



Office of Inspector General | United States Postal Service

## Audit Report

# Supplier Qualifications

Report Number 21-264-R22 | May 27, 2022



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# Highlights

## Background

The U.S. Postal Service contracts for professional, technical, and information technology related services to supplement its workforce and support its operations. For service contracts, the contracting officer (CO) assigns key contract personnel to labor categories that are designated as essential, and which have qualification requirements. The supplier is required to submit a proposal identifying key personnel and their qualifications. Substitutions of key personnel can be made if approved by the CO in writing and should be documented in the contract file.

## What We Did

Our objective was to determine whether the Postal Service has effective controls to ensure supplier compliance with contract requirements for key personnel qualifications and substitutions. For this audit, we chose a judgmental sample of 19 suppliers with a spend of about \$411.7 million that were not recently audited by the Postal Service Office of Inspector General (OIG) and had invoices in both fiscal years.

## What We Found

The Postal Service can improve controls for ensuring supplier compliance with contract requirements for key personnel qualifications and substitutions. We judgmentally selected 31 task orders with proposed key personnel and determined that 24 (77 percent) were (1) managed by COs who were unsure if key personnel were assigned, (2) missing qualification documentation (e.g., resumes and labor category qualifications), (3) had unqualified key personnel assigned, or (4) had unauthorized labor substitutions.

These issues occurred due to inconsistent documentation practices for key personnel qualifications and substitutions. The Postal Service can improve the key personnel substitution process by requiring COs to identify the name and labor category of key personnel and maintain qualification documentation at contract award and when issuing contract modifications. Without effective controls for key personnel qualifications and substitutions, the Postal Service is at risk of having unqualified key personnel working on critical tasks which may result in additional time and costs.

## Recommendations

We recommend management (1) reiterate the requirement for COs to ensure suppliers obtain approval prior to substituting key personnel and (2) update policy to require COs identify key personnel by name and labor category and document approval at contract award and when issuing modifications of key personnel substitutions.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

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May 27, 2022

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

A handwritten signature in black ink, reading "Lazerick C. Poland".

**FROM:** Lazerick C. Poland  
Acting Deputy Assistant Inspector General  
for Supply Management and Human Resources

**SUBJECT:** Audit Report - Supplier Qualifications  
(Report Number 21-264-R22)

This report presents the results of our audit of Supplier Qualifications.

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  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of Supplier Qualifications (Project Number 21-264) for U.S. Postal Service suppliers. Our objective was to determine whether the Postal Service has effective controls for ensuring supplier compliance with contract requirements for key personnel qualifications and substitutions. See [Appendix A](#) for additional information about this audit.

## Background

The Postal Service contracts for professional, technical, and information technology (IT) related services when expertise is needed to supplement its workforce and support its operations. For service contracts, key personnel are defined as personnel assigned to labor categories designated by the Postal Service as essential to the work to be performed. Key personnel positions can vary by contract and may include positions such as project manager, subject matter expert, and other technical positions. Key personnel positions have contract requirements for minimum education and work experience.

When the Postal Service includes key personnel requirements in the statement of work (SOW), the supplier must submit a proposal identifying key personnel and their qualifications to meet the education and experience requirements of the applicable labor category. The Postal Service reviews the qualifications of the proposed individuals and accepts or rejects the proposed individuals. The contracting officer (CO) must approve key personnel substitutions in writing, and any substitutions are incorporated as a contract modification<sup>1</sup> in the Contract Authoring and Management System (CAMS).<sup>2</sup>

Key personnel enter hours worked on each task order into the Program Cost Tracking System (PCTS). The Postal Service requires suppliers to record their labor hours in PCTS for all time and materials and firm-fixed price contracts with IT-related work and deliverables. Contracting officer representatives (COR) monitor the labor hours and deliverables submitted for task orders using PCTS (see [Figure 1](#)). Contracts may be terminated if key personnel named in the supplier's proposal become unavailable or an unauthorized labor substitution occurs.<sup>3</sup> Unauthorized labor substitutions are key personnel changes made without CO approval and substitutions include the removal or replacement of any key personnel.

<sup>1</sup> Postal Service contracts are awarded via Postal Service Form 8203, Order/Solicitation/Offer/Award.

<sup>2</sup> CAMS, the primary contracting system, is a contract writing tool that facilitates the solicitation, award, and storage of various contracts.

<sup>3</sup> SP&P Clause 4-8: Key Personnel, dated March 2006.

In fiscal years 2020 and 2021, 35 suppliers had invoices in PCTS with a total spend of about \$925.6 million. Of the 35 suppliers, we judgmentally selected 19 with 154 task orders and a spend of about \$411.7 million that were not

4 We identified key personnel based on reviewing (1) staffing requirements in the SOW, (2) personnel identified in the supplier's proposal and/or PS Form 8203, and (3) individuals identified by the CO via email.

**Table 1. PCTS Sampled Suppliers**

	Suppliers	Task Orders	Contract Spend
1	████████████████████	74	████████
2	██████████████████	3	████████
3	██████████████	19	████████
4	██████████████	3	████████
5	██████████████	9	████████
6	██████████████	2	████████
7	██████████████	5	████████
8	██████████████████	4	████████
9	████████	3	████████
10	████	4	████████
11	██████████	3	████████
12	██████████████	15	████████
13	██████████████	1	████████
14	██████████████████	2	████████
15	██████	1	████████
16	██████████	1	████████
17	██████████████████	2	████████
18	██████████████████	2	████████
19	██████████	1	████████
<b>Total</b>		<b>154</b>	<b>\$411,691,632</b>

Source: PCTS invoices.

## Finding #1: Key Personnel Substitution Process

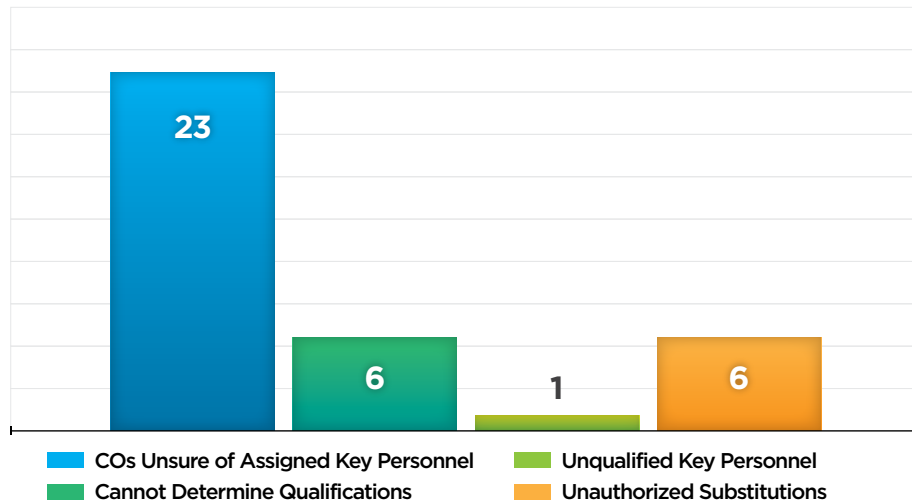
The Postal Service can improve controls for ensuring supplier compliance with contract requirements for key personnel qualifications and substitutions. We judgmentally sampled 31 task orders with 49 proposed key personnel and determined that COs did not properly monitor and/or document key personnel qualifications and substitutions for 24 (77 percent) of them. We identified the following contract compliance or oversight issues: (1) COs were unsure if key personnel were assigned, (2) contract files were missing qualification documentation (e.g., resumes and labor category qualifications), (3) unqualified key personnel were assigned to the task order, and (4) unauthorized labor substitutions occurred for some task orders.

*“COs were unsure if key personnel were assigned for 23 task orders and sometimes had the supplier confirm that key personnel were working on the task order.”*

Specifically, COs were unsure if key personnel were assigned for 23 task orders and sometimes had the supplier confirm that key personnel were working on the task order. For example, a CO stated to us that an individual under a particular task order was working as key personnel, but later indicated that the same task order did not require key personnel. We later determined that key personnel were required on that task order and confirmed that the individual identified by the CO was working in a key personnel role. In another instance, a CO stated that they did not have key personnel assigned to the task order; however, the task order SOW states all personnel working on the task order would be designated as key personnel.<sup>5</sup> Additionally, we could not determine whether key personnel were qualified on six task orders because the contract file was missing the required qualification documentation and the Postal Service could not provide it when requested. Further, we were able to determine that one task order had an unqualified individual assigned in a key personnel role since the individual did not have the required master's degree for the assigned labor category. Some task orders had multiple contract compliance or oversight issues (see [Figure 2](#)).

5 Task Order Number ████████████████████

**Figure 2. Key Personnel Qualifications and Substitutions**

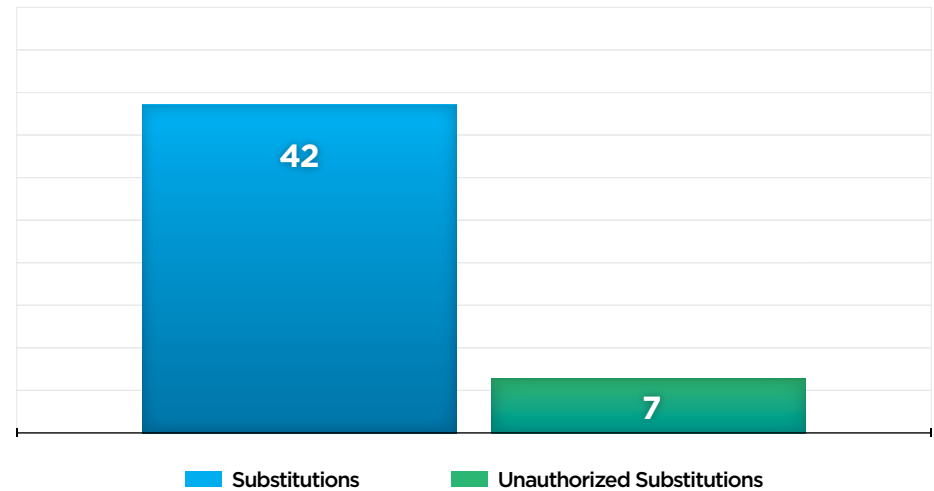


Source: OIG analysis.

Forty-two of 49 proposed key personnel (86 percent) were substituted at some point during the contracts we reviewed. Labor substitutions for seven key personnel on six different task orders did not appear to be authorized because the supplier did not notify the Postal Service and receive approval prior to the substitutions (see Figure 3). For example, an individual was originally assigned as a Manager Technical Analyst on a task order and was later substituted as a Project Manager (PM), which had a higher labor rate. The individual charged hours at the higher PM rate and our review of the contract file did not identify any documentation that indicated the Postal Service approved the substitution.

***“Labor substitutions for seven key personnel on six different task orders did not appear to be authorized because the supplier did not notify the Postal Service and receive approval prior to the substitutions.”***

**Figure 3. Key Personnel Labor Substitutions**



Source: OIG analysis.

The Postal Service’s Supplying Principles & Practices (SP&P) state that COs are required to review and approve key personnel labor substitutions in writing and maintain contract files to ensure full documentation of any contract changes. COs must identify all contract documentation and implement change control procedures to guarantee that no key personnel substitutions are made without proper authorization.<sup>6</sup> Additionally, SP&P Clause 4-8: Key Personnel states that “...for services to be performed by key personnel, those services must be performed by the personnel identified in the supplier’s proposal to perform them unless substitutes have been approved in writing by the contracting officer.”<sup>7</sup> Any proposed substitute personnel must possess qualifications equal or superior to those of the key person being replaced.”<sup>8</sup> Based on interviews with the Postal Service, we determined the term key personnel is not used consistently between suppliers and the Postal Service. The Postal Service should ensure that suppliers are aware of key personnel who are assigned and approved in accordance with the Postal Service’s definition of key personnel.

6 SP&P Process Step 3: Select Suppliers, Section 6.1, Contract Maintenance, dated October 31, 2019.

7 SP&P Clause 4-8: Key Personnel, dated March 2006.

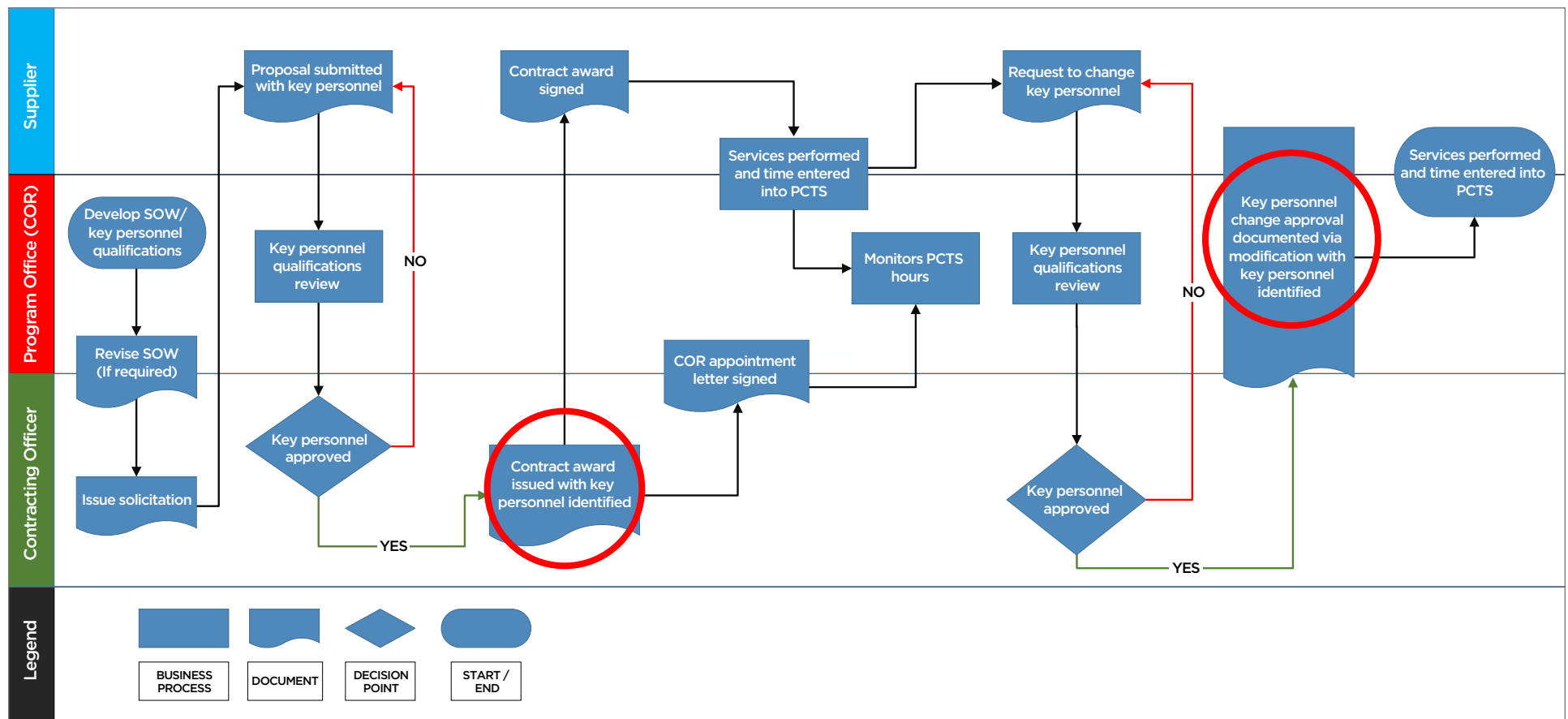
8 USPS Headquarters CIO Organization Statement of Work Proposal Template v 14.0.



These issues occurred due to inconsistent documentation practices for key personnel qualifications and substitutions. As a best practice, some Supply Management Category Management Centers (CMC) identify the name and labor category of key personnel at contract award and maintain qualification documentation when issuing modifications of key personnel substitutions; however, SP&Ps do not require this practice for Supply Management.<sup>9</sup>

COs are responsible for ensuring suppliers comply with contract terms and documenting substitutions in the contract file. The Postal Service can improve upon the key personnel approval process by updating its policy to require that COs document the name and labor category of key personnel and maintain qualification documentation at contract award and when issuing contract modifications (see Figure 4).

**Figure 4. Proposed Key Personnel Approval Process**



Source: OIG analysis.

<sup>9</sup> CMCs within the Postal Service are ultimately responsible for purchasing goods and services that allow the Postal Service to function.

Due to the importance of key personnel roles in a contract, it is imperative for the CO to maintain any documentation related to substitutions and their qualifications. Without effective controls for key personnel substitutions, the Postal Service is at risk of having unqualified key personnel working on critical tasks which may result in additional time and costs. Based on our analysis, COs did not maintain documentation of key personnel qualifications and substitutions for 77 percent of the selected task orders we reviewed, resulting in \$12.3 million of unsupported unrecoverable questioned cost.

### Recommendation #1

We recommend the **Vice President, Supply Management**, reiterate the requirement for contracting officers to ensure that suppliers obtain approval prior to substituting key personnel.

### Recommendation #2

We recommend the **Vice President, Supply Management**, update Supplying Principles & Practices to require contracting officers to identify key personnel by name and labor category and document qualification approval in the contract file at contract award and when issuing modifications of key personnel substitutions.

## Management's Comments

Management agreed with the recommendations but disagreed with the report's finding and monetary impact.

Regarding management's disagreement with the report finding, management detailed the scope of the OIG's audit, the sample and issues and states the OIG attributed the issues occurred due to ineffective CO contract oversight and inconsistent documentation practices for key personnel qualifications and substitutions. However, they do not agree that CO oversight was ineffective.

Regarding management's disagreement with the monetary impact of \$12.3M, management identified task orders totaling \$4.9M they believe were improperly assessed by the OIG. They state that for six of the reviewed sample of 15 contracts, either no key personnel were designated, or key personnel labor substitutions were authorized. Management stated they believe the OIG misclassified key personnel and improperly assessed the monetary impact and thus calculates it as \$7.4M instead of \$12.3M.

Regarding recommendation 1, management stated they will develop formal communications reiterating the requirement for COs to ensure that suppliers obtain approval prior to substituting key personnel. The target implementation date is October 31, 2022.

Regarding recommendation 2, management stated they will update Clause 4-8, *Key Personnel* of the Supplying Principles and Practices, to require COs to identify key personnel by name and title/labor category and to document qualification approvals in the contract file at contract award and when issuing modifications of key personnel substitutions. The target implementation date is December 31, 2022.

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 management's disagreement with the finding, management acknowledges that policy updates are required, and improved oversight and enforcement of contracts should be reiterated to COs for ensuring supplier compliance with key personnel contract requirements; however, they do not agree that CO oversight was ineffective. During the exit conference the OIG agreed to change this language and has updated the final report to reflect this change.

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Regarding managements disagreement with our monetary impact, the Postal Service re-calculated the monetary impact based on the exclusion of six task orders stating the OIG's misclassification of key personnel. As such, only \$7.4M should be considered. During fieldwork, we could not determine whether key personnel were qualified on the six task orders because the contract file was missing the required qualification documentation and the Postal Service could not provide it when requested as described in Finding 1. Therefore, we included all 15 task orders for fiscal years (FY) 2020 and 2021 and estimated \$12.3M in unsupported key personnel labor qualifications and substitutions.

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

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# Appendix A: Additional Information

## Scope and Methodology

Our universe consisted of invoices for 35 suppliers and a total spend of about \$925.6 million as reported in Program Cost Tracking System (PCTS) for FYs 2020 and 2021. We judgmentally selected 19 suppliers with 154 task orders and a spend of about \$411.7 million that charged labor hours in PCTS, were not recently audited by the OIG, had invoices in both fiscal years, and were non-OIG contracts. Of the 154 task orders, we determined that 31 task orders proposed key personnel. We assessed the key personnel qualifications and labor category rates to determine if the Postal Service has effective controls to ensure compliance with policies for suppliers' key personnel qualifications and substitutions.

To accomplish our objective, we:

- Assessed whether there is a standardized process for assigning and substituting qualified key personnel and determined whether that process effectively mitigated using unqualified key personnel.
- Obtained data for suppliers in PCTS who submitted invoices in FYs 2020 and 2021 and determined the invoiced amounts.
- Analyzed contract key personnel labor categories to verify that qualifications are documented in the Contract Authoring and Management System (CAMS).

- Compared the rates that the key personnel charged in PCTS to verify the supplier's compliance with the contractual rates found in CAMS for FYs 2020 and 2021.
- Verified that contracts and task orders contain the key personnel clause and other mandatory clauses.

We conducted this performance audit from October 2021 through May 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We assessed the reliability of computer-generated data from PCTS by obtaining and analyzing supporting documentation from CAMS and COs. The supporting documentation was compared to the system-generated data. We determined that the data were sufficiently reliable for the purposes of this report. We discussed our observations and conclusions with management on April 27, 2022, and included their comments where appropriate.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>U.S. Postal Service Contract Labor Substitution</i>	Determine whether contracting officers complied with Postal Service policy for labor substitution on [REDACTED] contracts.	SM-AR-17-005	5/30/2017	\$150

# Appendix B: Management's Comments

MARK A. GUILFOIL  
VP, SUPPLY MANAGEMENT



May 13, 2022

JOHN CIHOTA  
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response to Draft Audit Report Supplier Qualifications  
(Project Number 21-264-DRAFT)

Thank you for the opportunity to provide comments to the Office of Inspector General's (OIG's) draft report entitled, "Supplier Qualifications (Project Number 21-264-DRAFT)." We have reviewed the report and its recommendations. Management agrees with the recommendations, however, respectfully disagrees with the findings and monetary impact for reasons discussed below. Management is appreciative of OIG's implementation of requested changes to the report raised during preliminary discussions and meetings with the OIG on this project.

## Findings

### Finding #1: Key Personnel Substitution Process

The scope of the OIG's audit examined the Postal Service's service contract requirements for key personnel qualifications and substitutions. Based on a sample of 19 suppliers with approximately \$411.7 million in spend, the OIG determined that the Postal Service could improve controls for ensuring supplier compliance with contract requirements for key personnel qualifications and substitutions. Of the 31 task orders selected, the OIG determined that 24 (77 percent) were: (1) managed by contracting officers (COs) who were unsure if key personnel were assigned; (2) missing qualification documentation (e.g., resumes and labor category qualifications); (3) had unqualified key personnel assigned; or (4) had unauthorized labor substitutions. The OIG attributes these issues occurred due to ineffective CO contract oversight and inconsistent documentation practices for key personnel qualifications and substitutions and therefore, concludes these pose a risk of having unqualified key personnel working on critical tasks resulting in additional time and costs.

While Supply Management acknowledges that policy updates are required and improved oversight and enforcement of controls should be reiterated to COs for ensuring supplier compliance with key personnel contract requirements, it does not agree that CO oversight was ineffective. A significant number of key personnel substitutions identified by the OIG (42 out of 49 or 86%) were authorized.

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Controls in place include the COR appointment letter and inclusion within awarded contracts of Clause 4-8, *Key Personnel*, when applicable. However, the Postal Service agrees that the contract should state, or the clause should be revised, to specifically cite the supplier's key personnel's name and title/labor category, and to also maintain key personnel qualifications documentation within the contract file for key personnel established at contract award, or when substitution is necessary and approved by the contracting officer through an issued contract modification.

#### **Monetary Impact**

The Postal Service respectfully disagrees with the monetary impact of \$12.3M and believes that monetary impact has been improperly assessed for the attached highlighted task orders totaling \$4.9M. This is due to the OIG's misidentification of key personnel. We calculate the monetary impact is \$7.4M. The Postal Service raised this point during preliminary discussions with the OIG. A survey of COs, CORs, and suppliers for the reviewed contracts returned a unanimous response that for six (6) of the reviewed sample of fifteen (15) contract actions, either no key personnel were designated, or key personnel labor substitutions were authorized. Overall, inclusion of Clause 4-8, *Key Personnel*, was not always supported by the defining SOW, proposal, or order. In virtually all instances where a supplier may have proposed key personnel, there was no specific utilization of key personnel during contract performance. Similar to other contract clauses, when Clause 4-8, *Key Personnel*, is included in a contract, it is applicable when the requirement activates the clause.

Additionally, the OIG's review of the Program Cost Tracking System (PCTS) does not appear to take into consideration that this database captures only time entered labor categories and rates. This system does not identify whether any position has been contractually identified as key personnel. Also, suppliers responded that they were unaware of any key personnel identified or entered in PCTS.

#### **OIG Recommendations**

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

We recommend the Vice President, Supply Management, reiterate the requirement for contracting officers to ensure that suppliers obtain approval prior to substituting key personnel.

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

Management agrees with this recommendation. We will develop formal communications reiterating the requirement for contracting officers to ensure that suppliers obtain approval prior to substituting key personnel.

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

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

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

We recommend the Vice President, Supply Management, update the Supplying Principles and Practices to require contracting officers to identify key personnel by name and labor

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category and document qualification approval in the contract file at contract award and when issuing modifications of key personnel substitutions.

Management Response:

Management agrees with this recommendation. We will update the Supplying Principles and Practices, specifically Clause 4-6, *Key Personnel*, to require contracting officers to identify key personnel by name and title/labor category and to document qualification approval in the contract file at contract award and when issuing modifications of key personnel substitutions.

Target Implementation Date: December 31, 2022

Responsible Officials: Director, Supply Management Infrastructure, Supply Management

E-SIGNED by MARK GUILFOIL  
on 2022-05-13 14:50:48 CDT

Mark A. Guilfoil  
Vice President, Supply Management

Attachment: Annotated Monetary Impact, Supplier Qualifications, 21-264-DRAFT

cc: Manager, Corporate Audit Response Management

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