COs include the most favored customer pricing clause (MFCP clause) in contracts to ensure the Postal Service receives prices for goods and services that are equal to or lower than those offered to other customers purchasing similar quantities, under comparable terms and conditions.

Background
U.S. Postal Service contracting officers (CO) play an essential role in the contracting process by including appropriate clauses in contracts and ensuring compliance with contract terms and conditions.

COs include the most favored customer pricing clause (MFCP clause) in contracts to ensure the Postal Service receives prices for goods and services that are equal to or lower than those offered to other customers purchasing similar quantities, under comparable terms and conditions. This clause allows COs to request applicable pricing data from suppliers to independently assess whether the Postal Service is receiving the most favored customer pricing.

As of September 1, 2016, there were 285 active contracts with the MFCP clause in the Contract Authoring Management System (CAMS), the Postal Service’s primary contracting system. However, a CAMS computer-generated report for the period October 1, 2013, through July 31, 2016, only identified 211 such contracts.

Our objective was to determine whether the Postal Service properly uses and enforces the MFCP clause.

What the OIG Found
COs arbitrarily used and enforced the MFCP clause in contracts. They generally included the MFCP clause in contracts regardless of relevance. There are 154 COs, however based on the CAMS report, 30 COs had the MFCP clause in their contracts. Of the 30 COs, 26 (87 percent) we surveyed did not request customer pricing data from suppliers for 247 of 285 contracts they managed.

These issues occurred because there is no formal criteria for when to include the clause in contracts or how it should be enforced and COs either did not properly manage contracts with the MFCP clause, used a contract template that incorrectly included the clause, or inherited contracts with the MFCP clause when the clause was not applicable.

COs also included the MFCP clause in contracts as a pricing leverage to create additional competition within suppliers for goods or services that were specific to the Postal Service, but could become commercially available to the public in the future. Further, there is no formal guidance on how to conduct most favorable customer pricing data analysis.
Four of the 30 COs properly requested and assessed customer pricing data, identifying million in additional savings. When COs do not enforce the MFCP clause, there is an increased risk the Postal Service is overpaying for its goods and services.

In addition, the Postal Service could not identify the true universe of contracts in CAMS that contain the MFCP clause. COs identified 74 contracts in CAMS that included the clause but were not reflected in the CAMS report. This occurred because COs did not use the designated clause field in CAMS to capture this data, some contracts preceded implementation of CAMS, and COs generated contracts externally and imported them into the system, thereby preventing the use of the designated clause field.

When the Postal Service does not use all CAMS functionality, there is an increased risk contracts with the MFCP clause will be mismanaged and inaccurately reported.

What the OIG Recommended
We recommended management enhance existing policy for determining when the MFCP clause should be included in contracts, how to implement the clause, specify in the contract how the clause will be enforced, and review and modify contract templates containing the MFCP clause to determine if the clause should remain in those contracts.

We also recommended management develop procedures to instruct COs who use CAMS to manage their contract to use the system to develop solicitation and contract documents to ensure the MFCP clause is properly included in the contract.
Transmittal Letter

December 14, 2016

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

FROM: Charles L. Turley
Deputy Assistant Inspector General
for Supply Management and Human Resources

SUBJECT: Audit Report – Most Favored Customer Pricing
         (Report Number SM-AR-17-002)

This report presents the results of our audit of the U.S. Postal Service’s Most Favored Customer Pricing (Project Number 16SMG007SM000).

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

Attachment

cc: Corporate Audit and Response Management
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Findings

Our objective was to determine whether the Postal Service properly uses and enforces the MFCP clause.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service’s most favored customer pricing (MFCP) clause (Project Number 16SMG007SM000). Our objective was to determine whether the Postal Service properly uses and enforces the MFCP clause. See Appendix A for additional information about this audit.

Postal Service contracting officers (CO) play an essential role in soliciting, awarding, managing, and terminating contracts. COs are responsible for inserting appropriate clauses into contracts and ensuring the Postal Service and suppliers comply with the contracts terms and conditions.

The Postal Service’s Supplying Principles and Practices (SP&P) Clause 2-48, Most Favored Customer Pricing, states that prices for goods and services must be equal to or lower than those offered to other customers purchasing similar quantities, under comparable terms and conditions. In addition, suppliers must provide customer pricing data that COs request.

As of September 1, 2016, there were 285 active contracts with the MFCP clause in the Contract Authoring Management System (CAMS), the Postal Service’s primary contracting system. However, a computer-generated CAMS report for the period October 1, 2013, through July 31, 2016, identified only 211 of these contracts. During our audit, COs identified the other 74 contracts.

Summary

COs arbitrarily used and enforced the MFCP clause in contracts. They generally include the MFCP clause in contracts regardless of relevance. There are 154 COs, however, based on the CAMS report, 30 COs have the MFCP clause in their contracts. Of the 30 COs, 26 (87 percent) we surveyed did not request customer pricing data from suppliers for 247 of 285 contracts they managed.

These issues occurred because there is no formal criteria for when to include the clause in contracts or how it should be enforced and COs either did not properly manage contracts with the MFCP clause, used the template that incorrectly included the clause, or inherited contracts with the MFCP clause was not applicable. COs also included the MFCP clause in contracts as a pricing leverage for goods or services that were specific to the Postal Service, but could become commercially available to the public in the future. Further, there is no formal guidance on how to conduct most favorable customer pricing data analysis.

Four of the 30 (13 percent) COs in the Operational Supplies and Mail Transport Equipment Category Management Center (CMC) requested and assessed customer pricing data from suppliers, identifying $30 million in additional savings. When COs do not enforce the MFCP clause, there is an increased risk the Postal Service is overpaying for its goods and services.

In addition, the Postal Service could not identify the true universe of contracts in CAMS that contain the MFCP clause. At least 74 contracts identified in CAMS included the clause but were not reflected in a CAMS report. This issue occurred because the COs did not use the designated clause field in CAMS to capture this data; some of the contracts preceded implementation of CAMS; and COs generated contracts externally and then imported them into the system, thereby preventing the use of the designated clause field. When CAMS functionality is not fully used, there is an increased risk of inaccurate reporting and inadequate management of contracts with the MFCP clause.

1 The committed dollar value for the 285 contracts is $2.1 billion.
2 The savings were identified in the contract from June 2015 to September 2016.
COs did not consistently use and enforce the MFCP clause in contracts. COs typically include the clause regardless of relevance. At the same time, 26 of the 30 (87 percent) COs we surveyed did not request customer pricing data from suppliers for 247 of 285 (87 percent) contracts they managed (see Figure 1).

Figure 1: COs Requesting Pricing Data by Purchasing Portfolio

These issues occurred because:

■ Four COs could not explain why the clause was in their contracts since they inherited the contracts; however, three of the four COs indicated the MFCP clause did not belong in these service contracts because competition was minimal and the U.S. Department of Labor dictates the rates. The other CO requested the supplier provide a certified letter guaranteeing most favored customer pricing as an alternative to requesting customer pricing data. Since there is no policy on how to enforce the MFCP clause, the CO had the authority to use his discretion in managing the contract.

■ Ten COs inadvertently included the clause in their contracts because they used a contract template that included the MFCP clause. One CO opined that the clause is not applicable to specific contracts, such as construction contracts, due to their scope.

Source: Survey results from Postal Service COs and CAMS data.

3 The Postal Service’s Supply Management group is comprised of five purchasing portfolios: Commercial Products & Services, Facilities, Mail & Operational Equipment, Technology Infrastructure, and Transportation.

4 Out of the 26 COs, one CO did not respond.
Four of the 30 COs (13 percent) in the Operational Supplies and Mail Transport Equipment CMC requested customer pricing data and performed pricing analyses quarterly, semiannually, or annually.

- Four COs stated there is no guidance in the SP&P on requesting customer pricing data and no requirements for the CO to perform an analysis. In addition, there is no standard reporting structure or method for compiling the data. Due to limited resources, COs generally reviewed pricing with suppliers as needed. Further, four COs and two managers considered the language in the MFCP clause vague and indicated there was no guidance on how often to acquire and review the data.

- Two COs conducted pricing analyses using other methods and sources such as competition and historical and market prices to determine if the pricing was still fair and reasonable. Another CO maintained the original 2013 competitive contract pricing because the negotiated price was determined to be fair and reasonable at the time of renewal.

- Three COs believed the suppliers are providing the Postal Service with the best value. They relied on the suppliers’ assurance that they do not have other customers who purchased items with similar terms and conditions.

- Two COs added the MFCP clause in case the supplier sells the same product commercially to other customers.

Four of the 30 COs (13 percent) in the Operational Supplies and Mail Transport Equipment CMC requested customer pricing data and performed pricing analyses quarterly, semiannually, or annually. These COs developed a process for analyzing customer pricing data which included obtaining Top Sales reports from suppliers, randomly selecting inventory items from those reports, and comparing the data to Postal Service prices. For example, they compared pricing data to various sources such as supplier customer data, General Services Administration (GSA) consumer markets, and economic price adjustment indexes. Finally, the COs entered into price negotiations with suppliers to adjust the prices. Figure 2 illustrates the data analysis process the COs used.

Figure 2: Data Analysis Process

![Data Analysis Process Diagram]

Source: Interviews with COs.

5 Top Sales reports illustrate the top-selling products during a specific time period.
COs negotiated $2.2 million in additional savings as a result of a U.S. Postal Service Office of Inspector General (OIG) investigation of one contract using MFCP data. Additionally, COs continue to have ongoing price negotiations for additional savings. Based on the savings identified, we determined the Postal Service is risking 7 million in additional savings by not managing the MFCP clause in active contracts.

According to the SP&P, COs play an essential role in managing contracts. When contract clauses are not properly managed, there is an increased risk terms and conditions will not be followed and the Postal Service may not receive the best value for goods and services. Further, including the MFCP clause in contracts when it is not relevant to the contract can create an unnecessary administrative burden. Due to this audit, two COs took corrective action by modifying eight contracts and removing the MFCP clause because it was not applicable.

**Contract Universe**

The Postal Service could not identify the true universe of contracts in CAMS that contain the MFCP clause. COs identified 74 contracts with the MFCP clause in CAMS that were not reflected in the computer-generated CAMS report. This occurred because COs did not use the designated clause field in CAMS to capture this data, some of the contracts preceded implementation of CAMS, and COs generated contracts externally and imported them into the system, thereby preventing the use of the designated clause field. According to a CAMS workbook, the system provides comprehensive management for all aspects of the procurement process. It includes extensive audit trails, financial tracking, reporting capability, and contract management.

When the Postal Service does not fully use CAMS functionality, there is an increased risk contracts with the MFCP clause will be inaccurately reported and poorly managed. Proper internal controls for using CAMS will allow management and COs to identify a comprehensive universe of contracts containing the MFCP clause.

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6 The OIG investigation was performed on March 9, 2015.
7 We extrapolated the 7 million from the 26 COs that are not performing any price analysis and determined a total monetary exposure of 7 million. We then calculated disbursements at risk by multiplying total monetary exposure (7 million) by an overall probability of 34.60 percent.
8 SP&P, Roles and Responsibilities, Contracting Officer, updated December 12, 2011.
Recommendations

We recommend management enhance existing policy for determining when the MFCP clause should be included in contracts, how to implement the clause, specify in the contract how the clause will be enforced, and review and modify contract templates containing the MFCP clause to determine applicability. We also recommend management develop procedures for CAMS users to utilize the system to develop solicitation and contract documents to ensure the MFCP clause is properly included in the contract.

Management’s Comments

Management generally agreed with all of the findings and recommendations; however, management disagreed with the methodology the OIG used for calculating the savings at risk impact.

Regarding recommendation 1, management agreed to enhance SP&P guidance on the use of the MFCP clause. The guidance will include instructions to COs on determining when to include the clause, implementing the clause in contract terms and conditions, and enforcing use of the clause throughout the contract period of performance. The target implementation date is November 2017.

Regarding recommendation 2, management agreed to review existing contract templates in CAMS that feature the MFCP clause to determine whether to include the clause. Based on this determination, management will modify the templates to delete the clause where appropriate. The target implementation date is June 2017.

Regarding recommendation 3, management agreed to instruct COs who use CAMS to use this system to generate requests for proposals and contracts rather than create these documents externally and upload to CAMS. Management will review and update existing CAMS procedures as necessary to reflect this instruction. The target implementation date is August 2017.

Management disagreed with the OIG’s methodology for computing the $20.2 million in additional savings at risk due to COs not managing the MFCP clause in active contracts. Management stated that the OIG extrapolated the savings at risk impact from savings achieved through the MFCP clause in a single specific contract and considers the sample size too small to properly estimate the impact.

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 corrective actions should resolve the issues identified in the report.

Regarding the savings at risk impact, the OIG used a risk-based conservative estimate model that calculates the likelihood of the occurrence of certain risk events. We estimated the percentage of disbursements at risk associated with the COs who were not requesting customer pricing data from suppliers to confirm the Postal Service is receiving MFCP. The savings at risk impact
calculation does not mean that the Postal Service will necessarily incur the amount of the loss, but it quantifies the effects of uncertain events, such as those based on risk.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service’s follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.
Appendices

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

Appendices

Appendix A: Additional Information

Appendix B: Management’s Comments
Appendix A: Additional Information

Background

The Postal Service’s Supply Management group is comprised of five purchasing portfolios: Commercial Products and Services, Facilities, Mail and Operational Equipment, Technology Infrastructure, and Transportation. Within each portfolio, CMC COs focus on purchasing specific types of goods and services that address the operating needs of the Postal Service.

COs play an essential role in soliciting, awarding, managing, and terminating contracts. They insert appropriate clauses into contracts and ensure the Postal Service and suppliers comply with contract terms and conditions.

The Postal Service’s SP&P Clause 2-48 states that:

“During the term of this contract, prices for the goods and services required under this contract must be the equal to or lower than those offered the most favorable customer for similar quantities under comparable terms and conditions. When requested by the contracting officer, the supplier must show that the prices offered the Postal Service match or are less than those offered the supplier’s most favored customers for those quantities under those terms and conditions, and such pricing data must be available for review by the Postal Service throughout the term of the contract. Any price reductions offered to other customers must be offered to the Postal Service if similar item quantities are involved.”

There were 285 active contracts with the MFCP clause in CAMS, the Postal Service’s primary contracting system. However, a CAMS report for the period October 1, 2013, through July 31, 2016, only identified 211 of these contracts. During this audit, COs identified another 74 contracts in CAMS that include the MFCP clause.

Objective, Scope, and Methodology

Our objective was to determine whether the Postal Service properly uses and enforces the MFCP clause. To accomplish our objective we:

- Obtained and reviewed Postal Service contracts from CAMS dated between October 1, 2013, and July 31, 2016, that include the MFCP clause.

- Interviewed portfolio and CMC managers and COs regarding use of the MFCP clause.

- Surveyed the 30 COs whose contracts had the MFCP clause to determine whether they are requesting pricing data from suppliers and analyzing the data.

- Interviewed four COs in the Operational Supplies and Mail Transport Equipment CMC to validate the pricing analysis process.

- Analyzed contract data to confirm the rate of success when applying the MFCP clause.
We conducted this audit from June through December 2016, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 18, 2016, and included their comments where appropriate.

We used computer-processed data from CAMS when performing our analysis. We assessed the reliability of computer-generated data by interviewing agency officials knowledgeable about the data. We assessed the reliability of contract data by comparing CAMS data to COs' responses regarding contracts that include the MFCP clause. We determined the CAMS data were not sufficiently reliable and our audit report discloses this inadequacy.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.
Appendix B: Management’s Comments

December 5, 2016

LORI LAU DILLARD

SUBJECT: Most Favored Customer Pricing (Report Number SM-AR-17-DRAFT)

Thank you for providing the United States Postal Service with an opportunity to review and comment on the draft audit report, Most Favored Customer Pricing (MFCP). Management is generally in agreement with the findings and recommendations included in the draft report. However, we disagree with the identified Other Impact. The Office of the Inspector General’s methodology for computing the impact was extrapolated from savings achieved through the MFCP clause in a single specific contract. Management considers this sample size too small to properly estimate the impact.

Management’s response to the recommendations included in the draft report may be found below.

We recommend the Vice President, Supply Management:

Recommendation 1: Enhance existing policy to instruct contracting officers when to include the most favored customer pricing clause, how to implement the clause, as well as to include specific terms and conditions in the contract regarding how the clause will be enforced.

Management Response to Recommendation 1: Management agrees with this recommendation. Supply Management will enhance the guidance on the use of the MFCP clause within the Supplying Principles and Practices. At a minimum, the guidance will include instructions to contracting officers on when to include the clause, implementing the clause in contract terms and conditions, and administering the clause’s use throughout the contract period of performance.

Target Implementation Date: November 2017

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 2: Review and modify the contract templates that contain the most favored customer pricing clause to determine applicability and delete the clause where it is not applicable.

Management Response to Recommendation 2: Management agrees with this recommendation. Supply Management will review existing clause templates in the Contract Authoring and Management System (CAMS) that feature the MFCP clause and determine whether the clause should be included. Based on this determination, the templates will be modified to delete the MFCP clause where appropriate.

Target Implementation Date: June 2017

Responsible Official: Supply Management Portfolio Managers

SUSAN M. BRONWELL

VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE
Recommendation 3: Develop procedures to instruct contracting officers who use Contract Authoring Management System to manage their contracts, to utilize the system to develop solicitation and contract documents to ensure the most favored customer pricing clause is properly included in the contract.

Management Response to Recommendation 3: Management agrees with this recommendation. Contracting officers who use CAMS will be instructed to use CAMS to generate requests for proposals and contracts rather than create these documents externally to CAMS. Existing CAMS procedures will be reviewed and updated as necessary to reflect this instruction.

Target Implementation Date: August 2017

Responsible Official: Manager, Supply Chain Management Strategies

cc: Manager, Corporate Audit Response Management
Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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