



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Supply Management's Rapid Renegotiation Initiative

Management Advisory Report

Report Number
SM-MA-15-001

June 4, 2015

Savings

Additional Income	
Details	Month
Mid Year Bonus	June
Year End Bonus	December
Total Additional Income	January

Month	Amount
June	2,000
December	3,000
January	5,000

Planned Expenses

Expenditure

Month	Amount
November	450
December	600
December	300
July	880
January	
January	
January	
January	

1.
Enter your income
information in the
income tables.

50,000

37,500

25,000

12,500



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Highlights

The Postal Service projected the RRI would save at least \$1 billion in short-term contract costs from FY 2009 to FY 2011.

Background

In fiscal year (FY) 2009, faced with significant reductions in mail volume and revenue and limited borrowing authority, the U.S. Postal Service began an effort to renegotiate contracts with over 218 of its largest suppliers. This Rapid Renegotiation Initiative (RRI) identified cost savings the Postal Service could pursue in these contracts to improve its financial position.

Through the RRI, the Supply Management group negotiated with the suppliers to reduce what it paid for goods and services and to limit the scope of the contract work. Suppliers often agreed to these terms in exchange for longer periods of performance. The Postal Service projected the RRI would save at least \$1 billion in short-term contract costs from FY 2009 to FY 2011. Contracting officers were required to document the results of the negotiations with the suppliers, including reductions in price and scope. But they were not required to track results to measure the impact on contract costs.

In FY 2010, all new, negotiated cost savings were combined with the larger Supply Chain Management Impact program. The ongoing Supply Chain Management Impact began in 2001 and it aims to reduce the Postal Service's costs to buy and own products, services, or activities and to improve their total value. This program tracks estimated and actual savings.

Our objective was to determine whether the Postal Service's RRI met its goal of \$1 billion in immediate and short-term cost savings and assess the program's impact on long-term operational costs.

What The OIG Found

We could not determine whether the RRI met its immediate and short-term cost savings goal or assess its long-term impact because the Postal Service did not track the results of this initiative or determine the long-term effects on contract costs. Less than a year into the RRI, the Postal Service combined the initiative with the existing and ongoing Supply Chain Management Impact program but did not identify what savings resulted from the RRI.

Contracting officials stated the RRI was a short-term, focused plan to address the Postal Service's financial crisis at the time but could not provide evidence to show whether the initiative achieved its goals.

Our analysis of 30 judgmentally selected suppliers associated with the RRI indicated an overall decrease in spend from FY 2009 to FY 2011. For the 30 projects, Supply Management projected contract savings totaling \$108.3 million from FY 2009 to FY 2011. We analyzed the actual spend for the 30 projects from FY 2008 to FY 2011. We found an overall decrease in contract spend from \$574.1 million in FY 2008 to \$349.7 million in FY 2011; a difference of \$224.5 million. However, we could not determine what impact the initiative had on that trend because other factors could have contributed to the decrease, including expiring contracts, changes in contract scope outside of the initiative, demand for goods and services, and changes in labor or fuel costs.



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Supply Management currently tracks estimated and actual contract savings through the Supply Chain Management Impact program. For FYs 2009 through 2011, the Postal Service projected \$2.2 billion in program savings and reported actual savings of \$2.6 billion. We did not verify the actual savings reported for the Supply Chain Management Impact program.

Although the RRI was combined with this program, the Postal Service did not distinguish the actual savings associated with RRI. The Postal Service will not be able to measure the long-term effects of the RRI because the actual savings resulting from the RRI were never tracked. The Postal Service needs to track results for all cost saving initiatives to determine whether they are effectively meeting their goals.

What The OIG Recommended

We recommended management track actual results for all future cost saving initiatives to measure the impact of those initiatives on individual contract spend.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 4, 2015

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

A handwritten signature of John E. Cihota in black ink, enclosed in a rectangular box with a thin black border. A black dot is visible in the top right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Management Advisory Report– Supply Management's
Rapid Renegotiation Initiative
(Report Number SM-MA-15-001)

This report presents the results of our review of Supply Management's Rapid Renegotiation Initiative (Project Number 15BG002SM000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Through the RRI, the Supply Management group negotiated with the suppliers to reduce what it paid for goods and services and to limit the scope of the contract work.

Contracting officials stated the RRI was a short-term, focused plan to address the Postal Service's financial crisis at the time but could not provide evidence to show whether the initiative achieved its goals.

Introduction

This report presents the results of our self-initiated review of the U.S. Postal Service's Rapid Renegotiation Initiative (RRI) (Project Number 15BG002SM000). Our objective was to determine whether the Postal Service's RRI met its goal of \$1 billion in immediate and short-term cost savings and assess the impact on long-term operational costs. See [Appendix A](#) for additional information about this audit.

In fiscal year (FY) 2009, faced with significant reductions in mail volume and revenue and limited borrowing authority, the Postal Service began an effort to renegotiate contracts with over 218 of its largest suppliers. The RRI identified cost savings the Postal Service could pursue in these contracts to improve its financial position.

Through the RRI, the Supply Management group negotiated with the suppliers to reduce what it paid for goods and services and to limit the scope of the contract work. Suppliers often agreed to these terms in exchange for longer periods of performance. The Postal Service projected the RRI would save at least \$1 billion in short-term contract costs from FY 2009 to FY 2011. Contracting officers (COs) were required to document the results of the negotiations with the suppliers, including reductions in price and scope. However, they were not required to track results to measure the impact on contract costs.

In FY 2010, all new negotiated cost savings were combined with the larger Supply Chain Management (SCM) Impact program. The ongoing SCM Impact program began in 2001 and aims to reduce the Postal Service's costs to buy and own products, services, or activities and to improve their total value. This program tracks estimated and actual savings.

Conclusion

We could not determine whether the RRI met its immediate and short-term cost savings goal or assess its long-term impact because the Postal Service did not track the results of this initiative or determine the long-term effects on contract costs. Less than a year into the RRI, the Postal Service combined the initiative with the existing and ongoing SCM Impact program but did not identify what savings resulted from RRI.

Contracting officials stated the RRI was a short-term, focused plan to address the Postal Service's financial crisis at the time but could not provide evidence to show whether the initiative achieved its goals.

Our analysis of 30 judgmentally selected suppliers associated with the RRI indicated an overall decrease in spend from FY 2008 to FY 2011. For the 30 projects, Supply Management projected contract savings totaling \$108.3 million from FY 2009 to FY 2011. We analyzed the actual spend for the 30 projects from FY 2008 to FY 2011. We found an overall decrease in contract spend from \$574.1 million in FY 2008 to \$349.7 million in FY 2011; a difference of \$224.5 million. However, we could not determine what impact the initiative had on that trend because other factors could have contributed to the decrease, including expiring contracts, changes in contract scope outside of the initiative, demand for goods and services, and changes in labor or fuel costs.

Supply Management currently tracks estimated and actual contract savings through the SCM Impact program. For FYs 2009 through 2011, the Postal Service projected \$2.2 billion in program savings and reported actual savings of \$2.6 billion. We did not verify the actual savings reported for SCM Impact program.

Although the RRI was combined with this program, the Postal Service did not distinguish the actual savings associated with RRI. The Postal Service will not be able to measure the long-term effects of the RRI because the actual savings resulting from the

We evaluated the Postal Service's contract spend for the 30 RRI projects with the most projected savings, where we could also tie the supplier with a contract. Although our analysis indicated Postal Service payments to these suppliers declined between FY 2008 through FY 2011, we could not determine what specific impact the RRI had on that decline because other factors may have contributed to the reduction.

RRI were never tracked. The Postal Service needs to track results for all cost saving initiatives to determine whether they are effectively meeting their goals.

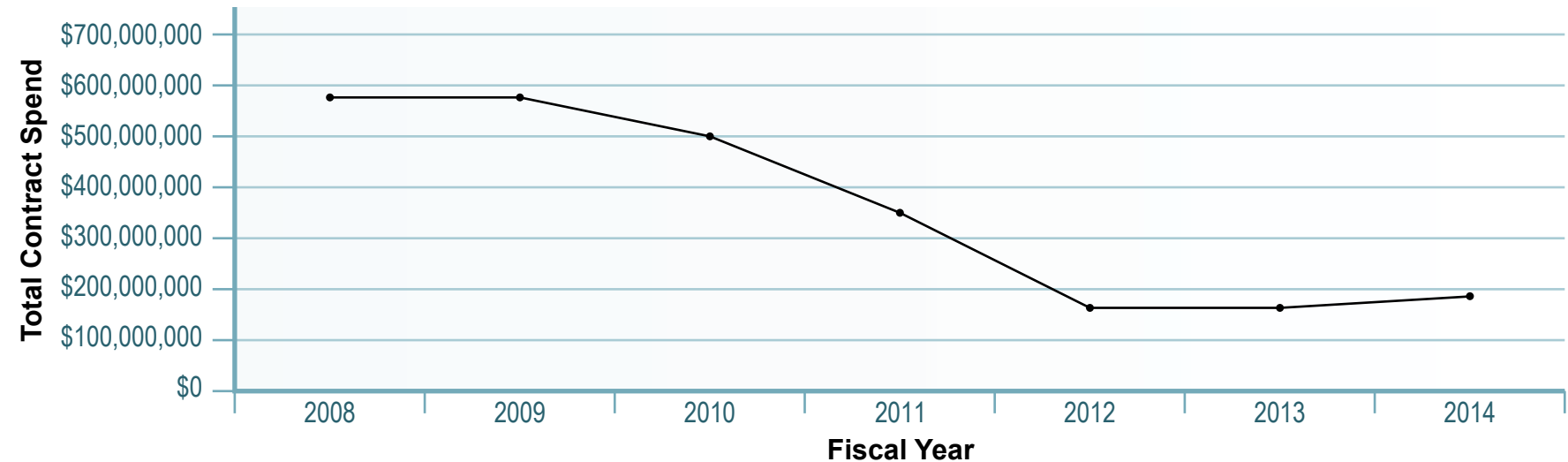
Contract Spend Analysis

We could not determine whether the Postal Service's RRI met its goals of short-term cost reductions or assess its impact on long-term costs. The Postal Service projected savings for the RRI but did not verify whether the actual savings were achieved. Contracting officials estimated savings manually by completing an RRI form¹ for each RRI project – each Postal Service area that Supply Management targeted for cost reductions. They recorded the actions taken. However, the RRI forms only identified the projected savings and did not include follow-up showing the actual savings.

We could not verify savings achieved through the RRI because the Postal Service captured estimated RRI savings by project instead of by contract number. For four of the 34 largest RRI projects we attempted to analyze, the RRI form did not list individual contract numbers but, instead, referenced multiple supplier names or contract categories. For example, for one of the four projects, the RRI form listed \$4.6 million in savings for about 470 smaller spend contracts but did not list the contracts associated with the savings.

We evaluated the Postal Service's contract spend for the 30 RRI projects with the most projected savings, where we could also tie the supplier with a contract. There was an overall decrease in contract spend from \$574.1 million in FY 2008 to \$349.7 million in FY 2011—a difference of \$224.5 million. (see [Figure 1](#)).

Figure 1. Aggregate Spending Trends for 30 Selected Suppliers



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

Although our analysis indicated Postal Service payments to these suppliers declined between FY 2008 through FY 2011, we could not determine what specific impact the RRI had on that decline because other factors may have contributed to the reduction. These factors include new or expiring contracts, changes in contract scope, demand for goods and services, and changes in labor or fuel costs. As of December 2014, five of the 30 contracts we reviewed were still open.

¹ A Supply Management document that captured RRI information such as supplier name(s), contracts involved, actions taken, and projected annual savings for FYs 2009, 2010, and 2011.

We evaluated the modification documents for the five contracts still open, but they did not reference whether the modification resulted from the RRI. We also reviewed the five contracts to determine whether they authorized the suppliers to significantly increase prices later in the contract period to offset discounts they provided during the RRI. We noted that contracting officials evaluated prices throughout the life of the contract and they determined them to be fair and reasonable. Further, we did not identify any unfair or unreasonable pricing practices. Contract rates were supported with appropriate documentation or aligned with industry pricing.

RRI began as a short-term, focused initiative in FY 2009 that concentrated on renegotiating contract terms with suppliers. Contracting officials were not required to track the results to measure the impact on contract costs.

Beginning in FY 2010, the focus on RRI subsided, and all contract renegotiation-related activities, including RRI, were tracked through SCM Impact. SCM Impact is a long-term program to reduce the Postal Service's costs to buy and own products, services, or activities and to improve their total value.² SCM Impact tracks estimated savings when contracts are signed or modified and verifies savings were achieved. Currently, the Postal Service tracks savings on a semi-annual basis through this program.

Supply Management currently tracks estimated and actual contract savings through the SCM Impact program. For FYs 2010 and 2011, the Postal Service projected \$2,232,186,198 in program savings and reported actual savings of \$2,626,016,711. We did not verify the reported actual SCM Impact savings for this audit.

Although the RRI was combined with the program, the Postal Service did not distinguish the actual savings associated with RRI and, therefore, will not be able to measure the long-term effects of the initiative on future contract spend.

² *Supply Management SCM Impact Administrative Instructions*, January 2015.

Recommendation

We recommend management track actual results for all future cost saving initiatives to measure the impact of those initiatives on individual contract spend.

We recommend the vice president, Supply Management:

1. Track actual results for all future cost saving initiatives to measure the impact of those initiatives on individual contract spend.

Management's Comments

Management generally agreed with the finding and recommendation. Management noted that the audit focused on cost savings associated with the RRI, which began in FY 2009, and stated that any similar future initiatives would be tracked, by contract, for an appropriate period to identify contract cost savings associated with the initiative. Management has requested that the recommendation be closed with the issuance of this report.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issues identified in the report; therefore, we agree to close the recommendation with the issuance of this report.

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Appendix A: Additional Information

Background

In 2009, as the Postal Service faced difficult financial circumstances due to significant reductions in mail volumes, revenues, and its borrowing authority, the newly appointed chief financial officer (CFO) issued a short-term, focused initiative to reduce Supply Management costs. The RRI aimed to seize the opportunity the national economic slowdown presented to lower the costs to the Postal Service of products and services. The CFO sent a February 2009 letter to 218 of the Postal Service's largest suppliers urging their cooperation to reduce costs. During FYs 2009 and 2010, contracting officials negotiated with these suppliers, and eventually negotiated with more than 300 of them.

Supply Management led the RRI and sought to reduce contract costs and the scope of contract work, often in exchange for longer contract periods of performance. COs were tasked to coordinate with key Postal Service personnel and document the results of the initiative. The Postal Service projected possible savings of at least \$1 billion annually in contract costs from the RRI.

In FY 2010, the RRI was combined with the larger SCM Impact program. SCM Impact began in 2001. It aims to reduce the Postal Service's costs to buy and own products, services, or activities and to improve their total value.

Objectives, Scope, and Methodology

Our objective was to determine whether the Postal Service's RRI successfully met its goal of \$1 billion in immediate and short-term cost-savings and assess the impact on long-term operational costs.

To accomplish the objective, the audit team:

- Identified and reviewed Postal Service policies and procedures applicable to the RRI.
- Interviewed Supply Management personnel to determine the strategy and goals of the RRI.
- Reviewed RRI supporting documentation to how actual savings were tracked.
- Analyzed overall contract spend for 30 suppliers participating in the initiative.
- Reviewed open contracts involved in the RRI for price reasonableness from FY 2009 to FY 2014.

We conducted this performance audit from October 2014 through June 2015 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 discussed our observations and conclusions with management on May 7, 2015, and included their comments where appropriate.

We assessed the reliability of computer generated data by comparing accounting data with the contract documentation. We determined that the data were sufficiently reliable 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.

Appendix B: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



May 27, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Management Advisory Report – Supply Management's Rapid Renegotiation Initiative (Report Number SM-MA-15-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on this Management Advisory Report – Supply Management's Rapid Renegotiation Initiative (Report Number SM-MA-15-DRAFT). Management generally agrees with the findings and recommendation.

OIG Recommendations

We recommend the vice president, Supply Management:

Recommendation 1: Track actual results for all future cost saving initiatives to measure the impact of those initiatives on individual contract spend.

Management Response/Action Plan: Management agrees. The focus of the audit was on cost savings associated with the Rapid Renegotiation Initiative implemented in February of Fiscal Year 2009. If the Postal Service implements initiatives similar to the Rapid Renegotiation Initiative in the future, we will ensure that cost savings associated with such an initiative will be tracked, by contract, for an appropriate period to measure the contract cost savings associated with the initiative.

Responsible Official: Manager, SCM Strategies

Target Implementation Date: We request the OIG close this recommendation upon issuance of the final audit report.

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

cc: Manager, Corporate Audit Response Management

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