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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

C.V.L. DIVISION



NOV 18 1970

Dear Mr. Gayle:

Reference is made to the letter of September 21, 1970, from Mr. Kenneth A. Housman, then the Assistant Postmaster General, Bureau of Personnel, presenting the Bureau's comments on our summary of the results of our review of the Postal Service Management Institute. We informally presented our summary to the Bureau for discussion.

As explained in the summary, our work at the Institute--a program started in 1968 to train supervisory and managerial postal personnel--was directed principally to administrative matters because, at the time of our review, the Institute's efforts were, to a large extent, concerned with designing, testing, and implementing new training programs, and sufficient time had not elapsed to permit a reasonable evaluation of the program effectiveness. Our review included an examination of program participant eligibility criteria.

The Bureau commented that, subsequent to our review, substantial improvement in the administration of the Institute has been achieved; that experienced personnel have been added to various areas of administration; and that the staff is working with a unified approach to planning, procuring, and contracting.

In general, the Bureau's comments on specific matters discussed in our letter indicated an awareness of the areas we believe warranted management attention. Our comments on the Bureau's views regarding some of the more important matters disclosed in our review follow.

COURSE ELIGIBILITY CRITERIA

The Institute has not established requirements which exclude individuals who are eligible for retirement from taking training courses. In the 2-year period ending December 31, 1969, 346 (about 9 percent) of the 4,050 training program participants were eligible for retirement when selected for the courses. An additional 69 participants were over 60 years of age but the Institute's records did not indicate their retirement status. Of the 415 (346 + 69) participants, 45 retired from 12 days to 21 months after completing their courses--33 participants retired within 1 year after completing their training including 19 who retired within the first 6 months; the other 12 participants retired between 13 and 21 months after completing the course.

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We suggested that the Institute's program effectiveness could be increased by requiring, as a matter of policy, that individuals who are ready for and/or contemplating retirement be excluded from training programs.

The Bureau commented that the control of participant selection is with the regional offices in keeping with the general policy of delegating authority to the regions; that the subject of selecting participants whose subsequent period of service would justify the cost of training was the matter of pointed discussions with regional personnel; and that reliance on the regions is producing the desired results.

We suggest that, as an added measure to ensure an adequate return on training investments, periodic checks be made by the Institute to determine that participant selection is effective.

PROCUREMENT PRACTICES

Although Department instructions provide guidelines for achieving sound procurement practices, we believe that the Institute did not follow, in all instances, such procedures in making determinations of its procurement needs. As a result, certain services, supplies, and equipment were purchased prematurely, or were purchased on the basis of a questionable need.

For example, on June 26, 1968, the Institute awarded a contract for \$18,179 for the development of 10 "concentrates" (short courses) on general government and management subjects. Institute officials advised us in April 1970 that only one of the concentrates had been used. The officials stated that the material was not used because the concentrates were merely excerpts from standard textbooks and were poorly structured, and the contents were too general to provide meaningful training material.

We believe that an adequate procurement system should include, among other things, systematic procedures for determining the nature, quality, quantity, and the delivery time requirements for property, resources and services necessary to effectively and efficiently perform assigned functions.

Based on correspondence from bureau officials and discussions with instructors at the Institute, we believe that the contracting officer had not solicited the views of instructors and bureau officials concerning the merits of the concentrates before awarding the contract.

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The Bureau explained some of the problems associated with the questioned procurements. For example, although the concentrates were not effective for teaching, they did provide background information for certain courses. Also, most of the questioned equipment items were currently being effectively utilized.

We believe that management's general awareness of these procurement problems and the addition of experienced personnel to the Institute's staff should help to improve procurement practices.

JUNE PURCHASES

During fiscal years 1968 and 1969, the Institute awarded 46 contracts for \$1.6 million of which 25 contracts (54 percent) for \$1.1 million (69 percent) were awarded in the months of June 1968 and 1969. Also, during fiscal year 1969, purchase orders issued for equipment totaled about \$300,000 of which about \$142,000 or 47 percent were issued during June 1969.

We suggested that the dollar value and number of contracts and purchase orders issued in June 1968 and 1969 and our findings regarding the questionable determination of needs for some of the services and equipment procured by the Institute, indicated that some of the procurement may have been based more on the availability of funds rather than on a real need.

The Bureau explained that the June 1968 purchases were largely a result of the Institute getting started in January 1968 and that the June 1969 purchases were the result of some abnormal demands. We believe, however, that the purchases also reflected a need for better control of inventory and project needs. The Bureau commented that a control system has been installed and a more balanced pattern of purchasing is now occurring--for example, of the contract funds expended during fiscal year 1970, only about 15 percent were expended in June 1970.

SOLE SOURCE JUSTIFICATION

Institute regulations require that a justification be prepared for each procurement request which designates only one source of supply. For the 2-year period ending December 1969, the Institute awarded through negotiations a total of 56 contracts with a value of \$2.4 million. Forty of these contracts (totaling \$2 million) were awarded on a sole source basis; however, justifications were not prepared for 24 of the 40 contracts. The remaining 16 contracts contained language justifying sole source procurement on the basis that there was an urgent need for the service to be performed by a specific date and the contractor was a recognized expert in his field.

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The extensive use of sole source procurement--71 percent of the contracts awarded in the 2-year period--and the absence of justification for many of these contracts indicated the need for a critical reappraisal by Institute officials of the sole source method of procurement. We believe that competition is important to economical Government procurement and that exceptions to competition, in the form of negotiations with a single source of supply, should be made only where it is impracticable or against the public interest to submit the needs of the Government to all bidders through formal advertising.

The Bureau commented that the Institute has been increasingly conscious of the use of sole source procurement. In the early days of the Institute there was a premium on getting results in the shortest period of time and this factor led to negotiated procurements with known sources of supply rather than the use of competitive procurements. Steps have been taken to emphasize to appropriate personnel the need to develop broader sources of supply and to provide adequate lead time and definitized specifications which will allow competitive procurements.

We believe that the action taken should increase the use of competition for Institute procurements. However, when sole source procurement is used, we believe that the reasons for using this procurement method should be fully documented.

CONTRACTING PRACTICES

Between December 1967 and December 1969, 41 of 56 contracts and 10 contract modifications were awarded before a determination was made that funds were available to pay for them and that the contracts met legal requirements.

The Department's contracting procedures require, among other things, that before contracts are awarded their legality be determined as well as the availability of funds to pay for the goods or services to be provided.

The Bureau commented that although certain administrative shortcuts were taken in the contract approval process, the steps were taken with full knowledge that the appropriate approvals were forthcoming and that funds had not been allocated elsewhere. The Bureau acknowledged, however, that a more orderly processing procedure is essential and indicated that with the strengthening of the administrative organization at the Institute, contracts would be processed in a sequence of steps designed to ensure appropriate approvals of the contract before it is awarded.

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