

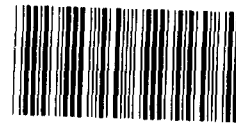
GAO

Report to Congressional Requesters

May 1988

# POSTAL PROCUREMENT

## An Assessment of Postal Purchasing Practices



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**General Government Division**

B-226817

May 12, 1988

The Honorable William D. Ford  
Chairman, Committee on Post Office  
and Civil Service  
House of Representatives

The Honorable Frank McCloskey  
Chairman, Subcommittee on Postal  
Personnel and Modernization  
Committee on Post Office and  
Civil Service  
House of Representatives

The Honorable Mickey Leland  
Chairman, Subcommittee on Postal  
Operations and Services  
Committee on Post Office and  
Civil Service  
House of Representatives

The Honorable Ted Stevens  
Ranking Minority Member  
Subcommittee on Federal Services,  
Post Office, and Civil Service  
Committee on Governmental Affairs  
United States Senate

The Honorable Don Young  
Ranking Minority Member  
Subcommittee on Postal Personnel  
and Modernization  
Committee on Post Office and  
Civil Service  
House of Representatives

The Honorable Frank Horton  
Ranking Minority Member  
Subcommittee on Postal Operations  
and Services  
Committee on Post Office and  
Civil Service  
House of Representatives

This report responds to your request that we review the procurement policies, processes, and practices of the U.S. Postal Service and its Board of Governors.

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B-226817

The report addresses controls that the Postal Service applied to large dollar contracts to help deter fraud and assure that the government was getting its money's worth. It also discusses the extent to which members of the Postal Board of Governors are involved in selecting contractors and provides our observations on the new procurement manual.

As arranged with your offices, we are sending copies of this report to the Postal Board of Governors; the Postmaster General; the Postal Rate Commission; and other interested parties, including the Chairman of the Subcommittee on Federal Services, Post Office and Civil Service, Committee on Governmental Affairs, United States Senate.



Richard L. Fogel  
Assistant Comptroller General



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# Executive Summary

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## Purpose

In May 1986, the Vice Chairman of the Postal Board of Governors resigned after pleading guilty to fraud involving, among other things, a major planned procurement of multiline optical reading equipment. Criminal investigations have uncovered contract kickbacks and raised questions concerning the role of the Board of Governors in the U.S. Postal Service procurement process.

In the wake of these events, the Chairman of the House Committee on Post Office and Civil Service and others requested that GAO review Postal Service procurement practices. This report examines the management controls applied to each of the 109 contracts of \$1 million or more that the Postal Service Procurement and Supply Department awarded in fiscal years 1985 and 1986. It also discusses the role of members of the Board of Governors in selection of contractors and contains GAO observations on the Postal Service's new procurement manual.

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## Background

The Postal Service has one of the largest procurement functions in the federal government and annually purchases goods and services valued at about \$4 billion. The Service was required to carry out procurements in accordance with its Postal Contracting Manual. While the manual is similar to the Federal Acquisition Regulation in many ways, the Postal Reorganization Act, enacted in 1970, generally exempted the Postal Service from federal procurement laws and regulations. The intent was to permit the Postal Service to operate like a private business when it is advantageous to do so.

During the past 4 years, the Postal Inspection Service, Arthur Young and Company, and the Counsel to the Board of Governors have each issued reports on the Postal Service's procurement process. The reports all primarily focused on system reforms and overall management needs. These reports contained over 100 recommendations, many of which have been implemented by the Postal Service.

While the GAO audit and these studies all had the objective of improving the Postal Service's procurement practices, GAO's study differed in that it evaluated individual procurement actions. The other studies tended to examine broad structural and system issues.

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## Results in Brief

GAO found that several accepted controls to help deter fraud and assure that the government was getting its money's worth were routinely applied to Postal Service contracts. These controls are designed to help

assure that contracts awarded by the Postal Service are not open to manipulation and other prohibited practices. Applying these controls does not guarantee successful procurements or the elimination of fraud because controls can be compromised by collusion or errors in judgment.

GAO found that weaknesses in postal procurement practices occurred despite the application of acceptable internal controls. GAO identified five recurring weaknesses in postal procurement practices and determined that 44 of the 109 large dollar contracts had one or more of these weaknesses. Correcting these weaknesses would improve contracting practices and result in dollar savings. An accurate estimate of overall future potential savings cannot be projected.

The Postal Service's Board of Governors consists of nine Governors appointed by the President plus the Postmaster General and the Deputy Postmaster General. The Board has broad discretionary authority over procurement actions. While the Board's charter permits them to become involved in selecting contractors, GAO found that the Board members were not regularly involved in contractor selection or day-to-day management of Postal Service purchases. In July 1987, to bolster public confidence in the postal procurement process, the Board adopted a code of ethics for its members.

The Postal Service has initiated several actions to improve the procurement process, including creation of a new procurement manual that is scheduled for nationwide application by June 1, 1988.

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## Principal Findings

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### Controls the Postal Service Consistently Applied to Large Contracts

The Postal Service required and used controls designed to help prevent or detect unauthorized contracting practices. GAO found that the Postal Service normally applied generally accepted controls to the 109 large dollar contract awards GAO reviewed. For example, GAO found that all 48 of the negotiated contract awards reviewed were approved in writing at a level above the contracting officer. The Postal Service used the Commerce Business Daily to publicize proposed awards for 82 of 92 contracts subject to this requirement. In all cases, contracting officers determined that contractors were responsible in terms of productive capacity and financial strength before awarding a contract. Audits of contractors' proposed prices were performed when warranted to assist

contracting officers to determine if the prices were reasonable. Contract files included documents intended to provide a rationale for accepting the contract price for all 48 negotiated contracts. Multiple bids were received for 59 of the 61 formally advertised awards. (See chap. 2.)

## Weaknesses Identified in Postal Procurement Practices

While controls were normally applied to large dollar contracts, GAO identified the following five recurring weaknesses in the Service's procurement practices:

- Sole-source contract files lacked convincing data to justify the award of a sole-source contract (10 of 19 contracts).
- Unwarranted costs were incurred for Minority Business Enterprise awards (6 of 12 contracts).
- Basic Ordering Agreements (see p. 30) were used to purchase large dollar orders without competition (3 of 5 contracts).
- Negotiated contract files lacked convincing documentation that the contract price was fair and reasonable (13 of 48 contracts).
- Specifications used were restrictive, incomplete, or outdated (24 of 109 contracts).

One or more of these weaknesses was found in 44 of the 109 contracts GAO reviewed. The observed weaknesses generally resulted because controls were compromised or perfunctorily applied rather than from a lack of procedural checkpoints or requirements for documentation. (See chap. 3.)

## Members of the Board of Governors Not Generally Involved With Contractor Selection

Although the Board's charter permits involvement in the selection process, GAO identified only four contracts where a Board member or the Board appeared to have affected contractor selection. Based on the evidence available, GAO concluded that Board members were not generally involved in contractor selection on postal contracts. GAO found no evidence of improper influence in three of the four cases where involvement was identified. In the remaining case, GAO did not determine if there was improper influence because it involved a company under criminal investigation. (See chap. 4.)



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## Observations on the New Procurement Manual

In May 1987, the Postal Service announced a 3-year plan to improve procurement and supply. The plan included issuing a new procurement manual. Postal headquarters began using the new manual in October 1987, and it is scheduled for nationwide application by June 1988. Many procedural details and coverage of specialized areas are to be included in a manual supplement currently being drafted. GAO reviewed the sections of the new manual that address the weaknesses identified during its audit. GAO is concerned that the new manual could result in an increased number of unjustified sole-source awards because it relaxes some controls for sole-source contracts. GAO also observed that documenting price reasonableness may become more important because of the new manual's emphasis on negotiated purchases. (See chap. 5.)

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## Recommendations

Despite the new procurement manual, GAO believes the weaknesses identified will continue unless specific actions are taken. Accordingly, GAO recommends that the Postmaster General direct the Assistant Postmaster General, Procurement and Supply, to make certain specific improvements in the purchasing practices of the Postal Service. The improvements would strengthen both written justifications supporting sole-source contracts and review procedures for Minority Business Enterprise awards; set limits and obtain competition when using Basic Ordering Agreements; place greater emphasis on documenting price reasonableness of negotiated contracts; and reinforce the requirement that specifications used should be accurate, complete and current, and maximize competition. (See pp. 36 and 37.)

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## Agency Comments

The Postal Service accepted GAO's findings and recommendations and said corrective actions have been taken or are underway in response to GAO's recommendations. The Postal Service believes the totality of the actions the Service is taking in the procurement area will improve overall purchasing practices.

Comments from the Postal Service are included as appendix III.

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**Abbreviations**

BOA	Basic Ordering Agreement
CBD	Commerce Business Daily
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
GSA	General Services Administration
MBE	Minority Business Enterprise
PCM	Postal Contracting Manual



# Introduction

Postal Service procurement has been under criticism. Criminal investigations at the Postal Service have revealed contract kickbacks and have raised questions concerning the role of the Postal Board of Governors in the Service's procurement process. These developments caused the Chairman of the House Post Office and Civil Service Committee and others to request a General Accounting Office (GAO) review of the procurement policies, processes, and practices of the Postal Service and its Board of Governors.

## Uniqueness of Postal Procurement

The Postal Reorganization Act, enacted in 1970, permits the Postal Service to contract under its own rules and regulations. The act's intent was to permit the Service to operate like a private business when it is advantageous to do so. Consequently, the Service is exempt from many of the laws, statutes, and Executive Orders that apply to other federal entities. For example, the Service is not subject to the Federal Property and Administrative Services Act of 1949, the Competition in Contracting Act of 1984, the Truth in Negotiations Act, and the Federal Acquisition Regulation (FAR). In addition, the Postal Service has the option to use or not to use the services of federal support agencies, such as the General Services Administration (GSA), the Government Printing Office, the Defense Contract Administrative Service, and the Defense Contract Audit Agency.

The Postal Service was required to conduct its procurements in accordance with procedures set forth in its Postal Contracting Manual (PCM), which was originally implemented in 1972. The PCM was recently rewritten and the new manual is scheduled for nationwide application by June 1988. (See chap. 5.)

Postal Service procurement covers a wide range of needs from routine supplies, such as rubber bands, to complex data processing equipment. The Postal Service also purchases several items which are designed to meet needs unique to the Service. Such unique items include vehicles with right front driver seats and mail processing equipment, such as stamp cancellation machines.

## Who Does the Buying for the Postal Service?

Procurement in the Postal Service is accomplished through a multitier organization that purchases equipment, supplies and services, facilities, and transportation. Contracts are awarded by Postal Service Headquarters, 33 Service Centers, 24 Service Offices, 2 Supply Centers, 5 Regional Headquarters Offices, and 74 Field Divisions.

The Assistant Postmaster General, Procurement and Supply Department, develops the Postal Service's procurement policies and procedures. Three departments at the Postal Service (Procurement and Supply, Real Estate and Buildings, and Transportation) make the major purchases. In addition, managers at some 29,000 local post offices have authority to contract for utilities and to purchase supplies and services locally up to a limit of \$750 when they are not available from GSA or Postal Service Supply Centers or not available in a timely manner. Postal Service procurements were over \$4 billion in fiscal year 1985 and rose to over \$5 billion in fiscal year 1986. Table 1.1 shows the value of these purchases by department.

Table 1.1: Postal Procurements

Dollars in billions

Department	Fiscal year	
	1985	1986
Procurement and supply	\$1.1	\$2.2 <sup>a</sup>
Transportation	1.9	1.9
Real estate	.8	.9
Local purchases	.5	.4
<b>Total</b>	<b>\$4.3</b>	<b>\$5.4</b>

<sup>a</sup>Includes \$1.1 billion contract for postal vehicles.

## Role of Governors in Procurement Process

The Postal Service's Board of Governors, established by the Postal Reorganization Act, directs and controls the Postal Service's expenditures, reviews its practices, conducts long-range planning, and sets policies on all postal matters.

The 11-member Board includes the Postmaster General, the Deputy Postmaster General, and nine Governors. The Governors are appointed by the President with the advice and consent of the Senate to 9-year terms. The Governors select the Postmaster General, and the Governors and the Postmaster General select the Deputy Postmaster General. Both the Postmaster General and the Deputy Postmaster General serve at the pleasure of the Governors.

The role of the Board of Governors in the Postal Service procurement process includes:

- review and approval of the Postal Service's 5-year capital investment plans;

- review and approval of all capital investment projects, including cost overruns involving more than \$10 million in total external costs; and
- oversight of the procurement process, emphasizing policy objectives such as obtaining competition in postal contracting.

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## Other Reports on Postal Service Procurement

In the last 4 years, the Postal Inspection Service,<sup>1</sup> Arthur Young and Company,<sup>2</sup> and the Counsel to the Postal Board of Governors,<sup>3</sup> all issued reports relating to Postal Service procurement. These reports contain over 100 recommendations to improve the procurement process, many of which are being implemented by the Postal Service. In general, all three reports focused on broad systems reform and overall management needs. Particular attention was given to efficiency and effectiveness in providing equipment and supplies and services in a timely manner, organizational structure and policy formulation, the need for a trained procurement workforce, and involvement of high-level management in the procurement process.

Although our audit shared with these other studies the same objective of improving the Postal Service procurement function, it differed from the other studies in that it focused on evaluation of individual procurement actions while the other studies addressed broad structural and system issues.

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## How Purchases Are Made

The two methods the Postal Service normally uses to purchase supplies and services are formal advertising and negotiation. The Postal Contracting Manual (PCM), which provides the regulatory framework for postal procurement, says that formal advertising is preferred and should be used whenever feasible and practicable. PCM identifies the following four steps used in the formal advertising process.

- Preparation of invitations for bid: Invitations must describe the requirements of the Postal Service clearly, accurately, and completely. Unnecessarily restrictive specifications or requirements that might unduly limit the number of bidders must be avoided.

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<sup>1</sup>Review of Procurement and Supply Department, Executive Brief (Jan. 1985).

<sup>2</sup>Procurement and Supply Department: An Analysis Of Its Major Functions (Dec. 16, 1985).

<sup>3</sup>Report Of Counsel to the Board of Governors on the Procurement System of the United States Postal Service (Dec. 22, 1986).



- Publicizing the invitations for bid: Invitations must be publicized by distributing to prospective bidders, posting in public places, and other such means as may be appropriate.
- Submission of bids: Bidders must submit sealed bids to be opened at the time and place identified in the solicitation.
- Contract award: After bids are publicly opened, an award will be made to that responsible bidder whose bid, conforming to the invitation for bids, is most advantageous to the Postal Service considering price and other factors.

A variation of the formal advertising process used by the Postal Service is the two-step formal advertising method. This method is designed for situations where inadequate specifications preclude the use of conventional formal advertising, especially for purchases that require technical proposals. Step one consists of the request for, and submission, evaluation, and, if necessary, discussion of a technical proposal, without pricing, to determine the acceptability of the supplies or services offered. Step two is a formally advertised procurement confined to those who submitted acceptable technical proposals in step one.

Negotiation, on the other hand, involves a more flexible set of procedures and may be defined to include all methods of procurement other than formal advertising. Negotiated procurement may be either competitive or noncompetitive (sole-source). In negotiated procurements, notices of the prospective awards are normally required to be publicized and potential contractors are given requests for proposals which identify the Postal Service's requirements and criteria for evaluating offers. After interested potential contractors are allowed sufficient time to prepare and submit offers, discussions (negotiations) with those in the competitive range<sup>4</sup> may follow. The competitor submitting the offer most advantageous to the Postal Service considering price and other factors is awarded the contract. In a negotiated noncompetitive procurement, the Postal Service negotiates with only one source.

## Objectives, Scope, and Methodology

The Chairman of the House Post Office and Civil Service Committee; the Chairman and Ranking Minority Member of both its Subcommittee on Postal Personnel and Modernization and its Subcommittee on Postal

<sup>4</sup>All proposals that have a reasonable chance of being selected for award. The range is determined by the contracting officer on the basis of cost or price and other factors that were stated in the solicitation.

Operations and Services; and the then- Chairman of the Senate Governmental Affairs Subcommittee on Civil Service, Post Office and General Services, requested in June 1986 that we undertake a "total and intensive review of the procurement policies, processes, and practices of the U.S. Postal Service and its Board of Governors."

In subsequent discussions with the House Post Office and Civil Service Committee, which took the lead on the request, it was agreed that we would limit our audit to purchases made by the Service's Procurement and Supply Department and the following two objectives:

- evaluating the adequacy of the management controls over contracts of \$1 million or more awarded during fiscal years 1985 and 1986 and
- evaluating the role of members of the Board of Governors in the procurement process.

Regarding the two other departments that make major purchases, we have initiated a separate review of the Postal Service's real estate acquisition process. The Postal Inspection Service is currently reviewing contracting for mail transportation services.

Our work was done at Postal Service Headquarters in Washington, D.C., and at the procurement and material management service center in Chicago, Illinois. At our request, postal officials obtained for our review contract files for all awards over \$1 million. We did our audit from September 1986 to September 1987 in accordance with generally accepted government auditing standards.

To address the first issue—adequacy of management controls over large procurements—we reviewed contract files for 109 of the 113 contract awards over \$1 million which were identified from the Postal Service's management information system. While we intended to review all 113 contracts awarded in fiscal years 1985 and 1986, postal officials could not locate files for three contracts and files for another contract were being used by the Postal Service's Board of Contract Appeals. Therefore, we could not examine these four contracts. Table 1.2 shows the types of contracts we reviewed and the dollar value of these awards for fiscal years 1985 and 1986. (App. I and II contain a complete listing of these contracts.)

Table 1.2: Contracts GAO Reviewed

Type of contract	Number awarded by Procurement and Supply	Number GAO reviewed	Amount
Sole-source	19	19	\$83,076,172
Negotiated	30	29	1,305,697,891
Formally advertised	64	61	347,240,320
<b>Total</b>	<b>113</b>	<b>109</b>	<b>\$1,736,014,383</b>

As agreed with the requesters, we used three sources for our criteria for evaluating the management controls applied by the Postal Service to these contracts. First, we applied the requirements contained in the PCM. Second, we applied prudent judgment based on our experience in evaluating contracting decisions and actions. Finally, although we recognize that Postal Service procurements need not follow the FAR, we used the FAR requirements to illustrate how Postal Service regulations differ from those of federal agencies. Although postal procurement is modeled on the federal system established by statute for defense and civilian agencies, the Service had not incorporated many changes in the statutory scheme that have been enacted since PCM was adopted in 1972.

From these sources, we selected specific criteria to evaluate the Postal Service's practices when contracting for goods and services. We applied these criteria to determine whether

- use of negotiated contracts were approved at a level above the contracting officer (see p. 19);
- the Commerce Business Daily (CBD) was used to contact potential contractors (see p. 20);
- contracting officers determined contractors to have the financial resources and technical capability to perform the requested work before awarding a contract (see p. 21);
- contracting officers had price analysis reports prepared to assist them in determining price reasonableness (see pp. 21 and 22);
- multiple bids were received on competitive awards (see pp. 22 and 23);
- sole-source justifications clearly and convincingly justified awarding a sole-source contract (see pp. 24 to 27);
- minority business enterprise awards complied with regulations (see pp. 27 to 30);
- use of basic ordering agreements complied with regulations (see pp. 30 and 31);

- contract files contained convincing evidence that the price negotiated was fair and reasonable (see pp. 31 to 35);
- specifications used to obtain bids were accurate, complete, and nonrestrictive (see pp. 35 and 36); and
- specific contract awards were influenced by a member of the Board of Governors (see pp. 39 to 42).

When information contained in the contract file raised questions, we obtained additional information from the contracting officer and other postal officials until we were either satisfied with the explanation or concluded that the procurement was questionable under the circumstances.

To address the second issue—the role of Board members in the procurement process—we reviewed the minutes and transcripts of monthly Board of Governors' meetings for fiscal years 1985 and 1986 and reviewed 205 contract files for evidence of Board member involvement or influence. The 205 contract files included the 109 valued at over \$1 million (used to address the first issue) and 96 randomly selected contracts valued at between \$25,000 and \$1 million from a universe of 442 such contracts from headquarters Procurement and Supply Department. We also interviewed 20 of 24 contracting officers from this department and the Secretary of the Board to obtain their observations and perspective on involvement by members of the Postal Board of Governors in awarding individual contracts. The reasons why the other four contracting officers were not interviewed are shown on page 42.

In addition, we discussed with responsible officials, including the Assistant Postmaster General for Procurement and Supply, the actions taken by the Postal Service in response to the December 1986 report issued by the Board of Governors' counsel on the procurement process. The report contained recommendations for the Procurement and Supply Department to strengthen the procurement process and for the Governors to limit their involvement in individual contracts.

# Controls the Postal Service Consistently Applied to Large Contracts

The Postal Service routinely applied a variety of acceptable internal controls to their large dollar procurements. Controls applied included obtaining written approval at a level above the contracting officer for negotiated contracts, publishing information in the CBD on proposed contracts, establishing the responsibility of contractors before making an award to them, requesting audits of certified cost or pricing data submitted by contractors, preparing written records of price negotiations, and obtaining adequate competition in the form of multiple bids for formally advertised contracts in our universe.

Overall, we found that the Postal Service had consistently applied these controls during the contract award process. We believe that these controls, taken together and properly implemented, can help prevent or detect the occurrence of unauthorized practices in contracting for goods and services.

While controls were in place and routinely applied during the contract award process, weaknesses occurred because the effectiveness of the controls was compromised by errors in judgment or other events. The weaknesses we identified are discussed in chapter 3.

## Negotiated Contract Awards All Were Approved at a Level Above the Contracting Officer

Requiring approval of negotiated contracts at a level higher than the contracting officer provides oversight and a degree of control over contracting officers' decisions to negotiate and award contracts with prospective contractors. We found that written approval to negotiate was obtained from a level above the contracting officer and documented in the contract file for all 48 of the negotiated contracts we examined.

The Postal Contracting Manual (PCM) says that formal advertising is the preferred method of purchasing supplies and services. However, it also permits contracts to be negotiated without formal advertising on a competitive or noncompetitive (sole-source) basis. Negotiated noncompetitive contracts are permitted when the contracting officer determines it is impossible to draft a solicitation of bids, adequate specifications, or any other adequately detailed description of the required services. There are also other acceptable reasons for making a sole-source award, such as when a single contractor holds essential patent rights and when the item needed is available from only one source.

PCM requires contracting officers to document their reasons for awarding a negotiated contract and to obtain written approval of such a decision. Examples of individuals who can grant such approval are the Assistant

Postmaster General, Procurement and Supply Department; the Regional Postmaster General; or the General Manager, Procurement Division.

Applying the above criteria, we determined whether (1) the contract files contained the contracting officer's rationale for awarding a negotiated contract and (2) authorized approval of the contracting officer's decision was obtained. Our analysis of the files showed that each of the 29 negotiated competitive contracts and each of the 19 noncompetitive or sole-source contracts contained a justification prepared by the contracting officer to permit a negotiated award. Each file also contained written approval to make the award from a level above the contracting officer. However, while justifications complying with PCM procedures were prepared for all 48 contracts, we concluded that 10 of the 19 justifications for noncompetitive contracts did not provide sufficient information to clearly and convincingly justify a sole-source award. This is discussed in chapter 3.

## CBD Used to Disseminate Information on Proposed Contracts

In order to obtain competition, it is necessary to provide procurement officials with adequate lead time to analyze the Postal Service's needs, to develop a statement of those needs, and to investigate the availability of competition. Both PCM and FAR require that proposed procurement actions in excess of \$10,000 be publicized in the Commerce Business Daily Synopsis of U. S. Government Proposed Procurement, Sales and Contract Awards (CBD), with certain exceptions.<sup>1</sup> Publicizing the planned award informs potential contractors and subcontractors of the forthcoming award.

Our analysis of large dollar contract files showed the Postal Service was, for the most part, meeting this requirement. Of the 109 contracts we reviewed, 92 were subject to the CBD requirement to publicize planned awards. The remaining 17 contracts were exempt from the requirement, 10 on the basis that the Service was contracting with Minority Business Enterprise (MBE) firms; 3 because the head of the Office of Contracts determined that synopsis was not appropriate, reasonable, or practicable; 3 because of compelling urgency; and 1 because it was for utility

<sup>1</sup>Generally, synopsis in the CBD is not required when procurements relate to classified matter; perishable substances; utility services; a need for supplies or services which is of such unusual and compelling urgency that the Postal Service would be seriously injured by the delay incident to synopsis; orders placed on existing contracts; purchases from another government department, agency, or educational institution; purchases in which only foreign sources are solicited; acquisitions from minority business enterprises; and when the head of a procuring activity determines that synopsis is not appropriate, reasonable, or practicable. These exceptions permitted by PCM are consistent with the exemptions authorized in FAR.

services. We found that 82 of these 92 contracts subject to the requirement were publicized in CBD and 10 were not. Although postal officials explained why these 10 planned purchases were not synopsisized, such as because they were delivery orders against Basic Ordering Agreements or because responses were requested from only qualified sources, PCM does not authorize exceptions to the requirement for publicizing planned procurements for these reasons.

## Contractor Responsibility Was Determined Before Contract Awarded

The assessment of a prospective contractor's ability to perform the work is an important step in the contracting process because it provides reasonable assurance that the Postal Service gets its money's worth and obtains needed goods and services in a timely manner. PCM requires contracts to only be awarded to responsible contractors. For each procurement, the contracting officer is required to determine that a prospective contractor can demonstrate affirmative responsibility by applying a number of general standards. These standards include: (1) either having or being able to obtain adequate financial resources, (2) being able to meet the required delivery or performance schedules, (3) having a satisfactory record of performance, (4) having a satisfactory record of integrity, and (5) being otherwise qualified and eligible to receive an award under applicable laws and regulations. PCM says that any doubt as to productive capacity or financial strength which cannot be resolved affirmatively shall require a determination of nonresponsibility.

The Postal Service is fully complying with the requirement to determine contractor responsibility. In reaching this conclusion, we examined whether standards were applied but did not evaluate the adequacy of work performed. For 108 of the 109 contracts we reviewed, records in the contract file showed that before award of the contracts, postal contracting officers determined that prospective contractors were responsible. The remaining contract was a utility services contract, which did not require a determination of responsibility because it was a part of an existing GSA area-wide utility contract.

## Audits of Contractor Costs Were Conducted

The overall objective in the procurement of goods and services is to acquire the needed item at a fair and reasonable price. Cost and pricing data submitted to the Postal Service by prospective contractors are used in negotiations to determine if prices offered are reasonable.

PCM requires the contracting officer to request an audit of the contractor's proposal before negotiation of any contract exceeding \$250,000

when negotiations are based on contractor submitted certified cost or pricing data. This requirement can be waived by the head of the procuring activity when it is clear that information already available is adequate to determine price reasonableness.

We found that the Postal Service requested and obtained pricing audits for each of the 20 contracts negotiated on the basis of certified cost or pricing data. The audits were done by the Service's Financial Analysis Branch, its Office of Information Resource Management, the Defense Contract Audit Agency, or a private firm specializing in pricing and contracting strategies.

For the remaining 28 negotiated contracts in our universe, we examined why audits were not requested. PCM permitted the reasons provided in all 28 cases. Examples of valid reasons for not requesting an audit included the contracting officer's determination that price was based on adequate price competition or established catalog prices.

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## **Contract Files Contained Rationale for Prices Negotiated**

In order to document the principal elements of price negotiations, PCM requires the contracting officer to prepare a memorandum for the contract file summarizing the significant facts surrounding the negotiations and providing the reasons for accepting the contract price.

Our review of the 48 negotiated contract files disclosed that documents which provided the rationale for accepting the contract price were prepared for all 48 of the awards. While reasons were provided in all cases, we identified 13 contracts where the reasons did not, in our opinion, provide adequate assurance that the price agreed to was fair and reasonable. This issue is discussed in chapter 3.

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## **Adequate Competition Was Obtained on Formally Advertised Awards**

The Postal Service obtained adequate competition on its formally advertised contracts. Two or more bids were received on 59 of the 61 formally advertised contracts we reviewed. For these 59 contracts, the number of bids received ranged from a low of 2 to a high of 23. Table 2.1 shows the number of bids received per invitation. File documents for one contract, which was for upgrading computer processor equipment at the St. Louis, Missouri, Postal Data Center, showed the Service received one bid in response to its invitation for bids. One bid was also received on a utility services contract for electricity, natural gas, and steam services. This contract conformed with PCM requirements that postal activities and installations are to use GSA areawide utility contracts, when available.



Table 2.1: Number of Bids Received on  
Advertised Awards

Number of bidders	Number of contracts awarded
1	2
2	3
3	5
4	3
5	6
6 to 10	20
11 to 15	15
16 to 22	6
23	1
<b>Total</b>	<b>61</b>

## Possible Fraud Involved in Four Contracts

Although we found the Postal Service generally was applying internal controls, their use does not guarantee that fraud will not occur. Regarding the contracts we reviewed, we were informed or obtained information which indicated that fraud was involved in two contracts and may have occurred in two others. According to a Postal Inspector, a complaint received from a losing bidder alleged impropriety in two of the four contracts. The Postal Inspection Service used this information as a basis to begin an inquiry. In addition, two Minority Business Enterprise (MBE) contracts awarded to the same contractor are involved in a criminal investigation conducted by federal prosecutors. The investigation to date has resulted in an indictment of a postal contracting officer and a subsequent guilty plea.

## Conclusions

The Postal Service routinely applied the controls discussed in this chapter. However, we recognize that the application of these procedural controls does not guarantee successful procurements and/or the elimination of fraud, waste, or mismanagement. The four contracts that were being investigated for possible fraud demonstrate that fraud can result even when controls are consistently applied. In addition, the apparent weaknesses in postal procurement practices discussed in chapter 3 occurred in spite of application of acceptable internal controls because the controls were compromised by errors in judgment or other events.

# Weaknesses Identified in Postal Procurement Practices

Overall the Postal Service had applied several management controls to its large dollar contracts. (See chap. 2.) However, our evaluation of individual contracts identified several recurring weaknesses in postal procurement practices which, if corrected, would result in dollar savings and improved contracting practices. We determined that 44 of the 109 contracts over \$1 million that we reviewed had one or more of these weaknesses which, in our judgment, made the procurement questionable under the circumstances.

The Postal Service has one of the largest procurement functions in the federal government and routinely purchases large quantities of goods and services. Accordingly, the Service should obtain prices based on the magnitude of its purchasing power. Prices obtained should reflect quantity discounts that are available to customers making volume purchases.

Recurring weaknesses that we identified included (1) contract files lacking convincing data to justify the award of a sole-source contract; (2) unwarranted costs incurred on Minority Business Enterprise awards; (3) Basic Ordering Agreements used to place large dollar orders without competition; (4) negotiated contract files lacking convincing documentation that the contract price was fair and reasonable; and (5) restrictive, incomplete, or outdated specifications used for purchases.

These recurring weaknesses generally resulted because (1) approvals for sole-source contracts were granted even though the reasons provided lacked convincing evidence to support the decision, (2) the desire to have Minority Business Enterprise participation led to acceptable procurement practices not being followed, (3) a waiver that permitted using a Basic Ordering Agreement without competition did not contain a maximum order limitation, (4) prices were accepted without documenting that comparable sales are made to the public at similar prices, and (5) requests for brand name items were accepted by the Office of Procurement without question. In summary, while chapter 2 demonstrates that the Postal Service routinely follows and documents prescribed formal processes, weaknesses occurred because controls were compromised by errors in judgment or were perfunctorily applied.

## Questionable Use of Sole-Source Contracts

PCM requires the Postal Service to award contracts on a competitive basis to the maximum extent practical. Sole-source awards are permitted when competitive purchases are not feasible and the circumstances which justify the need for a negotiated award are documented and

approved. The Postal Service uses a written justification called a "determinations and findings statement" to obtain approval for negotiated awards. The contracting officer prepares this document, which must be approved by the head of the procuring activity or above to authorize procurement by negotiation. The contracting officer is responsible for assuring that a competitive purchase is not feasible and avoiding the need for subsequent noncompetitive purchases.

We examined the justifications contained in the contract files for the 19 sole-source contract awards that exceeded \$1 million. We concluded that for 10 of the 19 awards, the information in the contract file did not clearly and convincingly justify the use of a sole-source contract.

For example, a contract for building and maintenance services at the Postal Service's Management Academy was awarded on a sole-source basis for the seventh consecutive year. The original contract was awarded in 1980 when the Postal Service acquired the Academy property. In the purchase agreement for the Academy, the Postal Service promised to continue to employ the maintenance staff. The Postal Service did not want to put the five employees on its payroll, so one of the employees formed a company which was awarded a contract to provide maintenance support. The company, which works exclusively for the Postal Service and has no other customers, had expanded to some 50 employees in the 1986 contract.

The 1986 contract action we reviewed was an annual option to provide building and maintenance services for the Academy at a cost of \$1.7 million. The contract file contained a letter to the Director, Office of Contracts, from the Postal Service's Assistant General Counsel, Procurement Division, that expressed serious reservations as to whether the continued sole-source awards to this company could be defended if challenged by another maintenance firm. Additionally, from the Law Department's perspective, there is nothing in the renewal to reflect any particular uniqueness of the services offered by the contractor. Counsel advised that consideration be given to the issuance of a competitive procurement by the close of the 1-year option ending October 31, 1987.

In response to our April 1987 inquiry, procurement officials told us that the facilities department was working with the Academy to develop a statement of work for a new competitive contract. However, on October 7, 1987, the Postal Service again awarded a 1-year contract on a sole-source basis for \$2.6 million because the facilities department had not developed a suitable statement of work for a competitive contract.

Another example of questionable use of a sole-source award involved the Postal Service's acceptance of an unsolicited proposal resulting in a \$2.3 million contract. Although the Service had purchased data rights in 1985 to avoid future sole-source procurements, in 1986 it awarded another sole-source contract to the same vendor for 1,225 upgrade kits and 1,750 currency validator kits to upgrade commodity vending machines. These machines are used to market a variety of postal products, such as stamp booklets and rolls of stamps, that produce revenue. The sole-source justification included a statement that if the Postal Service did not take advantage of the unsolicited proposal, the Service stood to lose approximately \$250 million in potential revenue increases and labor savings over the next 12 months. Savings were expected to result because equipment which had been previously modified with these kits experienced average revenue increases of 100 percent. The justification also said that approval will allow for competitive procurements of this type of equipment in the future.

A third example was a \$2.1 million sole-source contract for 10,000 Express Mail collection boxes. The sole-source award was made because the Customer Services Department, which originated the requirement, did not allow sufficient lead time for the Office of Procurement to obtain adequate competition on this frequently purchased item. The procurement request was dated June 14, 1985, and deliveries were requested to begin October 1, 1985. According to the sole-source justification, a competitive procurement would result in January 1986 as the earliest delivery date. Correspondence in the contract file shows the requesting office wanted a sole-source procurement with this contractor because of the contractor's past performance. We believe that better planning by the Customer Services Department could have eliminated the sole-source award for this frequently purchased item.

The additional seven sole-source awards that we questioned included two awards for frequently purchased items, two contracts for pallets awarded because an adequate specification was not available, and three Minority Business Enterprise awards. The frequently purchased items were for computer equipment which are available from multiple sources. The pallets are provided to large mailers to stack mail and have been repeatedly purchased by the Postal Service on a sole-source basis. However, documents in the file show the pallets are not unique items which justify sole-source purchasing. The MBE awards were questionable because one award resulted in unwarranted costs and in two others only one MBE firm was identified that could perform the work. This MBE firm

had successfully competed for other postal contracts for similar items that were not reserved for MBE firms.

## MBE Awards Have Resulted in Unwarranted Costs

Twelve of the contracts we reviewed were awarded under the Service's Minority Business Enterprise program. PCM advocates purchases from MBE firms and requires that such awards not exceed 110 percent of the Postal Service's estimated cost. We found that for 6 of the 12 MBE contracts we examined, the Postal Service incurred additional costs of \$2.6 million which, in our opinion, were not warranted by the circumstances. The six contracts are discussed below.

## Tri-Vending Consoles

The Postal Board of Governors approved a Vending Equipment Program in January 1985 to promote efficiency and customer convenience in selling stamps. Each vending unit is comprised of a coil stamp dispenser, a dollar bill money changer, and a stamp booklet vendor. In April 1985, the Office of Procurement issued a solicitation reserved for MBE firms, which called for 10,000 vending consoles. However, since all the consoles could not be installed as planned, the initial quantity was reduced to 4,000 units with plans to purchase other units at a later date. The Postal Service estimated the vending console unit cost at \$950.

Between June 25, 1985, and August 7, 1985, all four MBE contractors were awarded contracts for 1,000 console units with options for each vendor to provide 1,500 additional units. (The four contracts plus options would result in a total of 10,000 units). Table 3.1 shows the cost of four contracts negotiated by the contracting officer for the original 4,000 console units totaled about \$3.7 million.

Table 3.1: MBE Contracts for Tri-Vending Consoles

Contractor	Number of units	Unit price	Total price
Contract A	1,000	\$896	\$896,000
Contract B	1,000	990	990,000
Contract C	1,000	856	856,000
Contract D	1,000	\$931	931,000
<b>Total</b>			<b>\$3,673,000</b>

The principal issue related to these awards is why four contracts, as opposed to one or two, were awarded. The General Manager, Postal Operations, Office of Procurement told us the main reasons for four awards instead of one or two were reduced risk involved with multiple

awards, expected quicker delivery, enlargement of postal's minority vendor base, and establishment of sources for future competitive purchases.

The following tables provide details on the options that were available to the Postal Service to reduce contract costs but were not exercised.

**Table 3.2: Option 1: Award Two Contracts Instead of Four With Awards to the Two Lowest Bidders**

Contractor	Unit price <sup>a</sup>	Number of units	Total price
Contract C	\$865	2,000	\$1,730,000
Contract A	\$772	2,000	1,544,000
<b>Total</b>			<b>\$3,274,000</b>
<b>\$3,673,000 - 3,274,000 = \$399,000 Savings</b>			

<sup>a</sup>Prices quoted by two low bidders on original solicitation for a quantity of 2,000.

**Table 3.3: Option 2: Award One Contract to the Lowest Bidder Instead of Four Contracts**

Contractor	Unit price <sup>a</sup>	Number of units	Total price
Contract A	\$772 <sup>a</sup>	4,000	\$3,088,000
<b>\$3,673,000 - 3,088,000 = \$585,000 Savings</b>			

<sup>a</sup>This price was quoted for quantities of 2,000, 3,000, 5,000, and 10,000.

Since both options one and two would have resulted in substantial savings and retained all the work for Minority Business Enterprises, we concluded the additional costs to award four contracts were not warranted by the circumstances.

Before any contracts were awarded, the Postal Service's Law Department notified the contracting officer they were unaware of any PCM provision which would authorize the expenditure of additional funds in order to increase minority participation from two sources to four sources.

**General Purpose Mail Containers**

Two MBE awards, to the same firm, were for general purpose mail containers that are also regularly purchased from non-MBE firms on a competitive basis. These awards, which totaled about \$8.6 million, were questionable because (1) all the work was subcontracted to a non-MBE firm, (2) the prices agreed to were excessive compared to other purchases of the same item, and (3) high-level postal officials apparently pressured contracting officials to award the initial contract to one

particular firm. We estimate that unwarranted costs totaling about \$2.2 million resulted from the award of these two contracts.

The initial contract was for 24,786 containers at a unit price of \$231.00 for a total cost of about \$5.7 million. Although the price was exactly 110 percent of the Postal Service estimate of \$210.00 per unit, we question the validity of the Service's estimate because 2 months earlier the Service had awarded formally advertised contracts with three other vendors at unit prices of \$139.99,<sup>1</sup> \$174.00, and \$175.74.

Table 3.4 shows a comparison of the formally advertised prices with the MBE prices. This comparison shows that additional costs of about \$1.4 million were incurred by awarding this contract, considering that the lowest cost contractor would have been unable to produce because a flood subsequently destroyed this contractor's plant.

**Table 3.4: Comparison of MBE and Formally Advertised Unit Prices**

MBE contract Price	Formally advertised contract prices	Additional costs per unit	MBE units awarded	Additional costs incurred
\$231.00	\$139.99	\$91.01	24,786	\$2,255,774
\$231.00	\$174.00	\$57.00	24,786	\$1,412,802
\$231.00	\$175.74	\$55.26	24,786	\$1,369,674

The second contract awarded in March 1986 was for 12,519 containers at a unit price of \$231.00 for a total cost of about \$2.9 million. Again, the MBE contractor subcontracted all the work to the non-MBE firm. In June 1986, the same non-MBE firm also was awarded a competitive contract for 58,000 containers at a unit price of \$171.00. The Postal Service paid \$60.00 per unit or a total of about \$751,000 more for the containers produced by the same contractor on the MBE award.

Documents in the contract file indicated that high-level postal officials may have influenced the decision to award the initial contract to the MBE firm which is currently under criminal investigation. This issue is further discussed in chapter 4.

The Postal Service said the reasons for awarding the container contracts to the MBE firm (with the non-MBE firm as the subcontractor) were that this firm represented the first minority contractor with "capability to

<sup>1</sup>Contract was terminated because a flood destroyed contractor's plant.

produce" the containers and it was consistent with the policy of multiple awards of general purpose mail containers.

## Basic Ordering Agreements Were Used to Make Large Dollar Purchases Without Competition

A Basic Ordering Agreement (BOA) is a written agreement between the Postal Service and a contractor that contains (1) terms and clauses applying to future orders placed under the agreement; (2) a description of the supplies or services to be provided; and (3) the method of pricing, issuing, and delivering future orders. A BOA is a means of expediting purchases of supplies and services where specific items, quantities, and prices are not known at the time the agreement is negotiated with a contractor. Use of BOAs can be advantageous and economical in ordering because the administrative time required for placing orders is shortened. However, PCM requires that BOAs shall not be used to restrict competition. A BOA is not a contract and does not require the Postal Service to place orders. However, it becomes a binding contract when an order is issued by an authorized activity under the terms of the agreement. PCM requires a contracting officer, among other things, to determine when the order is placed, that it is impractical to obtain competition by formal advertising or negotiation.

The listing of postal contracts over \$1 million included five awards made using BOAs. Three awards were for computer equipment and two were for research work in the areas of robotics and image acquisition techniques for mail sorting. We questioned three of these five contracts because they were awarded without competition.

## Computer Equipment

In 1984 the Postal Service, to maximize the efficiency of acquiring office automation equipment such as minicomputers, established BOAs with nine major manufacturers. Each BOA contained an option to extend the agreement for two additional 2-year terms and eight agreements were extended. Establishing the BOAs was a first step in developing minicomputer system standards with an overall goal to select a single standard and vendor for minicomputers.

A waiver dated May 14, 1984, from the Assistant Postmaster General, Procurement and Supply Department, approved blanket deviation for the initial 2-year term of the computer equipment BOAs from the PCM requirement to compete all qualified sources before placing orders. The waiver was granted because the Assistant Postmaster General, Procurement and Supply, determined that placing an order with any of the firms that had BOAs would satisfy the intent of the PCM requirement to



obtain competition. We believe the waiver restricted competition and should not have been granted without establishing maximum order limitations. The automation BOAs did not contain volume discounts or maximum order limitations and the Postal Service purchased large quantities of equipment using these agreements without assurance that the prices were commensurate with the quantities purchased. During fiscal years 1985 and 1986, one contractor's BOA sales to the Postal Service totaled about \$45 million. The contractor received two of the three BOA awards for computer equipment that exceeded \$1 million. We question the practice of using BOAs to purchase large dollar orders of computer equipment because millions of dollars are being spent without obtaining competition or assuring that prices reflect quantity discounts.

In contrast, GSA schedules for similar equipment have maximum order limitations and require federal agencies to publicize their intent to purchase in the Commerce Business Daily (CBD) to permit others to compete for awards over \$50,000.

## Research BOAs

The Postal Service has established 25 to 30 research BOAs to provide established sources for research work on new and advanced concepts in areas such as character recognition and mail sorting. Two contracts we reviewed were orders placed against research BOAs. According to the contracting officer, a contractor's technical capability is a major factor in awarding work under research BOAs.

Although the Service established BOAs with 25 to 30 potential competitors in the area of research work, one of these two orders for \$1.5 million was awarded without competition among the established BOAs or others. The contracting officer was unable to explain why this purchase was not competed.

## Contract Files Lacked Documentation That the Price Negotiated Was Fair and Reasonable

PCM requires that some form of price or cost analysis should be made in connection with every negotiated purchase. The method and degree of analysis, however, is dependent on the facts surrounding the purchase, including the amount of the proposed award. The responsibility for determining price reasonableness rests with the contracting officer.

Certified cost and pricing data are required for negotiated contracts exceeding \$100,000 except when the contracting officer determines proposed prices are based on (1) adequate price competition, (2) established

catalog or market prices of commercial items sold in substantial quantities to the general public, (3) law or regulation, or (4) when the head of procuring activity authorizes a waiver of certification. Price analysis (the process of examining and evaluating a prospective price without evaluation of separate cost elements and profit) is required in all instances when review and evaluation of the contractor's cost or pricing data has not been done. When price is negotiated on the basis of certified cost or pricing data, the Postal Service should include a price adjustment clause for defective cost or pricing data in the contract. This clause entitles the Service to a price adjustment for any defective cost or pricing data submitted by the contractor.

We reviewed the contract files for 48 negotiated contracts to determine whether the files contained convincing evidence that the price negotiated was fair and reasonable. We concluded that 13 of the 48 contract files lacked convincing evidence that the price agreed to was appropriate.

## Long-Life Vehicles

One such case is the Service's \$1.1 billion contract for 99,150 "long-life" vehicles, intended to be the next generation of postal delivery vehicles. The vehicles were designed for a life expectancy of 24 years and consist of a modified General Motors chassis and an aluminum body. Since this was the largest vehicle contract in the Service's history and comprised nearly half of the fiscal year 1986 obligations of the Procurement and Supply Department, we expected the contract file would fully document decisions made during negotiations. However, we found the contract files raised questions on how several of the major contract costs were determined reasonable. The price negotiation memorandum prepared by the contracting officer said that the Postal Service was unsuccessful in negotiating as much of a reduction as had been thought possible. The memo went on to say that the contractor's pricing was generally sound and well supported. Negotiations reduced the proposed price about \$5.8 million, less than 1 percent of the total. We were unable to reconcile each item questioned in the cost analysis because the records of the negotiations did not provide that level of detail.

Because the subcontract for the chassis represented about one-half of the contract cost, a careful analysis of that element would have been appropriate. However, the file reveals that little analysis was done on the cost and proposed price of the chassis. The Postal Service accepted the bid on the basis it was a subcontractor supplied item and the subcontractor had given the contractor its most favored customer price for the

same or similar products. As a result, the subcontractor did not furnish detailed cost or pricing data. Further complicating this matter is the fact that the contract does not contain a price adjustment clause for defective cost or pricing data which is standard in negotiated contracts. This raises the question of whether a refund would be forthcoming if an audit disclosed defective pricing. The contracting officer advised us this oversight apparently occurred because the competitive procurement changed to a negotiated buy when the other competitors failed testing.

While PCM allows acceptance of most favored customer prices for commercial items, we do not believe it was appropriate in this case because of the large quantity of vehicles purchased. PCM requires examining the contractor's price lists and discount or rebate arrangement and considering the volume of business when prices are negotiated on the basis of most favored customer. However, data in the contract file did not disclose whether or how these requirements were complied with on the long-life vehicle contract.

Another area of negotiations not clarified by the contract file was the rate of profit. The price analysis prepared for negotiations by a consulting firm questioned the 11 percent profit rate and instead recommended a 9 percent rate because of the following:

- The vehicle was low risk and in many respects an "off-the-shelf" production.
- The risk with economic developments beyond the contractor's control was virtually nonexistent because the contract contains an economic price adjustment clause and a provision for the payment of "milestones" at a price keyed to completion of specific nonrecurring tasks. This payment method provides the contractor with money (including profit) as it performs, thereby eliminating risk associated with deferred payments.
- The contractor had excellent protection to recover its costs if the program were to be cancelled.

The difference between the 11 percent rate and a 9 percent rate is \$22.9 million. However, documents in the contract file did not explain how this difference was resolved during negotiations.

### Other Contracts Showing Little Price Analysis

A \$1.7 million contract for building and maintenance services further illustrates how the data in the contract files did not provide assurance that the price negotiated was fair and reasonable for 13 of the 48 negotiated contracts. The cost and price analysis performed by the Office of

Procurement did not indicate whether the rates were competitive even though this question was raised by the Director, Office of Procurement. However, the Postal Service accepted the price proposed by the contractor.

Another \$2.5 million contract involved 324 off-the-shelf disk drives for the Service's computerized processing system. The disk drives were needed to upgrade memory capacity of the Postal Service's Vehicle Management Accounting System. The contract price was negotiated on the basis of a price list provided by the contractor's marketing representative dated June 1984. The contract was awarded in December 1984, and the negotiation memorandum said the price negotiated was equal to or less than previous GSA prices. In our opinion, the contract did not assure that the price negotiated was reasonable because the price list was 6 months old and there was no evidence that comparable sales had been made to the public at the prices shown on the price list.

A \$1.1 million negotiated contract for replacement switches to upgrade computer main frames also raises questions concerning price reasonableness. The file contained a memo prepared by the contracting officer saying that this type of equipment had previously been obtained from GSA and the price negotiated was equal to or less than GSA's. The memo further said that the contractor's prices represented prices equal to or better than standard commercial prices. The contracting officer accepted the price proposed but the negotiation memo did not provide a comparison to the actual prices quoted by GSA or to published catalog prices. In comparison, if a federal agency intended to purchase this quantity of switches from GSA, the agency would have been required to publicize its intent to purchase to permit others to compete. (See p. 31.)

Five contracts totaling \$8.9 million were agreements to apply foreign technology for developing mail processing equipment. The agreements are used to test contractor equipment built in the United States in a live postal environment with the expectation of future production contract awards to firms that have successful tests. PCM does not cover this method of contracting. However, Postal Service officials said it has been accepted by industry and the Service plans to continue using these agreements. We believe these specific agreements raise questions concerning price reasonableness because the records of negotiations indicate that funds available rather than questionable costs were the primary reason for price reductions during negotiations.

Another \$2.5 million contract for computer replacements was based on catalog prices that represented a 15 percent reduction from the manufacturer's suggested retail prices. Certified cost data from the dealer that received the contract were waived on the ground that prices were based on catalog prices. The Service's Financial Analysis Branch reviewed the proposal and accepted the catalog pricing proposed by the contractor. In our opinion, the contract file did not contain convincing documentation that the price negotiated was reasonable.

### Specifications Used Were Unnecessarily Restrictive, Incomplete, or Outdated

PCM requires that specifications state only the actual minimum needs of the Postal Service. Specifications are further required to describe the supplies and services in a manner that will encourage maximum competition and eliminate, insofar as possible, any restrictive features which might limit acceptable offers to one supplier's product or the products of a relatively few suppliers. During our review of the contract files, we looked for indications that the specification used was inaccurate, incomplete, or restrictive. We identified 24 contract awards that, in our opinion, used restrictive, incomplete, or outdated specifications. Use of poor specifications resulted in limited competition, delayed procurement, and increased costs. For example:

- Two contracts totaling \$5.7 million for pallets, a frequently purchased item, were awarded on a sole-source basis because the specification used in the prior solicitation for a competitive award was inadequate. Pallets manufactured to the specification in the competitive solicitation would not rest into existing pallets.
- A \$2.4 million contract for postage meter heads, which are purchased on a regular basis, was negotiated because no specification to permit a competitive award was available.
- The award of two contracts totaling \$15.2 million for mail containers and flat trays with collection box inserts, repetitively purchased items, were delayed because specifications were not current.
- Inaccurate initial drawings resulted in 36 changes to drawings and specifications to a \$9.9 million contract for stamp vending machines and spare parts. These changes resulted in over \$300,000 additional costs to the Postal Service for the needed engineering changes.
- Twelve contracts totaling about \$46 million were awarded using brand name purchase descriptions which limited competition to suppliers of the named product. The Office of Procurement did not challenge these restrictions.
- Two contracts awarded totaling about \$23 million included a requirement for stamp vending machines to accept Susan B. Anthony dollars.

This is an example of using an outdated specification because these coins were rarely used by 1985. Therefore, the manufacturers of currency changers, which are essentially off-the-shelf items, would need to redesign their currency changers to compete for this contract.

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## Conclusions

While the Postal Service had applied a variety of acceptable internal controls to its procurements, our evaluation of individual contracts identified the following recurring weaknesses in postal procurement practices:

- Sole-source contract files lacked convincing data to justify the award of a sole-source contract.
- Unwarranted costs were incurred on awards reserved for Minority Business Enterprises.
- Basic Ordering Agreements were used to purchase large dollar orders without competition.
- Negotiated contract files lacked convincing documentation that the contract price was fair and reasonable.
- Specifications used were unnecessarily restrictive, incomplete, or outdated.

The weaknesses noted generally resulted because:

- Approvals to proceed with sole-source purchases were granted even though the reasons provided lacked the convincing evidence needed to support the decision.
- The desire to have MBE participation led to acceptable procurement practices not being followed.
- A waiver was issued that permitted use of BOAs without competition that did not contain a maximum order limitation.
- Catalog or most favored customer prices were accepted as reasonable without testing to determine that comparable sales are made to the public at similar prices.
- Outdated or inadequate specifications prohibited making competitive awards or placed unnecessary requirements on competing contractors.
- User requests for brand name items were not challenged by the Office of Procurement.

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## Recommendations

We recommend that the Postmaster General direct the Assistant Postmaster General, Procurement and Supply, to take the following actions

to improve the purchasing practices of the Postal Service for large dollar contracts:

- Require written justification approving sole-source procurements to include information on (1) the efforts to find competition and the circumstances that prevented a competitive award, (2) reasons why only one contractor was determined to have the capability and experience required, and (3) plans to ensure future purchases are made competitively.
- Strengthen review procedures and criteria to assure that MBE contracts will not result in unwarranted costs.
- Establish maximum order limitations for Basic Ordering Agreements, and publicize orders over a stated limit in CBD to provide other firms the opportunity to compete.
- Emphasize the need to include convincing evidence in the contract file that the price of negotiated contracts is fair and reasonable.
- Reinforce the requirement that specifications used should be accurate, complete, and current.
- Emphasize that use of brand name purchase descriptions restricts competition and require explicit justification for specification of brand names.

## Agency Comments

In commenting on a draft of this report, the Postal Service accepted GAO's findings and recommendations and said corrective actions have been taken or are underway in response to GAO's recommendations. These actions included

- drafting instructions to improve the justifications for noncompetitive purchases;
- revising the contracting manual to establish a better balance between Minority Business Enterprise awards and good business decisions;
- establishing maximum order limitations for some BOAS;
- emphasizing training to teach procurement personnel to better document price reasonableness;
- reviewing specification packages for accuracy, completeness, and currency; and
- increasing competition for brand name purchases by requiring at least three brand names in specifications for commercially available products.

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**Chapter 3**  
**Weaknesses Identified in Postal**  
**Procurement Practices**

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The Postal Service believes the totality of the actions it is taking in the procurement area will improve overall purchasing practices.

Comments from the Postal Service are included as appendix III.



# Members of the Board of Governors Not Generally Involved in Contractor Selection

Recent criminal investigations have raised questions concerning the role of the Board of Governors in the Postal Service procurement process. As requested, we looked for evidence of Board member involvement in the contractor selection process. We examined 205 contract files, reviewed minutes and/or transcripts of 24 Board meetings, and interviewed Postal Service contracting officers. Although the Board's charter does not forbid members from being involved in selecting contractors, we found that such involvement generally did not occur. Our review disclosed four instances where Board members (primarily the Postmaster General, who is both a Board member and the Chief Executive Officer of the Postal Service) appeared to have been involved in the selection of a contractor. In two of these instances, it appears that the Postmaster General's actions were related to his duties as Chief Executive Officer of the Postal Service and not necessarily as a Board member. We found no evidence of improper influence in three of the four cases. In the remaining case, we did not determine if there was improper influence because it involves a company that is currently under criminal investigation.

Our review did not include the proposed award of a contract for multiline optical character readers because the Department of Justice and the Postal Inspection Service are investigating that matter. In May 1986, the Board's former Vice Chairman resigned after pleading guilty to criminal charges of taking bribes for attempting to influence that action. In July 1987, the Board adopted a code of ethics for its members to bolster public confidence in the postal procurement process.

## Board's Authority

The Board of Governors has broad authority over procurement actions. The Board's charter, defined in 39 C.F.R., Section 3.4, provides that the Board should approve the Postal Service's 5-year capital investment plans, including specific approval of each capital investment project, each new lease/rental agreement, and each research and development project exceeding \$10 million (\$5 million before March 3, 1986) in total external cost. It also requires that the Board approve any expenditure exceeding amounts which the Board had previously authorized. The charter also provides the Board with discretion to reserve for its approval all matters that it considers appropriate to reserve for such approval.

The report of the Counsel to the Postal Board of Governors (see p. 14) recommended that the Board adopt written guidelines prohibiting the Governors from involvement in the selection of individual contractors.

The Secretary of the Board told us that the recommendation will not be addressed because Governors normally are not involved in this process.

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## Contract Files Examined

Our examination of files for 205 contracts awarded during fiscal years 1985 and 1986 identified four instances where a member of the Board of Governors (primarily the Postmaster General) was involved in the contractor selection process. The circumstances surrounding Board member involvement in the award of these contracts is discussed in the following sections.

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## Contract for Consulting Services

In January 1986, the Postmaster General retained a consultant on a sole-source basis to assist him in reviewing the organizational structure of the Postal Service and its principal management processes. The consultant was paid \$900 a day or any part of a day, plus expenses of up to \$300 per day for these services. The contract expired on August 31, 1986. From January 17 through August 31, 1986, the consultant was paid \$156,600 for personal services and \$14,200 for expenses for a total of \$170,800.

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## Contract for Expert Witness

In a March 19, 1986, memorandum, the Postal Service's Office of General Counsel requested approval from the Postmaster General to retain the services of a particular expert witness on a sole-source basis. The witness was to be used to rebut the report and anticipated testimony of a plaintiff's expert in a lawsuit filed against the Postal Service. The Postmaster General approved the request, as did the Assistant Postmaster General, Procurement and Supply. Under the terms of the contract, the Postal Service paid the expert witness \$1,500 per day plus expenses. This contract was estimated to cost a total of about \$32,000.

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## Contract for General Purpose Mail Containers

The sole-source justification for a contract in the amount of \$5,725,566 for the manufacture of 24,786 general purpose mail containers indicates that the award may have been influenced by high-level postal officials, including the Postmaster General. Documents in the file show that top management officials specifically requested the Office of Procurement to conduct a pre-award survey to determine a specific contractor's capability to produce or deliver containers to the Postal Service. On the basis of a favorable pre-award survey, these officials further directed the sole-source set-aside of containers for this contractor.

Officials of the company were under criminal investigation for making payoffs to public officials in exchange for winning government contracts. As part of the investigation, a former Postal Service contracting officer pled guilty to charges of accepting bribes to help the contractor obtain two Postal Service contracts for mail containers.

### Contract for Audit Services

On the basis of the Board of Governors Audit Committee's recommendation, the Postmaster General requested the Assistant Postmaster General, Procurement and Supply, to award a sole-source contract to the selected firm for year-end audit services. As a justification for making such an award, the Postmaster General said the contractor had performed the audit since 1983 and is uniquely familiar with the changes that have taken place. According to the Postmaster General, such experience would enable the contractor to perform the audit more efficiently than any other contractor and support management efforts to improve the Postal Service's financial system.

### Minutes and Transcripts of Board Meetings Reviewed

We reviewed the official minutes of the 24 monthly open session meetings of the Board of Governors that were held during fiscal years 1985 and 1986, and also reviewed 23 of 24 transcripts of the proceedings at these open meetings. We did not review the April 1985 transcript because, according to the Secretary of the Board, it had been subpoenaed by a court and was not available for our review. Also, we did not review the closed session transcripts because they had been subpoenaed by a court.

While the Board has broad authority to become involved in procurement decisions, it rarely chooses to do so except in those instances where their approval is required. During our review of the minutes and transcripts, we identified 29 instances where the Board approved funding for procurement contracts. Of these 29 instances, 22 were for contracts that exceeded the threshold value of \$5 million or \$10 million, and four contracts were for additional funding. In each instance, Board funding approval was required. In the three remaining instances, the Board exercised its discretionary authority to approve funds for projects that it considered appropriate to reserve for such approval.

We reviewed each of these three contracts for evidence of Board involvement in contractor selection. We found evidence of Board involvement in one of the contracts which was for year-end audit services. The circumstances surrounding the award of this contract are

covered on page 41. There was no evidence of Board involvement in contractor selection in the remaining two contracts.

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## Contracting Officers Interviewed

We interviewed 20 of 24 individuals from headquarters Procurement and Supply Department who were, according to the procurement policies officer, contracting officers during fiscal years 1985 and 1986 to determine whether there were any instances where the contracting officers, or any of their colleagues, may have been influenced by Board members or the Board of Governors to select a particular contractor. We did not interview four of the contracting officers for the following reasons:

- One individual was under indictment because of alleged illegal activities as a contracting officer.
- A second individual was on administrative leave pending administrative or legal actions against him for travel voucher irregularities.
- A third individual, whose name was erroneously included on the list, never worked at postal headquarters. The individual was assigned to a field location.
- A fourth individual was retired, and although we made numerous attempts to contact him, we were unsuccessful.

Other than the matters involving the Board's Vice Chairman and the indicted contracting officer, no instances of influence by Board members occurring during fiscal years 1985 and 1986 were disclosed to us by the contracting officers during these interviews.

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## Conclusion

We did not find any extensive involvement by Board members or the Board of Governors in the selection of contractors during fiscal years 1985 and 1986. The four cases where involvement was identified were within the authority prescribed for the Board by its charter. We found no evidence of improper influence in three of the four cases. In the remaining case, we did not determine if there was improper influence because it involved a company under criminal investigation.

# Observations on the New Procurement Manual

In recent years, four studies have reinforced the need for improvements in Procurement and Supply. Reports by the President's Private Sector Survey on Cost Control, the Postal Inspection Service, Arthur Young and Company, and the Counsel to the Postal Service Board of Governors all contained recommendations—120 in total—to improve the procurement policies, processes, and practices of the Postal Service.

In addition, during 1986 the Assistant Postmaster General of Procurement and Supply established five teams to conduct internal needs assessments in the areas of people, customers, policies, systems, and processes. The five teams identified, prioritized, and recommended action steps for each of the top 10 issues identified in their assigned areas. The position papers that resulted were considered together with the 120 external recommendations to improve the Procurement and Supply organization.

In May 1987, the Assistant Postmaster General for Procurement and Supply announced a concept for improvement, saying that implementing the total plan will take about 3 years with a scheduled completion date of January 1990. The plan is intended to be an evolving, changing document with many subprograms at various stages. Since the announcement, the effort has been organized into 15 specific interrelated programs. Table 5.1 shows the issues included in the improvement plan.

**Table 5.1: Planned Initiatives and Related Programs**

<b>Initiative</b>	<b>Program</b>
People	1. Training 2. Assessment 3. Communication
Policy	4. Policy 5. Contracting officer 6. Material management
Systems	7. System requirements 8. Computerized procurement and supply system 9. Integrated logistics and supply system
Process	10. Planning 11. Inventory 12. Compliance 13. Technical data
Structure	14. Staffing 15. Refinement

Since the overall plan for improvement is just beginning and will not be completed for several years, it is too early to review most of the 15 programs contained in the plan. However, one program included in the policy initiative of the plan, the effort to reorganize and rewrite the existing Postal Contracting Manual, has been proceeding since April 1985. The new procurement manual has been written and is scheduled for nationwide application by June 1, 1988. Postal headquarters began using the new manual on October 1, 1987, and the implementation schedule for other postal procurement offices varies for different procurement offices.

The new procurement manual has been written to emphasize significant principles, policies, and processes rather than detailed procedures. Procedural details and coverage on specialized areas will be contained in a comprehensive guide called the Procurement Manual Supplement. The supplement has not yet been finished. During the implementation phase (October 1987 through June 1988) procurements will be made in accordance with policies prescribed in both the old PCM and the new manual.

The new procurement manual is important because it changes some of the ground rules for major postal purchases which affect how future purchases will be made. The new procurement manual, among other things, will

- reduce procurement lead time by eliminating the requirement to publicize sole-source purchases and all awards under \$50,000;
- permit limiting competition to suppliers known to provide quality;
- allow use of simplified informal procedures for purchases up to \$50,000;
- stress market-based pricing rather than detailed cost analysis to establish price reasonableness;
- eliminate past rules that favored formal advertising over competitive negotiations; and
- cancel the provision that allows MBE contracts to be awarded when the price is 110 percent of the postal estimate. (The MBE price must be competitive or based on the lowest price reasonably expected from an efficient, experienced firm with proven capability, without taking into account any factors unique to minority-owned business.)

While we did not perform a detailed review of the new manual, we reviewed the sections of the new manual that address the weaknesses we identified during our audit. We found that the changes it contains are relevant to some of these weaknesses.

The effort to revise its procurement manual is viewed by the Postal Service as streamlining a bulky \$4 billion procurement process. The system was designed to use the best of both federal and private sector buying practices. While changes such as canceling the 110 percent provision for MBE awards have the potential to reduce costs, other changes may increase the number of cases with the weaknesses discussed in chapter 3 because controls designed to prevent them are unchanged or relaxed and the conditions that permitted the weaknesses to occur will not be changed by the new manual. For example, the changes eliminating the need to publicize awards which will be sole-sourced and all awards under \$50,000 may result in an increase of unjustified sole-source awards. Another example involves the increased emphasis on negotiated purchases which will make documenting the file with convincing evidence that the price negotiated was reasonable even more important. The manual does not change the documentation required or its reviews.

While the new procurement manual contains changes that will have some effect on the recurring weaknesses we identified, we believe that these problems will continue unless the Postal Service takes specific corrective actions. Accordingly, we believe that the recommendations in chapter 3 still should be implemented. We believe the Procurement Manual Supplement that is under development could be used to address our recommendations.

# 1985 Awarded Contracts Valued Over \$1 Million

Contract number	Vendor	Amount	Items purchased
<b>Formally advertised</b>			
85-V-H001	Cumberland Corporation	\$2,451,119	Utility carts
85-V-H003	Rollins Container Inc.	2,325,000	Letter trays and sleeves
85-V-H004	Union Camp Corporation	6,374,022	Letter trays and sleeves
85-V-H013	Doninger Metal Products Corp.	12,304,990	Mail containers
85-V-H016	North American Manufacturing Corporation	9,728,327	Mail containers
85-V-H022	Owens-Classic Inc.	4,787,302	Mail containers
85-V-H023	IPI Industries, Inc.	10,215,932	Mail containers
85-V-H034	Goodyear Tire & Rubber Company	1,922,475	Tires
85-V-H041	United Chem-Con Corporation	14,670,321	Bulk mail containers
85-V-H043	Art-Metal-U.S.A., Inc.	1,393,840	Security containers
85-V-H044	Riverport Industries, Inc.	2,910,248	Mail trays and inserts
85-V-H048	Doninger Metal Products Corp.	9,363,300	Canvas baskets
85-V-H054	Unitron Engineering Co.	2,205,982	Collection boxes
85-V-H055	Unitron Engineering Co.	1,053,488	Mail relay boxes
85-V-0045	IBM Corporation	6,608,266	Processor and associated equipment
85-V-0082	Max Katz Bag Co., Inc.	1,115,575	Disposable mail sacks
85-V-0320	United Merchants & Manufacturers, Incorporated	2,231,466	Polyester duck cloth
85-V-0321	Tan-Tex Industries Corp.	1,830,475	Nylon cloth
85-V-1006	Falcon Systems, Inc.	2,822,536	Personal computers
85-V-1723	IBM Corporation	3,409,179	Processor upgrade
85-V-2209	Freund Precision, Inc.	6,089,830	Stamp dispensing modules
85-V-2244	Uhrden, Incorporated	1,993,671	Electro-hydraulic hamper dumpers
85-V-2397	Dowling Bag Sales Company, Inc.	4,381,393	Plastic sacks
85-V-2449	Memorex Corporation	3,075,400	Magnetic computer tapes
85-V-2588	Opal Manufacturing, Inc.	11,235,179	Stamp book vendors and spare parts
85-V-2931	General Aero Products Corp.	9,882,945	Coil vending machines
85-V-2942	Tan-Tex Industries Corporation	2,024,588	Nylon cloth
85-V-3024	MRC Division of Chamberlain Manufacturing Corporation	4,071,175	Edger-feeders
85-V-3103	Osterneck Company	1,304,517	Disposable mail sacks
85-V-3231	Northern Electric Company	1,035,462	Vehicle fans
85-V-3257	Falcon Microsystems, Inc.	1,255,438	Personal computers
85-V-3333	Stewart Glapat Corporation	2,066,981	Portable belt conveyors
<b>Regional Contracts</b>			
85-V-W312	Tharco Precision, Inc.	1,193,490	Fiberboard shipping boxes
85-V-S004	Jebco, Inc.	2,784,653	Carrier cases and tables
85-V-S020	Jebco, Inc.	1,251,594	Carrier cases and tables

(continued)



**Appendix I  
1985 Awarded Contracts Valued Over  
\$1 Million**

<b>Contract number</b>	<b>Vendor</b>	<b>Amount</b>	<b>Items purchased</b>
85-V-C474	Frank W. Winne & Sons, Inc.	\$1,136,228	Rubber bands
85-V-C482	American Marketing and Sales Corp.	1,188,076	Carrier cases and tables
85-V-C491	Jebco, Inc.	1,067,494	Carrier cases and tables
<b>Negotiated</b>			
85-W-H002	IPI Industries, Inc.	3,385,800	Mail containers
85-W-H011	Cumberland Corporation	1,586,025	Mail containers
85-W-H012	Pitney Bowes, Inc.	2,486,460	Postage meter heads and bases
85-D-0314	Trainex Division of Medcom, Inc.	1,638,957	Computer assisted repair and diagnostic systems
85-W-0416	Corning Construction Corporation	3,930,000	Space renovation
85-D-1591	Micro/Temps, Inc.	2,400,000	Computer programming and administrative support services
85-W-2063	MOS Scale International, Ltd.	17,762,000	Integrated retail terminals
85-D-2155	ElectroCom Automation, Inc.	79,610,454	Bar code sorters
85-W-3033	Hartec Enterprises, Inc.	1,561,000	Trivending consoles
85-W-3165	Fond du Lac Manufacturing, Inc.	1,808,460	Trivending consoles
85-W-3166	Contract Systems Associates, Inc.	1,071,000	Trivending consoles
85-W-3206	Afro-Lecon, Inc.	1,056,890	Trivending consoles
85-W-3334	Contract Office Furnishings, Inc.	1,794,708	Steelcase furniture
85-W-3394	AEG Telefunken	1,600,000	FC-200 facer canceler test system
85-W-3400	System Development Corporation	1,600,000	FC-200 facer canceler test system
85-D-3641	IBM Corporation	1,500,379	Personal computers
85-D-3663	Radcliffe Associates, Ltd.	2,499,908	Bulk mail computer replacement
<b>Sole source</b>			
85-Z-H010	Litco International, Inc.	3,141,600	Pallets
85-Z-H042	Wedtech, Corp.	5,725,566	Mail containers
85-Z-H049	Rollins Container Inc.	1,147,328	Letter trays and sleeves
85-Z-0575	Northern Telecom, Inc.	2,513,500	Disk drive units
85-W-0802	Westvaco U.S. Envelope Division	18,498,463	Embossed stamped envelopes
85-V-1388	Essex Engineering Company	1,034,910	Postal Service data system equipment
85-Z-1345	Dennison Industrial Systems Division	4,259,455	Air contract transportation tags
85-Z-1727	Corning Construction Corporation	2,400,000	General repairs due to fire damages
85-Z-1766	Graphic Technology, Inc.	1,278,330	Air contract transportation tags
85-Z-1785	Dynatech Data Systems	1,155,896	Matrix switches
85-Z-1949	Computer Systems & Resources	1,606,685	Upgrading the Postal Service data system
85-Z-1967	Amdahl Corporation	6,105,600	Upgrading computer processors
85-Z-3160	Jebco, Inc.	2,083,885	Mail collection boxes

# 1986 Awarded Contracts Valued Over \$1 Million

Contract number	Vendor	Amount	Items purchased
<b>Formally advertised</b>			
86-V-H165	Jebco, Inc.	\$2,369,213	Mail sequencing cases
86-V-H169	Penn Metal Fabricators, Inc.	14,736,245	Bulk mail containers
86-V-H173	Cumberland Corporation	1,574,640	Utility carts
86-V-H175	Liberty Carton Company	4,691,488	Flat mail trays and lids
86-V-H176	IPI Industries	4,586,032	Mail containers
86-V-H177	Ross Bicycles, Inc.	9,918,000	Mail containers
86-V-H178	Liberal Industries, Inc.	4,322,000	Mail containers
86-V-0209	CMI Corporation	1,168,535	Computers
86-V-1152	RISI Industries, Inc.	2,007,617	Telescoping extendible conveyors
86-V-1660	Rowe International, Inc.	12,313,753	Currency changers and spare parts
86-V-1926	Dennison Manufacturing Company	4,898,280	Air contract transportation tags
86-V-2418	Weber's White Trucks, Inc.	20,409,120	Truck tractors
86-V-2738	Fire Security Systems, Inc.	1,479,475	Automatic sprinkler system
86-V-3219	MRC Division of Chamberlain Manufacturing Corporation	3,691,122	Shingler modification kit for edger-feeders
86-V-3898	Chevrolet Motor Division, General Motors Corporation	74,991,050	Intermediate delivery vans
<b>Regional Contracts</b>			
86-V-0247	Bessemer Products Corporation	1,202,412	Portable electro-hydraulic elevating platform
86-V-0421	Pacific Gas and Electric Company	3,240,000	Electric, natural gas and steam service
86-V-0498	Carter Chevrolet Agency, Inc.	3,782,482	Mini-vans
86-V-0693	Carter Chevrolet Agency, Inc.	2,538,740	Various vehicles
86-V-S454	Goodyear Tire & Rubber Company	1,453,827	Vehicle tires
86-V-W458	J International, Inc.	1,194,174	Rubber bands
86-V-2850	Stoughton Trailers, Inc.	12,856,476	Semi-trailers
<b>Negotiated</b>			
86-W-H168	Wedtech Corp.	2,891,889	Mail containers
86-W-0186	M/A COM Information Systems, Inc.	1,770,831	Computer forwarding system II test units
86-W-0187	CACI, Inc. - Federal	2,499,872	Computer forwarding system II test units
86-W-0951	System Development Corporation	1,396,000	Small parcel and bundle sorter
86-W-1322	Computer Sciences Corporation	2,428,235	ZIP + 4 technical support services
86-D-1417	SRI International	1,099,865	Advanced research in materials handling systems
86-D-1795	Grumman Allied Industries, Inc.	1,155,196,650	Vehicles
86-D-1960	RCA Corporation	1,469,161	Research in electra-optics and character recognition technology

(continued)

**Appendix II  
1986 Awarded Contracts Valued Over  
\$1 Million**

<b>Contract number</b>	<b>Vendor</b>	<b>Amount</b>	<b>Items purchased</b>
86-D-2066	Booz, Allen & Hamilton, Inc.	\$1,763,218	Technical support services (development of a retail sales information system)
86-D-2182	GRID Systems Corporation	5,483,586	Portable data entry computers
86-D-3493	M/A COM Information Systems, Inc.	1,362,775	Micro computer systems
86-D-4082	IBM Corporation	1,043,768	Convert leased computer equipment to purchase
<b>Sole source</b>			
86-Z-H159	Litco International, Inc.	2,640,000	Pallets
86-V-H164	Rollins Container, Inc.	3,011,712	Small letter trays and sleeves
86-Z-1324	Brian Ligon Services, Inc.	1,761,295	Maintenance service
86-Z-1386	Applied Micro Technology, Inc.	2,280,327	Upgrading postal commodity machines
86-Z-2539	Arthur Young & Company	2,431,620	Accounting services
86-W-3893	System Development Corporation	20,000,000	Multi-position letter sorting machines

# Comments of the Postmaster General on a Draft of This Report



THE POSTMASTER GENERAL  
Washington, DC 20260-0010

March 7, 1988

Dear Mr. Fogel:

This refers to your draft report entitled An Assessment of Postal Purchasing Practices.

The report finds the Postal Service has one of the largest procurement functions in the Federal Government, that the Service requires and normally applies generally accepted controls to prevent or detect unauthorized contracting practices, and that the Board of Governors does not regularly involve itself in postal purchases. The report also finds weaknesses in some of our procurement practices and makes six recommendations for improvements.

We accept the report's findings and recommendations. Corrective actions in response to GAO's recommendations have already been taken or are under way:

1. Instructions have been drafted and are now being reviewed more clearly defining the circumstances under which non-competitive purchasing may be used and requiring better written justifications. Training will stress the development of multiple sources for goods and services to increase competition.
2. The Postal Contracting Manual has been revised in regard to Minority Business Enterprise (MBE) awards to establish a better balance between the Postal Service's interest in MBE contracting and good business decisions on all contracts. Prices on such contracts must be determined by the contracting officer to be reasonable, using accepted methods of cost and price analysis. Counseling will be available to potential minority contractors to help them become more competitive.

See p. 7.

See p. 37.

See p. 37.

Appendix III  
Comments of the Postmaster General on a  
Draft of This Report


- 2 -

- See p. 37.
3. Maximum order limitations for Basic Ordering Agreements (BOAs) have been established for office automation equipment and are under study for other BOAs. We will also review and clarify Service policy on publicizing BOA orders.
- See p. 37.
4. A supplement to our new Procurement Manual will provide detailed guidance on price and cost analysis and we are emphasizing training to teach procurement personnel better pricing and documentation on contracts.
- See p. 37.
5. Specification packages are being reviewed for accuracy, completeness and currency, with priority attention to those with the greatest potential for payback.
- See p. 37.
6. Our new Procurement Manual provides for using at least three brand names in specifications for the purchase of a commercially available type product. This approach streamlines purchasing but still insures adequate price competition.

See p. 7.

We appreciate your recommendations and believe the totality of actions the Service is taking in the procurement area will improve our overall purchasing practices. Thank you for the opportunity to comment on your draft.

Sincerely,

  
Anthony M. Frank

Mr. Richard L. Fogel  
Assistant Comptroller General  
United States General  
Accounting Office  
Washington, D.C. 20548-0001



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