



Office of Inspector General | United States Postal Service

## Audit Report

# Next Generation Delivery Vehicles – Contract Clauses

Report Number 21-215-R22 | January 12, 2022



# Table of Contents

|   |    |
|---|----|
| Cover                                     |    |
| Highlights.....                           | 1  |
| Objective .....                           | 1  |
| Finding.....                              | 1  |
| Recommendations.....                      | 1  |
| Transmittal Letter .....                  | 2  |
| Results.....                              | 3  |
| Introduction/Objective .....              | 3  |
| Background.....                           | 3  |
| Finding #1: Self-Reporting Clause .....   | 4  |
| Recommendation #1.....                    | 4  |
| Recommendation #2.....                    | 5  |
| Recommendation #3.....                    | 5  |
| Management's Comments.....                | 5  |
| Evaluation of Management's Comments ..... | 5  |
| Appendices .....                          | 6  |
| Appendix A: Additional Information.....   | 7  |
| Scope and Methodology.....                | 7  |
| Prior Audit Coverage.....                 | 7  |
| Appendix B: Management's Comments.....    | 8  |
| Contact Information .....                 | 11 |

# Highlights

## Objective

Our objective was to review the Next Generation Delivery Vehicle (NGDV) contract to determine if there are opportunities to better protect the U.S. Postal Service from fraud, waste, and abuse.

In February 2021, the Postal Service awarded an indefinite-delivery/indefinite-quantity contract to Oshkosh Defense for the production and delivery of 50,000 to 165,000 NGDVs—right-hand drive vehicles for mail and package delivery. The first task order is for non-recurring expenses, with a period of performance from February 23, 2021, to August 4, 2023, and a value of \$482 million. The recommended total award amount is a minimum of [REDACTED] with an estimated maximum of [REDACTED].

The Postal Service is not required to comply with all federal contracting requirements and instead uses the *Supplying Principles & Practices* (SP&P), its internal policies and procedures. Because the NGDV contract involves a large, unique acquisition, the audit team researched other federal agencies to determine common practices and requirements used in large acquisition contracts to protect against fraud, waste, and abuse.

Since 2008, federal government contractors have been required to report fraud and significant overpayments in connection with their contracts to the federal government. From 2008 to 2021, the Contractor Disclosure Program cases accounted for over \$355 million in recoveries and fines.

## Finding

The Postal Service incorporated internal policies, special provisions and clauses, and special agreements into the NGDV contract to mitigate fraud, waste, and abuse based on the unique NGDV acquisition program. With that said, the Postal Service has opportunities to strengthen the NGDV contract by including language requiring contractor self-reporting of fraud and fraud hotline posters to be displayed in the supplier's locations.

Currently, the SP&Ps do not require contracting officers to consider inclusion of certain federal contract clauses. These types of federal contracting provisions could help the Postal Service with contract oversight by requiring contractor cooperation and enhancing employee awareness and education for reporting fraudulent activities, putting equal responsibility on the supplier.

## Recommendations

We recommended management:

- Include self-reporting of fraud protection in the Next Generation Delivery Vehicle contract through a mutual agreement contract modification.
- Provide and validate that posters advertising the U.S. Postal Service Office of Inspector General (OIG) Hotline are displayed at the Next Generation Delivery Vehicle supplier facilities through a mutual agreement contract modification.
- Develop a contract clause to include in applicable future contracts that requires suppliers self-reporting of fraud and advertising of the U.S. Postal Service OIG Hotline on suppliers premises.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

January 12, 2022

**MEMORANDUM FOR:** MARK A. GUILFOIL  
VICE PRESIDENT, SUPPLY MANAGEMENT

A handwritten signature in black ink, reading "Jason M. Yovich", is positioned above the "FROM:" field.

**FROM:** Jason M. Yovich  
Deputy Assistant Inspector General  
for Supply Management & Human Resources

**SUBJECT:** Audit Report – Next Generation Delivery Vehicles – Contract  
Clauses (Report Number 21-215-R22)

This report presents the results of our Next Generation Delivery Vehicles – Contract  
Clauses 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 & Facilities, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the Next Generation Delivery Vehicles – Contract Clauses (Project Number 21-215). Our objective was to review the Next Generation Delivery Vehicle (NGDV) contract to determine if there are opportunities to better protect the U.S. Postal Service from fraud, waste, and abuse. See [Appendix A](#) for additional information about this audit.

## Background

In February 2021, the Postal Service awarded an indefinite-delivery/indefinite-quantity contract to Oshkosh Defense for the production and delivery of 50,000 to 165,000 NGDVs<sup>1</sup> over 10 years. The first task order is for non-recurring expenses, with a period of performance from February 23, 2021, to August 4, 2023, and a value of \$482 million. The recommended total award amount is a minimum of [REDACTED] with an estimated maximum at [REDACTED].

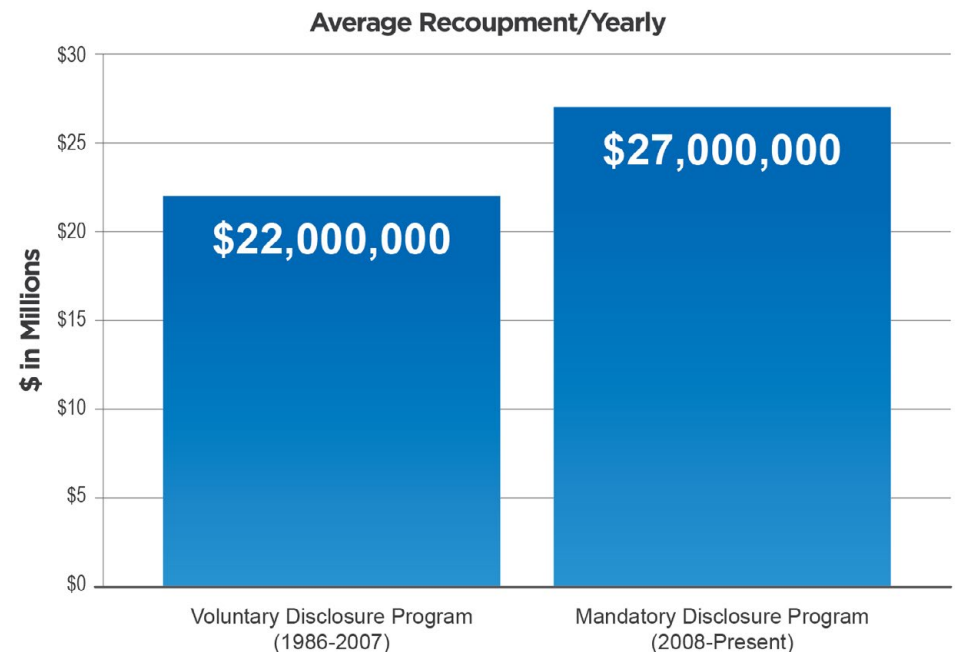
The Postal Service is not required to comply with all federal contracting requirements and instead uses the *Supplying Principles & Practices* (SP&P), its internal policies and procedures. Because the NGDV contract involves a large, unique acquisition, the audit team researched other federal agencies to determine common practices and requirements used in large acquisition contracts to protect against fraud, waste, and abuse.

***“From 2008 to 2021, the Contractor Disclosure Program cases accounted for over \$355 million in recoveries and fines.”***

In July 1986, the Department of Defense instituted the Voluntary Disclosure Program. Under this program, defense contractors could make disclosures of potential fraud that contained sufficient, useful information and which were not triggered by the contractor’s recognition that the potential fraud matter was about to be discovered by the government. The program resulted in

the recovery of about \$462 million from 1986 to 2007; however, about 80 percent of the disclosures and recoveries were made by 1997, highlighting the need for governance reform in the industry (see Figure 1).

**Figure 1. Average Recoveries: Voluntary vs. Mandatory Disclosure Programs**



Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

Since 2008, federal government contractors have been required to report fraud and significant overpayments in connection with their contracts to the federal government. From 2008 to 2021, the Contractor Disclosure Program cases accounted for over \$355 million in recoveries and fines.

<sup>1</sup> A right-hand drive vehicle for mail and package delivery.

## Finding #1: Self-Reporting Clause

The Postal Service incorporated internal policies, special provisions and clauses, and special agreements into the NGDV contract to mitigate fraud, waste, and abuse based on the unique NGDV acquisition program. With that said, the Postal Service has opportunities to strengthen the NGDV contract by including

***“The Postal Service incorporated internal policies, special provisions and clauses, and special agreements into the NGDV contract to mitigate fraud, waste, and abuse based on the unique NGDV acquisition program.”***

language requiring contractor self-reporting of fraud and fraud hotline posters to be displayed in the supplier’s locations.

The NGDV contract contains 18 clauses and provisions addressing potential fraud, waste, and abuse, including internal policies and special clauses designed for this unique acquisition. The special clauses and agreements contain performance-based payment requirements connected to the successful completion of milestones. They also address contract invoicing, delays, accounting, and termination. Furthermore, the Postal Service has a [REDACTED] with the Oshkosh Corporation<sup>2</sup> to protect Postal Service interests and [REDACTED]

Currently, the SP&Ps do not require contracting officers to consider inclusion of certain federal

contract clauses. According to the SP&Ps, Postal Service supplying professionals will use a variety of means—including benchmarking, market research, and participation in professional organizations—to ensure that the best business practices are being used in the Postal Service’s supplying operations.

One of the most significant aspects of the federal government’s self-reporting clause is its requirement for full cooperation by contractors to disclose credible evidence of certain types of misconduct:

*“(3) (i) The Contractor shall timely disclose, in writing, to the agency Office of the Inspector General (OIG), with a copy to the Contracting Officer, whenever, in connection with the award, performance, or closeout of this contract or any subcontract thereunder, the Contractor has credible evidence that a principal, employee, agent, or subcontractor of the Contractor has committed-*

*(A) A violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in Title 18 of the United States Code; or*

*(B) A violation of the civil False Claims Act (31 U.S.C. 3729-3733).”<sup>3</sup>*

Additionally, provisions in federal contracting regulations increase awareness and education to supplier’s employees by displaying fraud hotline posters in the supplier’s locations:

*“(b) Display of fraud hotline poster(s). (1) During contract performance in the United States, the Contractor shall prominently display in common work areas within business segments performing work under this contract and at contract work sites- (i) Any agency fraud hotline.”<sup>4</sup>*

These types of federal contracting provisions will help the Postal Service with contract oversight by requiring contractor cooperation and enhancing employee awareness and education for reporting fraudulent activities, putting equal responsibility on the supplier.

### Recommendation #1

We recommend the **Vice President, Supply Management**, include self-reporting of fraud protection in the Next Generation Delivery Vehicle contract through a mutual agreement contract modification.

<sup>2</sup> Oshkosh Corporation is a company with a portfolio of several brands that include the supplier - Oshkosh Defense.

<sup>3</sup> Federal Acquisition Regulation, Clause 52.203-13, Contractor Code of Business Ethics and Conduct.

<sup>4</sup> Federal Acquisition Regulation, Clause 52.203-14, Display of Hotline Poster(s).

### Recommendation #2

We recommend the **Vice President, Supply Management**, provide and validate that posters advertising the U.S. Postal Service Office of Inspector General Hotline are displayed at the Next Generation Delivery Vehicle supplier facilities through a mutual agreement contract modification.

### Recommendation #3

We recommend the **Vice President, Supply Management**, develop a contract clause to include in applicable future contracts that requires suppliers self-reporting of fraud and advertising of the U.S. Postal Service Office of Inspector General Hotline on suppliers premises.

## Management's Comments

Management agreed with recommendations 1 and 2 and partially agreed with recommendation 3.

Regarding recommendation 1, management stated they will seek to negotiate self-reporting requirements for fraud protection into the NGDV contract through a bilateral contract modification. The target implementation date is April 30, 2022.

Regarding recommendation 2, management stated they will seek to negotiate a bilateral contract modification, which will require the supplier to display OIG Hotline posters at the NGDV production facility. After executing the modification, they will validate that NGDV supplier facilities are displaying posters advertising the OIG Hotline. The target implementation date is April 30, 2022.

Regarding recommendation 3, management stated they will provide for market research with commercial organizations as to contractual treatment of supplier self-reporting of fraud and make any needed policy updates to existing clauses or consider a new SP&P clause. Additionally, they will ensure contract requirements for suppliers to advertise the OIG Hotline for future procurement contracts, when applicable. The target implementation date is December 31, 2022.

Further, management stated that the OIG statement in the objective and background sections of our draft report that the first task order for an initial set of vehicles is inaccurate. In response to management's feedback, the OIG updated that section to reflect that the first task order is for non-recurring production costs.

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

## Evaluation of Management's Comments

We consider management's comments to all recommendations responsive and the corrective actions stated should resolve the issues identified in the report. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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 below to navigate to the section content.

|   |   |
|---|---|
| Appendix A: Additional Information..... | 7 |
| Scope and Methodology.....              | 7 |
| Prior Audit Coverage.....               | 7 |
| Appendix B: Management’s Comments.....  | 8 |

# Appendix A: Additional Information

## Scope and Methodology

We evaluated the NGDV contract terms and conditions to determine if there were opportunities to better protect the Postal Service from fraud, waste, and abuse.

To accomplish our objective, we:

- Identified applicable statutory, regulatory, and process requirements.
- Reviewed and compared the federal contracting regulations, SP&Ps, and NGDV contract for policies and procedures to address fraud, waste, and abuse.
- Reviewed contract documentation to determine if the Postal Service included terms and conditions to protect the Postal Service against fraud, waste, and abuse.
- Interviewed Postal Service officials, as applicable.

We conducted this performance audit from September 2021 through January 2022 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on December 7, 2021, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data for the purposes of this report.

## Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit within the last five years.

# Appendix B: Management's Comments

MARK A. GUILFOIL  
VP, SUPPLY MANAGEMENT



January 5, 2022

JOSEPH WOLSKI  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response to Draft Audit Report Next Generation Delivery Vehicles –  
Contract Clauses (Project Number 21-215 – DRAFT)

Thank you for the opportunity to provide comments on the Office of Inspector General's (OIG) draft report entitled, "Next Generation Delivery Vehicles – Contract Clauses (Project Number 21-215-DRAFT)". We have reviewed the report and its recommendations. Management generally agrees with the findings and recommendations; however, management recommends that clarifications within the findings are necessary to ensure accuracy of the final report. Management is appreciative of the several discussions and meetings with the OIG on this project.

## Findings

The OIG states in the objective and background sections that the first task order is for an initial set of vehicles. As discussed with the OIG and included in our provided comments to your proposed text, the first task order is for nonrecurring production costs including final vehicle design, production tooling, and production facility readiness. The first order for production vehicles under the Indefinite Delivery Indefinite Quantity (IDIQ) contract is planned for early 2022. We also request to clarify the contract value as stated in the draft audit report. The total IDIQ contract value is dependent on the number of vehicles ordered and drivetrain type, and could range between [REDACTED]

Concerning the OIG's discussion of federal contracting requirements, as an independent establishment of the executive branch, the Postal Service is not subject to most federal procurement laws applicable to other federal government entities, including the Federal Acquisition Regulation. Most Postal Service procurement policies are contained in the *Supplying Principles and Practices* (SPs and Ps). The SPs and Ps incorporate both commercial principles and statutory requirements for the Postal Service, including standard commercial contract clauses. The Postal Service's contracting officers do use clauses provided for in federal acquisition contracting regulations not applicable to the Postal Service. In the specific circumstances of protecting against fraud, we appreciate that the draft audit report was complementary of our efforts to incorporate internal policies, special provisions and clauses, and special agreements into the NGDV contract to mitigate fraud, waste, and abuse based on the unique NGDV acquisition program. The report noted that the NGDV contract contains eighteen (18) clauses and provisions addressing potential fraud, waste, and abuse, including internal policies and special clauses designed for this unique acquisition. Despite these contractual protections, the OIG recommends that we adopt specific policies from federal acquisition regulations that are not applicable to the Postal Service.

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WWW.USPS.COM

As already noted to the OIG, the NGDV supplier has a robust program for its employees and suppliers to address fraud, waste and abuse in its supply chain. The links to the supplier's website and hardcopies of their ethics policies were provided to the OIG during the audit. The Supplier Code of Ethics and Conduct for the supplier is comprehensive and its directors, officers, team members, suppliers, interns, consultants and agents and all segments, subsidiaries and affiliates around the world are required to read and follow the Code of Ethics and Conduct.

The NGDV supplier requires all suppliers, vendors, and other third-party business partners to uphold these same high standards as outlined in this Supplier Code of Ethics and Conduct. Their Ethics Helpline, accessible by phone or web, allows anyone to ask questions or share their concerns 24 hours a day, seven days a week.

#### **OIG Recommendations**

##### **Recommendation #1:**

We recommend the Vice President, Supply Management, include self-reporting of fraud protection in the Next Generation Delivery Vehicle contract through a mutual agreement contract modification.

##### **Management Response:**

Management agrees with this recommendation. We will seek to negotiate self-reporting requirements for fraud protection into the Next Generation Delivery Vehicle contract through a bilateral (mutually agreed to) contract modification.

**Target Implementation Date:** April 30, 2022

##### **Responsible Officials:**

Senior Director, Mail & Operational Equipment Portfolio, Supply Management

##### **Recommendation #2:**

We recommend the Vice President, Supply Management, provide and validate that posters advertising the U.S. Postal Service Office of Inspector General Hotline are displayed at the Next Generation Delivery Vehicle supplier facilities through a mutual agreement contract modification.

##### **Management Response:**

Management agrees with this recommendation. We will seek to negotiate a bilateral contract modification that will require that the supplier display the OIG General Hotline posters at the Next Generation Delivery Vehicle (NGDV) production facility. The OIG has confirmed the availability and ability to provide the posters to the contracting officer. After execution of the modification, we will validate that posters advertising the OIG's General Hotline are being displayed at the NGDV supplier facility.

**Target Implementation Date:** April 30, 2022

**Responsible Officials:** Senior Director, Mail & Operational Equipment Portfolio, Supply Management

**Recommendation #3:**

We recommend the Vice President, Supply Management, develop a contract clause to include in applicable future procurement contracts that requires suppliers' self-reporting of fraud and advertising of the U.S. Postal Service Office of Inspector General Hotline on suppliers' premises.

**Management Response:**

Management agrees in part with this recommendation. Consistent with the Postal Service's status as an independent executive agency as discussed above, we will provide for market research with commercial organizations as to contractual treatment of supplier self-reporting of fraud and make any needed policy updates to existing clauses or consideration of a new SPs and Ps clause. Additionally, we will ensure for applicable future procurement contracts, contract requirements for supplier advertising of the U.S. Postal Service Office of Inspector General Hotline on suppliers' premises which are related to the contract.

**Target Implementation Date:** December 31, 2022

**Responsible Officials:** Director, Supply Management Infrastructure, Supply Management

E-SIGNED by MARK GUILFOIL  
on 2022-01-05 15:52:38 CST

Mark A. Guilfoil  
Vice President, Supply Management

cc: Manager, Corporate Audit Response Management

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