UNITED STATES POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL

PROCUREMENT PREQUALIFICATION PROCESS

September 30, 1998

Audit Report Number CA-AR-98-003

PROCUREMENT PREQUALIFICATION PROCESS

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EXECUTIVE SUMMARY

Results in Brief

In order to enhance competition and ensure quality performance, it is United States Postal Service (USPS) policy to prequalify commercial suppliers. As early as 1986, the USPS began prequalifying potential suppliers. The prequalification process includes publicizing opportunities and evaluating supplier-specific performance evaluation factors in order to identify suppliers to include on the prequalified list. Suppliers on the prequalified list are then given the opportunity to compete for future USPS purchases.

Although USPS began prequalifying suppliers as early as 1986, Major Facilities Purchasing was the primary user of prequalification. Transportation Purchasing and Purchasing and Materials groups only began prequalifying suppliers within the last 2 years. We initiated this audit, in part because of USPS management's commitment in this area. We also wanted to gain an understanding of the process in an organization that awards approximately $10 billion annually in contracts.

The overall objective of our review was to evaluate the prequalification process and determine if the process was fair, objective, and promote competition and integrity within the purchasing operations.

- Our review disclosed some concerns which, when taken as a whole, jeopardize the integrity of the prequalification process. These concerns, if unaddressed, may also result in suppliers not being treated fairly and objectively. Areas requiring improvements resulted primarily from: the lack of methodology and documentation in support of prequalification planning strategies and decisions; the inability to identify prequalification procurements in the current contract data systems; USPS' approach as it relates to supplier diversity; and the inadequate oversight of outside contractors involved in the prequalification process.

USPS management has taken action to improve the prequalification process. For example USPS,

- recently issued written guidance and revised policies clarifying the prequalification process.
- established a Prequalification Process Improvement Team to further explore lessons learned and to recommend improvements.
- is planning to provide training to employees on the prequalification process.

- is developing a handbook on prequalification best practices that will be available to employees.

During the course of this audit, we contacted various federal agencies and gathered information from other sources to identify best practices. Based on our review of information gathered, USPS' process already included many of the prequalification methods used by other agencies. The USPS process appeared to be comparable with other agencies.

USPS guidance issued thus far provides only a framework for employees. Although USPS has recently issued written guidance and revised policies clarifying the prequalification process, Purchasing personnel are still left with much discretion in determining how to implement this process. This discretion has resulted in inconsistencies among the various purchasing groups at USPS.

Based on the results of our review, we believe USPS management should continue to revise, clarify, and implement procedures that increase uniformity among the three purchasing groups and when using non-USPS employees to conduct portions of the process. We believe this action will enhance the integrity of the process. In addition, we believe improved communication of prequalification success stories would result in improvements among the three purchasing groups overall. Our report contains specific recommendations in these areas.

Recommendations

The Vice President, Purchasing and Materials, should direct appropriate USPS personnel to:

Recommendation (1) determine the prequalification evaluation criteria, methodology, and approach and identify it in the initial planning documents;

Recommendation (2) require that all contract data systems add a field or identifier to track procurements that use prequalification;

Recommendation (3) encourage efforts to seek small, minority, and woman-owned businesses, and require contracting officers to better utilize internal and external resources to identify these types of businesses;

Recommendation (4) establish an evaluation panel when evaluating potential suppliers;

Recommendation (5) require contracting officers to have non-USPS employees sign declarations indicating that they or their immediate family members have no financial interests in the potential suppliers to be evaluated;

Recommendation (6) require that all procurement files be adequately documented in order to support planning concepts and the decisions made throughout the prequalification process;

Recommendation (7) standardize the evaluation process and ensure that all potential suppliers for a single procurement are evaluated consistently;

Recommendation (8) issue a letter to functional managers reminding them that only designated officials are authorized to obligate USPS to contractual agreements; and

Recommendation (9) include appropriate language in outside firms' contracts to hold them accountable for the security of sensitive information.

Summary of Management Comments

Management generally concurred with our recommendations and appreciated our assessment of the procurement prequalification process. Although we did not make a recommendation to do so, management did not agree with preestablishing arbitrary cut-off scores for suppliers considered for prequalification. Management believes that they use the evaluation process to objectively review supplier proposals without any preconceptions or numerical limits.

Management stated that they will continue efforts to revise and clarify the prequalification process. Although management feels that current policies in the Purchasing Manual (PM) already requires many of our recommendations, they agree that these matters could be further emphasized in some cases. Management is currently drafting a series of handbooks to supplement the PM that will reemphasis our recommendations. In addition, management plans to cover these issues in an upcoming Just-In-Time (JIT) prequalification training session followed by a Purchasing Policies and Programs' electronic news update to all purchasing personnel. Actions planned or taken as well as management's specific concerns are summarized in the applicable section of the report. The full text of management's comments is provided at Appendix 1.

Evaluation of Management's Comments

Overall, we believe management's comments are responsive to the issues raised in the report. The corrective actions that management has taken or planned in response to our recommendations should correct the problems identified.

Introduction

USPS purchasing is performed through three commodity groups: Purchasing and Materials; Major Facilities Purchasing; and Transportation Purchasing. In order to enhance competition and ensure quality performance, USPS has implemented a policy to prequalify commercial suppliers. As early as 1986, USPS began prequalifying potential suppliers. However, Facilities Purchasing was the major user of prequalification. The Purchasing and Materials and Transportation Purchasing groups only began prequalifying suppliers within the last 2 years.

Background

The prequalification process includes publicizing opportunities and evaluating supplier-specific performance evaluation factors in order to decide which suppliers to include on the prequalified list. Suppliers on the prequalified list are then given the opportunity to compete for future USPS purchases.

According to USPS policy, all qualified suppliers need not be placed on the prequalified list if the purchase team[1] determines (1) that a smaller group will provide adequate competition or (2) that some suppliers are considerably more qualified than others, thereby precluding purchase opportunities for the less qualified. Periodically, the purchase teams should reassess the suppliers included on a prequalified list in order to ensure that they remain qualified and reliable. In addition, the teams may decide to remove a supplier from a prequalified list if a sound business reason exists. Relevant purchases need not be competed among all suppliers included on a prequalified list, but prequalified suppliers must be treated fairly and periodically given the opportunity to compete for purchases.

When evaluating potential suppliers, the contracting officer (CO) selects a technical evaluation panel[2] to assess and evaluate prospective suppliers' capabilities and abilities to perform, as conveyed in the prequalification package. After the evaluation panel analyzes the relevant information, the CO determines the most capable suppliers and places them on a prequalification list. When making this decision, the CO must ensure that: (1) all potential prequalified suppliers are

[1] The purchase team is a group of Postal Service internal business partners with an interest in a specific purchase or series of purchases. In addition to other responsibilities, the contracting officer serves as the business leader of the purchase team, and directs and oversees the purchase team's efforts from purchase planning to contract closeout.
[2] The evaluation panel analyzes the proposals submitted by the offerors (suppliers) and evaluates them by comparison with the stated evaluation factors.

treated fairly and (2) suppliers are included or excluded based on sound business reasons alone. The CO must also ensure that the files adequately support and document the methods or rationale used in the decision process. Additionally, as part of purchasing planning, CO's must attempt to identify potential conflicts of interest so that they may be avoided or mitigated.

Objectives

The overall objective of our review was to evaluate the USPS procurement prequalification process and determine if the process was fair, objective, and promoted competition and integrity within the purchasing operations. Specific objectives included: (1) evaluating the frequency that suppliers are reassessed; (2) determining if suppliers are treated fairly and objectively; (3) determining if enough suppliers are placed on the prequalification list to ensure adequate competition; (4) determining if sensitive business information provided by a supplier is sufficiently protected from disclosure; and (5) identifying best practices and recommending improvements to the USPS process.

Project Accomplishments

USPS management has taken action to improve the prequalification process. For example USPS:

- recently issued written guidance and revised policies clarifying the prequalification process.
- Established a Prequalification Process Improvement Team to further explore lessons learned and to recommend improvements.
- Is planning to provide training to employees on the prequalification process.
- Is developing a handbook on prequalification best practices that will be available to employees.

During the course of this audit we contacted various federal agencies and gathered information from other sources to identify best practices. Based on our review of information gathered, the USPS process already includes many of the prequalification methods used by other agencies. USPS' process appeared to be comparable with other agencies.

Overall Evaluation

Despite accomplishments noted, our review disclosed some concerns which, when taken as a whole, jeopardizes the integrity of the prequalification process. These concerns, if unaddressed, may also result in potential suppliers not being treated fairly and objectively.

We were not able to evaluate the frequency of reassessing suppliers because none were performed for the procurements we reviewed.

According to USPS policy, suppliers placed on prequalified lists should be given the opportunity to compete on future purchases.

However, all of the procurements we reviewed were for single purchases. In the area of competition, it is our opinion that the USPS obtained adequate competition for the procurements we reviewed. In all cases that we reviewed, USPS prequalified at least three suppliers. However, our review disclosed the lack of methodology and documentation in support of prequalification planning strategies and decisions. Additionally, USPS Purchasing Mangers could not readily identify procurements where prequalifications were used. Our review also disclosed the lack of adequate controls to preserve sensitive information when USPS used an outside firm to conduct prequalification.

Although USPS management has issued written guidance and policies on the prequalification process, these documents provide only a framework for purchasing personnel to use. The USPS operated under its Procurement Manual up until January 31, 1997. At that time, USPS issued a revised manual entitled Purchasing Manual. The Procurement Manual contained a general outline relating to prequalification procedures. Although the Purchasing Manual clarifies and expands on those procedures, Purchasing personnel are still left with much discretion in determining how to implement this process. This discretion has resulted not only in the concerns described above, but also in inconsistent practices among the three USPS purchasing groups.

Our review also disclosed that the Purchasing and Materials and Transportation Purchasing groups only used the prequalification process within the last 2 years. We believe that this limited experience further contributed to inconsistent practices and other concerns previously noted. We believe USPS management should continue to revise, clarify and implement procedures to increase uniformity (1) among the three purchasing groups and (2) when using non-USPS employees to conduct portions of the process. We believe these actions will enhance the integrity and add value to the overall purchasing process. In addition, we believe improved communication among the three Purchasing groups regarding prequalification data, lessons learned, and success stories would result in overall improvements.

Scope and Methodology

To accomplish the audit objectives, we reviewed various USPS policies and procedures as they related to commercial purchasing and prequalification. We requested USPS management to identify procurements where prequalification was used. In April 1998, the

three Purchasing groups identified 22 purchasing prequalification procurements with an estimated value in excess of $626 million. We judgmentally selected and reviewed 15 of the 22 purchasing files where prequalification was used during the period October 1, 1996 through March 31, 1998.[3] Our sample consisted of prequalification files from the three USPS purchasing groups. We tested and validated the prequalification process by reviewing contract files and conducting interviews with Purchasing, Facility, and Transportation officials. In addition, we tested and validated computer-generated data obtained from the Computerized Procurement and Supply System by comparing it with source documentation. Our tests disclosed that the data was sufficiently reliable to support the audit conclusions. We also obtained and reviewed various policies and procedures relating to the prequalification process. Specifically, we reviewed prequalification guidance contained in the USPS Procurement and Purchasing Manuals, USPS Procurement Handbook AS-707, Design and Construction Handbook RE-14 and other documents issued by the Vice President, Purchasing and Materials.

This audit was conducted in accordance with generally accepted government auditing standards and included such tests of management controls as deemed necessary. Audit fieldwork was conducted from April through July 1998, at USPS Headquarters and facilities located in Virginia, Tennessee, Pennsylvania, New Jersey, and Illinois.

Cut-off Scores for Evaluating Suppliers

Our review disclosed instances where USPS purchasing personnel did not identify nor establish a method in advance for determining "cut-off" scores for suppliers considered for prequalification. Instead, officials established a "cut-off" score after the evaluation team scored the individual suppliers and the consensus evaluation was determined. For example, in one procurement, USPS prequalified 12 of 23 companies that submitted packages to USPS for evaluation. After evaluating all 23 companies, the project manager for this procurement determined that suppliers with a score of 88 and above would be included on the prequalification list. Thus, only seven of the 12 prequalified companies made the prequalification list. Two other contractors had scores of 87 and 84. However, they were not included on the list. Facilities personnel stated they limited the competition to the top seven because prime construction companies would not bid if more than seven contractors were prequalified. We could not confirm this statement.

[3] OIG relied upon USPS staff to identify procurements where pre-qualification was used. USPS staff identified 22 such procurements; of which the OIG determined that three of these procurements did not use the pre-qualification process.

Officials also did not establish “cut-off” scores in advance for the following reasons. First, USPS policies did not require that “cut-off” criteria be established in advance. Second, officials had not developed methodology nor criteria for establishing “cut-off” scores in advance. Purchasing personnel also told us that establishing "cut-off" scores after evaluating suppliers affords personnel flexibility in determining what constitutes a competitive range for suppliers.

We believe establishing the “rules up-front” lends more credibility to the prequalification process. In addition, such procedures will ensure that all suppliers are treated fairly and will protect the USPS against protests and disputes.

Identification of Prequalified Procurements in Contract Data Systems

USPS purchasing managers could not readily identify procurements where prequalifications were used. We requested that purchasing managers and contracting representatives provide us with a listing of all prequalified procurements conducted during the period October 1, 1996 through March 31, 1998. Specifically, we requested that information be obtained from the three USPS contract data systems.[4] In response to our request, officials were not able to identify procurements from the data systems where prequalifications were used. Instead, the managers had to inquire with individual COs in their purchasing groups in order to compile a list of procurements where prequalification was used.

This occurred because the USPS current contract data systems do not have fields or identifiers to tag or track procurements where prequalification was used. The current method of identifying prequalified procurements will become very cumbersome and time consuming in the future as the frequency of prequalifying suppliers increases. In addition, the current method is not always accurate. For example, three of the 22 procurements were incorrectly identified as using the prequalification process.

Prequalification is the USPS preferred buying method whenever it is determined to be in the best interest and provide the best value to USPS. In this regard, we believe it is important that prequalified procurements be tracked and shared throughout the purchasing groups.

Initiatives Relating to Supplier Diversity

Our review disclosed that in 13 of 15 contract files reviewed the CO did not take a proactive role during the prequalification phase to identify and encourage small, minority, and women-owned businesses

[4]The three USPS contract data systems are: Entire Computerized Procurement and Supply System, (Purchasing and Materials), Financial Network System Windows, (Facilities) and Highway Contract Support System (Transportation).

to respond to USPS prequalification advertisements. Specifically:

- purchase teams did not always check with USPS Purchasing Supplier Diversity or other available sources to identify potential suppliers; and
- the contract files did not document that any market research efforts were taken.

This condition occurred because certain purchasing officials believe that past history has indicated that small, minority, and women-owned businesses cannot successfully compete for jobs against larger and more established companies. The officials believe this disadvantage stems from lack of comparable past performance.

USPS purchasing officials indicated that they place the responsibility for seeking out small, minority, and women-owned businesses with prime contractors. We did not review the actions of prime contractors designed to encourage contractor diversity, and cannot attest to their actions.

Segregation of Duties

In one of the procurements reviewed, we noted that the CO did not establish a panel to evaluate potential suppliers for prequalification. Instead, the CO exclusively developed the evaluation criteria, reviewed the prequalification submissions, ranked the responses and ultimately decided on which suppliers to prequalify. The CO was allowed to perform all prequalification functions, without the assistance of an evaluation panel. Although there is no clear guidance, the PM discourages the CO from solely performing prequalification functions by stating "the CO must establish an evaluation panel."

When a single individual performs all of the functions relating to prequalification, the integrity and objectivity of the evaluation process is jeopardized. The action of the CO in this procurement effectively eliminated the checks and balances that are critical to an effective system of internal controls.

Potential Conflicts of Interest

The CO is the primary person responsible for ensuring that conflicts of interest do not exist when using consultants or outside firms to conduct prequalifications. The Procurement Manual and Purchasing Manual address this issue in section 1.7.7 "Conflicts of Interest." The referenced material states that conflicts are not limited to any particular type of purchase, but are likely to occur in contracts involving consultant services. The manuals also state that conflicts of interest are likely to occur when consultants are used to perform or assist in technical evaluations. In addition, Procurement Manual sections 2.1.5.b and 2.1.7.b state that the possibility of conflicts of

interest must be addressed in individual procurement plans and when establishing an evaluation panel.

Of the 15 contracts we reviewed, consultants were used on evaluation panels in four instances. There was no written evidence to document that these consultants were considered for possible conflicts of interest. Individual procurement plans did not mention anything relating to conflicts of interest.

These conditions generally occurred because contracting officials relied on the integrity of individual consultants. Specifically, contracting officials stated that they required all panel members to sign non-disclosure of information statements. Individuals were required to recuse themselves from the process if they identified a Conflict of interest. Contracting officials believed these actions were sufficient to overcome potential conflicts of interest.

We believe that requiring consultants to sign nondisclosure statements and recuse themselves from evaluation panels is not sufficient to ensure against potential conflicts of interest. Without a declaration of financial interest or family affiliations, there is no assurance of the absence of a conflict of interest. As a result, the consultants' objectivity and the integrity of the prequalification process become questionable. The contract file should reflect all efforts made to ensure these concerns do not exist in order to protect the process and USPS.

Use of Outside Firm

In addition to the foregoing, we also observed concerns relating to the use of an outside firm to perform the prequalification of suppliers.

Prequalification Criteria

USPS did not consistently apply the same criteria to all companies prequalified under a procurement to provide program management support services. Three separate evaluations were performed resulting in 19 suppliers being prequalified for this procurement. An outside firm prequalified the initial six suppliers and USPS employees conducted two in-house evaluations and prequalified the remaining 13 suppliers.

Although the outside firm provided criteria, members of the USPS evaluation panel elected not to use the same criteria. For example, one of the evaluation factors used by USPS was "financial capabilities." The outside firm did not use this factor. On this same procurement, one of the outside firm's evaluation factors was a "proven record." This was not one of USPS' evaluation factors. We also noted that the prequalification rating systems used by the two USPS evaluation teams were different. The first team used a pass/fail system.

Conversely, the second team used a numeric rating system and ranked suppliers from a score of 45 to 172. Suppliers with a score of 99 to 172 were considered prequalified.

Our review of contract files and discussion with USPS personnel did not disclose an adequate explanation for why (1) the outside firm and USPS used different evaluation factors, and why (2) the two in-house evaluation teams used different scoring systems.

Purchasing personnel stated that the first in-house evaluation was a "mini evaluation" in which three companies were rated and a decision was made by functional personnel to use the pass/fail rating system. We believe consistent evaluation criteria should be used for all suppliers evaluated.

Oversight

USPS personnel did not provide adequate contract oversight for an outside firm engaged to conduct a prequalification. Specifically, USPS Purchasing personnel were not aware of or involved with the prequalification process used by the outside firm. As a result, USPS had no assurance that the method used to prequalify suppliers was fair and objective. The CO who initiated this contract no longer works in Purchasing and the contract files were not adequately documented to explain why this occurred. Current Purchasing personnel could not provide information as to how many suppliers were considered by the outside firm and how many were disqualified or why.[5]

In reviewing the files for this procurement, we also observed that an unauthorized USPS employee signed one of two contract agreements with the outside firm performing the prequalification. An employee of a functional entity within the USPS signed the second contract agreement with the outside firm after the CO signed the first contract. Purchasing staff could not explain why the functional employee signed the second contract. We requested an interview with the functional employee, but were told he was not available during our audit. Adequate monitoring of the prequalification process will help ensure that all suppliers are treated fairly and objectively and the integrity of the process is protected.

Controls To Preserve Sensitive Information

USPS employees are required to sign nondisclosure statements to protect suppliers' sensitive information. Our review disclosed that USPS personnel did not include a clause in a contract nor implement any other controls to require an outside firm to protect sensitive information. This occurred because contracting officials relied on the

[5]Personnel at the outside firm stated that during the time of this request, they only had six suppliers that could provide the service, however; we were not able to confirm this statement.

outside firm's integrity to protect sensitive information from disclosure. USPS personnel stated that they viewed the outside firm as a "trusted third party."

Without including the appropriate contract clauses, outside firms are not held accountable for protecting suppliers' sensitive information.

Recommendations

The Vice President, Purchasing and Materials, should direct appropriate USPS personnel to:

Recommendation (1) determine the prequalification evaluation criteria, methodology and approach and identify it in the initial planning documents;

Recommendation (2) require that all contract data systems add a field or identifier to track procurements that use prequalification;

Recommendation (3) encourage efforts to seek small, minority and woman-owned businesses, and require contracting officers to better utilize internal and external resources to identify these types of businesses;

Recommendation (4) establish an evaluation panel when evaluating potential suppliers;

Recommendation (5) require contracting officers to have non-USPS employees sign declarations indicating that they or their immediate family members have no financial interests in the potential suppliers to be evaluated;

Recommendation (6) require that all procurement files be adequately documented in order to support planning concepts and the decisions made throughout the prequalification process;

Recommendation (7) standardize the evaluation process and ensure that all potential suppliers for a single procurement are evaluated consistently;

Recommendation (8) issue a letter to functional managers reminding them that only designated officials are authorized to obligate USPS to contractual agreements; and

Recommendation (9) include appropriate language in outside firms' contracts to hold them accountable for the security of sensitive information.

Management Comments

Management generally concurred with our recommendations and appreciated our assessment of the procurement prequalification process. Although we did not make a recommendation to do so, management did not agree with preestablishing arbitrary cut-off scores for suppliers considered for prequalification. Management believes that they use the evaluation process to objectively review supplier proposals, without any preconceptions or numerical limits.

Management stated that they will continue efforts to revise and clarify the prequalification process. Although management feels that current policies in the Purchasing Manual (PM) already requires many of our recommendations, they agree that these matters could be further emphasized in some cases. Management is currently drafting a series of handbooks to supplement the PM that will reemphasis our recommendations. In addition, management plans to cover these issues in an upcoming Just-In-Time (JIT) prequalification training session.

Management's comments on the recommendations were as follows:

Recommendation (1) Management agreed; they plan to share this concern with purchasing managers, and in the upcoming JIT training session. In addition, this will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

Recommendation (2) Management agreed; but, added they will assess the impact of this change on all of their contract data systems to determine the feasibility of implementation.

Recommendation (3) Management agreed; they plan to share this concern with purchasing managers, and in the upcoming JIT training session. In addition, this will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

Recommendation (4) Management agreed; they plan to share this concern with purchasing managers in the upcoming JIT training session. In addition, this will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

Recommendation (5) Management agreed; and fully recognizes and understands the importance of this matter. They plan to further emphasize current policy by including additional measures in their handbooks to implement our recommendation.

Recommendation (6) Management agreed; they plan to share this concern with purchasing managers, and in the upcoming JIT training session. In addition, this will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

Recommendation (7) Management agreed; they will investigate reemphasizing the issue in their handbooks. In addition, they plan to share this concern with purchasing managers in the upcoming JIT training session. Also, this issue will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

Recommendation (8) Management agreed; they will be updating Management Instruction AS-710-96-6, "Unauthorized Contractual Commitments," to reflect recently updated ratification authority. Management will take this opportunity to reinforce our recommendation.

Recommendation (9) Management agreed; they will evaluate reemphasizing the issue in their handbooks. In addition, they plan to share this concern with purchasing managers in the upcoming JIT training session. Also, this issue will be followed up in a Purchasing Policies and Programs' electronic news update via cc: Mail to all purchasing personnel.

The full text of management's comments are provided at Appendix 1. Management expects all corrective actions to be completed in 1999.

Evaluation of Management Comments

We believe management's comments are responsive to the issues raised in the report. The corrective actions that management has taken or planned in response to our recommendations should correct the problems identified.

Major Contributors to This Report Were: