



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Award of the Diebold, Inc. Contract

Audit Report

Report Number
SM-AR-14-005-DR

June 4, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Officials did not develop a purchase plan or conduct a price analysis before awarding the contract. As a result, contracting officials did not assess price reasonableness or obtain higher level review and approval as required.

Background

U.S. Postal Service maintenance mechanics traditionally have repaired and changed locks for Postal Service-owned mailboxes. To reallocate maintenance mechanics from the field to mail processing facilities, Western Area Maintenance Operations asked Supply Management to contract this work.

The Postal Service awarded a contract to Diebold, Inc. on September 22, 2010, to repair and change locks in the Western Area. On November 10, 2011, the American Postal Workers Union filed a grievance with the Postal Service, which was initially denied and later arbitrated on July 6, 2012. The arbitrator found in favor of the American Postal Workers Union and ordered the Postal Service to terminate the Diebold contract, which it did on December 31, 2013, having paid Diebold \$18,399,448 between January 2012 and November 2013.

Our objective was to determine whether the Postal Service awarded the Diebold contract in accordance with Postal Service policies and procedures.

What The OIG Found

The Postal Service did not award the Diebold contract in accordance with Postal Service policies and procedures.

Officials did not develop a purchase plan or conduct a price analysis before awarding the contract. As a result, contracting officials did not assess price reasonableness or obtain higher level review and approval as required. We found the Postal Service did not conduct an analysis to establish that contract payments of \$18,399,448 provided the best value, although this does not necessarily indicate the Postal Service incurred losses.

Further, officials inadequately analyzed Postal Service internal lock repair and maintenance costs. Based on our calculations, they overestimated the annual cost savings by \$6,839,456 per year and outsourced the work to Diebold based on this inflated cost savings assumption.

What The OIG Recommended

We recommended management train contracting officials on Postal Service policies and procedures for developing purchase plans and conducting price analysis. We also recommended management develop a process to capture and analyze applicable data to support internal cost estimates when considering outsourcing in the future.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 4, 2014

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

DREW T. ALIPERTO
VICE PRESIDENT, WESTERN AREA

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota".

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

SUBJECT: Audit Report – Award of the Diebold, Inc. Contract
(Report Number SM-AR-14-005)

This report presents the results of our audit of the Award of the Diebold, Inc. Contract (Project Number 13YG007SM000).

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

Introduction

This report presents the results of our audit of the award of the Diebold, Inc. (Diebold) contract (Project Number 13YG007SM000). The report responds to a request from Senator Charles E. Grassley to review the U.S. Postal Service's award of the Diebold contract. Our objective was to determine whether the Postal Service awarded the contract in accordance with appropriate policies and procedures. See [Appendix A](#) or additional information about this audit.

Postal Service maintenance mechanics traditionally have repaired and changed locks for Postal Service-owned mailboxes. To reallocate maintenance mechanics from the field, Western Area Maintenance Operations asked Supply Management to contract this work. The Postal Service awarded a contract to Diebold on September 22, 2010, to repair and change locks in the Western Area (see Figure 1). On November 10, 2011, the American Postal Workers Union (APWU) filed a grievance with the Postal Service, which was denied and arbitrated on July 6, 2012. The arbitrator found in favor of the APWU and ordered the Postal Service to terminate the Diebold contract, which it did on December 31, 2013, having paid Diebold \$18,399,448 between January 2012 and November 2013.

Figure 1. Western Area



Source: Postal Service, as of April 2011.

Based on our calculations, they overestimated the annual cost savings by \$6,839,456 per year and outsourced the work to Diebold based on this inflated cost savings assumption.

By not determining that lock repair costs would exceed \$1 million and not developing a purchase plan for the repairs, contracting officials did not define best value or make an effective contracting determination.

Conclusion

The Postal Service did not award the Diebold contract in accordance with Postal Service policies and procedures. Officials did not develop a purchase plan¹ or conduct a price analysis² before awarding the contract. As a result, contracting officials did not assess price reasonableness or obtain higher level review and approval as required. We found the Postal Service did not conduct an analysis to establish the contract payments of \$18,399,448 provided the best value,³ although this does not necessarily indicate the Postal Service incurred losses. See [Appendix B](#) for monetary impact details.

Further, officials inadequately analyzed Postal Service internal lock repair and maintenance costs. Based on our calculations, they overestimated the annual cost savings by \$6,839,456 per year⁴ and outsourced the work to Diebold based on this inflated cost savings assumption.

Contract Planning

Postal Service officials did not adequately plan the Diebold contract award. Contracting officials did not prepare a purchase plan even though they are required to do so for awards anticipated to be \$1 million or more. The purchase plan should contain the rationale for the proposed purchase, define the best value to the Postal Service, and have a higher level review and approval⁵ by the appropriate authority.

Contracting officials stated they did not develop a purchase plan — believing that the CSSP⁶ satisfied the purchase plan elements — and they did not expect the purchase to exceed \$1 million. However, the intent of the CSSP is to achieve supply chain management goals for a specific commodity. It does not contain many of the elements of a purchase plan and contracting officials did not address major purchase plan elements in the CSSP, such as budgeting, cost drivers, or best value. Further, had contracting officials compiled their historical spend data during the contract planning process, they would have determined the yearly estimated cost of Postal Service personnel repairing locks was about \$10 million, exceeding the \$1 million threshold for developing a purchase plan.

By not determining that lock repair costs would exceed \$1 million and not developing a purchase plan for the repairs, contracting officials did not define best value or make an effective contracting determination. Also, because the purchase plan would have required a higher level review, the Postal Service awarded the contract without proper approval.

¹ A purchase plan provides the overall strategy for accomplishing and managing a purchase and is usually prepared under the general direction of the Commodity Sourcing Strategy Plan, (CSSP), *Supplying Principles and Practices* (SP&P), Section 2-1, Develop Purchase Plan.

² Assesses whether a supplier's price is fair and reasonable, given market conditions, to ensure that the best price and best value are obtained for a given purchase. Some form of price analysis is required for every purchase. SP&P, Section 2-26, Develop Proposal Evaluation Strategy.

³ The basis of all Postal Service sourcing decisions, determined by analysis of a contract solicitation's evaluation factors and weightings in combination with a price analysis.

⁴ We calculated the amount by taking the cost Postal Service officials claimed as savings per year (\$7,498,690) and subtracting it from our estimated total savings per year (\$659,234), using the revised internal estimate we calculated for the time required per lock repair.

⁵ Review and approval of contractual actions provide oversight and an objective view of important business decisions and enhance the process of obtaining best value. SP&P, Section 2-41.1, General. The appropriate approval authority must review and approve purchase plans for competitive contracts valued at \$1 million or more. SP&P, Section 2-41.2.1, Purchase Plans.

⁶ A guide to systematically developing strategies for achieving supply chain management goals. It comprises spend data, commodity segmentation, market research, pricing analysis, supplier capabilities, risk analysis, and best value determination. SP&P, Section 2-1, Develop Purchase Plan.

Contracting officials should conduct some form of price analysis that compares competitive offers for every purchase. They did not conduct this analysis because they thought they were establishing only a preliminary agreement with Diebold, with no commitment and with pricing to be negotiated later.

Price Analysis

Supply Management contracting officials did not conduct a price analysis of the suppliers' proposed prices. Supply Management awarded a firm-fixed⁷ price contract to Diebold in September 2010 with no specified pricing for lock repairs.⁸ In his justification for selecting Diebold from the nine suppliers that competed, the contracting officer stated that Diebold's proposed price of [REDACTED] per hour was fair and reasonable, although there was no evidence a price analysis had been conducted. Prior to Diebold performing work on the contract, Western Area Maintenance Operations officials renegotiated the lock repair price to \$38.17 per lock. See [Appendix C](#) for a timeline of key contract events.

Contracting officials should conduct some form of price analysis that compares competitive offers for every purchase.⁹ They did not conduct this analysis because they thought they were establishing only a preliminary agreement with Diebold, with no commitment and with pricing to be negotiated later. However, e-mails between contracting officials and maintenance managers and a best value determination showed contracting officials asserted Diebold's proposed price of [REDACTED] per hour¹⁰ was fair and reasonable, despite having no analysis to support this conclusion. Because there was no established pricing and no price analysis, the Postal Service did not assess price reasonableness and entered into a contract that may not have provided the best value.

Internal Cost Estimate

Western Area Maintenance Operations and Supply Management conducted an internal cost estimate after contract award but did not thoroughly analyze the cost of Postal Service employees repairing and maintaining locks. Using Electronic Maintenance Activity Reporting and Scheduling System (eMARS)¹¹ data, officials calculated 2.7 hours per lock change. This resulted in an internal cost estimate of \$137.70 per lock change, assuming a cost of \$51 per hour for Postal Service employees to repair locks and only one lock changed per work order. But officials did not scrutinize all of the data to eliminate inapplicable work orders and hours.

Western Area Maintenance Operations and Supply Management stated they relied on total work order hours and assumed one lock change per work order to determine the cost per lock change because there is no way to know exactly how many locks were changed for each work order. The eMARS work order data were the only objective data available. Western Area Maintenance Operations removed the Big Sky District from the calculations for being an outlier¹² but did not remove individual work orders that showed excessive repair hours.

According to the eMARS program specialist, officials should have only used hours categorized as corrective maintenance¹³ for lock changes and repairs.¹⁴ Also, while district maintenance managers and the eMARS program specialist stated that work orders do not capture the number of locks repaired per work order, removing work orders that appear to be outliers would better refine the estimate. For example, of the 78,042 work orders for fiscal year (FY) 2009, 356 contained more than 50 hours, while 1,068 showed more than 10 hours. Estimates from district maintenance managers and the eMARS program specialist for a single

⁷ A firm-fixed price contract obligates the supplier to deliver the specified product or service for a fixed price. SP&P, Section 2-18.3, Firm-Fixed-Price Contract.

⁸ The initial contract was awarded as firm-fixed price and changed to a firm-fixed price indefinite-quantity contract through a July 2011 modification.

⁹ SP&P, Section 2-34, Conduct Price/Cost Analysis.

¹⁰ Although the best value determination did not include pricing, it references Diebold's pricing proposal.

¹¹ eMARS provides maintenance tracking, inventory management, and reporting for parts and labor for Postal Service buildings and equipment nationwide.

¹² The Big Sky District averaged 37 hours per work order in the eMARS data and was removed from the calculations for being outside the norm.

¹³ Repair or replacement of a failed or defective part or subassembly or assembly of equipment, which returns it to operating condition. *Administrative Support Manual 13*, Section 531.321, Corrective Maintenance Definition.

¹⁴ Western Area Maintenance Operations officials left operational and preventive maintenance hours in the data because they attributed their presence to data input errors rather than inapplicable codes. Including these work orders has only a negligible effect on the hours per work order estimate (less than .01 hours).

lock change ranged from about 30 to 90 minutes. One district maintenance manager stated that work orders exceeding 5 hours probably include more than one lock change or repair.¹⁵ Officials should have eliminated standing work orders¹⁶ because they included more than one lock change.

The contracting officer subtracted the Diebold per lock cost of \$38.17 from the internal cost of \$137.70 to generate a savings of \$99.53 per lock, or a first year savings of \$7,498,690.¹⁷ We calculated a revised time estimate per lock repair of .92 hours (from 2.7 hours) if management used only corrective maintenance hours and excluded standing work orders and those exceeding 5 hours. This would reduce the internal cost estimate from \$137.70 to \$46.92¹⁸ per lock repair — resulting in a reduction of the cost savings per lock to \$8.75 or an annual cost savings of \$659,234. Without thoroughly analyzing internal costs, contracting officials overestimated the cost savings by about \$90.78 per lock (or \$6,839,456 per year¹⁹) and outsourced the work to Diebold based on this inflated cost savings assumption (see [Table 1](#)).

15 The U.S. Postal Service Office of Inspector General (OIG) asked maintenance managers from each district for the maximum time to complete a work order before they would consider that the work order contains multiple lock repairs. Most respondents and the eMARS program specialist estimated no more than 1.5 hours, while the Colorado-Wyoming District estimated 5 hours due to the large geographic territory it covers.

16 Sites establish standing work orders to record multiple repairs and maintenance visits for similar work under one work order.

17 The contracting officer calculated cost savings per year by subtracting historic costs per year of \$10,374,455.70 (75,341 locks per year multiplied by \$137.70 per lock) by Diebold's cost per year of \$2,875,765.97 (75,341 locks per year at \$38.17 per lock).

18 We calculated the reduction of internal cost estimate by multiplying the revised estimate for time per lock of .92 hours by the \$51 per hour internal cost of Postal Service employees doing the work.

19 We calculated the amount by taking the cost Postal Service officials claimed as savings per year (\$7,498,690) and subtracting it from our estimated total savings per year (\$659,234), using the revised internal estimate we calculated for the time required per lock repair.

Table 1. Cost Savings Breakdown and Comparison

↓ Hover below to reveal details ↓			
Cost Elements			
Intenal Time per Lock			
Intenal Cost per Hour			
Internal Cost per Lock			
Diebold Price per Lock			
Savings per Lock			
Number of Locks per Year			
Savings per Year			

Note: OIG calculations assumed one lock repair per work order. Some work orders contained more than one repair but all had, at least one lock repair.

“—” means the item is not applicable or is zero.

Source: OIG calculations and Postal Service Supply Management cost analysis for Diebold contract.

Recommendations

We recommend management develop a process to capture and analyze applicable data to support internal cost estimates when considering outsourcing in the future.

We recommend the vice president, Supply Management, direct the manager, Customer Products and Fulfillment, to:

1. Train contracting officials to develop a purchase plan for purchases exceeding \$1 million and conduct a price analysis prior to awarding supplier contracts.

We recommend the vice president, Western Area, direct the manager, Western Area Maintenance Operations, to:

2. Develop a process to capture and analyze applicable data to support internal cost estimates when considering outsourcing in the future.

Management's Comments

Supply Management agreed with the findings, recommendation 1, and the monetary impact related to contract planning and price analysis. Western Area management disagreed with the internal cost estimates finding and the monetary impact but agreed, in concept, with recommendation 2.²⁰

Regarding recommendation 1, Supply Management stated they took appropriate administrative action for one employee and will train another employee on purchase planning and cost and price analysis. Supply Management will also formally communicate to all of its contracting officials the necessity of following policy for purchase planning and conducting price analysis to determine fair and reasonable prices prior to contract award. The target implementation date is July 31, 2014.

Western Area management agreed with the internal cost estimates portion of recommendation 2 and stated that they will continue due diligence activity on future contracts. They agreed with the concept of having a process to analyze and capture data when outsourcing; however, they stated that their data systems and methodology for determining whether to outsource lock change work using the Diebold contract are reasonable and accurate. They stated that they used appropriate data from eMARS to estimate cost prior to contracting. Further, they also spoke with a maintenance management specialist who indicated that maintenance clerks have mistakenly input lock change work as preventive and operational maintenance, which is why officials left work orders with those designations in the calculations. Finally, they told us that they spoke with maintenance managers who agreed that the workhours in eMARS were appropriate.

Western Area management also pointed to the July 6, 2012, arbitration, stating that the arbitrator found no issue with Article 32,²¹ which was written to support the outsourcing action, and the data used provided an adequate representation for management's decision to contract out the work.

Further, Western Area management stated that using the OIG's reduced number of hours still shows a savings of \$659,234 per year, or the equivalent of the annual salaries of seven full-time equivalent employees. They added that they did not base contracting lock change work solely on cost savings, but also on being able to provide timely repairs and use reduced staff to maintain the equipment.

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

²⁰ Note that the recommendation with associated monetary impact was not addressed to the Western Area.

²¹ Article 32 is part of the Collective Bargaining Agreement between the Postal Service and APWU. It provides guidance on what the Postal Service should consider when subcontracting bargaining unit work.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's planned corrective actions should resolve the issues identified in the report.

Regarding management's comments on recommendation 2, we did not question the accuracy of workhours in eMARS. Rather, we questioned the methodology that Western Area Maintenance Operations and Supply Management officials used to analyze this data. We found that, although the hours recorded in eMARS may reflect the total time worked for repairing locks, the data required further scrutiny for an accurate estimate of the actual time spent on each lock repair. Management stated that they included preventive and operational maintenance workhours because maintenance clerks mistakenly coded the workhours; however, eMARS has not been updated to correct these errors. We also spoke with maintenance managers during our audit to develop our estimates of the time per lock repair. Maintenance managers stated that while eMARS did not capture locks repaired per work order, removing work orders that appear to be outliers would better refine the estimate.

Additionally, although our revised estimate of time per lock change still reflects a savings of \$659,234, the \$6,839,456 difference between the two estimates demonstrates the importance of scrutinizing data when developing these estimates. Even if the Diebold contract provided cost savings, a process for capturing and analyzing more applicable data to support internal cost estimates would contribute to more informed decision making in future purchases.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Management agreed with the intent of recommendation 2 to analyze and capture data when outsourcing, and their planned actions to continue due diligence activity on any future contracts should resolve recommendation 2. Therefore, we are closing this recommendation with the issuance of this report. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

Postal Service maintenance mechanics traditionally have repaired and changed locks for Postal Service-owned mailboxes. To reallocate maintenance mechanics from the field to mail processing centers, Western Area Maintenance Operations asked Supply Management to contract this work. The Postal Service awarded a contract to Diebold on September 22, 2010, to repair and maintain locks in the Western Area, paying Diebold \$18,399,448 from January 30, 2012, through November 27, 2013.

Western Area Maintenance Operations provided a statement of work and pulled data from eMARS pertaining to Postal Service personnel changing and repairing locks during FY 2009. The contracting officer documented that, of the 13 suppliers responding to the Postal Service's request for proposals, only Diebold had the technical capability to do the work for the entire Western Area and proposed a price of [REDACTED] per hour. The Postal Service awarded a firm-fixed priced contract to Diebold on September 22, 2010, on technical merit but did not specify pricing in the contract.

Diebold's proposed price of [REDACTED] per hour was higher than the estimated \$51 per hour for Postal Service employees doing the work and was not cost effective for the Postal Service; therefore, Western Area Maintenance Operations officials renegotiated \$38.17 as the cost per lock repair. The contracting officer analyzed the cost, estimating that contracting with Diebold would save the Postal Service \$7,498,690 the first year.

The contracting officer completed a written review to show that contracting out maintenance of delivery collection and cluster boxes was cost effective and protected the interests of the Postal Service. On June 10, 2011, the contracting officer modified the contract to establish the \$38.17 per lock repair price and add other parameters and clauses to the contract.

The APWU²² filed a grievance with the Postal Service on November 10, 2011, contending that Diebold technicians replaced Postal Service maintenance personnel in repairing and maintaining locks and that the contract was not cost effective. The Postal Service denied the grievance in June 2012 and went to arbitration in December 2012. The union argued that the Postal Service should not have contracted the work. The arbitrator agreed with the union and ordered the Postal Service to terminate the Diebold contract, which it did on December 31, 2013. See [Appendix C](#) for a timeline of key contract events.

Objective, Scope, and Methodology

Our audit objective was to determine whether the Postal Service effectively awarded the Diebold contract in accordance with Postal Service policies and procedures. To accomplish our objective, we:

- Reviewed Postal Service criteria, guidelines, and procedures on awarding contracts.
- Interviewed the Supply Management contracting officer and the Western Area Maintenance Operations manager to determine why they did not award the contract following the SP&P. We specifically asked why they renegotiated costs after awarding the contract.

²² The APWU is the world's largest postal union, representing more than 220,000 Postal Service employees and retirees and nearly 2,000 private sector mail workers. Depending on their occupation, APWU members belong to the Clerk, Maintenance, Motor Vehicle, or Support Services division. The union's state and local affiliates are autonomous organizations that rely on the national union to represent their interests in contract negotiations and in national grievances.

- Surveyed and interviewed district maintenance managers and the eMARS program manager to determine how to identify broken locks, estimate the repair time per lock for their district, and determine criteria for generating a more accurate estimate of required repair time per lock.
- Analyzed eMARS data to determine whether the maintenance hours used to support the cost analysis reflect more than one lock change or other maintenance work per work order.
- Independently analyzed data to more accurately estimate the time required per lock repair.

We conducted this performance audit from November 2012 through May 2014,²³ following 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 1, 2014, and included their comments where appropriate.

We assessed the reliability of Contract Authoring Management System²⁴ data by validating contract documents with contracting officials. We tested the reliability of the eMARS data by interviewing officials to determine whether the data capture repair time needed per lock change. The eMARS data were not reliable for estimating the Postal Service's internal costs; therefore, we independently analyzed the data to develop a more reliable result for repair time per lock.

Prior Audit Coverage

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

²³ We suspended the audit pending labor arbitration in January 2013 and resumed work in October 2013. We suspended the audit again between February and April 2014 pending the arbitration settlement.

²⁴ A contract writing tool that facilitates the solicitation, award, and administration of various contracts.

Appendix B: Monetary Impact

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Unsupported Questioned Costs ²⁵	\$18,399,448

The \$18,399,448 represents total payments²⁶ the Postal Service made to Diebold under a contract that officials awarded without following appropriate policies and procedures and showing they planned and analyzed proposed pricing or estimated the cost of Postal Service personnel repairing and maintaining locks.

We claimed this amount as unsupported questioned costs because there was missing or incomplete documentation and the Postal Service did not follow required policy and procedures. However, the claimed unsupported questioned costs do not indicate the Postal Service incurred actual loss.

²⁵ A subset of questioned costs that is claimed because policy or required procedures were not followed but does not necessarily connote any real damage to the Postal Service.

²⁶ Payments received from January 30, 2012, to November 27, 2013.

Appendix C: Timeline of Key Contract Events

Contracting Action	Date
Postal Service issued solicitation for lock repairs and maintenance	7/20/2010
Diebold submitted price proposal of [REDACTED] per hour	8/18/2010
Postal Service awarded contract to Diebold with no dollar value	9/22/2010
Western Area Maintenance Operations manager informed of [REDACTED] per hour proposed price	2/1/2011
Western Area Maintenance Operations manager/Labor Relations finalized the area-wide Article 32 for the Diebold contract	3/18/2011
Western Area Maintenance Operations manager renegotiated [REDACTED] per hour price to \$38.17 per lock price	5/1/2011
Contract modification issued to include pricing terms and conditions	6/10/2011
Western Area Maintenance Operations manager/Labor Relations advised APWU national business agents of their consideration of the Article 32 factors	7/14/2011
Western Area Maintenance Operations manager forwarded final Diebold contract	8/11/2011
Diebold contractors began work	10/1/2011
APWU filed grievance with the Postal Service	11/10/2011
Western Area Labor Relations denied grievance	6/22/2012
APWU appealed to arbitration	7/6/2012
Diebold contract renewed for second term	9/19/2012
Arbitration hearing began	12/13/2012
Arbitrator rendered decision to terminate contract	9/26/2013
Postal Service terminated Diebold contract	12/31/2013

Source: OIG analysis.

Appendix D: Management's Comments

DREW T. ALPERTO
VICE PRESIDENT, WESTERN AREA OPERATIONS



JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Award of the Diebold, Inc. Contract
(Report Number SM-AR-14-DRAFT)

Below please find Western Area's response to the recommendation on the referenced Audit. Management is in agreement with the concept of the required activity to analyze and capture data when outsourcing. We do not agree with the OIG's determination that \$18,399,488 paid through the contract was unsupported due to a lack of effectively estimating the cost of Postal Service personnel repairing and maintaining locks.

OIG Audit Recommendations:

We recommend the vice president, Western Area; direct the manager, Western Area Maintenance Operations, to:

Recommendation 2: Develop a process to capture and analyze applicable data to support internal cost estimates when considering outsourcing in the future.

Management Response: Western Area asserts that the data systems and methodology used to make the determination to outsource lock change work in the Diebold contract were reasonable and accurate.

We submit the following in support of our due diligence in estimating costs prior to seeking a contract for this work. For the Diebold contract eMARS database was used for developing costs. As was explained to the OIG auditor, the appropriate acronyms, work hours, and lock change information were extracted from eMARS. Below is a chart of the detailed information which was shared during the audit. Note one district, Arizona, was not included because they had existing contractors at that time. Arizona reported 28,181.43 in corrective hours and 104.34 hours in operational maintenance and 10,386 locks.

Work Order Analysis Locks and Repair
EXCLUDING ALASKA, ARIZONA, AND PO BOXES
Lock

	PM_HOURS	CM_HOURS	OPMS_HOURS	assuming 1 lock per visit	USPS Annual Hrs	Hrs per Lock (Assuming 1 per Location)
Big Sky	106.00	3,579.55	2,706.95	164.00	6,392.50	38.98
Central Plains	73.50	18,120.48	3,384.98	2,449.00	21,578.96	8.81
Colorado Wyoming	556.93	33,664.89	37.20	24,078.00	34,259.02	1.42
Dakotas	1,257.60	6,777.56	212.30	4,881.00	8,247.46	1.69
Hawkeye	53.00	8,457.64	2,267.00	5,899.00	10,777.64	1.83
Mid-America	0.00	11,729.54	29.50	4,823.00	11,759.04	2.44
Nevada	0.00	35,536.72	483.55	3,884.00	36,020.27	9.27
Northland	667.10	21,400.29	310.80	10,671.00	22,378.19	2.10
Portland	1,291.20	26,607.12	262.60	5,495.00	28,160.92	5.12
Salt Lake	0.00	6,876.40	460.24	1,879.00	7,336.64	3.90
Seattle	0.00	15,534.40	981.70	11,118.00	16,516.10	1.49
Total	4,005.33	188,284.59	11,136.82	75,341.00	203,426.74	2.70

1745 STOUT STREET SUITE 1000
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It should be noted that the standing work orders with more than 5 hours associated with them did have multiple daily employee activity cards and a specific request to repair form attached to the employee activity card for the purpose of recording multiple repairs and maintenance visits for similar work under one work order. This process saves time completing work orders and is allowed per our MS-63.

The above work orders allowed us to add separate actions or visits which is one reason why the Maintenance Manager included this information regarding hours and locks. It was also understood, after consulting one of the Area Maintenance Management Specialists, that the Operational Maintenance and the Preventative Maintenance inputs above were mistakenly input as such by the Maintenance Operations Support Clerks (MOS) which again is why all these hours and locks were included. We do not have any official routes to perform Preventative or Operational Maintenance on NDCBU's. Due to the size of the file the eMARS data had to be pulled by HQ representative, Cathy Carrico.

To further support the analysis performed by the Western Area, phone interviews were held with 5 Maintenance Managers in 2010 who agreed that the eMARS work hours were appropriate. During these conversations, the Maintenance Managers expressed a backlog of several weeks in lock changes. They also expressed needing assistance completing the work timely as the backlog was creating delivery issues for their customers. The reasons for contracting the lock change work was not based solely on cost savings, it was also based on supporting our customers with timely repairs and to utilize the dwindling staff in our plants ensuring our equipment was running at optimum levels.

Additional support for our position is the Arbitration held on July 6, 2012, regarding contracting of lock repair and replacement work. The Arbitrator concluded there was no issue with the Article 32 written to support this action and that data used did provide an adequate representation for management's decision to contract out the work. The Arbitrator did go on to decide that this type of work should be considered postal work and should be performed by postal personnel in his final award.

Lastly, using the reduced hours recommended by the OIG, there was still a savings of \$659,234 per year or 7 full-time equivalent (FTE) employees; roughly figured \$51.00 per hour x 1760 hours per year / \$659,234. The reasons for contracting the lock change work was not based solely on cost savings, it was also based on supporting our customers with timely repairs and to utilize the dwindling staff in our plants ensuring our equipment was running at optimum levels.

Target Implementation Date: Due diligence activity will continue to be present on any future contracts.

Responsible Manager: Andy Henderson, Manager, Maintenance – Western Area

This report and management's response does not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Andy Henderson at (303) 313-5990.



Drew T. Aliperto
Vice President, Western Area

cc: Corporate Audit Response Management

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SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



May 21, 2014

JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Award of the Diebold, Inc. Contract
Report Number SM-AR-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report. Management is in general agreement with the Office of Inspector General's (OIG) findings, recommendations and monetary impact associated with recommendation 1 of the subject report. Vice President, Western Area will be responding separately.

OIG Audit Recommendations:

We recommend the vice president, Supply Management; direct the manager, Customer Products and Fulfillment, to:

Recommendation 1: Train contracting officials to develop a purchase plan for purchases exceeding \$1 million and conduct a price analysis prior to awarding supplier contracts.

Management Response: Management agrees with the recommendation. During the course of this audit when we discovered the shortcomings of the two contracting officers involved, appropriate administrative action was taken for one individual and remedial training in the areas of Best Value Source Selection Process, which has elements of purchasing planning, and Cost and Price Analysis will be provided to the other individual to satisfy this specific recommendation. The two courses were established as part of Supply Management's classroom curriculum beginning this fiscal year, along with Legal Considerations – Contract Law and Negotiation Skills and Techniques. These courses will assist with developing the expertise of our purchasing professionals. The contracting officer will be included in the June and July 2014 offerings. Furthermore, in order to reinforce our policy, we will issue a communication by July 2014 to all contracting officials within Supply Management emphasizing the necessity of following policies related to purchase planning and conducting price analysis in order to determine a fair and reasonable price prior to contract award.

Target Implementation Date: July 2014.

Responsible Manager: Manager, Customer Products and Fulfillment, and Manager, Supply Management Infrastructure.

This report and management's response does contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. This information will be provided separately. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

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

cc: Corporate Audit Response Management

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