Handbook SP-1, *Highway Contract Routes - Contract Delivery Service*.

WHAT THE OIG RECOMMENDED:

We recommended management instruct AOs to complete route surveys for the 23 routes identified, reiterate to AOs the requirements for conducting surveys, provide training to ensure AOs are aware of the procedures for completing surveys, establish a monitoring system to ensure surveys are completed accurately and timely, and clarify the policy for completing surveys in Handbook SP-1.

WHAT MANAGEMENT SAID:

Management agreed with all the findings and recommendations in the report and completed action on recommendations 1 through 3 and began implementing actions to address recommendations 4 and 5.

AUDITORS' COMMENTS:

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)

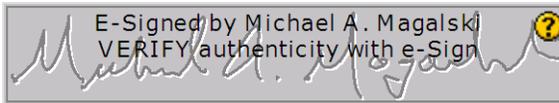


February 27, 2012

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

MANUEL ARGUELLO
MANAGER OPERATION SUPPORT, SOUTHWEST AREA

E-Signed by Michael A. Magalski
VERIFY authenticity with e-Sign

A rectangular box containing a handwritten signature in grey ink and a small yellow question mark icon in the top right corner.

FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Management Advisory – Contract Delivery Service Cost
Controls in the Suncoast District
(Report Number CA-MA-12-001)

This report presents the results of our review of Contract Delivery Service Cost Controls in the Suncoast District (Project Number 11YG017CA001).

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: Linda Welch
Deborah Giannoni-Jackson
David Patterson
James N. Dale, Jr.
James D. Young
Royale A. Ledbetter
Susan A. Witt
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction 1

Conclusion 1

Route Surveys..... 1

Postal Service Policy Inconsistencies 2

Recommendations 3

Management’s Comments 3

Evaluation of Management’s Comments 3

Appendix A: Additional Information 4

 Background 4

 Objective, Scope, and Methodology 4

 Prior Audit Coverage 5

Appendix B: Monetary Impacts 6

Appendix C: Management’s Comments 7

Introduction

This report presents the results of our audit of Contract Delivery Service (CDS) cost controls in the Suncoast District (Project Number 11YG017CA001). This review was initiated based on concerns expressed by the National Rural Letter Carriers' Association. We reported on similar issues in the Caribbean District in an earlier report.¹ This report addresses financial and operational risk. The objective of this review was to assess controls over CDS contract awards and determine whether the number of deliveries per the contract was based on possible rather than active deliveries. See [Appendix A](#) for additional information about this audit.

A CDS route is a contract agreement between the U.S. Postal Service and a private individual or firm for the delivery and collection of mail from homes and businesses. The services the CDS carrier provides are similar to those postal rural letter carriers provide, including delivery of mail and the sale of postal services. As of March 25, 2011, the Suncoast District had 149 CDS contracts, with a total value of \$6.5 million.

Conclusion

In our review of active CDS contracts, we found no instances where the contract award was based on possible, rather than active, deliveries. This was because the majority of the contracts were renewals of previously awarded contracts, contract splits, or awarded contracts that replaced discontinued contracts. All but one of the contracts we reviewed fell into one of these three categories. For that one new route, we verified that it was established with actual deliveries, supported by a completed route survey. However, we also found that administrative officials (AOs)² did not always perform route surveys to verify the number of deliveries. Therefore, the number of deliveries on some CDS contracts may not be current and accurate. In addition, there are inconsistencies in Postal Service policy³ related to the completion of route surveys.

Route Surveys

Of 29 CDS contracts reviewed,⁴ AOs did not conduct route surveys as required for 23 contracts (79 percent), with a value of \$1.1 million. 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.⁵ Based on conversations with AOs, they had not received training for these duties as required⁶ and did not fully understand AO duties and responsibilities.

¹ *Contract Delivery Service Cost Controls* (Report Number [CA-MA-11-002](#), dated September 26, 2011).

² Any Postal Service official designated by a contracting officer (CO) to supervise and administer an awarded contract.

³ Handbook SP-1, *Highway Contract Routes – Contract Delivery Service*.

⁴ We originally selected 31 contracts for review; however two of the contracts had been cancelled.

⁵ Management Instruction (MI) SP-CS-2009-1, *Conducting Highway Contract Route Surveys*, January 15, 2009.

⁶ MI SP-CS-2009-1.

It is important for AOs to complete route surveys before contracts are renewed because these 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 contracting officials do not have current and accurate route survey information, it will be difficult for them to negotiate an accurate price for CDS contracts and the Postal Service may incorrectly pay contractors. We consider \$1.1 million of annual contract costs as unsupported questioned costs⁷ due to officials not completing route surveys. Route surveys are an important factor used in negotiating contract amounts (see [Appendix B](#)).

During our review, Suncoast District officials began the process of completing route surveys for the 23 contracts identified in our report and implementing training requirements for all staff responsible for supervising CDS routes.

Postal Service Policy Inconsistencies

Postal Service policy⁸ contains inconsistent language related to the completion of annual route surveys. Specifically, Section 521 of Handbook SP-1 requires that an annual route survey be performed and does not provide any exceptions to this requirement. However, another policy section⁹ allows an exception in which the AO, CO, or supplier may opt out of the route survey by stating that an annual survey is not desired. Management has not updated the handbook to reflect consistent requirements for route surveys in each policy section. If the policy for completing route surveys is not consistent, there will be continuing confusion in the field as to when to complete route surveys.

⁷ 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.

⁸ Handbook SP-1, *Highway Contract Routes – Contract Delivery Service*.

⁹ Handbook SP-1, Section 134.271, states “A survey will be conducted annually when the Administrative Official, CDS supplier, or CO elects to do so. If the Administrative Official, CO and the supplier indicate that a survey is not desired, the route will not be surveyed and only en route boxes will be adjusted.”

Recommendations

We recommend the manager, Operations Support, Southwest Area:

1. Instruct administrative officials to immediately complete route surveys for the 23 contract delivery service routes identified in this review.
2. Reiterate to administrative officials the requirements for conducting route surveys.
3. Provide training to administrative officials on their roles and responsibilities.
4. Establish a monitoring system to ensure route surveys are completed accurately and timely.

We recommend the vice president, Supply Management:

5. Clarify the policy for completing route surveys in Handbook SP-1, *Highway Contract Routes - Contract Delivery Service*.

Management's Comments

Management concurred with all the findings in the report and either completed or began actions to implement the recommendations. Management fully implemented recommendations 1, 2, and 3 as of February 1, 2012. Regarding recommendation 4, Suncoast District management assigned personnel responsible for tracking surveys identified by the contracting office and stated they would ensure completion. Management expects to implement recommendation 5 by April 2012. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective action should resolve the issues identified in the report. Management provided supporting documentation to confirm they completed route surveys for the 23 CDS routes identified and that all Suncoast District administrative offices had completed CDS training. These actions address recommendations 1, 2, and 3, which will be considered closed with the issuance of this report.

The OIG considers all the recommendations significant and, therefore, requires OIG concurrence before closure of recommendations 4 and 5. Consequently, the OIG requests written confirmation when corrective actions 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 recommendations can be closed.

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 CDS carriers provide are similar to those postal rural letter carriers provide, 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 marking up and forwarding mail. A route may be operated personally by the supplier (owner-operator) or the supplier may hire employees. 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 Suncoast District had 149 CDS contracts, with a total value of \$6.5 million.

Objective, Scope, and Methodology

Our objective was to assess controls over CDS contract awards and to determine whether the number of deliveries per 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 contract solicitation, evaluation, and award process to understand the CDS program.
- Interviewed Postal Service Headquarters personnel responsible for Transportation Contract Support System (TCSS)¹⁰ data and CDS program policies and procedures.
- Selected a judgmental sample of contracts for review to ensure proper procedures were followed for evaluating and selecting CDS contracts.
- Met with Suncoast District personnel to determine whether employees followed procedures for establishing CDS routes.
- Interviewed the CO responsible for the selected contracts and reviewed the contract files to determine whether the CO followed procedures governing CDS contract administration. Specifically, for each of the sample contracts, we:
 - Validated the number of boxes for “active” versus “possible” delivery.

¹⁰ The TCSS is an automated procurement contracting system for administering over 17,500 Postal Service highway, rail, air, and ocean mail transportation contracts.

- Identified changes to box count and noted any increase or decrease.
- Determined whether a route survey was performed or scheduled.
- Identified whether a grievance was filed.

We conducted this review from September 2011 through February 2012 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 January 20, 2012, 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 *Contract Delivery Service Cost Controls* (Report Number [CA-MA-11-002](#), dated September 26, 2011) concluded that, generally, CDS contracts in the Caribbean District offered the lowest cost to the Postal Service. However, AOs 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. We reported \$4.5 million in annual contract costs as unsupported questioned costs due to officials not completing route surveys. Management agreed with our recommendations and planned to implement corrective action, with a planned completion date of November 2011. They did not agree with classification of the 47 CDS contract costs as unsupported questioned costs.

Appendix B: Monetary Impacts

Finding	Impact Category	Amount
Route Surveys	Unsupported Questioned Costs ¹¹	\$1,115,430

¹¹ 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 the Postal Service.

Appendix C: Management's Comments

MANAGER, OPERATIONS SUPPORT
SOUTHWEST AREA



February 16, 2012

SHIRIAN B. HOLLAND
(A) DIRECTOR, AUDIT OPERATIONS

SUBJECT: REVISED Draft Management Advisory Report – Contract Delivery
Service Cost Controls in the Suncoast District
(Report Number CA-MA-12-DRAFT) – Project # 11YG017CA001

As requested, we agree with the findings and provide a follow up summary of completed items identified in the subject audit:

Recommendation #1:

Instruct administrative officials to immediately complete route surveys for the 23 contract delivery service routes identified in this review.

Management Response:

Route surveys for all 23 routes were completed by February 1, 2012.

Target Completion Date:

February 1, 2012

Responsible Official:

Manager, Operations Programs Support Suncoast District

Recommendation #2:

Reiterate to administrative officials the requirements for conducting route surveys.

Management Response:

All 63 administrative offices have completed LMS course # 10014946, contract delivery service by January 31, 2012. Suncoast District will ensure that administrative offices are aware of their requirements for future survey completion and this training is required during the installation of new PM's or OIC's through the transfer accountability process.

Target Completion Date:

January 31, 2012

Responsible Official:

Manager, Operations Programs Support Suncoast District

PO Box 225459
DALLAS TX 75222-5459
214-819-8000
FAX: 214-905-9224

- 2 -

Recommendation #3:

Provide training to administrative officials on their roles and responsibilities.

Management Response:

Suncoast District has validated that all 63 offices have completed LMS course # 10014946.

Target Completion Date:

January 31, 2012

Responsible Official:

Manager, Operations Programs Support Suncoast District

Recommendation #4:

Establish a monitoring system to ensure route surveys are completed accurately and timely.

Management Response:

The Suncoast District Operations has assigned specific analysts responsible for notifications and tracking of required surveys once identified by Memphis. The district will provide unit notification and create a suspense to ensure completion.

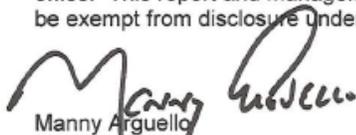
Target Implementation Date:

As required by Area Manager, Transportation Contracts

Responsible Official:

Manager, Operations Programs Support Suncoast District

If you have any further questions pertaining to this information, please contact our office. This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



Manny Arguello

- cc: Jo Ann Feindt
- Deborah Giannoni-Jackson
- Nancy Rettinhouse
- James N. Dale, Jr.
- James D. Young
- Royale A. Ledbetter
- Susan A. Witt
- Corporate Audit and Response Management

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



February 16, 2012

SHIRIAN HOLLAND

SUBJECT: Draft Management Advisory Report – Contract Delivery Service Costs Controls in the Suncoast District (Report Number CA-MA-12-DRAFT)

We appreciate the opportunity to review and comment on the subject draft report. Two separate responses are being provided to address this report, one from each of the addressees. Management agrees with the Office of Inspector General's findings for recommendation 5 and has taken action to revise the policy.

AUDIT RECOMMENDATIONS

We recommend the Vice President, Supply Management:

Recommendation 5. Clarify the policy for completing route surveys in Handbook SP-1, *Highway Contract Routes - Contract Delivery Service*.

Management Response/Action Plan: Supply Management has drafted a policy revision to Handbook SP-1 to clarify the language on performing route surveys. This revision is currently within the clearance process and is targeted for publication and communication by April 2012.

Target Implementation Date: April 2012

Responsible Official: Manager, Surface Transportation.

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.

cc: Jo Ann Feindt
Deborah Giannoni-Jackson
David Patterson
James Dale, Jr.
Dwight Young
Royale Ledbetter
Susan Witt
Corporate Audit and Response Management

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