

August 14, 2001

KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

SUBJECT: Audit Report - Consulting and Audit Services
Contracts (Report Number CA-AR-01-004)

This report presents the results of our audit of consulting and audit services contracts (Project Number 00RA050CA000). The audit was self-initiated. Our objectives were (1) to determine whether the Postal Service reduced its reliance on contracted services, and (2) stopped contracting for audit services.

The audit revealed that the Postal Service significantly reduced reliance on service contracts and stopped contracting for audit services. However, we noted that as the Postal Service prepares to reduce its workforce, it will require a strong system of control to prevent a recurrence of overreliance on contract support. We made one recommendation to address this issue.

Management agreed with our recommendation and is currently revising applicable policies and procedures. The Office of the Inspector General (OIG) considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Kim Stroud, director, Contracts, at (703) 248-2226 or me at (703) 248-2300.

Billy Sauls
Assistant Inspector General
for Business Protection

Attachment

cc: Richard J. Strasser, Jr.
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

In 1992, the Postal Service restructured and significantly reduced organizational staffing levels. As a result, many ongoing projects were understaffed, and the Postal Service was required to obtain personnel under contract to complete unfinished work. These contracted services included computer support, clerical support, contracting support, consulting, and professional services.

In March 1999, the postmaster general became concerned about the growing reliance on contractors to supplement the workforce and established the Consulting Services Review Committee to ensure all service contracts were necessary. In April 2000 the Board of Governors made the Office of Inspector General (OIG) responsible for all Postal Service audits, as required by the Inspector General Act. Consequently, Postal Service auditing contracts were no longer appropriate.

The objectives of our audit were to determine whether the Postal Service (1) reduced its reliance on contracted services, and (2) stopped contracting for Postal Service audits.

Results in Brief

Our audit revealed that from March 1999 until March 2001, the Postal Service successfully reduced service contract actions by 38 percent and the cost of those contract actions by more than \$800 million.

However, significant workforce cutbacks are projected for the immediate future and could create conditions similar to 1992 when the Postal Service increased reliance on contractors. We noted that the postmaster general and the management committee dissolved the Consulting Services Review Committee in October 2000. Some officials involved with the committee, including the vice president, Purchasing and Materials, believed the committee had become bureaucratically cumbersome, and while it had been initially successful in reducing service contracts, subsequent reductions were driven primarily by budget constraints—not the committee process. Management is currently working to establish compensating controls such as updated policies and procedures, but such required policies and procedures will not be published until

January 2002, at the earliest. Consequently, as the Postal Service manages its workforce reduction, it may not have adequate controls to prevent it from again becoming overly reliant on contracted services.

Our audit also revealed that after the Board of Governors assigned audit responsibility to the OIG pursuant to the Inspector General Act, the Postal Service stopped contracting for audit services.

Summary of Recommendations	We recommended that the vice president, Purchasing and Materials, expedite revision of policies and procedures controlling contracted services to ensure that as the Postal Service reduces its workforce, it does not again become overly reliant on contract services.
Summary of Management's Comments	Management agreed with our finding and recommendation. They are currently revising applicable policies and procedures. Management's comments in their entirety, are included in the appendix of this report.
Overall Evaluation of Management's Comments	Management's comments were responsive to our finding and recommendation. We believe that the actions taken and planned should correct the issues identified in our report.

INTRODUCTION

Background

In 1992, the Postal Service restructured and significantly reduced its workforce. As a result, many ongoing projects or programs were understaffed, and the Postal Service was required to obtain personnel under contract to complete unfinished work. These contracted services involved a wide variety of functions including:

- Technical services like computer support.
- Administrative services like clerical support.
- Contracting support.
- Consulting.
- Professional services like accounting or audit support.

In March 1999, the postmaster general expressed concern about the growing reliance on contractors to supplement the Postal Service's workforce, and consequently established the Consulting Services Review Committee to ensure all service contracts were necessary. He also directed Postal Service officials to significantly reduce the number of contracts. The Consulting Services Review Committee was dissolved in October 2000.

In April 2000, the Board of Governors removed the audit function from the Inspection Service and made the Office of Inspector General (OIG) pursuant to the Inspector General Act, responsible for all Postal Service audits. Consequently, Postal Service auditing contracts were no longer appropriate.

Objectives, Scope, and Methodology

The objectives of our audit were to determine whether the Postal Service (1) reduced its reliance on contracted services to supplement its workforce, and (2) stopped contracting for Postal Service audits.

In order to determine if the Postal Service reduced its reliance on contracted services, we conducted a computer assisted database search for the period March 1999 through March 2001 to identify contracts coded as service contracts. We then conducted a statistical sample to eliminate improperly coded contracts, projected results to a national statistical population, and performed a comparative analysis.

To determine if the Postal Service stopped contracting for audits, we conducted a computer assisted database search for the period April 2000 through March 2001 to identify contracts coded as audit service contracts or including the term "audit" in their descriptive field. We then audited all identified files to verify contract purpose.

We also interviewed Postal Service officials including the vice president, Purchasing and Materials, as well as various contractors and procurement personnel, and reviewed federal policy, including the General Accounting Office Standards for Internal Control in the Federal Government, dated November 1999.

Our audit was conducted from March 2000 through August 2001, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objectives of this audit.

AUDIT RESULTS

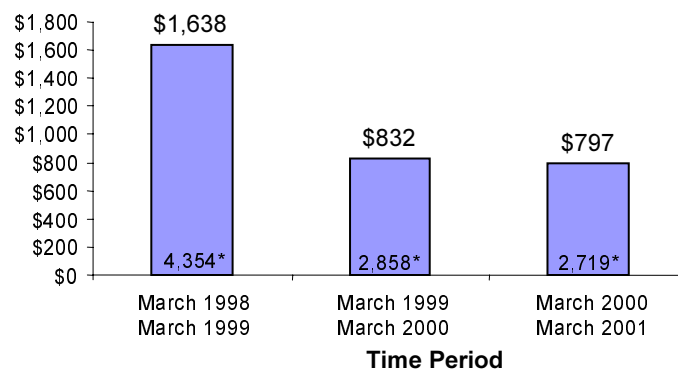
Service Contracts

Our audit revealed the Postal Service successfully reduced its reliance on service contracts to supplement its workforce. However, we noted that workforce cutbacks are projected for the immediate future and could create conditions similar to 1992 when the Postal Service increased reliance on contracting.

Service Contract Reduction

For the 1-year period ending March 2000, the Postal Service reduced the number of service contract actions from 4,354 to 2,858, a reduction of 34 percent, and the amount spent on those contract actions from about \$1.6 billion to \$832 million, a reduction of 48 percent. Our audit also revealed that the following year ending March 2001, the Postal Service reduced the number of service contract actions from 2,858 to 2,719, a reduction of 5 percent, and the amount spent on those contract actions from \$832 million to \$797 million, also a reduction of 5 percent. See Figure 1.

**Total Dollars and Actions for the Identified
29 Commodity Codes Contracts**
(Dollars in millions)



*Number of service contract actions

Figure 1

Workforce Cutbacks

We noted that in March 2001, the Postal Service announced it would significantly cut its workforce. Specifically the Postal Service announced it anticipates a 5 year cut of 75,000 work years or annual cuts averaging 15,000 work years. Consequently, the same conditions that caused the Postal Service to become reliant on contracted services in 1992 will again pressure the Postal Service to

supplement its workforce with contractors. During our audit we noted that the postmaster general and the management committee dissolved the Consulting Services Review Committee in October 2000. The purpose of the committee was to ensure all service contracts were necessary. However, some officials involved with the committee, including the vice president, Purchasing and Materials, believed the committee had become bureaucratically cumbersome, and while it had been initially successful in reducing service contracts, subsequent reductions were driven primarily by budget constraints—not the committee process. Management is currently working to establish compensating controls such as updated policies and procedures, but such required policies and procedures are not complete. Further, managers we talked to indicated the documents would not be published until January 2002, at the earliest. Consequently, as the Postal Service manages its workforce reduction, it may not have adequate controls to prevent it from again becoming overly reliant on contracted services.

Recommendation

We recommend that the vice president, Purchasing and Materials:

1. Expedite revision and publication of policies and procedures controlling contracted services to ensure that as the Postal Service reduces its workforce, it does not again become overly reliant on contract services.

**Management's
Comments**

Management agreed with our finding and recommendation. They stated that applicable policies are currently under revision and will be issued within 30 days after receipt of this report.

**Evaluation of
Management's
Comments**

Management's comments were responsive to our finding and recommendation. We believe the actions taken and planned should correct the issues identified in our report.

Audit Services

Our audit revealed that since April 2000, when the Board of Governors removed audit responsibility from the Postal Inspection Service and made the OIG responsible for all Postal Service audits as required by the Inspector General Act, the Postal Service stopped contracting for audit services.

Our computer assisted database search from April 2000 until March 2001 for contracts coded as audit services, or for contracts that used the word audit in their descriptive field, revealed 33 contract actions. Our audit of each file revealed none were actually for audit services. For example, one file reflected a contract to instruct employees how to prepare for an audit. Another involved database storage for the inspection results of facilities inspected for asbestos. Still another involved software for a local inventory of telephone calling cards. Because we identified no instances of the Postal Service contracting for audit services, no recommendations are required.

APPENDIX. MANAGEMENT'S COMMENTS

KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS



July 24, 2001

BILLY SAULS

SUBJECT: Draft Audit Report—Consulting and Audit Services Contracts
(Report Number CA-AR-01-DRAFT)

Thank you for the opportunity to respond to the subject audit report. We do not believe your report contains any proprietary or business information, and we agree with your recommendation.

Policy to address personal services contracting and contracting with former employees will become part of the Purchasing Manual. In addition, consulting services and professional/technical services contracting policy in the Purchasing Manual are in the process of being updated. As requested, these updates will be issued in advance of the January 2002 publication date for Purchasing Manual Issue 2. Pending internal approvals, this policy will be issued within 30 days following receipt of your final report.

If any of the dollar amounts cited in this report will appear in the Inspector General's Semi-Annual Report to Congress, please advise in this final report how they will be discussed or categorized. If you have any questions regarding this response or the proposed course of action, please contact Marie Martinez at (202) 268-4117.

A handwritten signature in cursive script that reads "Keith Strange".

cc: John R. Gunnels