



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Use of Independent Contractor Studies

Audit Report

Report Number
CP-AR-17-002

October 14, 2016





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service contracts for external studies to gain insight and recommendations on different business area topics.

Background

The U.S. Postal Service paid over \$5.6 billion for contracts under the commercial products and services portfolio between fiscal years (FY) 2009 and 2015. This portfolio purchases a range of goods and services, including strategic consulting, logistics and fulfillment, market research and brand management, and financial and accounting services.

Within this portfolio, the Postal Service contracts for these services (external studies) when an external vendor can provide more insight, expertise, opinions, and recommendations on topics in different business areas.

We initiated this audit in response to a request from the U.S. Senate Committee on Homeland Security & Governmental Affairs. The request asked the U.S. Postal Service Office of Inspector General's (OIG) to review how the Postal Service uses external studies, including the amount spent on these studies and any duplication on the topic being explored. Our objective was to determine if the Postal Service effectively manages external studies performed by vendors.

What The OIG Found

The Postal Service did not effectively manage external studies. There is no formal process to identify and catalog the universe of external studies. As a result, over a 6-week period, the Postal Service could not locate 30 of 97 requested studies (or 31 percent) valued at over [REDACTED] from FYs 2009 through

2015. This occurred because the Postal Service's current contract catalog system does not provide an efficient method for searching for external studies. During the exit conference on September 13, 2016, and days after, the Postal Service provided 26 of the remaining 30 studies valued at [REDACTED]. The four remaining studies conducted were valued at about [REDACTED].

The Postal Service also did not have a formal, consistent process to store, share, and retain external study results. The results of external studies are managed by the requestor and sometimes stored on the functional area's internal web pages; however, this practice is inconsistently followed and done at the discretion of the requestor. This practice also does not allow access or visibility throughout the organization without special permission. In fact, other functional areas may not even be aware that a study relevant to their area has been conducted.

The Postal Service's retention policy for contract administration and related records is 6 years; however, the policy is silent on contracted external studies. Therefore, we could not adequately assess the Postal Service's obligation in retaining the results of the external studies.

Although we found similar studies, we did not identify any duplicate external studies. Without formal processes to share, store, and retain information, there is a risk of duplicating contract topics and resources and of the reports losing their value.



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What The OIG Recommended

We recommended management develop a method to efficiently identify and access external studies. We also recommended management store and share final study results in a centralized location accessible to an identified level of management. Finally, we recommended management establish a retention policy for contracted external studies.

Transmittal Letter

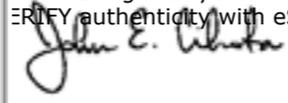


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 14, 2016

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE VICE
PRESIDENT

THOMAS J. MARSHALL
GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT

E-Signed by John Cihota
VERIFY authenticity with eSign Desktop


FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance, Pricing, & Investments

SUBJECT: Audit Report – Use of Independent Contractor Studies
(Report Number CP-AR-17-002)

This report presents the results of our audit of the U.S. Postal Service's Use of Independent Contractor Studies (Project Number 16TG013CP000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lourdes L. Gatell, acting director, Cost, Pricing, and Investments, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Highlights.....	1
Background.....	1
What The OIG Found.....	1
What The OIG Recommended	2
Transmittal Letter.....	3
Findings.....	5
Introduction	5
Summary.....	5
Universe of External Studies	6
Management of Study Results.....	7
Recommendations.....	10
Management’s Comments	10
Evaluation of Management’s Comments	10
Appendices.....	11
Appendix A: Additional Information	12
Background.....	12
Objective, Scope, and Methodology	13
Prior Audit Coverage.....	14
Appendix B: Management’s Comments.....	15
Contact Information	17

Findings

External studies may include development of new technologies, market research, and cost saving or revenue generating ideas.

There is not a consistent process to store and share external study results.

Introduction

This report presents the results of our audit of the U.S. Postal Service's use of independent contractor studies (Project Number 16TG013CP000). We initiated this audit in response to a request from the U.S. Senate Committee on Homeland Security & Governmental Affairs. The request asked the U.S. Postal Service Office of Inspector General's (OIG) to review how the Postal Service uses external studies, including the amount spent on these studies and any duplication on the topic being explored. The committee's concerns were that Postal Service management might be unaware of a study that was requested from external consultants, which could include ideas on cost-savings or revenue-generating best practices from the private sector. If Postal Service management is unaware or cannot access studies, the studies would lose their value and be a waste of Postal Service resources.

Our objective was to determine if the Postal Service effectively manages external studies performed by vendors. See [Appendix A](#) for additional information about this audit.

The Postal Service paid over \$5.6 billion for contracts under the commercial products and services portfolio between fiscal years (FY) 2009 and 2015. Within this portfolio, contracts may include studies related to the development and assessment of new initiatives or technologies, market research and ideas on cost-savings, or revenue-generating best practices from the private sector.

The Postal Service contracts for these services (external studies) when an external vendor can provide more insight, expertise, opinions, or recommendations on topics in different business areas. Contracts for external reports may include reports and analyses on topics such as finance, engineering, information technology, and marketing.

Summary

The Postal Service did not effectively manage external studies. There is no formal process to identify and catalog the universe of external studies. As a result, over a 6-week period the Postal Service could not locate 30 of 97 requested studies (or 31 percent) valued at over [REDACTED] from FYs 2009 through 2015. This occurred because the Postal Service's current contract catalog system does not provide an efficient method for searching for external studies. During the exit conference on September 13, 2016, and days after, the Postal Service provided 26 of the remaining studies valued at [REDACTED]. The four remaining studies conducted were valued at about [REDACTED].

The Postal Service also did not have a formal, consistent process to store, share, and retain external study results. The results of external studies are managed by the requestor and stored on the functional area's internal web pages; however, this practice is inconsistently followed and done at the discretion of the requestor. This practice also does not allow access or visibility throughout the organization without special permission. In fact, other functional areas may not even be aware that a study relevant to their area has been conducted.

The Postal Service's retention policy for contract administration and related records is 6 years; however, the policy is silent on contracted external studies. Therefore, we could not adequately assess the Postal Service's obligation in retaining the results of the external studies.

Although we found similar studies, we did not identify any duplicate external studies. Without formal processes to share, store, and retain information, there is a risk of duplicating contract topics and resources and of reports losing their value.

The Postal Service does not have a formal definition or efficient way to identify the universe of external studies.

Universe of External Studies

The Postal Service does not have a formal definition of what constitutes an external study or an efficient way to accurately identify the universe. In addition, within the Postal Service's Contract Authoring Management System (CAMS),¹ there is no unique identifier or code designated for external studies. For the purposes of the audit, we discussed with Postal Service Supply Management the criteria and possible definition of "external study." Our requests were based on the following definition: a one time, nonrecurring work with a report or presentation as the deliverable that provides the Postal Service with conclusions and recommendations for a course of action.

The Postal Service's Supply Management group manages contract requests for goods and services to meet an identified business need. The Commercial Products and Services (CP&S) portfolio² team manages external study requests within the Supply Management group. These requests include professional, technical, and consulting services. Contracts for external reports may include reports and analyses on topics such as finance, engineering, information technology, and marketing.

The OIG requested contracts for external studies for FYs 2009 through 2015. To meet this request, Supply Management used the line item description in CAMS, inputting the key words 'study' and 'survey' by all administrative contracting offices (ACO)³ within the CP&S portfolio. This resulted in a universe of 107 contracts and task orders; however, after further review, 51 of these contracts were not for external studies but for services related to transportation, travel, labor, and direct costs.

Management indicated that external studies are grouped by ACO codes and do not have a unique identifier. Identifying the universe of external studies would require a manual review of all Postal Service contracts and subsequent change orders. In a previous audit, the OIG reported that CAMS did not have a means to readily identify specific services or contract information and recommended that the Postal Service maintain an inventory of purchased services and technologies.⁴

To identify the audit universe for FYs 2009 through 2015, we sorted contracts by ACO code and 30 primary product service codes⁵ and identified 742 contracts with a spend of about [REDACTED]. We reviewed the statements of work (SOW) for all 742 contracts and identified 97⁶ related to external studies. The contract spend totaled [REDACTED].⁷ The contract requests originated from seven Executive Leadership Team (ELT)⁸ areas; however, most were related to marketing business topics (see [Table 1](#)).

1 CAMS is a commercial off-the-shelf system used to store all contract administration documentation.

2 Postal Service purchasing is divided into 13 category management centers among five different portfolios to address the operating needs of business units.

3 There are 13 ACOs who purchase professional, technical, financial, and tactical services as well as packing, printing, and fulfillment goods and services.

4 Management of Cloud Computing Contracts and Environment (Report Number [IT-AR-14-009](#), dated September 4, 2014). The Postal Service addressed the recommendation by adding capability to the Enterprise Information Repository to identify systems using cloud computing technologies.

5 These codes identify the service or product being purchased.

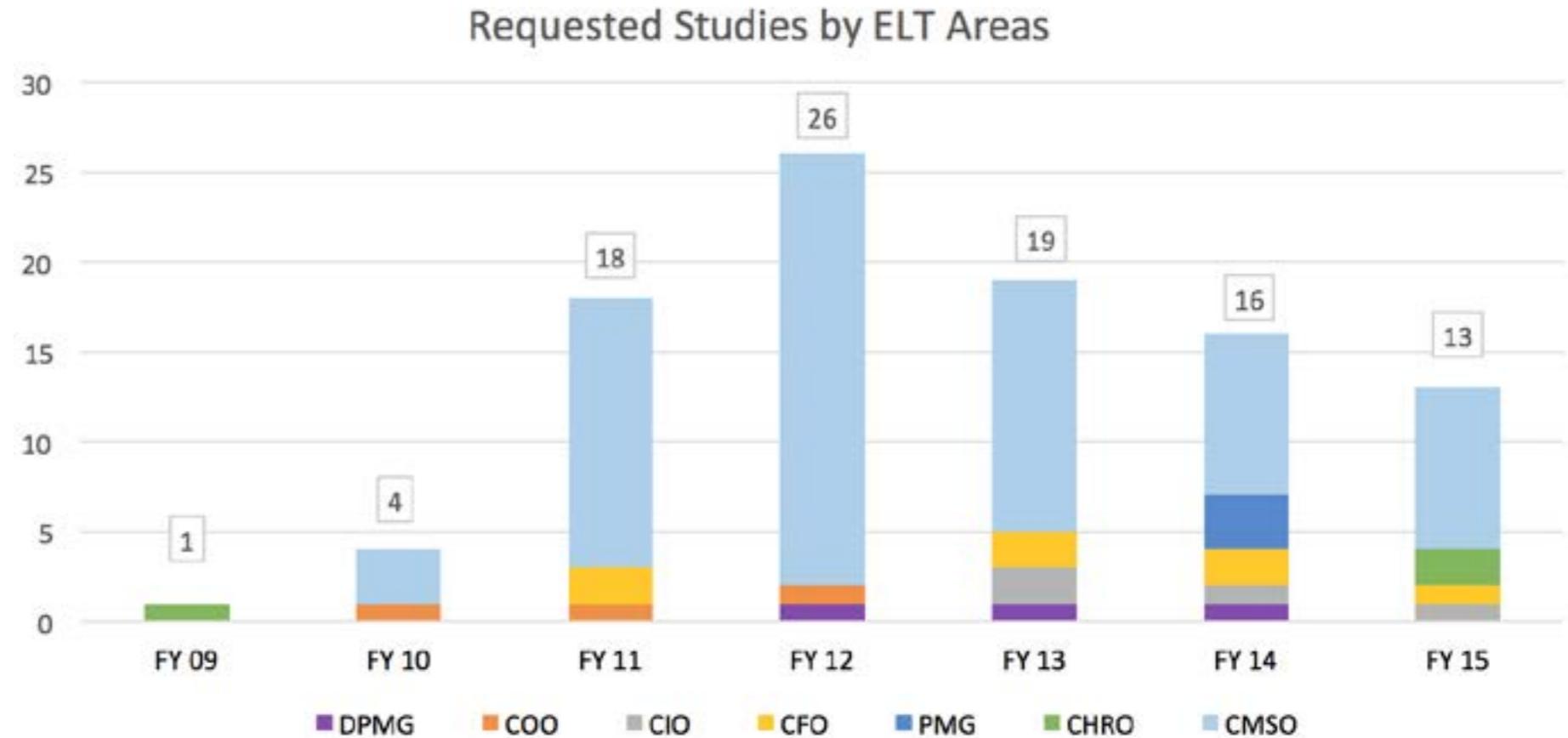
6 We initially identified 100 contracts and associated studies but removed three after communication about the contract requests with Postal Service personnel.

7 One of the 97 contracts, identified as the innovation pool, is a master contract for development of Postal Service white papers; development and assessment of new initiatives; proposals for new ideas and value propositions; and/or feasibility assessments of new technologies, concepts, or ideas under one contract number.

8 The ELT members with contracts included the postmaster general (PMG), deputy PMG (DPMG), chief operating officer (COO), chief information officer (CIO), chief financial officer (CFO), chief marketing and sales officer (CMSO), and chief human resources officer (CHRO).

Practices to store external study results are inconsistently followed and done at the discretion of the requestor.

Table 1: OIG-Identified 97 Studies by ELT Area



Source: OIG analysis of CAMS contracts.

Management of Study Results

The Postal Service did not have a formal or efficient process to store, share, and retain external studies results throughout the organization.

At the completion of the contracted services for an external study, the vendor provides a deliverable, such as a report or analysis, to the Postal Service. For the Supply Management group to close out the contract and process the final invoice, the requestor of the functional area confirms that all deliverables have been provided and services have been rendered.

The results of external studies are managed by the requestor in their own functional area. The common practice is for management to store the results on the functional area’s internal web page; however, this practice is inconsistently followed and done at the discretion of the requestor. This practice also does not allow access or visibility throughout the organization without special permission. In fact, other functional areas may not even be aware that a study relevant to their area has been conducted.

Over a 6-week period, the Postal Service provided 67 of the 97 requested external studies deliverables. As of June 30, 2016, the Postal Service were unable to provide the results of 30 of the external studies with a contract spend of over [REDACTED] (see Table 2).

Table 2: OIG Requested Studies FYs 2009-2015

The Postal Service does not have a retention policy for external studies.

FY	Number of Requested Studies	Total Value	Count of Studies Not Provided	Total Value
2009	1	[REDACTED]	-	[REDACTED]
2010	4	[REDACTED]	3	[REDACTED]
2011	18	[REDACTED]	5	[REDACTED]
2012	26	[REDACTED]	8	[REDACTED]
2013	19	[REDACTED]	4	[REDACTED]
2014	16	[REDACTED]	6	[REDACTED]
2015	13	[REDACTED]	4	[REDACTED]
TOTAL	97	[REDACTED]	30	[REDACTED]

Source: OIG analysis of studies received by June 30, 2016.

The Postal Service could not provide these external studies results for several reasons, including:

- The results are not consistently maintained on functional areas' internal web pages.
- The original requestor or point of contact had changed functional areas and their replacement was not aware of the external study.
- The original requestor or point of contact transitioned from the Postal Service and the replacement point of contact was never identified.
- There is not a formal retention policy for external studies.
- The discretionary practice of the requestor on how to manage external studies results.

During the exit conference on September 13, 2016, and days after, the Postal Service provided 26 of the remaining studies valued at [REDACTED].

A previous OIG report⁹ identified best practice processes for knowledge sharing, determining that they need to be systematic and collaborative among all Postal Service systems and employees. Management disagreed with our finding and asserted that current programs effectively and efficiently manage knowledge. At one time, the Postal Service's policy¹⁰ required reports from external studies to be stored in a physical library; however, subsequent changes to the policy removed the requirement and was silent on standards for storing external studies going forward.

The Postal Service's retention policy for contract administration and related records is 6 years; however, the policy is silent on contracted external studies. Therefore, we could not adequately assess the Postal Service's obligation in retaining the results of external studies.

Without formal processes to share, store and retain information, there is a risk of duplication of contract topics and resources, and reports losing their value.

⁹ *Postal Service Knowledge Management Process* (Report Number [DP-AR-14-002](#), dated March 7, 2014).

¹⁰ Management Instruction, *Contracting for Consultant or Study Services*, AS-710-90-4, March 29, 1990.

Recommendations

We recommend management develop a method to identify and access external studies, and store and share the final results in a centralized location.

Management should also establish a retention policy for external studies.

We recommend the chief financial officer and executive vice president:

1. Develop a method to efficiently identify and access external studies.

We recommend the chief financial officer and executive vice president, in coordination with the general counsel and executive vice president:

2. Store and share final study results in a centralized location accessible to an identified level of management.
3. Establish a retention policy for contracted external studies.

Management's Comments

Management agreed with the findings and recommendations in the report.

Management agreed to develop an appropriate method to identify and access external studies produced by suppliers. Management also agreed to explore cost effective and efficient options to develop and establish a centralized location to store and share final external independent studies. Finally, management agreed to establish a records retention schedule for external studies stored in a centralized location. The target implementation date is March 31, 2018.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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

Appendices

*Click on the appendix title
to the right to navigate
to the section content.*

Appendix A: Additional Information	12
Background	12
Objective, Scope, and Methodology	13
Prior Audit Coverage	14
Appendix B: Management's Comments.....	15

Appendix A: Additional Information

Background

The CP&S portfolio purchases a range of goods and services, including strategic consulting, logistics and fulfillment, market research and brand management, and financial and accounting services. The Postal Service contracts for an external study when an external vendor can provide more insight, expertise, or professional opinions or recommendations on topics in different business areas. These studies may include topics on development and assessment of new initiatives or technologies, industry benchmarking, market research, and ideas on cost-savings or revenue-generating best practices from the private sector.

The Postal Service's *Supplying Principles & Practices*¹¹ provide guidance on contract rules and approvals, as well as how to handle contracts based on different dollar thresholds. Postal Service functional areas identify business needs and contact the Supply Management group to award a contract. Supply Management's processes include making decisions on vendor selection, creating budget plans, requesting proposals, and receiving vendor responses. They also evaluate proposals, review potential benefits, and determine the best value for the Postal Service before making an award recommendation. Contracting officers (CO) establish and manage contracts in CAMS, which stores the contract documentation, such as award amounts and statement of objectives. The CO may appoint a contracting officer representative (COR) to work as a liaison with Supply Management. COR duties include overseeing contracts, verifying invoice amounts, and signing off on all deliverables. The contract file documentation must be retained for 6 years.

The contracting process includes the following steps:

- **Identifying Needs** – This includes defining the business need and whether to make or buy the goods or services.
- **Evaluating Sources** – This includes preparing a project by collecting ideas, developing a plan, and soliciting and reviewing vendor proposals.
- **Select Suppliers** – This includes making a final decision on awarding the contract, clarifying expectations, and appointing a COR.
- **Deliver & Receive Requirements** – This includes placing the order for goods and services and inspecting and accepting delivery.
- **Measure & Manage Supply** – This includes quality assurance, vendor payment, and managing inventory and future demands.
- **End of Life** – This includes analyzing the total costs incurred and the steps for handling inactive and surplus goods.

¹¹ *Supplying Principles & Practices*, dated August 7, 2015.

Objective, Scope, and Methodology

Our objective was to determine if the Postal Service is effectively managing external studies performed by vendors. To accomplish our objective, we:

- Reviewed Postal Service regulations, policies, and procedures.
- Discussed the contracting process with Supply Management personnel and COs, as well as the method for identifying previous external studies to determine if the Postal Service detects duplicative studies before awarding new contracts.
- Reviewed statements of work from 742 contracts to identify 97 external studies.
- Reviewed conclusions and recommendations from 67 of the 97 external studies to identify any duplication of scope or topics.
- Validated the actual amount spend on a sample of 97 contracts with the committed amount.
- Discussed the management of external studies, including requirements and policies to store and share information with Marketing, Finance, Sustainability, and Information Technology personnel.
- Discussed reliability of data in CAMS related to contract administration and requirements for external studies with Supply Management personnel.

We conducted this performance audit from March through October 2016, 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 on September 13, 2016, and included their comments where appropriate.

We assessed the reliability of computer-generated data from CAMS by comparing key information against the Enterprise Data Warehouse for knowledge and research studies provided by management. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Management of Cloud Computing Contracts and Environment</i>	IT-AR-14-009	9/4/2014	\$33,517,151
Report Results: Our report determined that the Postal Service did not comply with all applicable standards when contracting for cloud computing services. Further, they did not define “cloud computing” and “hosted services,” or establish an enterprise-wide inventory of cloud computing services. Management agreed in whole or in part with all findings.			
<i>Postal Service Knowledge Management Process</i>	DP-AR-14-002	3/7/2014	None
Report Results: Our report determined that the Postal Service did not have a comprehensive knowledge management policy or process or a chief knowledge officer to ensure that knowledge sharing is systematic and collaborative. Although not well-defined, there are knowledge management elements within several Postal Service systems to capture some tacit and explicit knowledge. Management disagreed with our finding and asserted that establishing a knowledge management process and appointing a chief knowledge officer will not provide any value and may impose additional costs.			

Appendix B: Management's Comments

JOSEPH CORBETT
Chief Financial Officer
Executive Vice President



October 4, 2016

LORI LAU DILLARD

SUBJECT: Management Response to Draft Audit Report – Use of Independent Contractor Studies (Report Number CP-AR-16-DRAFT) 16TG013CP000

Thank you for the opportunity to review and provide comments on the draft audit report for Use of Independent Contractor Studies (Report Number CP-AR-16-DRAFT). The report identifies three recommendations with no monetary impact. We agree with the recommendations and no monetary impact determination.

The following is our response to the recommendations contained in the report.

We recommend the Chief Financial Officer and Executive Vice President:

Recommendation 1: Develop a method to efficiently identify and access external studies.

Management Response to Recommendation 1: Management agrees with this recommendation. Supply Management will develop an appropriate method to identify external studies produced by suppliers. The Director of Strategic Planning and Supply Management will collaborate on the methodology to access external studies.

Target Implementation Date: March 2018

Responsible Officials: Director of Strategic Planning and Manager of Supply Management Infrastructure, Supply Management

We recommend the Chief Financial Officer and Executive Vice President, in coordination with the General Counsel and Executive Vice President:

Recommendation 2: Store and share final study results in a centralized location accessible to an identified level of management.

Management Response to Recommendation 2: Management agrees with this recommendation and will explore cost-effective and efficient options to develop and establish a centralized location to store and share final external independent studies, accessible to those granted access.

Target Implementation Date: March 2018

Responsible Official: Director of Strategic Planning

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Washington, DC 20260-6000
202-268-5272
FAC: 202-268-4364
www.usps.com

Recommendation 3: Establish a retention policy for contracted external studies.

Management Response to Recommendation 3: Management agrees that a records retention schedule will need to be established for external studies in the centralized location described in response to Recommendation 2 in accordance with Handbook AS-353, *Guide to Privacy, the Freedom of Information Act, and Records Management*.

Target Implementation Date: March 2018

Responsible Officials: Director of Strategic Planning and Director, Customer & Market Insights

If you have any questions about this response, please contact Leo Tudela at (202) 268-5754.



Joseph Corbett

cc: Manager, Corporate Audit Response Management



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