



Office of Inspector General | United States Postal Service

Audit Report

Contract Delivery Service Contract Renewal Compliance

Report Number 20-193-R21 | January 7, 2021



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Highlights

Objective

Our objective was to evaluate the Contract Delivery Service (CDS) renewal process for compliance with U.S. Postal Service policies and procedures. Our scope included all CDS contract renewals for fiscal years (FY) 2018 and 2019.

The Postal Service has statutory authority to contract for surface mail transportation services from any carrier or person carried out via Highway Contract Routes, which include transporting mail and CDS routes. CDS routes are contract agreements between the Postal Service and private individuals or firms to deliver and collect mail nationwide.

The Surface Transportation Category Management Center's CDS Category Management Team (CDS Office) manages all CDS contracts. The contracting officer has sole authority to execute contracts on behalf of the Postal Service.

In FY 2018, the Postal Service spent about \$403 million on 7,457 CDS contracts with 6,048 suppliers, 763 of which were renewals. In FY 2019, the Postal Service spent about \$424 million on 7,420 contracts with 5,654 suppliers, 268 of which were renewals.

Findings

While the CDS Office has an established contract renewal process, it did not renew CDS contracts in accordance with Postal Service policies and procedures for contract renewals. Based on our statistical sample of FY 2018 and 2019 renewed contracts valued at about \$9.9 million, 137 of 173 (79 percent) renewed contracts in the Transportation Contract Support System (TCSS) did not always assess supplier past performance or ensure that background screening documents for supplier eligibility were completed.

We identified 106 of 173 (61 percent) contract renewals that did not have evidence of supplier performance in TCSS. This occurred because administrative officers did not always complete the CDS supplier performance assessment or report supplier deficiencies to contracting officers.

Additionally, contracting officers did not always perform due diligence to ensure suppliers were in good standing before renewing the contract. For example, contracting officers assumed performance was satisfactory and proceeded with the renewal regardless of whether they received supplier performance input from administrative officers. Without obtaining assessments of supplier performance, the Postal Service brand and quality of delivery service could be negatively affected by renewing with a supplier providing less than satisfactory service.

We also found 78 of 173 contracts (45 percent) had incomplete or missing supplier screening documents in the TCSS. This included failure to answer all background screening questions and provide screening confirmation for employees with access to the mail. We identified 90 of 173 (52 percent) CDS suppliers had expired non-sensitive clearances. This occurred because management did not have sufficient controls, such as procedures for tracking and monitoring clearances to ensure that CDS suppliers were obtaining security clearances.

In a previous OIG report, we recommended the Postal Service establish formal procedures to track and monitor contract driver security clearances to ensure drivers have the appropriate clearance and are re-screened. We also recommended the Postal Service establish a centralized system that allows for the tracking and monitoring of contract drivers security clearances.

In response to these recommendations, beginning in 2021, management plans to implement a process that will centralize the background screening process, as well as provide alerts when background investigations are nearing expiration. This would allow CDS suppliers to complete background investigation forms and submit required documentation electronically; therefore, we are not making a recommendation on this issue.

Recommendation

We recommended management require administrative officials provide CDS supplier performance assessments to contracting officers for review during the renewal decision process.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

January 7, 2021

MEMORANDUM FOR: PETER ROUTSOLIAS
VICE PRESIDENT, TRANSPORTATION STRATEGY

A handwritten signature in black ink, appearing to read "Jason M. Yovich", is positioned below the recipient information.

FROM: Jason Yovich
Deputy Assistant Inspector General
for Supply Management

SUBJECT: Audit Report – Contract Delivery Service Contract Renewal
Compliance (Report Number 20-193-R21)

This report presents the results of our Contract Delivery Service Contract Renewal Compliance audit.

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

Attachment

cc: Postmaster General
Chief Commerce and Business Solutions Officer and
Executive Vice President
Vice President, Supply Management
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Contract Delivery Service (CDS) Contract Compliance (Project Number 20-193). Our objective was to evaluate the CDS renewal process for compliance with U.S. Postal Service policies and procedures. Our scope included all CDS contract renewals for fiscal years (FY) 2018 and 2019.

Background

The Postal Service has statutory authority to contract for surface mail transportation services from any carrier or person carried out via Highway Contract Routes (HCR), which include transporting mail and CDS routes.¹ CDS routes are contract agreements between the Postal Service and suppliers (i.e., private individuals and firms) to collect and deliver mail nationwide. Services that CDS suppliers provide are similar to those that postal rural letter carriers provide, including delivery of mail and sale of postal services. CDS suppliers and their employees represent the Postal Service brand; therefore, they must conduct themselves professionally.

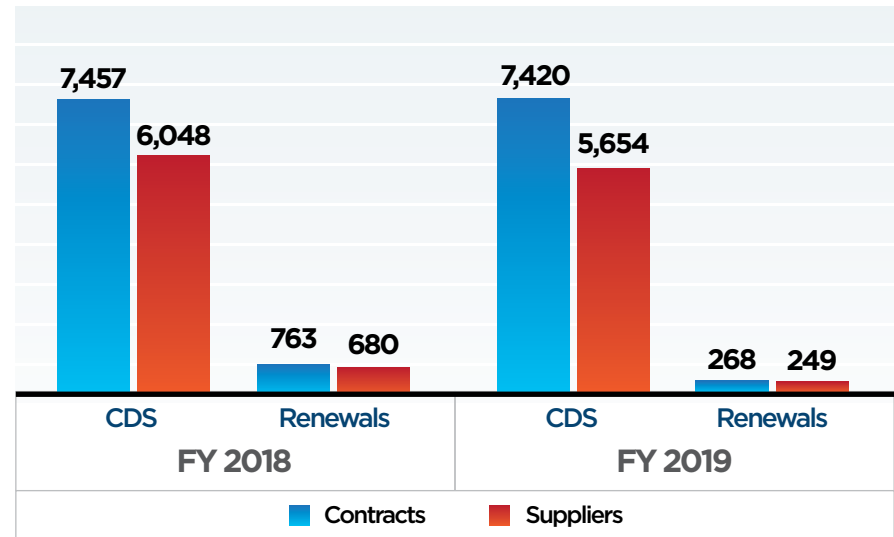
“CDS routes are contract agreements between the Postal Service and suppliers (i.e., private individuals and firms) to collect and deliver mail nationwide.”

The Surface Transportation Category Management Center’s CDS Category Management Team (CDS Office) manages all CDS contracts. Within the CDS Office, contracting officers (CO) have sole authority to execute contracts on behalf of the Postal Service. Most CDS contracts are renewed by mutual

agreement with the supplier and fall within three categories – regular,² temporary,³ or emergency.⁴ Regular and temporary contracts may be renewed, whereas emergency contracts may not. Postal Service policy requires the renewal term of regular and temporary contracts be based on operational requirements, market conditions, and any other relevant business factors.

In FY 2018, the Postal Service spent about \$403 million on 7,457 CDS contracts with 6,048 suppliers, 763 of which were renewals.⁵ In FY 2019, the Postal Service spent about \$424 million on 7,420 contracts with 5,654 suppliers, 268 of which were renewals (see Figure 1).

Figure 1. CDS Contracts and Suppliers



Source: U.S. Postal Service Office of Inspector General (OIG) analysis of the Transportation Contract Support System (TCSS)⁶ data from the Strategic Surface Procurement & Sourcing (SSPS) Team.

1 Title 39, §5005 – Mail Transportation.

2 A regular highway transportation contract is a fixed-term contract that cannot exceed four years unless warranted by special conditions or the use of special equipment. In these cases, the contract may be for a six-year term.

3 A temporary highway transportation contract is a short-term contract other than an emergency contract. It may not exceed two years and may be terminated by either party without entitlement or indemnity. A one-time renewal term is allowed, not to exceed two years.

4 Emergency contracts are used when an emergency exists, such as a catastrophic event, which creates a need to replace or substitute a supplier. Emergency contracts are no longer than six months.

5 In FY 2018 they had double the workload due to expiring contracts from 2013 and 2017 to process. Some of the contracts in FY 2017 were placed on a two-year cycle to evenly distribute the workload.

6 An Oracle Web-based application which allows COs to solicit, award, and administer transportation contracts and pay suppliers or highway contracts.

In FYs 2018 and 2019, 1,031 CDS contracts were renewed with a contract value of \$56 million. We reviewed a statistical sample of 173 contract renewals with 168 suppliers and a contract value of about \$9.9 million (see Table 1).

Table 1. CDS Contract Renewals

FY	Universe		Sample	
	Total Contracts	Contract Value	Total Contracts	Contract Value
2018	763	\$40,416,488	121	\$6,549,820
2019	268	15,747,722	52	3,304,777
Total	1,031	\$56,164,210	173	\$9,854,597

Source: TCSS.

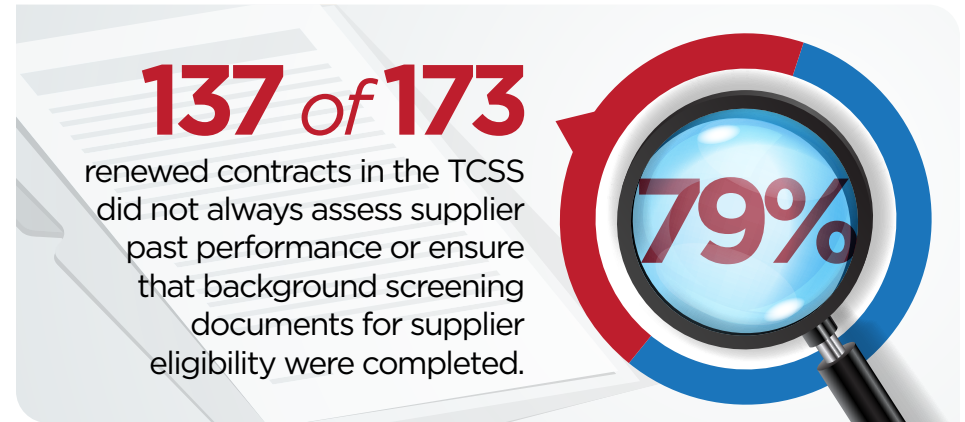
Finding #1: Contract Delivery Service Renewal Process Deficiencies

While the CDS Office has an established contract renewal process, it did not renew CDS contracts in accordance with Postal Service policies and procedures for contract renewals. Based on our statistical sample of FY 2018 and 2019 renewed contracts valued at about \$9.9 million, 137 of 173 (79 percent) renewed contracts in the TCSS did not always assess supplier past performance or ensure that background screening documents for supplier eligibility were completed.

Supplier Performance Evaluation

CDS Office personnel did not consistently assess supplier performance. Specifically, we identified 106 of 173 (61 percent) contract renewals that did not have evidence of supplier performance in the TCSS.

CDS Office personnel are responsible for monitoring contract performance to ensure the supplier provides all services and equipment under the terms of the contract, including addressing unsatisfactory performance or irregularities in



service.⁷ COs designate administrative officials (AO) to monitor and manage CDS suppliers' performance.⁸ AOs use the CDS Supplier Performance Rating form to record their assessment of supplier performance and PS Form 5500⁹ to report supplier deficiencies. Per Postal Service policy, contracts should not be renewed with suppliers with less than satisfactory performance.

This issue occurred because COs did not always perform due diligence to ensure suppliers were in good standing before renewing contracts. For example, COs assumed performance was satisfactory and proceeded with the renewal regardless of whether they received supplier performance input from AOs. Additionally, there are no controls in place to ensure AOs submit supplier deficiencies to COs for evaluation prior to renewal. COs stated that AOs did not always return supplier performance forms for the CO to assess whether performance was satisfactory.

Without obtaining assessments of supplier performance, the Postal Service brand and quality of delivery service could be negatively affected by renewing with a supplier providing less than satisfactory service.

⁷ Supplying Principle and Practices (SP&P), Commodity Specific Practices, Section 8-2.18, Contract Administration, dated October 1, 2018.

⁸ SP&P, Commodity Specific Practices, Section 8-2.2, Administrative Officials, dated October 1, 2018.

⁹ PS Form 5500, Contract Route Irregularity Report, is used to report suppliers with inadequate performance, late trips, and no shows.

Supplier Screening Documents Not Completed

COs did not always review supplier screening documentation for completeness or inclusion in the TCSS. This documentation specifically included:

- Provision 4-3, Representation and Certification;¹⁰
- PS Form 2025, Contract Personnel Questionnaire;¹¹ and
- PS Form 5472, Pre-Award Questionnaire and Assets and Liabilities Statement.¹²

“We found 78 of 173 contracts (45 percent) had incomplete or missing supplier screening documents in the TCSS.”

We found 78 of 173 contracts (45 percent) had incomplete or missing supplier screening documents in the TCSS. This included failure to complete all background screening questions and failure to provide screening confirmation for employees with access to the mail. We identified 90 of 173 (52 percent) CDS suppliers had expired non-sensitive security clearances. We were unable to obtain evidence in the TCSS that the CO or AO addressed these issues.

Per Postal Service policy, the CO is responsible for determining whether or

not to deny suppliers and/or their personnel access to mail and facilities based on information supplied by the AO or other Postal Service sources.¹³ COs should include these documents as part of the renewal package to the supplier and require suppliers to complete, sign, and return them to the CDS Office. Additionally, at contract award, renewal, and thereafter, the supplier must identify

all individuals to the AO who require access to Postal Service facilities or mail and must provide updates. Moreover, suppliers that were issued non-sensitive clearances to access mail, must be re-screened at least once every 4 years.

This occurred because COs did not perform their due diligence to ensure that forms in the TCSS were complete and accurate. COs stated that the supplier screening required for access to Postal Service facilities and mail is the responsibility of AOs in conjunction with the Postal Inspection Service. Additionally, management did not have sufficient controls, such as procedures for tracking and monitoring clearances to ensure that CDS suppliers were obtaining security clearances.

In a prior OIG report¹⁴ we recommended Postal Service management establish formal procedures to track and monitor contract driver security clearances to ensure drivers have the appropriate clearances and are re-screened. We also recommended Postal Service management establish a centralized system that allows for the tracking and monitoring of contract drivers security clearances.

In response to these recommendations, beginning in 2021, management plans to implement a process that will centralize the background screening process, as well as provide alerts when background investigations are nearing expiration. This will allow CDS suppliers to complete background investigation forms and submit required documentation electronically; therefore, we are not making a recommendation on this issue.

Recommendation #1

We recommend the **Vice President, Transportation Strategy**, require administrative officials provide Contract Delivery Service supplier performance assessments to contracting officers for review during the renewal decision process.

¹⁰ Provision 4-3 provides COs information pertaining to the supplier's type of business organization, conflicts of interest, and debarment from federal contracts.

¹¹ PS Form 2025 provides COs information pertaining to the supplier's name, route, employment history, misdemeanor or felony convictions, federal delinquencies, and traffic violations in the past five years.

¹² PS Form 5472 provides COs information pertaining to the supplier's business type, ownership, vehicle size and equipment utilized; past service update; and identification and accessibility of individuals to mail or to postal operations, including assets and liabilities.

¹³ Management Instruction PO-530-2009-4, Screening Highway Transportation Contractor Personnel, dated September 2009.

¹⁴ Security Clearances for Postal Service Contract Drivers (Report Number HR-AR-15-001, dated November 20, 2014).

Management's Comments

Management generally agreed with the finding; however, management did not agree with the recommendation as written and offered an alternative based on an updated policy put in place and best practices.

Regarding recommendation 1, management stated they do not concur with the recommendation as written but agree that AO feedback for supplier performance is beneficial to the renewal process. Therefore, management plans to solicit AO feedback prior to the renewal of CDS supplier contracts in FY 2021. Management stated that the alternative corrective action had a high response rate of 90-95% based on CO polling. Management plans to implement this action by June 2021.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers Management's comments responsive to recommendation 1 and corrective actions stated should improve the issues identified in the report.

Regarding management's disagreement with recommendation 1, we acknowledge that management will solicit AO feedback prior to renewing CDS

supplier contracts in FY 2021. However, soliciting AO feedback does not ensure that AO feedback will be provided and the Postal Service brand and integrity may remain at risk. The updated policy effective June 20, 2020, eliminates the CO requirement to receive feedback from AOs. We recommended that management require AOs to provide CDS supplier performance assessments to COs for review during the renewal decision process. We based this recommendation on an analysis of 176 contracts, 106 of which did not contain supplier performance assessments. The purpose of the OIG recommendation was to mitigate the risk of suppliers negatively affecting the Postal Service brand and reputation. However, management stated that the alternative corrective action had a high response rate based on CO polling. Therefore, the OIG will leave the recommendation open until completion of the FY 2021 renewal season to assess the alternative corrective action's effectiveness.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit included all CDS contract renewals for FYs 2018 and 2019.

To accomplish our objective, we:

- Interviewed Supply Management personnel to understand their roles and responsibilities and the processes and controls in place related to CDS contract renewals.
- Identified and reviewed policies, procedures, and guidance related to the CDS contract renewal process.
- Determined key systems for CDS contract renewals and compliance.
- Determined the universe of CDS contract renewals for FYs 2018 and 2019.
- Used data analytics software to analyze CDS contract data for FYs 2018 and 2019.

- Selected a statistical sample from the contract renewal universe for FYs 2018 and 2019.
- Evaluated contract renewals for compliance with Supply Management policies and procedures, including reviewing past supplier performance, appropriate terms and conditions and clauses, and proper execution of renewed contracts.

We conducted this performance audit from April 2020 through January 2021 under 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 finding based on our audit objective. The evidence obtained provides a reasonable basis for our finding based on our audit objective. We discussed our observations and conclusions with management on November 17, 2020 and included their comments where appropriate.

We assessed the reliability of the TCSS data by comparing the source documents in the TCSS to the contract data provided by the Postal Service. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Contract Delivery Service Costs</i>	Assess the effectiveness of controls over the management of CDS and costs.	CP-AR-19-002	8/20/2019	\$5.3
<i>Oversight of Highway Contract Routes - Insurance</i>	Determine whether Postal Service COs are properly managing HCR contracts in accordance with policies and procedures.	SM-AR-19-002	3/22/2019	\$613

Appendix B: Management's Comments

JACQUELINE KRAGE STRAKO
CHIEF COMMERCE AND BUSINESS SOLUTIONS OFFICER
EXECUTIVE VICE PRESIDENT



December 10, 2020

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Contract Delivery Service: Contract Renewal Compliance – (Project Number 20-193)

Thank you for providing the United States Postal Service (Postal Service) with an opportunity to review and comment on the subject draft audit report, "Contract Delivery Service: Contract Renewal Compliance" dated November 24, 2020. Management generally agrees with the report's findings and will discuss each element separately below. Management also proposes an alternative to the recommendation as stated.

Supplier Screening Documents:

Management remains committed to ensuring those suppliers and drivers who have access to the mail are appropriately screened as described in our response to OIG Audit HR-AR-15-001. As clarified in the new policy, the collection of screening information will be managed by the Security Investigation Screening Center; and will no longer be the responsibility of the Administrative Official (AO). While the OIG noted in the report that screening-related documentation was not found, or was found to be incomplete, in the contract files; the OIG incorrectly attributed that responsibility to the Contracting officer instead of the AO. Management Instruction PO-530-2009-4, Screening Highway Transportation Contractor Personnel, dated September 2009, states in part:

At contract award, renewal, and thereafter, the supplier must identify to the administrative official all individuals who require access to Postal Service facilities or the mail or who have authority to drive...The administrative official provides the following items and forms to the supplier...The supplier must ensure that the forms are completed as specified and submitted to the administrative official... PS Form 2025, Contract Personnel Questionnaire

Although there was no recommendation associated with this finding, Management has completed the close-out activities for Audit HR-AR-15-001.

Supplier Performance Evaluation:

Management views the findings related to supplier performance evaluations as historical as the referenced policies were changed effective June 20, 2020. In that sense, management agrees that the collection of supplier performance evaluations was not conducted regularly during the time period reviewed in the audit. Management, however, does not agree with the recommendation as worded and will offer an alternative based on the new policy and adopted best practices.

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As background, while the report mentions the exact number of renewals, it does not consider that the renewal season is a combination of renewals as well as soliciting and awarding contracts for routes where a renewal was not possible. In FY18, the CDS office had a total of 1620 contracts that went through the process, 763 (identified in the report) which were renewed, and 857 that went through the solicitation and award process. In FY19, 2755 contracts went through the process, 268 (identified in the report) were renewed, and 2487 went through the solicitation and award process. The CDS renewal season is perhaps one of the most arduous processes in Supply Management. If any one contract requirement is not renewed or awarded, it could have immediate impact on our customers.

The USPS utilizes a supplier performance approval process as outlined in the Postal Operations Manual. This process includes the completion of contractor irregularity forms (PS Forms 5500), and a graduated improvement process, up to, and including termination of the contract for default. It is common for AOs who are managing supplier performance to share that information with the contracting office.

Finally, as a best practice, the CDS office created a performance review form in FY20 that was sent out to all AOs with expiring contracts (Attached as CDS Supplier Performance Feedback Form.pdf). This new format not only provides specific performance measurements to consider (e.g. ECC cases, PS Forms 5500 issued), but it also automates the email process to return the form to the contracting office upon completion. With the introduction of this new format, contracting officers were polled, and indicated between 90-95% were returned in FY20. This best practice will remain in place For FY21.

To that end, Management would like to propose an alternate course of action in response to Recommendation 1, and requests close-out contemporaneous with the publication of the Audit findings based on best practice instituted in FY20.

Recommendation [1]:

The OIG recommends that management require Contract Delivery Services (CDS) administrative officials provide the CDS contracting office supplier performance assessments prior to renewal of supplier's contracts.

Management Response/Action Plan:

Management does not concur with this recommendation as written. Management agrees that AO feedback for supplier performance is beneficial to the renewal process. Accordingly, Management will solicit AO feedback prior to renewal of CDS supplier contracts in FY21.

Target Implementation Date:

Corrective action was implemented on 9/1/2019 when the supplier performance worksheet was created and sent out to administrative officials for the FY20 renewal season. On-going actions have continued, and the performance feedback form was sent to all AOs in FY21Q1 in support of the renewal season.



Jacqueline Krage Strako

cc: Mark Guilfoil
Jason Yovich
CARM

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UNITED STATES POSTAL SERVICE

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