



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

Procurement-Related Ethical Violations at Vehicle Maintenance Facilities

Management Advisory Report

December 18, 2013

Report Number SM-MA-14-002



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HIGHLIGHTS

December 18, 2013

Procurement-Related Ethical Violations at Vehicle Maintenance Facilities

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BACKGROUND:

U.S. Postal Service employees are required to adhere to prescribed standards of ethical conduct in the performance of their official duties. For example, employees are prohibited from using their public office for private gain and soliciting or accepting any gift or item from those doing business with the Postal Service. The U.S. Postal Service Office of Inspector General (OIG) has completed several investigations in recent years that identified ethical violations by Postal Service vehicle maintenance facility (VMF) employees and contractors. Our objective was to assess procurement-related ethical violations involving current and former Postal Service employees at VMFs to identify internal control deficiencies.

WHAT THE OIG FOUND:

OIG investigations closed during fiscal years (FY) 2009 through 2013 identified 11 instances of VMF employees receiving bribes in exchange for steering work, receiving kickbacks for arranging fraudulent payments to contractors, or concealing personal relationships with suppliers to secure contract work. The Postal Service paid these contractors more than \$14.5 million during the period of the violations, which occurred in FYs 2004 through 2012.

The ethical violations occurred in an environment in which management did not provide clear roles and

responsibilities for vehicle maintenance repair agreements to ensure separation of duties; nor did current policy require periodic reviews of transactions at VMFs. Furthermore, personnel involved in these cases did not complete annual ethics training. As a result, the Postal Service may be at risk of selecting vendors who do not provide the best value to the Postal Service and overpaying vehicle maintenance repairs.

WHAT THE OIG RECOMMENDED:

We recommended management issue guidance to clarify roles and responsibilities for vehicle maintenance repair agreements to ensure separation of duties, require periodic reviews of transactions and repairs completed at VMFs, develop additional ethics training, and require annual ethics training for vehicle repair managers and supervisors.

[Link to review the entire report](#)



December 18, 2013

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

EDWARD F. PHELAN, JR.
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

HELEN GRANT
ASSOCIATE GENERAL COUNSEL AND CHIEF ETHICS
OFFICER

An e-signature block showing a handwritten signature in grey ink. Above the signature, it reads "E-Signed by Michael A. Magalski" and "VERIFY authenticity with eSign Desktop". A small yellow question mark icon is in the top right corner of the signature box.

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

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

SUBJECT: Management Advisory Report – Procurement-Related
Ethical Violations at Vehicle Maintenance Facilities
(Report Number SM-MA-14-002)

This report presents the results of our review of the U.S. Postal Service's Procurement-Related Ethical Violations at Vehicle Maintenance Facilities (Project Number 13YG011SM000).

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

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service's procurement-related ethical violations at vehicle maintenance facilities (VMF) (Project Number 13YG011SM000). This self-initiated review examines potential control deficiencies related to ethical violations within the Postal Service's procurement environment. Our objective was to assess procurement-related ethical violations involving current and former Postal Service employees at VMFs to identify internal control deficiencies. See [Appendix A](#) for additional information about this audit.

Postal Service employees are required to adhere to prescribed standards of ethical conduct in the performance of their official duties. For example, employees are prohibited from using their public office for private gain and soliciting or accepting any gift or item from those doing business with the Postal Service. The U.S. Postal Service Office of Inspector General (OIG) has completed several investigations in recent years that identified ethical violations committed by VMF employees in supervisory and nonsupervisory positions.

Conclusion

During fiscal years (FY) 2009 through 2013 OIG investigations closed 11 instances of VMF employees with corrupted interests receiving bribes in exchange for steering work, receiving kickbacks for arranging fraudulent payments to contractors, or concealing personal relationships with a supplier to secure contract work. The Postal Service paid these contractors more than \$14.5 million during the period of these violations, which occurred during FYs 2004 through 2012. We also benchmarked procurement cases from other government agencies and found the other agencies reported violations similar to the Postal Service cases.

Internal Control Deficiencies in Vehicle Repair Purchases

Eleven ethical violations involved VMF employees who received bribes in exchange for steering vehicle repair work to contractors, accepted kickbacks after arranging fraudulent payments to various contractors, and concealed a personal relationship with a supplier to secure contract work. Specifically, eight violations involved two businesses with the same owner who paid bribes to VMF employees to steer vehicle repair work to the businesses when other suppliers existed to perform the repairs; two violations involved a VMF manager and a supervisor who conspired with contractors to defraud the Postal Service by submitting fraudulent requests for payment in exchange for a portion of the payments; and another violation involved a nonsupervisory VMF employee who assisted a family member in securing Postal Service repair and maintenance business. Ten of the violations occurred under vehicle maintenance repair

agreements (VMRA)¹ and the remaining violation occurred under a verbal agreement where the manager did not obtain a VMRA.

Distribution of Repair Work

Eight ethical violations involved two businesses with the same owner who paid bribes to VMF employees to steer vehicle repair work to the businesses when other suppliers existed to perform the repairs. VMF managers, supervisors, lead technicians, and mechanics participated in the scheme by accepting bribes in the form of cash, gifts, entertainment, and personal services in exchange for sending work, valued at more than \$13 million, to these two businesses over about 7 years:

- Seven of these employees received frequent cash and noncash bribes from a contractor, [REDACTED], during FYs 2004 through 2010 to ensure the employees continued to steer contract work to the business. The bribes continued until the contractor reported the bribes in a deal to protect his wife, who was under investigation by the U.S. district attorney in an unrelated case.
- From FYs 2004 to 2008, another employee received bribes to steer work to [REDACTED], a related contracting business at a different location. Once the employee was promoted to management and moved to the other location, the manager continued to accept the bribes for sending work to [REDACTED] until the summer of 2008 when the manager's boss was charged with embezzling from the Postal Service and the contractor closed its business at that location. The Postal Service made more than \$13 million in Voyager eFleet Card² or money order payments to these contractors during the period of the bribes, which occurred during FYs 2004 through 2010.

Fraudulent Payments

Two ethical violations involved a VMF manager and supervisor who conspired with contractors to defraud the Postal Service by submitting fraudulent requests for payment in exchange for a portion of the payments:

- A VMF supervisor requested two contractors, [REDACTED], to submit fraudulent requests for payment through the Voyager eFleet Card system during FYs 2008 through 2011 to receive payments for repairs they did not perform. The supervisor approved the payments without the contractors submitting invoices and the contractors obtained cash from their accounts to provide kickbacks to the supervisor. The Postal Service paid the contractors \$955,056 during the

¹ A VMRA is an ordering agreement used by VMFs, which defines the terms and conditions of future work. Under a VMRA, the ordering official may place orders up to \$10,000 noncompetitively. VMRAs are subject to the Postal Service's *Supplying Principles and Practices* (SP&P).

² The Voyager eFleet Card System provides a single credit card to use for commercially purchased fuel and routine maintenance expenses for Postal Service-owned vehicles.

period of the fraud, which occurred during FYs 2008 through 2011. The supervisor and contractors were ordered to pay restitution totaling \$330,000.

- A VMF manager approved the payment of fictitious invoices submitted by a contractor, [REDACTED], in exchange for a portion of the payments. The contractor, who received \$270,516 for vehicle washing and cleaning services between FYs 2004 and 2007, conspired with the manager to submit false invoices for services not performed and, in turn, paid kickbacks to the manager who approved the payments. The VMF manager and contractor were ordered to pay restitution of \$190,000.

Business Provided to Family Member Under Verbal Agreement

Another ethical violation involved a nonsupervisory VMF employee who assisted a family member in securing Postal Service repair and maintenance business. The employee and his son concealed their relationship in pursuit of Postal Service work by having the son assume a false identity. The employee introduced his son, who was using a different name, as a prospective contractor to VMF management, which led to the employee's son's inclusion in a Postal Service network of approved vendors. Once approved, the employee could directly award work to his son. In addition, the VMF manager at the facility did not secure a VMRA but allowed the contractor to work under a verbal agreement. The Postal Service paid the contractor \$293,187 during FYs 2011 and 2012, with payments made via Voyager card and the VMF manager approved the payments without additional oversight.

These violations occurred in an environment in which management did not define clear roles and responsibilities for VMRAs to ensure separation of duties. Specifically, VMF personnel who selected the suppliers also influenced the assignment of repairs and approval of payments to the suppliers. Further, no one above the facility level monitored the payments and services allocated to each supplier or performed periodic audits of transactions, invoices, and maintenance at VMFs. VMF personnel confirmed that district personnel do not review their work. Additionally, a district official stated that he does not review invoices or work completed by the VMF and does not provide input into supplier selection.

As a result, Postal Service agreements with suppliers completing vehicle repairs and maintenance are at risk of fraud, including potential conflicts of interest, bribery, and collusion. Best value³ may not be achieved if employees continuously steer work to suppliers who pay bribes rather than consider price, quality, and other factors when making recurring purchases.

³ Best value is the basis of all Postal Service sourcing decisions and is determined by analysis of a contract solicitation's evaluation factors, weightings, and price.

Management deployed the Solution for Enterprise Asset Management (SEAM)⁴ system for vehicle repair services in November 2012. The purpose of the system is to standardize maintenance and repair functions. Once fully implemented at VMFs, SEAM should provide additional controls and separation of duties for the acceptance, review, and approval of vehicle repair and maintenance transactions. However, as of October 2013, SEAM was not used consistently for vehicle repair services because other payment methods for vehicle repair expenses exist. Management stated that SEAM is the preferred method but its functionality is not fully implemented. For example, in one district only one of seven VMFs used SEAM for the majority of vehicle repairs. Until SEAM is fully implemented and required at each VMF, these risks will still exist.

Furthermore, personnel involved in these cases did not complete annual ethics training because they were not required to file confidential financial disclosure statements⁵ in accordance with the Standards of Ethical Conduct for Employees of the Executive Branch. The lack of annual ethics training for employees involved in vehicle repair purchases may promote unethical behavior and place the Postal Service at risk of overpayments. The Postal Service chief ethics officer has plans to develop training focusing specifically on procurement and contracting ethics.

Benchmarking

We benchmarked ethical violation cases from other government agencies against Postal Service cases and found similar types of violations. We identified 25 cases⁶ reported by other agencies during calendar years 2008 to 2012 that had characteristics similar to the Postal Service cases. These cases involved employees accepting bribes and kickbacks in exchange for steering work to contractors or inflating contract costs, awarding contracts to family members and associates, and participating in contract decisions with prospective employers or others with whom there was a financial interest.

Recommendations

We recommend the vice president, Supply Management:

1. Issue guidance to clarify roles and responsibilities for vehicle maintenance repair agreements to ensure separation of duties to include selecting suppliers, assigning repairs and approving payments until the Solution for Enterprise Asset Management system is fully implemented and required.

⁴ An Oracle web-based application designed to improve inventory tracking and visibility, implement forecasting and automatic replenishment capabilities, and standardize asset tracking and maintenance/repair functions.

⁵ Nonexecutive employees who have considerable decision-making authority in procurement functions are generally required to file an annual Confidential Financial Disclosure Report, Office of Government Ethics (OGE) Form 450. Every OGE Form 450 filer is also required to take annual ethics training. The Postal Service Ethics Office tracks the completion of the disclosures and ethics training, which are required based on certain job codes.

⁶ Total includes 19 cases reported through the OGE tracking system and six cases reported independently by other agencies.

We recommend the vice president, Delivery and Post Office Operations:

2. Establish a policy requiring periodic reviews of vehicle maintenance facilities repair and maintenance transactions, including a review of invoices and maintenance completed on vehicles until the Solution for Enterprise Asset Management system is fully implemented and required.
3. Require vehicle maintenance facilities managers and supervisors involved with supplier selection or payment to complete annual ethics training focused on procurement and contracting practices.

We recommend the associate general counsel and chief ethics officer:

4. Develop ethics training focused on procurement and contracting and make it available to vehicle maintenance facilities managers and supervisors involved with supplier selection or payment.

Management's Comments

Management agreed with recommendations 1, 3, and 4 and disagreed with recommendation 2. Management did not specifically state whether they agreed or disagreed with the findings; however, they disagreed with our conclusion that violations occurred because they did not provide clear roles and responsibilities regarding separation of duties for vehicle maintenance repair agreements. Management stated that these deficiencies indicated a willful intent to commit fraudulent activity for personal gain, and collusion was used to circumvent known policies.

Regarding recommendation 1, management will issue a communication referencing Vehicle Maintenance Bulletin, VMB-02-11, released in April 2011 as guidance relating to roles, responsibilities, and separation of duties. In addition, they will convey the required use of SEAM to all VMFs in a special "Note of the Week" newsletter by January 2014.

Regarding recommendation 3, management stated the Delivery group will notify all vehicle maintenance locations of required annual ethics training as developed by the associate general counsel and chief ethics officer by April 2014. For recommendation 4, they are developing an ethics training course focused on procurement and contracting. It will be available to VMF managers and supervisors by April 2014.

Management disagreed with recommendation 2 and stated that SEAM has been fully implemented since November 2012 and provides for the review of repair and maintenance transactions. Management also stated that policies and procedures outlined in Handbook PO-701, *Fleet Management*, Chapter 4, Vehicle Management Accounting System, provide guidance to VMFs on ensuring complete and accurate information. However, in coordination with implementing recommendation 1, management will reinforce the requirement that SEAM be used to track all internal and

contract vehicle repairs regardless of payment method by January 2014. 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 and the corrective actions should resolve the issues identified in the report.

Management disagreed with recommendation 2 and stated that SEAM has been fully implemented since November 2012 and provides for the review of repair and maintenance transactions. However, as of October 2013 not all VMF locations were fully utilizing SEAM for vehicle repair services and VMF personnel were not aware of a policy requiring the use of SEAM for all transactions. Management's planned actions to establish and enforce a requirement to use SEAM to track all internal and contract vehicle repairs, regardless of payment method, will address the recommendation.

In regard to management's statement that they disagreed with our conclusion that violations occurred because they did not define clear roles and responsibilities, we contend that the lack of annual procurement ethics training contributed to an environment that allowed these violations to occur. Therefore, if employees are not properly trained and consistently reminded of ethical standards regarding to procurements, they could become susceptible to committing fraudulent acts.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. 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

The OIG has completed several investigations in recent years that identified corrupt practices involving Postal Service employees and contractors. OIG investigations closed during FYs 2009 through 2013 identified 11 instances in which VMF employees with corrupted interests received bribes in exchange for steering work, received kickbacks for arranging fraudulent payments to contractors, or concealed a personal relationship with a supplier to secure contract work. The violations were committed by employees in supervisory and nonsupervisory positions. Employees in these cases willfully violated Postal Service ethics policies.

VMFs can use local buying authority or a VMRA for contractor vehicle repairs. Local buying authority is used for day-to-day operational needs when other priority sources are not available. Local buying authority, which is available for purchases under \$10,000, is not subject to the SP&P and does not require competition for purchases. Under local buying authority, VMF managers have the authority to pay suppliers up to \$2,000 per transaction to complete day-to-day vehicle repairs and maintenance. In addition, the VMF manager may work with the Vehicles and Delivery/Industrial Equipment Category Management Center⁷ to establish a VMRA for certain recurring services. Under a VMRA, the ordering official can place noncompetitive orders up to \$10,000, depending on the agreement. Purchases made under VMRAs are subject to the SP&P. The contractor is generally paid using the Voyager card or SEAM.

Objective, Scope, and Methodology

Our objective was to assess procurement-related ethical violations involving current and former Postal Service employees at VMFs to identify internal control deficiencies. To accomplish our objective, we:

- Reviewed Postal Service policies, procedures, and guidelines related to ethics, conflicts of interest, and procurements.
- Reviewed federal government ethics laws and regulations.
- Interviewed personnel from the Postal Service's Office of Ethics regarding the Postal Service's guidelines and practices for ethics training and financial disclosures.
- Identified 11 ethics violation cases closed during FYs 2009 through 2013 involving VMF employees, along with supporting documentation from the OIG Office of

⁷ Postal Service Category Management Centers manage purchase and related supply management activities for specific commodities.

Investigations (OI) Case Reporting, Investigations Management, and Evidence System (CRIMES)⁸ database.⁹

- Conducted interviews with OI special agents to gather additional information and details regarding the cases reviewed.
- Reviewed vehicle maintenance and repair agreement documents in the Contracting Authoring and Management System (CAMS).¹⁰
- Visited two VMFs to review controls over vehicle repair purchases.
- Benchmarked other government agencies to determine the types of procurement-related ethics violations reported.

We conducted this review from January through November 2013 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 August 27, 2013, and included their comments where appropriate.

We assessed the reliability of the CRIMES data by interviewing OI personnel familiar with the cases and the usage of the database. We also relied on CAMS for documentation relevant to vehicle maintenance and repair agreements and assessed the reliability of the data by comparing the data with available data in the case files. We determined that the data from both systems were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The U.S. Postal Service OIG did not identify any prior audits or reviews related to the objective of this audit.

⁸ Case management database used by the OIG OI to document, collect, and store case-related information when investigating internal crimes and fraud against the Postal Service.

⁹ We excluded cases that were under active investigation.

¹⁰ CAMS is a contract writing tool that houses clauses and provisions relevant to various contracts.

Appendix B: Management's Comments



December 6, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Management Advisory Report – Procurement-Related Ethical Violations at Vehicle Maintenance Facilities (VMFs) (Report Number SM-MA-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Management's response is provided in full below.

While this level of fraudulent activity is concerning, we disagree with the OIG's conclusion that violations occurred because management did not provide clear roles and responsibilities for vehicle maintenance repair agreements regarding segregation of duties. The deficiencies discussed in this document indicate a willful intent to commit fraudulent activity for personal gain. Based on the number of individuals involved in each case, collusion was clearly used to circumvent known policies.

Additionally, we would like to clarify the benefits and implementation of the Solution for Enterprise Asset Management (SEAM). As of November 2012, SEAM has been fully implemented for use at all vehicle maintenance locations to track all internal and contract vehicle repairs regardless of payment method. As the report indicates, invoices may be paid through SEAM or via the Voyager fleet card, but regardless of payment method all repair invoices are required to be input into SEAM by the VMFs and segregation of duties roles are electronically controlled.

OIG Audit Recommendations:

We recommend the Vice President, Supply Management:

Recommendation 1: Issue guidance to clarify roles and responsibilities for vehicle maintenance repair agreements to ensure separation of duties to include selecting suppliers, assigning repairs and approving payments until the SEAM system is fully implemented and required.

Management Response: Management agrees with this recommendation. Vehicle Maintenance Bulletin (VMB) VMB-02-11 was released on April 15, 2011 as guidance relating to roles, responsibilities, and separation of duties requirements. This has since been enhanced with the implementation of SEAM providing electronic controls. A communication will be issued referencing the VMB and the required use of SEAM as a reminder to all VMFs in a special "Note of the Week" newsletter managed by the SEAM Asset Management team.

Target Implementation Date: January 2014

Responsible Manager: Manager, Vehicles & Delivery/Industrial Equipment Category Management Center and Manager, Delivery Programs Support.

We recommend the Vice President, Delivery and Post Office Operations:

Recommendation 2: Establish a policy requiring periodic reviews of VMF repair and maintenance transactions, including a review of invoices and maintenance completed on vehicles until the SEAM system is fully implemented and required.

Management Response: We disagree with this recommendation. As mentioned previously, SEAM has been fully implemented since November 2012. Separations of duties exist within the system that provides for review of repair and maintenance transactions. Existing policies and procedures are outlined in Handbook PO-701 Chapter 4, Vehicle Management Accounting System that provides guidance to VMFs on the roles and responsibilities for recording and ensuring complete and accurate information. However, in coordination with recommendation 1 above, we will reinforce the requirement that the SEAM system is used to track all internal and contract vehicle repairs regardless of payment method.

Target Implementation Date: January 2014

Responsible Manager: Manager, Delivery Programs Support

Recommendation 3: Require VMF managers and supervisors involved with supplier selection or payment to complete annual ethics training focused on procurement and contracting practices.

Management Response: We agree with this recommendation. The Delivery group will provide notification to all vehicle maintenance locations, requiring annual ethics training as developed by the associate general counsel and chief ethics officer.

Target Implementation Date: April 2014

Responsible Manager: Manager of Delivery Programs Support

We recommend the Associate General Counsel and Chief Ethics Officer:

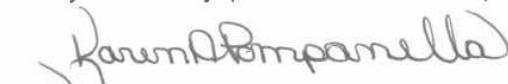
Recommendation 4: Develop ethics training focused on procurement and contracting and make it available to VMF managers and supervisors involved with supplier selection or payment.

Management Response: Management agrees and is in the process of developing a procurement- and contracting- focused ethics training course that will be made available to VMF managers and supervisors.

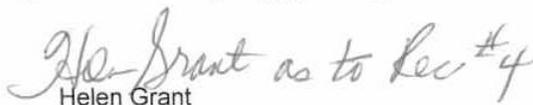
Target Implementation Date: April 2014

Responsible Manager: Associate General Counsel and Chief Ethics Officer.

This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.


Susan M. Brownell
Vice President, Supply Management


Edward F. Phelan, Jr.
Vice President, Delivery and Post Office Operations


Helen Grant
Associate General Counsel and
Chief Ethics Officer

cc: Corporate Audit Response Management