

September 30, 1998

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Subject: Supplier Diversity and Minority Contracting
(CA-MA-98-003)

The Office of Inspector General (OIG) received a request from Congressman Chaka Fattah to review U.S. Postal Service (USPS) contracts with minority businesses. This is a Management Advisory Report, which highlights the results of our review and offers suggestions for improvement. Your comments have been incorporated in the report and also included as Appendix 2.

Specifically, we were requested to:

- ◆ Identify why USPS did not enforce its rules that require contractors to subcontract some of their work to minorities.
- ◆ Determine when the decrease in minority contract awards occurred.
- ◆ Identify the current status of minority business contracts.

We also reviewed whether USPS' action plan addressed supplier diversity issues contained in a recent study.

During our review, we interviewed individuals involved in the purchasing and diversity operations and reviewed contract files and other relevant documentation. We used random sampling procedures to get a representative set of contracts to review¹. We conducted the review from May 1998 to August 1998, using the President's Council on Integrity and Efficiency Quality Standards for Inspections.

¹ We sampled 65 unique contracts valued at \$500,000 and up for the six-month period ending June 30, 1998.

Results In Brief

USPS has identified several initiatives to improve its Supplier Diversity Program. Some of the initiatives have been implemented. For example, in May 1997, USPS published a Supplier Diversity Operating Plan with goals for contracting with minority businesses. Despite these initiatives, however, we noted the following:

- ◆ USPS did not enforce its requirement that contractors submit subcontracting plans that encourage and include minority subcontracts. Contracting officers used their discretion in deciding when to comply with the requirement.
- ◆ Minority contracts have declined² annually since Fiscal Year (FY) 1994.
- ◆ USPS is not meeting its FY 1998 Supplier Diversity Operating Plan goals for minority contract awards.
- ◆ Only nine of 15 supplier diversity recommendations from a recent study were addressed in USPS' action plan to improve supplier diversity.

Background

USPS' program to attract and award procurements to minority businesses is referred to as Supplier Diversity. In November 1996, the Board of Governors (BOG) contracted for a special study with Aguirre International to evaluate and assess the effectiveness of the USPS Diversity Development Program. The study was completed in October 1997 and offered 15 recommendations designed to improve supplier diversity. In January 1998, the BOG directed USPS management to review the study results and present an action plan. In response, the Deputy Postmaster General chartered a cross-functional Diversity Advisory Team to address the study results. The Deputy Postmaster General briefed the BOG with an action plan report (entitled "Diversity Improvement Opportunities") in April 1998. The plan included 23 proposed actions, eight of which were specific to supplier diversity. The BOG directed that the proposed actions be tracked and monitored by an oversight committee.

² Minority contracts declined in FY 1990, recovered marginally in FY 1992, declined and recovered in FY 1994 and then declined annually through FY 1997, as is indicated by the shading in Table 1 on page 5.

Observations

Compliance with Subcontracting Policies

We reviewed a sample of 65 Purchasing and Materials (PM) contracts. The review disclosed that USPS is not following its policy to obtain subcontracting plans that encourage and include minority businesses on all contracts valued at \$1 million or more. This occurred because contracting officials did not enforce the requirement or monitor contracts for compliance. Not adhering to its policy directly undermines achievement of USPS minority contracting goals. Our sample of 65 contracts disclosed:

- ◆ Eighteen contracts were subject to the subcontracting plan requirement. Six had documented subcontracting plans in the contract file. Twelve did not.
- ◆ Three of the six with subcontracting plans included proposed awards to minority businesses.
- ◆ One of the twelve contracts had no documented plan although a subcontract was awarded to a minority business.
- ◆ The 18 contracts were valued at \$265 million of which minority subcontracts were proposed for \$2.3 million - less than one percent.
- ◆ One of 47 contracts not subject to the subcontracting plan requirement had a proposed award to a minority subcontractor.

Contracting Officials

Contracting officials acknowledged they were aware of the requirement to obtain subcontracting plans. When asked why they did not comply, various explanations were given:

- ◆ The policy is not considered a priority on automation and information technology type contracts. The service provided, i.e., timeliness and quality of performance, is a higher priority. According to one official, Year 2000 work should not be jeopardized by the requirement that the contractor provide a subcontracting plan.
- ◆ The subcontracting plan requirement is not applicable to individual delivery orders unless their initial award is \$1 million or more.
- ◆ On three separate contracts, "subcontracting plans had been requested as early as February 1998, but had not yet been submitted by the contractors," as of July 20, 1998.
- ◆ A contracting official acknowledged that although the clause was

referenced in the contract he simply “forgot” to obtain the subcontracting plan.

- ◆ Contractors who intend to solely perform the contracted service are not required to submit a subcontracting plan.

Regardless of foregoing explanations, USPS policies are clear on the requirement to obtain subcontracting plans for awards initially estimated at \$1 million or more as well as aggregate awards increased to \$1 million or more³. This includes delivery order type contracts. All contractors should be held accountable for complying with contract clauses, including the requirement to submit plans that encourage and include minority subcontracts. While USPS policy grants the contracting officer latitude in determining when contractors must submit their plans, excessive delays undermine the achievement of USPS minority contracting goals.

Trends for Minority Business Contracts

The level of minority business contracts within the USPS fluctuated extensively during the period FY 1989 through FY 1994. However, since FY 1994 minority contracts have declined annually. Participation rates during this most recent period ranged from a high of 5.18 percent in FY 1994 to a low of 2.45⁴ percent in FY 1997 (see Table 1⁵ on the next page). USPS officials attribute declines prior to FY 1994 primarily to the expansion of the USPS credit card program. The expansion of the credit card program removed over 90,000 transactions from formal contracting procedures.

We asked USPS officials why minority participation rates have declined steadily since FY 1994. They offered the following reasons:

- ◆ Despite USPS’ best efforts to identify sources (minority suppliers), they do not always result in awards.
- ◆ There are a limited number of minority firms in areas such as air freight and automation that meet USPS buying needs.

³ An exception is made in the case of small business awards.

⁴ In FY 1997 the Postal Service awarded a \$1.7 billion contract to a non-minority vendor. This single award skews statistics because it is not usual. Had this award not been included, the minority business dollars would be 3 percent of the total FY 1997 awards.

⁵ All percentages, minority award dollars and number of actions were provided by USPS. No independent test was conducted to verify these amounts.

- ◆ The Supreme Court’s Adarand decision impacted diversity contracting practices⁶.
- ◆ Opportunities to contract with minority firms are limited because USPS' average contract values increased as a result of the capital projects budget in FY 1996.

FY	Percent of Total USPS Awards	Minority Award Dollars (millions)	Number of Actions
89	6.15	272	8182
90	5.06	210	7234
91	5.08	167	6130
92	6.14	145	6371
93	3.93	153	4463
94	5.18	241	7112
95	5.11	212	5034
96	3.80	266	4005
97	2.45	234	3322

Current Status of Minority Contracts

Minority business contract dollars and awards are not meeting USPS Supplier Diversity Operating Plan goals. Table 2⁷ below provides a detailed comparison between these goals and the related actual dollars and number of actions for FY 1997 and FY 1998⁸.

Major Purchasing Units	Planned		Actual	
	Dollars	Actions	Dollars	Actions
FY 97:				
HQ Pur	81.9	716	46.5	307
PMSCS	64.4	2085	68.1	1988

⁶ The Adarand decision of 1995 dealt with preferences in federal contracting based on minority group membership. Headquarters PM officials stated the Adarand decision had no impact since USPS curtailed the practice of set-asides prior to the decision. However, Facilities and Transportation managers indicated that their purchasing decisions were impacted by the decision.

⁷ All planned and actual figures were provided by USPS and not tested for completeness.

⁸ FY 1998 dollars and number of actions (awards) are through February 26, 1998.

Trans	93.6	1221	85.0	696
Facilities	45.6	194	31.3	93
Subtotal	285.5	4216	230.9	3084
Tot Award	7174	44876	9,780	54,740
% of Total	4%	9.4%	2%	5.6%
FY 98:				
HQ Pur	92.4	717	13.3	113
PMSCS	72.6	2088	25.5	846
Trans	105.6	1233	11.5	216
Facilities	51.7	194	0.	28
Subtotal	322.3	4222	50.3	1203
Tot Award	7461	43978		
% of Total	4.3%	9.6%		

We interviewed managers in each of the major USPS purchasing units⁹ who projected they would not meet their minority contracting goals in FY 1998. They cautioned us not to rely on statistical performance data alone because such data does not portray "a complete picture" of USPS' Supplier Diversity Program performance. We agree that statistical data should not be the sole basis for measuring the success of the Supplier Diversity Program. For example, the statistics do not reflect USPS' Supplier Diversity Program initiatives, nor do they reflect the action plan that is currently being implemented. However, the number and value of minority contracts awarded, particularly when compared to total USPS contracts awarded, remain the most visible indicators of the success of the program to external parties. Appendix 1 to this report provides a listing of Supplier Diversity Program initiatives identified by USPS.

Responsiveness of USPS' Proposed Actions to the Aguirre International Report

In response to the Aguirre report, USPS prepared an action plan. Our analysis disclosed that the action plan addressed only nine of 15 recommendations offered on supplier diversity. The remaining six recommendations, as summarized below, were excluded from the action plan:

1. Establish a goal to award seven percent of total contract dollars to minority suppliers.
2. Establish a Supplier Diversity Coordinator position at each Purchasing & Material Service Center (PMSC).
3. Waive the requirement for "ISO 9000"¹⁰ licenses from minority businesses for competitions valued at less than \$1 million.
4. Segment large contracts into pieces manageable by smaller minority and woman-owned businesses.
5. Assign subcontract (tier two) plan enforcement to Equal

⁹ USPS purchasing activity can be separated into four distinct buying units: Headquarters Purchasing (HQ Pur), PMSCs, Transportation (Trans), and Facilities (Fac).

¹⁰ ISO 9000 is an external system for pre-qualifying prospective suppliers.

Employment Opportunity (EEO) and Diversity Development offices.

6. Consider other criteria, such as quality of offerors' processes and products, in "lowest bidder" purchasing decisions.

According to an official who worked on the action plan, there was no intent to create a one-to-one match of the Aguirre recommendations. Instead, the intent was to evaluate and respond to the Aguirre report by developing a general plan with actions that the BOG could monitor. The BOG afforded USPS officials latitude in addressing recommendations contained in the Aguirre Report. However, the action plan should have included a rationale for why the six recommendations were not addressed.

Recommendations Included in USPS Action Plan

While the action plan proposals regarding supplier diversity should enhance the minority contractor participation rate in the USPS, we did note concerns with three of the proposed actions:

- ◆ One proposed action is to expand communication regarding the Supplier Diversity Program. This is the sole responsibility of the Vice President, Purchasing and Materials. Given the current USPS organizational structure, we believe this USPS strategic initiative should be a joint responsibility among the Vice Presidents for Purchasing and Materials, Facilities, Operations Support, and Diversity Development.
- ◆ Another proposed action is to expand and continue implementing the current Supplier Diversity Operating Plan. Employees responsible for purchasing and buying within the USPS receive their authority from the Vice President, Purchasing and Materials. However, some functional employees are not held accountable for meeting minority contracting goals in the Supplier Diversity Operating Plan. These include employees within Facilities who have purchasing authority as well as employees throughout the USPS who set purchasing requirements. If Supplier Diversity Operating Plan goals are to be met, all purchasing and buying employees as well as those who set requirements should be accountable.
- ◆ Another proposed action mandates use of supplier diversity data to measure the success of the Supplier Diversity Program. The proposed approach requires clarification of ethnic and gender breakdown of contractors by contract. Current statistical reporting of supplier diversity information is hampered with overlap among categories such as minority, woman-owned, and small business.

The proposed approach should include a specific requirement to expand USPS purchasing systems to capture uniform socioeconomic coding, such as African-Americans, Asian-Americans, Hispanic-Americans, etc., on USPS direct and second tier contracts. Detailed data provided by the expanded socioeconomic coding would allow USPS to footnote its statistical reports for the percentage of overlap.

Suggestions

The Vice President, Purchasing and Materials should:

1. Ensure that all contracting officers are held accountable for adhering to USPS' subcontracting plan requirement.
2. Clarify Purchasing Manual regulation 3.2 to specify the period that contractors will be granted to submit subcontract plans.
3. Hold contracting officers accountable for ensuring that subcontracting plans specifically encourage and include minority businesses.

The Co-chairs of the Oversight Committee, Chief Operating Officer and Chief Financial Officer should:

1. Document why six supplier diversity recommendations from the Aguirre report were not addressed in the action plan and provide an explanation to the BOG.
2. Revise the action plan to incorporate recommendations on three proposals. Specifically:
 - a). Make supplier diversity communication a joint responsibility among Vice Presidents, Purchasing and Materials, Facilities, Operations Support, and Diversity Development.
 - b). Require all purchasing and buying employees, as well as those who set requirements be held accountable for implementing supplier diversity goals.
 - c). Expand USPS purchasing systems to capture uniform socioeconomic coding, such as African-Americans, Asian-Americans, Hispanic-Americans, etc., on USPS direct and second tier contracts.

Management

Management comments are at Appendix 2. Management agreed with

Comments

all our suggestions with one exception. Although management did include in its written comments, an explanation on each of the six supplier diversity recommendations from the Aguirre report that were not addressed in the action plan, management does not see a need to provide the explanations to the BOG, as we suggested. The OIG will provide a copy of this report to the BOG, including the explanations contained herein.

Evaluation of Management's Comments

We believe management's comments are responsive to the issues raised in this report. The corrective actions that management has taken or planned in response to our suggestions should add value to USPS' supplier diversity program.

If you have any questions, please contact [REDACTED], Director, Contracts, or me at (703) 248-2300.

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ONGOING SUPPLIER DIVERSITY INITIATIVES

According to USPS purchasing officials, ongoing supplier diversity initiatives by purchasing activity include:

FIELD PURCHASING(or PMSCs)	HEADQUARTERS PURCHASING	NATIONAL MAIL TRANSPORTATION	FACILITIES
<ol style="list-style-type: none"> 1. Establishing diversity source lists in hard copy and in electronic versions for specialists to use. 2. Identifying diverse suppliers in source lists for competitive purchases over \$100K. 3. Sponsoring diversity sessions in various locations. 4. Attending/participating in local tradeshows, seminars, outreach forums, etc. 5. Sponsoring capability briefings with prospective diverse suppliers. 6. On-the-spot awards to diverse suppliers at trade shows. 7. Supplier diversity training to staff. 8. Requiring supplier diversity goals in performance objectives. 9. Using the Internet as a means to identify diverse suppliers and sharing website information across organizations. 10. Requiring a session on supplier diversity in manager and team leader meetings. 11. Publicizing and communicating success stories on diverse suppliers. 12. Developing tracking system for subcontracts (or second tier) data. 13. Having supplier diversity messages in various PMSC newsletters. 14. Developing local recognition programs for effort and successes in this arena. 	<ol style="list-style-type: none"> 1. Training for all buyers. 2. Establishing supplier focus groups (for Service Purchasing). 3. Holding a Supplier Conference twice a year 4. Offering a Supplier Guide to communicate to vendors – names, phone numbers and products. 5. Having goals for each buying unit for quantity and dollar amount awarded to small, minority and women-owned businesses . 6. Having minority and women-owned business (MWOB) goals in individual development plans. 7. Requiring supplier diversity as an agenda item on monthly staff meetings. 8. Offering cash awards and recognition for individuals and unit buyers. 9. Reporting on: total awards, subcontracting, indirect, and credit cards. 10. Requiring a clause in contract to report USPS contract dollars separately. 	<ol style="list-style-type: none"> 1. One-on-one training with minority and women suppliers. 2. Conducting supplier seminars. 3. Encouraging and engaging in joint ventures with various Diversity Councils (Minority Supplier Development Councils, Hispanic Supplier Councils, and Local Chambers of Commerce). 4. Offering supplier diversity training for all buyers. 5. Encouraging attendance at Trade Fairs. 6. Sponsoring and attending local and Area-wide supplier diversity seminars. 7. Sponsoring supplier training and presentations for minority businesses. 8. Joint sponsoring of supplier diversity seminars with Area Vice Presidents and PMSCs. 9. Collecting and reviewing supplier diversity plans of all major suppliers. 10. Developing our second tier program to: (a) assist large transportation suppliers in developing business relationships with MWOB subcontractors, and (b) develop a data collection infrastructure for second tier data. 11. Identifying minority potential suppliers using the Internet. 12. Working with Area diversity coordinators to develop new minority business sources. 	<ol style="list-style-type: none"> 1. Requesting Area/Local organizations distribute solicitations to their members that result in receiving proposals from minority suppliers either as prime or subcontractors. 2. Contacting National, Area, and Local supplier diversity organizations to assure solicitations have been received. 3. Requiring all contracts over \$5 million be monitored monthly. Contracts between \$2.5 and \$5 million are monitored quarterly. In the event goals are not met, the project manager is questioned, and written justifications are required from the contractors. 4. Obtaining a list of supplier diversity sources from the contractors prior to contract approval. 5. Having General Counsel review guidelines for minority enterprise participation prior to distribution to contracting officers.

<p>15. Requiring supplier diversity sourcing is included in local buying training to field customers.</p> <p>16. Assigning diversity coordinator responsibilities in each PMSC to assist in the responsibilities of the program.</p> <p>17. Communicating the supplier diversity program to field customers.</p> <p>18. Conducting more intensive debriefings to diverse suppliers who are not successful in competitive purchasing</p>	<p>11. Having a supplier diversity coordinator in each buying unit and Headquarters.</p>	<p>13. Publishing upcoming procurement opportunities.</p> <p>13. Requiring supplier diversity be an agenda item in the field managers meetings.</p> <p>14. Benchmarking of best practices in supplier development.</p>	
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