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SUBJECT: Management Advisory - Postal Service's Emergency Purchasing in
Response to Hurricanes Katrina and Rita (Report Number CA-MA-06-001)

This report presents the results of the U.S. Postal Service Office of Inspector General's (OIG) self-initiated review of the U.S. Postal Service's emergency contract and procurement actions in response to Hurricanes Katrina and Rita (Project Number 06BG003CA000). The President's Council on Integrity and Efficiency tasked the inspector general community with assuring appropriate oversight of financial and procurement processes and operations regarding Katrina activities. As a result, the OIG established a task force comprised of auditors and investigators to review the Postal Service's Katrina activities. In performing our review, the OIG used the results of the Supply Management Process Review (SMREP) team's quick-response review of contractual actions regarding Hurricanes Katrina and Rita. Our objective was to evaluate the effectiveness of the Postal Service's emergency contract actions in response to the hurricanes.

The effectiveness of emergency purchases can largely be attributed to supply chain management initiatives promoting efficient supplier relations already in place at the time of the hurricanes, and the timely issuance of an electronic newsletter warning the Supply Management community of increased risks during a natural disaster. While these actions are commendable, we agree with several opportunities the SMREP team identified for improving responses to future disasters. These opportunities include improving communications, improving capacity to quickly satisfy emergency requirements, increasing the use of purchase cards to expedite payments, and establishing a process to facilitate documentation of emergency purchases.

Background

On August 29, 2005, Hurricane Katrina made landfall in Plaquemines Parish, Louisiana, just south of the city of New Orleans, and dumped up to 15 inches of rain in the hardest-hit areas of Louisiana. Less than a month after Hurricane Katrina made landfall, on September 24, 2005, Hurricane Rita hit the Texas-Louisiana border as a Category 3 storm, flooding parts of Louisiana again.

Subsequently, in late September, the Postal Service's Supply Management vice president requested that the SMREP team conduct a quick review of contractual actions regarding Hurricanes Katrina and Rita, particularly those taken by the Eastern Purchasing Service Center; the Environmental and Maintenance, Repair and Operating

Category Management Center in Dallas, Texas; and the Transportation Portfolio. The purpose of the internal review was to identify emergency contract actions and gather information to determine if select contract actions:

- (1) Met mandatory purchasing guidelines.
- (2) Included "reasonable" documentation in contract files supporting actions taken and any deviations from the guidelines.
- (3) Identified any response process issues, including how each contract was handled, that could be improved upon for future emergencies.
- (4) Identified best practices and lessons learned.

As of October 28, 2005, the SMREP team examined 26 new emergency response contracts valued at \$3,049,568. Fifteen contracts valued at \$1,149,788 were competitive, while 11 contracts valued at \$1,899,780 were noncompetitive. In addition, the review team examined 18 existing contract emergency response actions valued at \$7,009,416. Emergency purchase requests and transactions related to the Purchase and Fleet Credit Card Program were reviewed as well. Results of the SMREP team examinations were disclosed in the Supply Management Infrastructure's report titled *Review of Supply Management's Hurricane Response* (Report Number 06-01, dated November 30, 2005).

During 2004, Postal Service Headquarters issued the Emergency Preparedness policy. They established requirements for the integration of stand-alone emergency plans into the Integrated Emergency Management Plan (IEMP). The IEMP consolidates facility stand-alone plans, which include the Continuity of Operations Plan, Emergency Action Plan, and annexes specific to emergencies. The purpose of the IEMP is to provide guidance "to mitigate, prepare for, respond to, and recover from any natural disaster or man made hazard."

The IEMP also establishes emergency management teams and defines team roles and responsibilities. The IEMP identifies the phases and stages of an emergency response and responsibilities of the Emergency Management team during each phase and stage.

Objective, Scope, and Methodology

Our objective was to evaluate the effectiveness of the Postal Service's emergency contract actions in response to Hurricanes Katrina and Rita. To accomplish our objective, we reviewed the Supply Management Infrastructure's report titled *Review of Supply Management's Hurricane Response* and obtained supporting information from contracting officers and/or specialists for a judgmental sample of 12 emergency contracts selected for our review. We reviewed documentation and information for two new competitive contracts, eight new noncompetitive contracts, and two existing contracts valued at \$4.9 million.

We contacted Postal Service officials and reviewed records pertaining to emergency preparedness and contract activities associated with Hurricanes Katrina and Rita. We also reviewed applicable policies; the *Interim Internal Purchasing Guidelines* dated May 19, 2005; and provisions of the Purchasing Review for Excellence Program. In addition, we reviewed Government Accountability Office (GAO) and Department of Homeland Security OIG reports¹ regarding emergency responses to hurricanes. We conducted the review from December 2005 through March 2006 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*.

Review Results

Overall, the Postal Service's emergency contract actions in response to Hurricanes Katrina and Rita were effective. The effectiveness of emergency contract actions can primarily be attributed to supply chain management initiatives already in place at the time of the hurricanes, promoting efficient relationships between suppliers and the Postal Service. Specifically, the Postal Service's Supplier Relations Strategies team maintains a "Key Suppliers List" as part of its effort to monitor and improve relations between suppliers and the Postal Service. Five of six existing contracts used by the Environmental and Maintenance, Repair and Operating Category Management Center for emergency purchases in response to Hurricanes Katrina and Rita were with suppliers on the "Key Suppliers List." This preexisting relationship allowed the Postal Service to quickly and effectively respond to emergency purchasing needs in the aftermath of the two hurricanes.

Also contributing to the effectiveness of the Postal Service's emergency contract actions was the issuance of an electronic newsletter (October 24, 2005, Supply Management Infrastructure CustomerLink) to the entire supply management community. The newsletter warned of increased potential for contractor fraud, waste and mismanagement during a natural disaster and provided OIG hot line phone numbers.

¹ *Continuity of Operations: Agency Plans Have Improved, but Better Oversight Could Assist Agencies in Preparing for Emergencies* (GAO-05-619T, April 28, 2005); *Hurricane Katrina: Providing Oversight of the Nation's Preparedness, Response, and Recovery Activities. Testimony Before the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives.* (GAO-05-1053T, September 28, 2005); and *Audit of FEMA's Individuals and Households Program in Miami-Dade County, Florida, for Hurricane Frances* (DHS OIG-05-20, May 2005).

While such actions are commendable, we agree with several opportunities identified by the SMREP team for improving responses to future disasters. These opportunities include improving communications, improving capacity to quickly satisfy emergency requirements, increasing the use of purchase cards to expedite payments, and establishing a process to facilitate documentation of emergency purchases. Additionally, the cross-functional emergency response contracting project team, as outlined in the IEMP, should coordinate with the Area Emergency Management Coordinating Committee that assists districts and installations with responding to emergencies.

Review of *Supply Management's Hurricane Response Report and Contracts*

Our review of contracting documentation, information, and data supporting conclusions reported in the *Supply Management Review for Excellence Program* report showed emergency response contracting actions were appropriate and justifiable. Other than the opportunities the SMREP team identified for improving responses to future disasters (as identified above), no significant contracting discrepancies were found during both the SMREP review and our review.

The SMREP report stated that purchasing guidelines (as set forth in the *Interim Internal Purchasing Guidelines*) were generally followed. Based on the sample of 12 contract files we reviewed, we also found that the *Internal Purchasing Guidelines* were generally adhered to and deviations were not required.

The SMREP report stated the review team examined supporting documentation for emergency contract transactions. The reviews were performed onsite at the Eastern Purchasing Service Center in Memphis and the Environmental and Maintenance, Repair and Operating Category Management Center located in Dallas. The SMREP report stated they reviewed key documents and interviewed contracting officials.

To conduct our review, we collected much of the same supporting documentation the SMREP team used and concluded that costs were reasonable, quality of goods and/or services was adequate, and purchased goods and/or services were received in accordance with terms and conditions for the contracts reviewed.

To quickly address unique one-time emergency needs, the Postal Service awarded 11 new noncompetitive contracts totaling \$1.9 million. The SMREP team review at the Memphis Purchasing Service Center showed that new noncompetitive emergency contracts awarded in response to Hurricanes Katrina and Rita were approved and best value and/or price reasonableness determinations were conducted. In addition, our review did not identify any overpayment for goods and/or services due to the lack of competition. We found that authorized officials provided approvals, and/or best value and/or price reasonableness determinations were conducted, for noncompetitive business cases.

The SMREP team identified a Southwest Area emergency purchasing plan as one of the strengths in response to Hurricanes Katrina and Rita. Specifically, the Southwest Area established and communicated an emergency process locally for acquiring goods, services or facilities assistance.

Risk Assessment

Our review of contracting documentation, information, and data related to Hurricanes Katrina and Rita shows emergency response contracting actions were appropriate and justifiable. Since we found no significant discrepancies in our examinations, we determined the risks associated with Hurricanes Katrina and Rita emergency response contracting actions were low.

Conclusion

The Postal Service quickly responded to Hurricanes Katrina and Rita by using existing contracts and containing costs when new contracts were needed, therefore, we have no recommendations. The Postal Service informally reviewed a draft of this report and had no comments or concerns.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, or need additional information, please contact Judy Leonhardt, director, Supply Management, or me at (703) 248-2300.

E-Signed by Mary Demory 
VERIFY authenticity with Approve!


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