



May 2, 2006

LEE R. HEATH
CHIEF POSTAL INSPECTOR

SUSAN BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Postal Inspection Service Noncompetitive Contract
Process (Report Number SA-AR-06-003)

The U.S. Postal Service Office of Inspector General (OIG) conducted a self-initiated audit of controls over the Postal Inspection Service's noncompetitive contract process (Project Number 06YG018SA000). Our objective was to determine whether the Postal Inspection Service had effective controls over the noncompetitive contract process. We announced that we would continue our work on noncompetitive contracts in December 2005, at the time we suspended our audit of the Postal Inspection Service's Procurement and Administrative Service Center (PASC).

Controls over the noncompetitive contract process were generally effective. However, improvements could be made to overall contract documentation to decrease the risk of mishandling U.S. Postal Service funds. Specifically, five of the 11 contracts we reviewed did not include justifications. Based on discussions with Postal Service representatives, the files including the justifications were missing and could not be located at the time of the audit.

We recommended that the vice president, Supply Management: (1) ensure that all contracts contain a proper justification, documenting the rationale for the decision to use the noncompetitive purchasing method as required, and (2) maintain all contracts on file until the date of archiving. Also, upon archiving contracts, the contracting officer should keep accurate records, making contracts obtainable upon request.

Management agreed with the two recommendations and stated they will cascade this OIG report under the Supply Management's Review for Excellence Program to the managers in their organization. In turn, these managers will be required to review the report and cascade it down to all contracting personnel within their organizations.

Background

The Postal Inspection Service is responsible for ensuring the integrity of the mail and safeguarding the Postal Service by performing investigative, security, and preventive services, and enforcing approximately 200 federal laws that protect the mail, postal employees, customers, and critical assets.

In support of the Postal Inspection Service's mission, PASC personnel procure goods and services for the Postal Inspection Service. These personnel have local buying authority for noncapital items up to \$10,000.¹ Local buying authority is the authority to buy and pay for day-to-day operational needs that do not exceed \$10,000 per purchase, and is designed to streamline the purchasing process.

The Postal Inspection Service does not have contracting authority. Contracting authority is the authority to bind the Postal Service to a contract, not including arrangements made by local buying procedures. Contracts can only be exercised by warranted contracting officers within a U.S. Postal Service Purchasing Service Center (PSC) or Category Management Center (CMC).²

In fiscal year (FY) 2006, the Postal Inspection Service is managing 179 noncompetitively awarded contracts valued at approximately \$26.7 million. See Table 1 for a list of the contracts.

¹ *Postal Inspection Service Manual*, Section 152.2, dated January 7, 2005.

² *Postal Inspection Service Purchasing Guidelines*, 2005, Section B.1.

Table 1. FY 2006 Noncompetitively Awarded Contracts

Program/Unit	Number of Contracts	Amount	Percentage of Total Contracts	Percentage of Total Dollars
WCA Program	88	\$ 3,840,000	49.2	14.4
FTSD	42	\$12,087,332	23.5	45.4
Other:	38	\$9,718,492	21.2	36.4
Headquarters Units	14	5,971,776	7.8	22.4
Investigative Systems	4	1,944,899	2.2	7.3
Hurricane Katrina*	3	996,821	1.7	3.7
Career Development	11	454,594	6.1	1.7
Threat Management	3	167,966	1.7	.6
San Francisco Division	2	107,436	1.1	.4
Philadelphia Division	1	75,000	.6	.3
Miscellaneous Contracts**	11	1,009,390	6.1	3.8
Total:	179	\$26,655,214	100.0	100.0

Note: *The OIG's assessment of the contracts for Hurricane Katrina will be discussed in a separate report to be issued in May 2006.

Note: ** Miscellaneous contracts represent the remaining 11 contracts with Postal Inspection Service annuitants.

Legend:

FTSD Forensic and Technical Service Division
WCA Workers' Compensation Analyst

In some cases, the business and competitive objectives of the Postal Service may best be met through the noncompetitive purchase method. The decision to use this method must be weighed by the purchase team, and must be considered in light of the potential benefits of competition and other worthwhile business practices.

In four business scenarios, the noncompetitive method may prove the most effective: compelling business interests, industry structure or practice, single source, and superior performance. Purchase teams may decide to use the noncompetitive purchasing method when it is deemed the most effective business practice for a given purchase. The rationale for the decision must be documented in a business case and included in the contract file.

Objective, Scope, and Methodology

Our overall objective was to determine whether the Postal Inspection Service had effective controls in place over the noncompetitive contract process. To accomplish this objective, we:

- Reviewed the *Postal Inspection Service Purchasing Guidelines, 2005*, and procedures for competitive and noncompetitive purchases, including *Postal Service Administrative Support Manual 7*.³
- Reviewed a listing of FY 2006 WCA contractors as of November 2005 from the national WCA coordinator – Group 3 at Postal Inspection Service headquarters.
- Evaluated copies of contracts and justifications provided by the purchasing and supply management specialist – Travel, Retail and Temporary Services CMC, Aurora, Colorado, and the PASC.
- Performed a comparative analysis between the list of WCAs and the list of 45 Postal Inspection Service annuitants, and determined that 11 of the Postal Inspection Service annuitants had contracts for services in a program other than the WCA Program. (See Table 1, Miscellaneous Contracts.)
- Made overall assessments of contracts based on the number and dollar amount of contracts and divided the contracts into three categories: WCA program, FTSD, and other noncompetitive contracts.

Additionally, we queried the OIG's hotline database to determine whether numerous allegations had been made, indicating systemic issues regarding the noncompetitive contract process.

We conducted the audit from September 2005 through May 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

We did not identify any prior audits related to the Postal Inspection Service's noncompetitive contract process. However, the OIG has an ongoing audit of Controls Over Noncompetitively Awarded Contracts for the Postal Service. The results of this audit will be presented in a separate report in May 2006.

Results

Controls over the noncompetitive contract process were generally effective. However, improvements could be made to overall contract documentation to decrease the risk of mishandling Postal Service funds. Specifically, five of the 11 contracts we reviewed did

³ Updated with *Postal Bulletin* revisions through September 15, 2005.

not include justifications. Based on discussions with Postal Inspection Service representatives, the files including the justifications were missing and could not be located at the time of the audit.

Workers' Compensation Analyst Program

For FY 2006, Postal Inspection Service personnel used a blanket business case to justify 89 contracts in support of the WCA program. WCAs provide investigative support to the Postal Inspection Service's Fraudulent Workers' Compensation Program by assisting them with resolving fraudulent front-end (Continuation of Pay and Occupational Injury) schemes.

In the blanket business case for the 88 contracts,⁴ the compelling business reason and supplier superior performance were the reasons used to justify the noncompetitive purchases. In our assessment of the FY 2005 WCA listing containing 127 contracts, we determined that 39 contracts were terminated at the end of FY 2005, leaving a total of 88 contracts remaining for FY 2006. Further, the superior performance section of the business case showed that only those contractors from the previous fiscal year with above average or superior performance were kept in the program.⁵ Additionally, in the market research portion of the business case, the Postal Service concluded that the hourly rates of \$25 to \$55 per hour for former inspectors were fair and reasonable compared to the starting rate of \$75 per hour paid to private investigators. Based on our market research, we determined that the hourly rates of \$25 to \$55 per hour were fair and reasonable as compared to rates of \$50 to \$150 for private investigators.⁶

Furthermore, of the 88 contracts we reviewed, 32⁷ (or 36 percent) were Postal Inspection Service annuitants; 40 (or 45 percent) were annuitants from other agencies; and 16 (or 18 percent) were not annuitants. Since the annuitants represented more than half of the WCA program, we performed additional analyses to assess the use of former Postal Service⁸ employees. Additionally, based on our query of the hotline database, there were previous allegations of misconduct with respect to awarding contracts to former Postal Service and Postal Inspection Service employees.

Award to Former Postal Inspection Service Employees

In our review of the 45⁹ Postal Inspection Service annuitants, we determined that 34 were contractors in support of the WCA program in FY 2005. As discussed in the

⁴ Although the Postal Inspection Service developed a business case for 89 contractors, they used 88 contractors.

⁵ The WCA budget was cut approximately \$2 million from FYs 2005 to 2006 (WCA budget dated September 7, 2005). Additionally, the WCA contracts are renewed annually.

⁶ www.howtoinvestigate.com/picourse/questions.htm and www.tmg-pi.com/choosing.htm.

⁷ We reviewed 32 Postal Inspection Service annuitants according to the listing of FY 2006 WCA contractors the National WCA coordinator at Postal Inspection Service headquarters provided.

⁸ This report only assesses the use of former Postal Inspection Service employees. The OIG's report on Controls Over Noncompetitively Awarded Contracts will include an assessment of other former Postal Service employees.

⁹ Listing as of July 19, 2005 (FY 2005).

previous section, we determined the business case justification for noncompetitively awarded contracts to the WCAs was appropriate. For the remaining 11 contracts, valued at \$1 million, we determined that six contracts, valued at \$349,390, contained justifications, which provided sufficient rationale for the decision to use the noncompetitive purchasing method as the most effective business practice.

However, five of the 11 contracts, valued at \$660,000, did not contain justifications in the contract files for noncompetitive purchases. When we requested files from the Postal Service Headquarters, the contracting officer stated they could not locate the files and that it was possible the information had been altered in the old system, the Strategic National Automated Purchasing System, to be converted to the new system, the Contract Authoring and Management System. Also, they did not know whether they actually had possession of the physical files. Therefore, we contacted the San Mateo Accounting Service Center and received copies of the contract files, but San Mateo did not have copies of the justifications for noncompetitive purchases.

A completed business case form must be attached, along with any other justification, to each requisition for a noncompetitive purchase.¹⁰ With the absence of a business case for a noncompetitive purchase, there is a risk of increased costs by paying above market value for services, using resources that do not have superior knowledge and prior training in the investigation field. Additionally, the absence of a business case could contribute to the perception that former Postal Service and Postal Inspection Service employees are being hired without the appropriate qualifications, as alleged in the hotline complaints.

Further, an active record may be maintained in either hard copy or electronic medium. Electronic records should reflect the hard copy document showing signatures and dates and be stored as a read-only file. Typically, a contract is officially closed out within 30 days from completion of all administrative actions, and the Postal Service is required to ensure that all files are properly boxed and transferred to storage for a period of 6 years from the end of the fiscal year in which the closeout occurred.¹¹ Without complete contract files, the Postal Service cannot provide proof of the proper authorizations for payments for services rendered or products, which could result in the misuse or abuse of Postal Service funds.

Recommendations

We recommend the vice president, Supply Management, direct contracting officers to:

1. Ensure that all contracts contain a proper justification, documenting the rationale for the decision to use the noncompetitive purchasing method as required.

¹⁰ *Postal Inspection Service Purchase Guidelines*, 2005, Section B under "Noncompetitive Purchases."

¹¹ SM 2004-010, Administrative Instruction, *Solicitation and Contract File Management* dated September 29, 2004.

2. Maintain all contracts on file until the date of archiving. Also, upon archiving contracts, the contracting officer should keep accurate records, making contracts obtainable upon request.

Management's Comments

Management agreed with the two recommendations and stated they will cascade this OIG report under the Supply Management's Review for Excellence Program (SM REP) to the managers in their organization. In turn, these managers will be required to review the report and cascade it down to all contracting personnel within their organizations. The SM REP cascade request will be issued within 30 calendar days following receipt of the final report. Management's comments, in their entirety, are included in the appendix.

Evaluation of Management's Comments

Management's comments are responsive to our recommendations. Management's actions to reinforce existing Supply Management guidance should improve contract documentation to decrease the risk of mishandling Postal Service funds. In response to management's comments, we have corrected the title of a Supply Management organization and a Supply Management system.

Other Noncompetitive Contracts


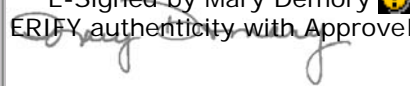
The Postal Inspection Service had 80 additional noncompetitive contracts, valued at approximately \$21.8 million. About half of these contracts were for the FTSD program. The Postal Inspection Service used 42 noncompetitive contracts, valued at approximately \$12.1 million, for the FTSD program. The FTSD comprises more than 100 inspectors, highly-trained forensic scientists, and technical specialists who play a key role in identifying, apprehending, prosecuting, and convicting individuals responsible for Postal Service-related criminal offenses. The FTSD mission is to provide scientific and technical expertise to the criminal and security investigations of the Postal Inspection Service.

All 42 of these contracts we reviewed contained justifications for noncompetitive purchases. Business cases included justifications of single source scenarios, such as vendors that hold patents on systems on intelligent automation systems for commercial, industrial, and institutional buildings. Additionally, business cases included justifications of superior performance, such as a vendor developing a strong reputation with the Postal Service and Postal Inspection Service based on prior technical equipment upgrades and installments, to justify noncompetitive purchases.

Also, we determined the remaining 38 noncompetitive contracts, valued at approximately \$9.7 million, contained the proper justifications for noncompetitive purchases. Business cases included justifications of compelling business interests such

as expertise or monopoly in the latest technology tools, single source scenarios such as vendors being the only trainers specific to certain training in hazardous materials, and superior performance. For instance, some vendors developed training specifically for the mission of the Postal Inspection Service as it relates to the Postal Service's deployment of the Biohazard Detection System.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sandra D. Bruce, director, Oversight of Investigative Activities, or me at (703) 248-2300.

E-Signed by Mary Demory 
VERIFY authenticity with Approve!


Mary W. Demory
Deputy Assistant Inspector General
for Headquarters Operations

Attachment

cc: Lawrence E. Maxwell
Nicole A. Johnson
Mary Anne Gibbons
Steven R. Phelps

APPENDIX. MANAGEMENT'S COMMENTS



March 28, 2006

MARY W. DEMORY

SUBJECT: Draft Audit Report-Postal Inspection Service Noncompetitive Contract Process
(Report Number SA-AR-06-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. The attached highlights a few concerns with the report's findings and our agreement with the two recommendations. We do not believe this report contains any proprietary business information that would be exempt from disclosure under the Freedom of Information Act (FOIA). Marie Martinez of Supply Management will monitor implementation of the report recommendations. She can be reached at (202) 268-4117.

A handwritten signature in cursive script that reads "Susan M. Brownell".

Susan M. Brownell
Vice President
Supply Management

Attachment

cc: Lee R. Heath (all w/attachment)
Robert J. Pedersen
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COMMENTS ON REPORT FINDINGS

Objective, Scope, and Methodology

The Office of Inspector General (OIG) refers to the Denver PSC in the third bullet of this section. This office is not a Purchasing Service Center/PSC. The appropriate title of this Supply Management organization is: Travel, Retail and Temporary Services Category Management Center (CMC).

Workers' Compensation Analyst Program

Award to Former Postal Inspection Service Employees

Considering placement of this discussion is included under the Workers' Compensation Program (WCA) section of the report, it may mislead the reader that the referenced five of eleven noncompetitive contracts were under the WCA program, and they were not. Further, these contracts were assigned to the Professional, Printing and Creative Services CMC at Headquarters, not the CMC in Denver.

This section also refers to the Contract Management Authoring System. The proper name of this Supply Management system is the Contract Authoring and Management System – CAMS. In addition, the representation that information may have been "altered" during system conversion in January 2005, may be misleading. The CAMS system includes electronic records, and updates (versus alterations) may have been made during system conversion, such as closing out past due records. Further, some of the requested contracts were several years old (expired) and may never have been transferred to the Headquarters CMC during the late calendar year 2002 Supply Management restructuring. This fact may have contributed to the difficulty in locating the requested files.

RESPONSES TO REPORT RECOMMENDATIONS

We recommend the Vice President, Supply Management, direct contracting officers to:

- 1. Ensure that all contracts contain a proper justification, documenting the rationale for the decision to use the noncompetitive purchasing method as required.*
- 2. Maintain all contracts on file until the date of archiving. Also, upon archiving contracts, the contracting officer should keep accurate records, making contracts obtainable upon request.*

Management agrees with the two recommendations, which are supported by current Supply Management guidelines. To reinforce existing Supply Management guidance and the concerns outlined in this OIG report, we will cascade your report under Supply Management's Review for Excellence Program (SM REP) to the managers in our organization. In turn, these managers will be required to review the report and cascade it down to all contracting personnel within their organizations. The SM REP cascade request will be issued within 30 calendar days following receipt of the final report.