

September 29, 2000

A. KEITH STRANGE  
VICE PRESIDENT, PURCHASING AND MATERIALS

RUDOLPH K. UMSCHIED  
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report–Review of Postal Service Major Construction Contracting  
Process (Report Number FA-AR-00-004)

This report presents the results of our review of the Postal Service major construction contracting process. The objective of our audit was to review the Postal Service major construction contracting process. Specific objectives were to evaluate management controls and timeliness of contract awards.

Our audit identified no major problems in the contracting process. However, we identified several opportunities for improvement. Specifically, the Postal Service could improve the process by reviewing contract modifications to identify their causes and reduce the dollar amount; developing and disseminating written guidance on the roles and responsibilities for the process; and continuing to test and implement the Automated Project Management System to ensure formal monitoring of contract timeliness and performance measurement. We provided three recommendations to address these issues.

Management agreed with the recommendations and has completed or proposed actions to respond to them. Management's comments and our evaluation of their comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Anthony Cannarella, director, Facilities, at (703) 248-2270 or me at (703) 248-2182.

Billy Sauls  
Assistant Inspector General  
for Business Protection

cc: Clarence E. Lewis, Jr.  
Richard J. Strasser  
John R. Gunnels

## TABLE OF CONTENTS

<b>Executive Summary</b>	i
<b>Part I</b>	
<b>Introduction</b>	1
Background	1
Objective, Scope, and Methodology	4
Prior Audit Coverage	5
<b>Part II</b>	
<b>Audit Results</b>	7
Contract Performance and Modifications	7
Recommendation	8
Management's Comments	8
Evaluation of Management's Comments	9
Review of Management Controls	10
Recommendation	12
Management's Comments	12
Evaluation of Management's Comments	12
Contract Timeliness	13
Automated Project Management System	14
Recommendation	15
Management's Comments	15
Evaluation of Management's Comments	16
<b>Management Concerns about Organizational Structure</b>	17
<b>Appendix A.</b> Projects Greater Than \$10 Million Approved by the Board of Governors October 1, 1993, through September 30, 1999	19
<b>Appendix B.</b> Results of Major Contract Modification Review	20
<b>Appendix C.</b> Management's Comments	21

## EXECUTIVE SUMMARY

---

### Introduction

This report presents the results of our audit of 33 major construction facility contracts awarded between October 1, 1993, and September 30, 1999. The objective of the audit was to review the effectiveness of the major construction contracting process in assuring contract timeliness and management controls over contract costs and performance.

---

### Results in Brief

A review of 33 major construction facility projects approved by the Board of Governors between October 1, 1993, and September 30, 1999, identified no major problems in the contracting process. However, we identified opportunities to improve the process by (1) reviewing contract modifications to identify their causes and reduce the dollar amount, (2) developing and disseminating written guidance on the roles and responsibilities for the process, and (3) continuing to test and implement the Automated Project Management System to ensure formal monitoring of contract timeliness and performance measurement.

---

### Summary of Recommendations

We recommend the vice president, Purchasing and Materials work jointly with the vice president, Facilities, and others as necessary, to (1) establish a process to review the need for and reduce dollar amounts of contract modifications, (2) agree on roles and responsibilities for the major construction contracting process and disseminate the roles and responsibilities to the Major Facilities Purchasing and Facilities staff, (3) continue pursuing a system to effectively monitor timeliness and measure performance of the major facility construction process.

---

### Summary of Management's Comments

The vice presidents of Purchasing and Materials and Facilities agreed with our recommendations and stated that they would work together to identify root causes and provide solutions to reduce the rate and dollar amounts of contract modification. The vice president of Facilities also stated that he believed the majority of the modifications were major scope additions that should not be included in the analysis of whether the Postal Service falls within industry standards.

The vice president further stated that the statement " . . . they would have avoided \$19 million in contract costs" was misleading and that if the modifications were for major scope changes and deemed necessary for the successful

completion of the project, the cost of this work could not have been avoided.

In addition, the vice presidents stated they were working together to develop a responsibility matrix to distribute to the field. Further, the vice president of Facilities stated that they plan to begin testing in the fall and deploying the system to all projects as soon as possible.

---

**Overall Evaluation of  
Management's  
Comments**

Management's comments are responsive to our recommendations and planned actions should correct the findings identified in this report. The vice president of Facilities stated that of the 11 projects identified as exceeding industry standards the majority were for major scope additions and should not be measured against the standards. However, we were not provided with the necessary information to substantiate whether they were out of scope additions.

## INTRODUCTION

---

### Background

On June 3, 1993, the postmaster general, in a memorandum to all Postal Service officers, directed that the vice president, Purchasing and Materials "set in place a process that will consolidate all contracting under the authority of his office."

In January 1995, the vice president, Purchasing and Materials, issued guidelines for the implementation and consolidation of contracting for major construction projects. These guidelines were approved by the Board of Governors. According to the guidelines, Major Facilities Purchasing was responsible for ensuring contract activities were executed and administered properly. Facilities office was responsible for ensuring that the implementation and delivery processes for major construction projects were properly executed and administered. Both offices shared the responsibility for procurement planning, contract awarding, monitoring, reporting, and project oversight.

Major construction facility contracts are those exceeding \$10 million and requiring approval by the Postal Service Board of Governors. Since 1995, Major Facilities Purchasing led in awarding major construction facility contracts while working in conjunction with the Facilities office.

According to the Purchasing Manual, dated January 31, 1997, the vice president, Purchasing and Materials, is responsible for all purchasing policies and procedures. The vice president can delegate purchasing authority to other officers. The vice president, Facilities, was delegated responsibility for the acquisition, lease, and disposal of real estate and related services. However, the vice president, Purchasing and Materials, retained responsibility for soliciting, evaluating, and awarding major construction facility contracts.

The new agreements were necessary due to the closing of the Major Facilities Office in Memphis, Tennessee, and responsibility issues raised between Major Facilities

Purchasing and Facilities personnel. Postal Service executive officials stated they would review the process at the end of fiscal year (FY) 2000 for its effectiveness.

---

Overview of the Major Construction Contracting Process

Handbook P-2, Design and Construction Purchasing Practices Handbook, dated March 1999, provides guidance for the major construction contracting process. The handbook supplements the Purchasing Manual for architect-engineer, construction, and related support contracts.

Each fiscal year, Major Facilities Purchasing, Facilities, Finance, and Operations participate in the development of a five-year facilities capital plan. The five-year plan prioritizes major construction projects, establishes schedules, and allocates budgets for each project. Facilities coordinates the development of the facility planning concepts, selects the site and coordinates project approval. If the project is expected to exceed \$10 million, Major Facilities Purchasing assists Facilities organizations with their planning responsibilities.

The preparation of an individual purchase plan, which is based on the five-year plan, is considered the beginning of the contracting process for a specific project. The major construction contracting process starts with the Planning and Prequalification phase and ends with the Project Closeout phase. The five major phases of the process consist of:

1. Planning and Prequalification
2. Solicitation/Advertisement/ Evaluation
3. Contract Award
4. Contract Administration
5. Close-out

Phase 1 responsibilities are shared between Major Facilities Purchasing and Facilities through the composition of a Purchase Team, headed by the contracting officer. These responsibilities include such functions as performing market research, developing an implementation plan, and contractor selection plan. The two offices also determine prequalification requirements and develop procedures for monitoring and tracking the project throughout the planning process.

Phase 2 responsibilities are performed primarily by Major Facilities Purchasing. These include preparation of the solicitation package, arranging the preproposal conference and best value determinations.

Phase 3 responsibilities are performed primarily by Major Facilities Purchasing. These responsibilities involve contract award notification, contracting officer authority, and contractor officer representative authority. If needed, a construction management support services contract is awarded by Facilities during this phase. The construction management support services firm is responsible for monitoring the work progress at the construction site.

Phase 4 responsibilities are shared between Major Facilities Purchasing and Facilities. These responsibilities include contract administration functions such as contract modification approval, quality assurance inspections, progress payments, and handling of claims. Because of the extensive integration of responsibilities between Major Facilities Purchasing and Facilities, we have included a matrix to better illustrate the various responsibilities of each office.



Responsibility Matrix Contract Administration for Major Facilities Projects <sup>1</sup>			
ACTIVITY	TEAM MEMBERS		
	Purchasing	Facilities	CMSSC
Design Reviews/Meeting	S	L	S
Pre-Construction Conference	L	S	S
Construction Progress Meetings	S	S	L
Quality Assurance (Inspections)		S	L
Contract Compliance (Drawings & Specs)	S	S	L
Diversity Compliance	L		S
Progress Payments	L	S	S
Contract Modifications	L	S	S
Operational Training		L	S
Beneficial Occupancy	S	L	S
Project Close Out	S	L	S
Claims	L	S	S
Final Decisions	L	S	S
Litigate (Board of Contract Appeals) *	S	S	S
Contract(s) Close Out	L	S	S
Preparation of Progress Reports	S	S	L
Evaluation of Progress Reports	S	L	
Contract Audits**	S	S	

Legend:

- (CMSSC) Construction Management Support Service Contract
- (L) Lead Responsibility
- (S) Support Responsibility
- (\*) Indicates Postal Service Legal office has lead responsibility
- (\*\*) Indicates Postal Service Office of Inspector General has lead responsibility

Major Facilities Purchasing primarily completes phase 5 responsibilities with some assistance from Facilities. These responsibilities include such duties as preoccupancy inspections and tests, claim resolution (if any), and administrative close-out and deauthorization of funds.

**Objective, Scope, and Methodology**

We conducted this audit to determine whether: (1) procedures for managing costs and monitoring contract performance were adequate; (2) current policies and procedures provided a clear line of authority and responsibility between Major Facilities Purchasing and Facilities staff; and (3) contract solicitation, evaluation, and award were performed timely. The audit was included in our FY 2000 audit workload plan.

<sup>1</sup> This table is an excerpt from the Major Facilities Purchasing/Facilities Contract Administration Responsibilities and Standards and Expectations for Construction Administration of Major Facilities Projects, October 1999.

The scope of the audit included a review of 33 major construction contracts for projects with a dollar value of \$10 million or greater that were approved by the Board of Governors between October 1, 1993, through September 30, 1999. Appendix A is a summary of the major construction contracts reviewed. The audit was conducted at Postal Service Headquarters in Washington, D.C.; the Major Facilities Office in Memphis, Tennessee; Major Facilities Purchasing and Facilities offices in Arlington, Virginia; and the Facilities Service Office in Windsor, Connecticut. To fulfill the audit objectives, we interviewed Postal Service officials, reviewed policies and procedures, and reviewed contract and project files for information pertaining to the different phases of the process.

This audit was conducted from February through September 2000 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

---

**Prior Audit Coverage**

We reviewed Postal Service Office of Inspector General reports issued from April 1998 through September 1999 to determine if any reviews were completed on the contracting process for major construction. We concluded no directly related reviews had been conducted. However, the following reports closely relate to the subject matter of our review:

- Audit report number CA-AR-99-003, Responsibilities of Contracting Officer's Representatives, September 30, 1999, addressed the Postal Service's contracting officer representative program as it related to construction contracts. The report stated that Facilities management had a system in place to provide for contracting officer representative administration of construction contracts and that the program was adequately administered. However, the report identified several areas of improvement for progress payments, invoice procedures, and final inspections and acceptance. Management generally concurred with the recommendations to implement improved procedures

and controls over regular audits, contract documentation, contractor payments, training, and contracting officer representative duties.

- Audit report number CA-AR-98-003, Procurement Prequalification Process, September 30, 1998, reported on the Postal Service prequalification program. According to the report, Major Facilities Purchasing was the primary user of prequalification. The report stated concerns regarding the lack of methodology and documentation in the planning process, inability to identify prequalification procurements in current contract data systems, and inadequate oversight of outside contractors involved in the prequalification process. Management generally concurred with the audit recommendations and stated they would continue efforts to revise and clarify the prequalification process.

## AUDIT RESULTS

---

### **Contract Performance and Modifications**

Our review of contract performance for 33 major construction facility contracts identified no major problems relating to contracting officer authority, contracting officer representatives' authority, or responsible persons at the sites for monitoring purposes. However, in 11 of the contracts reviewed, we found the dollar amount increase provided for through contract modifications exceeded the industry standard. According to managers from Major Facilities Purchasing and Facilities, the industry had said for a successful project the dollar amount of modifications should not exceed 3-5 percent for new construction and 10-15 percent for repair and alteration projects. The Postal Service did not have policies and procedures regarding the dollar amount of contract modifications, but strived to meet the industry standards.

---

### **Review of Contract Modifications**

We compared the original construction contract amounts with the amounts paid under construction contracts for the 33 contracts approved by the Board of Governors between October 1, 1993, and September 30, 1999. In 11 of the 33 contracts reviewed, we found the dollar amount of the contract modifications exceeded the industry standard for either new construction or repair and alteration projects. Seven of the eleven contracts were for new construction and four for repair and alteration projects. As a result of contract modifications of \$35 million, the total cost of the 11 contracts increased from \$204 million to \$239 million.

To determine the amount that total contract modification cost exceeded industry standards, we added the industry standards of either 5 or 15 percent to the original construction contract cost and subtracted the actual total cost of the contract. We found that if the Postal Service had remained within industry standards for the 11 contracts they would have avoided \$19 million in contract modification costs. (See Appendix B for detailed results of our cost calculations).

Postal Service officials were aware that several of the major construction contracts had exceeded industry standards. The Postal Service categorizes contract modifications in three ways: (1) Postal Service changes, (2) design deficiency, and (3) field condition. In our review of two of

the eleven contracts exceeding industry standards, we found the primary reason for modifications were requests for changes by Postal Service personnel. For example, there were ten contract modifications to the Atlanta, Georgia, Airport Mail Center project. Eight of the modifications were due to Postal Service change requests while two were due to field conditions. The total costs of the ten modifications totaled to \$2.1 million, which was 8 percent of the original contract amount of \$28 million. The modifications also added 169 days to the completion of the construction project. Another example was the Spokane, Washington, Processing and Distribution Center project. There were 12 contract modifications issued at the time of the review. One was still in progress. We found that ten were Postal Service change requests, one was for field condition, and one was a combination of a Postal Service change and field condition. The original construction contract amount for the Spokane project was \$22 million with a forecasted amount at completion of \$28 million. This amounted to a difference of \$5.4 million for contract modifications, which was 8 percent above the original contract amount.

Although the Postal Service had no policy restricting the dollar amount of modifications after a contract was awarded, they stated that they do strive to meet industry standards.

In an era of tightening budgets and the continuing need to be as cost effective as possible, we believe there is an opportunity to reduce the dollar amount of major construction contract modifications.

---

**Recommendation**

We recommend the vice president of Facilities, the vice president of Purchasing and Materials, and others as needed:

1. Work together to review contract modifications in an effort to identify causes for the modifications, and more importantly, to reduce the dollar amount of future modifications.

---

**Management's  
Comments**

The vice president of Purchasing and Materials agreed with our finding and recommendation. He stated that Major Facilities Purchasing would work with Facilities during FY 2001 to identify root causes and provide solutions to reduce the rate and dollar amount of contract modifications.

The vice president of Facilities also agreed with the recommendation, but did not fully agree with the statement that "they would have avoided \$19 million in contract modification costs." He stated that to analyze whether or not the Postal Service falls within the industry standard of 3-5 percent for new construction and 10-15 percent for repair and alteration projects, one needs to determine if the change is outside of the original project scope. He stated that of the 11 projects identified as exceeding the industry standard, he believed the majority of the modifications fell into the category of major scope additions and that if the modifications were deemed necessary for the successful completion of the project, the cost of this work could not have been avoided. However, he stated that Facilities supports the recommendation to review contract modifications in an effort to identify causes for the modifications and to incorporate the appropriate reoccurring changes into their Standard Design Criteria.

---

**Evaluation of  
Management's  
Comments**

Overall, management's comments are responsive to our recommendation and planned action should correct the findings identified in this report. The vice president of Facilities stated that of the 11 projects identified as exceeding industry standards the majority were for major scope additions and should not be measured against the standards. However, we were not provided with the necessary information to substantiate whether they were out of scope additions. Facilities has an on going program to review contract modifications in an effort to identify causes for modifications and to incorporate the appropriate recurring changes into standard design criteria.

---

<b>Review of Management Controls</b>	<p>The Postal Service recently developed new policies and procedures in January 1997 and March 1999, relating to the major construction contracting process. Our review confirmed adherence to these policies and procedures. However, we found that Purchasing and Materials and Facilities had not incorporated a clear line of authority and responsibility in their guidelines to effectively implement functions of the major construction contracting process. In addition, we found there was ineffective coordination and communication between Purchasing and Materials and Facilities regarding functional responsibilities. Although senior level Postal Service officials signed an agreement on January 11, 2000, establishing new policies and procedures and designating functional responsibilities and changes for Major Facilities Purchasing and Facilities, both offices do not interpret their roles and responsibilities the same.</p>
Roles and Responsibilities	<p>We identified the following ambiguities between Facilities and Purchasing and Materials based on the Major Facilities Purchasing and Facilities Responsibility Chart provided by Facilities personnel:</p> <ul style="list-style-type: none"><li>• Under the solicitation phase, Facilities has the primary role, and Major Facilities Purchasing the supporting role for the "Establish Selection Criteria." However, Major Facilities Purchasing personnel stated they actually have the primary role and Facilities has the supporting role.</li><li>• Under the Contract Award phase, the two subcategories of the "Execute and Award Contract" task which include "Execute 4211 (Commitment Order)" and "Input Commitment in FMS [Facilities Management System for Windows]" are both listed as a Facilities primary function and a Major Facilities Purchasing support function. However, according to Major Facilities Purchasing personnel, the contracting officer signs the commitment order and that information is also input into the Facilities Management System for Windows by the Major Facilities Purchasing staff.</li></ul>

- Under the Contract Award phase, the "Conduct Preconstruction Conference" task is described as a joint effort. However, Major Facilities Purchasing staff believe they have the primary role for this task.
- Under the Contract Administration phase, the "MBE [Minority Business Enterprise] Compliance" task is listed as being a primary responsibility of Facilities, and a supporting role of Major Facilities Purchasing. However, the Major Facilities Purchasing staff stated that the task is handled jointly between Facilities and Major Facilities Purchasing.
- Also under the Contract Administration phase, the "Project Close Out" task is described as a primary role of Facilities and no role is identified for Major Facilities Purchasing in this task. Major Facilities Purchasing staff, however, stated that the task is handled jointly between the two offices.
- Under the Monitor/Report/Oversight phase, the "Issue Reports to Vice Presidents" task is identified as a primary role of Major Facilities Purchasing and a supporting role of Facilities. Major Facilities Purchasing staff disagreed and stated this is a primary role of Facilities.

Documents revealed that despite numerous efforts and communications to negotiate responsibilities, management for both Purchasing and Materials and Facilities had not resolved the issue of roles and responsibilities for the major construction contracting process.

Failure to establish and disseminate guidance with clearly defined roles and responsibilities for the major construction contracting process leaves the Postal Service vulnerable to potential mismanagement of resources through duplication of efforts and lack of accountability. In addition, the lack of clearly defined roles and responsibilities also affects communication and coordination that could have an adverse impact on the timeliness and quality of Postal Service major construction projects.



Organizational changes to the Major Facilities Purchasing and Facilities operations over the past five years have directly impacted the major construction contracting process. Those changes included the elimination of the Facilities Service Office in Philadelphia, Pennsylvania, and the Major Facilities Office in Memphis, Tennessee. As a result, we believe the Postal Service should update its guidance to ensure agreed upon roles and responsibilities are clearly documented and disseminated. The need for clearly defined guidance is necessary based on the integration of responsibilities between Major Facilities Purchasing and Facilities. Both offices must depend on each other for execution of the process to ensure the timely delivery of quality major construction projects. Furthermore, every effort should be made to ensure agreed responsibilities are delegated according to the appropriate areas of expertise.

---

**Recommendation**

We recommend the vice president of Purchasing and Materials and the vice president of Facilities, through a coordinated effort:

2. Develop and disseminate clearly defined guidance on roles and responsibilities for the major construction contracting process.

---

**Management's Comments**

The vice president of Facilities and vice president of Purchasing and Materials agreed with our recommendation. They stated that Facilities and Major Facilities Purchasing are working together to develop a responsibility matrix by the end of 2000. Both offices will approve the matrix and ensure distribution to all pertinent personnel.

---

**Evaluation of Management's Comments**

Management's comments are responsive to our recommendation and planned action should correct the finding identified in this report.

---

## **Contract Timeliness**

Our review highlighted that solicitation of major construction contract proposals, evaluation of the proposals, and awarding of the contracts appeared timely. Through 1995, Facilities had the lead role in awarding major construction contracts. Since 1995, Major Facilities Purchasing has assumed the lead role in awarding major construction contracts.

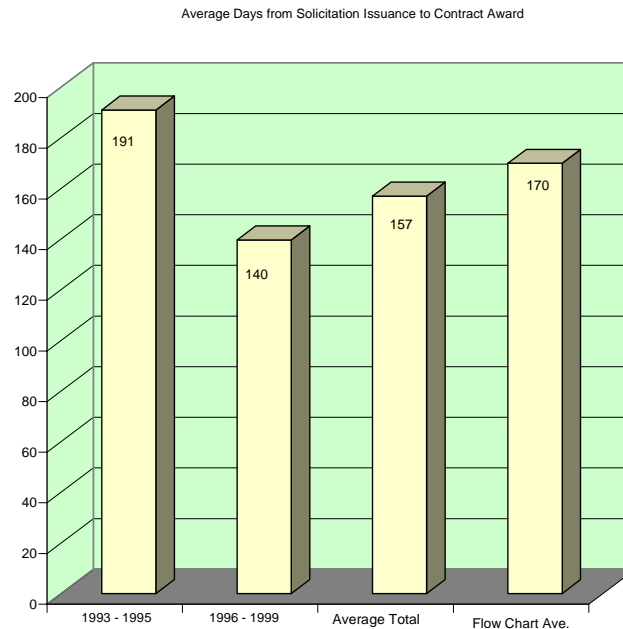
We reviewed 33 major construction contracts awarded between October 1, 1993, and September 30, 1999. We assessed timeliness from the issuance of the solicitation package until the contract was awarded. We evaluated timeliness based on a review of project files and interviews with Postal Service officials. We also evaluated the number of days from solicitation issuance to contract award against the flowchart averages developed by Major Facilities Purchasing.

The flowchart developed by Major Facilities Purchasing reasonably estimates how long each phase of the contracting process should take based on prior knowledge and experience. The flowchart was devised in response to a request by the vice president of Purchasing and Materials to reduce the number of days for awarding of contracts. According to the flowchart, it should take an average of 170 days from solicitation issuance to contract award.

Our review determined the time from solicitation issuance to contract award averaged 191 days from 1993 through 1995, and 140 days from 1996 through 1999. The overall average from solicitation issuance to contract award from 1993 to 1999 averaged 157 days. For the contracts we evaluated, the average time was slightly better than the Major Facilities Purchasing flowchart average of 170 days. For the 33 contracts, the shortest time from solicitation issuance to contract award was 44 days while the longest was 447 days.

The Postal Service did not have formal policies and procedures that specified the standard number of days it should take from issuance of the solicitation package to awarding of the major construction contract. However, Major Facilities Purchasing had begun using the flowchart to review performance. They plan to use it in a more formal

process in the future, in conjunction with the Automated Project Management System. The following chart summarizes our review of timeliness from 1993 through 1999:



---

Automated Project Management System

Major Facilities Purchasing is currently testing and implementing an Automated Project Management System to track timeliness and performance of the major construction contracting process. According to Postal Service officials, the system will provide standardized electronic data so Postal Service officials can review time and cost analyses on a continuous and proactive basis. However, there had been insufficient time to test the system to ensure that it could serve as a measurement tool for contract performance. As a result, Postal Service officials were not able to fully assess purchasing timeliness and performance of the major construction process.

Major Facilities Purchasing had developed a flowchart to reasonably estimate how long each phase of the contracting process should take based on prior knowledge and experience. They had begun to monitor contract timeliness and performance against their flowchart averages. In addition, Major Facilities Purchasing were testing and implementing an Automated Project Management System to

track timeliness and performance. They believe that this system would help further refine the flowchart averages for measuring contract timeliness and performance.

According to Postal Service Major Facilities Purchasing and Facilities officials, the Automated Project Management System will provide standardized electronic data, so they could review timeliness and cost effectiveness on a continuous and proactive basis. Full implementation of the Automated Project Management System was expected by August 2000. Major Facilities Purchasing funded the development of the Automated Project Management System. Implementation of the system would be funded by each major construction project.

The Postal Service publishes an Annual Purchasing Assessment Report that tracks purchasing activities' contracting performance. According to the report, Postal Service personnel may use the report to assess purchasing performance, improve internal contracting controls, and provide management with the necessary information to support customer perfect initiatives. Historically, however, Major Facilities Purchasing officials had not supplied data for this report because they felt it would not be meaningful since they only complete a few major construction projects each year. Major Facilities Purchasing officials believed that the new Automated Project Management System would provide better data.

---

**Recommendation**

We recommend the vice president of Purchasing and Materials:

3. Continue testing and planning for implementation of the Automated Project Management System to ensure formal monitoring of contract timeliness and ability to measure performance of the major construction process.

---

**Management's  
Comments**

The vice president of Purchasing and Materials agreed with our recommendation. He stated that although the system is approximately 1 1/2 months behind schedule due to unforeseen hardware and software problems, they plan to begin testing in the fall of 2000 and deploying to all projects soon thereafter. He believes the system will provide them with the data necessary to analyze and implement improvements to the major construction contracting

process. The vice president of Facilities also agreed with our recommendation and stated that he will continue to support and fund the implementation of the system on future major projects because it will benefit both organizations.

---

**Evaluation of  
Management's  
Comments**

Management's comments are responsive to our recommendation and planned action should address the issue raised in this report.

## MANAGEMENT CONCERNS ABOUT ORGANIZATIONAL STRUCTURE

---

Interviews with Facilities and Major Facilities Purchasing officials indicated they had some concerns with the organizational structure for the major construction contracting process. We have addressed those concerns and provided our assessment.

---

### Facilities Concerns

Officials from Facilities stated the current organizational structure is not designed to hold staff members accountable for their roles in the process. They also stated that the Postal Service requirement to obtain approval for some operational functions outside their immediate chain of command makes the process more time-consuming. For example, current policy limits Facilities contracting officer representative approval authority for modifications to \$50,000. Personnel stated that not only is this process time-consuming, it is also a duplication of effort because modifications must go through Facilities for technical review before being approved by Major Facilities Purchasing. Facilities officials also stated that due to the expected decline in the Facilities budget, it is imperative the Postal Service establish the most efficient and effective organization structure possible to maximize resources.

---

### Assessment of Facilities Concerns

Our review did not substantiate the claim that the requirement for obtaining approval for modifications in excess of \$50,000 caused the contracting process to be more time-consuming, because the requirement had only been in place since January 2000. While Facilities personnel expressed concern regarding the requirement, they could not provide documentation citing any particular case where a project had been delayed or impaired due to the requirement.

As for the duplication of effort for the modification approval process, we believe the current process was an internal control check and balance system allowing input and oversight by both offices with appropriate areas of expertise.

---

### Purchasing and Materials Concerns

Purchasing and Materials officials were basically content with testing the current organizational structure. However, they believed the Postal Service could best benefit if they assumed responsibility for all major construction contracting from planning through award. This would include such

support contracts as architect-engineer and construction management support service. Personnel stated this would improve project delivery. They conceptualized that this change would prevent past problems, such as not being notified of changes or problems in a timely manner to avoid project delays. According to Major Facilities Purchasing personnel, if they had complete responsibility they could address project problems immediately. Major Facilities Purchasing personnel also stated that complete responsibility for the planning through award phase would make the process consistent with best practices and the Purchasing Manual.

Overall, according to Major Facilities Purchasing personnel, the change would result in Facilities and Major Facilities Purchasing both being advocates for the customer and sharing responsibility for the timely and efficient delivery of the projects. Facilities staff would ensure that construction projects proceed in accordance with technical requirements of contract documents. Major Facilities Purchasing staff would be responsible for processing all contract documents and ensuring the contractor meets all obligations under the terms of the contract. They believe the segregation of responsibility by program management and contract management could also improve coordination and communication between the respective offices and their suppliers.

---

Assessment of Purchasing Concerns	Major Facilities Purchasing was never assigned full responsibility for the major construction contracting process. As a result, we could not substantiate that if they had full responsibility the Postal Service would have best benefited. Also, we did not evaluate the effectiveness of the current organizational structure because it had only been in effect since January 2000. However, we did notice improvements had been made to the process in the area of timeliness. For example, the average days from solicitation issuance to contract award dropped from 191 to 140 days over the past four years.
Assessment of Organizational Structure Concerns	We believe the Postal Service should ensure roles and responsibilities are clearly understood. We also believe the Postal Service should allow the most recent changes to the organizational structure sufficient time to be evaluated.

**APPENDIX A**  
**PROJECTS GREATER THAN \$10 MILLION**  
**APPROVED BY THE BOARD OF GOVERNORS**  
**OCTOBER 1, 1993 THROUGH SEPTEMBER 30, 1999**  
*(Sorted by Date Approved)*

<b>Number</b>	<b>Project</b>	<b>Date Approved</b>	<b>Total Amount Approved (in millions)</b>
1	WESTCHESTER, NEW YORK	Dec-93	\$ 102.0
2	CHURCH STREET STATION NEW YORK, NEW YORK (Phase I)	Jan-94	45.9
3	CHEYENNE, WYOMING	May-94	10.0
4	ANAHEIM, CALIFORNIA	Jun-94	29.0
5	KALAMAZOO, MICHIGAN	Jul-94	20.6
6	LOUISVILLE, KENTUCKY AIRPORT MAIL CENTER	Feb-95	10.7
7	NATIONAL AIRPORT MAIL CENTER	Apr-95	23.7
8	SANTA BARBARA, CALIFORNIA	May-95	31.0
9	MATERIAL DISTRIBUTION CENTER	Jun-95	12.8
10	SEATTLE, WASHINGTON	Nov-95	85.4
11	ISSAQUAH, WASHINGTON MAIN POST OFFICE	Dec-95	10.1
12	JACKSONVILLE, FLORIDA BULK MAIL CENTER	Feb-96	81.6
13	EL PASO, TEXAS	Feb-96	32.6
14	ANCHORAGE, ALASKA	May-96	17.5
15	LAS VEGAS, NEVADA EXPANSION	May-96	11.5
16	TERRE HAUTE, INDIANA	Jun-96	14.6
17	QUAD CITIES, ILLINOIS	Jul-96	17.1
18	NEW HAVEN, CONNECTICUT - (SOUTH CONNECTICUT)	Jul-96	50.3
19	BUSSE SURFACE HUB - CHICAGO, ILLINOIS	Aug-96	10.9
20	ATLANTA, GEORGIA AIRPORT MAIL CENTER	Sep-96	36.4
21	KANSAS CITY, MISSOURI	Nov-96	108.2
22	MINNEAPOLIS, MINNESOTA INFORMATION AND ACCOUNTING SERVICE CENTER	Nov-96	64.8
23	GOLDEN, COLORADO MAIN POST OFFICE/DELIVERY DISTRIBUTION CENTER	Jan-97	10.9
24	CHURCH STREET STATION NEW YORK, NEW YORK (Phase II)	Dec-97	91.0
25	BOISE, IDAHO	Dec-97	33.3
26	SIOUX FALLS, SOUTH DAKOTA	Dec-97	18.2
27	TULSA, OKLAHOMA	Jan-98	40.4
28	NORTHEAST METRO, MICHIGAN	Feb-98	87.1
29	SPOKANE, WASHINGTON	Apr-98	40.9
30	SPRINGDALE STATION STAMFORD, CONNECTICUT	Nov-98	12.7
31	COLUMBUS OHIO PROCESSING and DISTRIBUTION CENTER	Aug-99	140.5
32	GREENSBORO NORTH CAROLINA PROCESSING and DISTRIBUTION CENTER	Aug-99	69.7
33	BRONX, NEW YORK - GENERAL POST OFFICE EXTENSION RENOVATIONS	Aug-99	12.9



**APPENDIX B**

**RESULTS OF MAJOR CONSTRUCTION CONTRACT MODIFICATION REVIEW**

NUMBER	PROJECT NAME	PROJECT NUMBER	TYPE OF CONSTRUCTION	INDUSTRY STANDARDS %	ORIGINAL CONSTRUCTION CONTRACT AMOUNT	ACTUAL CONSTRUCTION CONTRACT AMOUNT	PERCENTAGE OF MODIFICATION DIFFERENCE	MODIFICATION DIFFERENCE DOLLAR AMOUNT	PERCENTAGE OF MODIFICATION DIFFERENCE EXCEEDING STANDARDS	DOLLAR AMOUNT OF MODIFICATION DIFFERENCE EXCEEDING STANDARDS
1	Westchester, NY P & DC and VMF	1QZ147	N	5	\$51,513,383	\$56,338,789	9	4,825,406	4	2,249,737
2	National Airport	X00628	N	5	18,801,593	21,565,061	15	2,763,468	10	1,823,388
3	Issaquah, Washington MPO	Y5DX029	N	5	3,392,244	3,817,067	13	424,823	8	255,211
4	Atlanta, GA - Air Mail Center	Y02731	N	5	27,800,000	29,900,000	8	2,100,000	3	710,000
5	Tulsa, OK	Y05912	N	5	22,800,000	29,500,000	29	6,700,000	24	5,560,000
6	Spokane, WA	Y60675	N	5	22,098,000	27,516,153	25	5,418,153	20	4,313,253
7	Springdale Station, Stamford, CT	B67250	N	5	6,695,000	7,600,000	14	905,000	9	570,250
8	Louisville, KY	E09678	R	15	5,300,000	6,600,000	25	1,300,000	10	505,000
9	Church Street Station- Phase I	X06004	R	15	13,498,000	15,693,053	16	2,195,053	1	170,353
10	Seattle, WA	Y06163	R	15	19,968,000	25,282,304	27	5,314,304	12	2,319,104
11	Church Street Station- Phase III	Q19862	R	15	12,180,000	14,768,184	21	2,588,184	6	761,184
<b>TOTAL</b>					<b>\$204,046,220</b>	<b>\$238,580,611</b>		<b>\$34,534,391</b>		<b>19,237,480</b>

**LEGEND:**  
**N** = New  
**R** = Repair/ Alteration

## APPENDIX C. MANAGEMENT'S COMMENTS

Manager  
MAJOR FACILITIES PURCHASING



September 8, 2000

BILLY J. SAULS

THROUGH KEITH STRANGE

*For J. Dwight Y. SEP 12 2000*

SUBJECT: Management Response to Draft Audit Report – Review of Postal Service Major Construction Contracting Process (Report Number FA-AR-00-DRAFT)

The following is Purchasing and Materials' response to the recommendations made by the Office of Inspector General regarding the Postal Service Major Construction Contracting Process.

**Recommendation:**

- 1- The vice president of Facilities, the vice president of Purchasing and Materials, and others as needed, work together to review contract modifications in an effort to identify causes for the modifications, and more importantly, to reduce the dollar amount of future modifications.

We concur with this recommendation. Major Facilities Purchasing will work with Facilities during FY '01 to address this issue. We hope to identify root causes and to provide solutions to reduce the rate and dollar amount of modifications.

**Recommendation:**

- 2- The vice president of Purchasing and Materials and the vice president of Facilities, through a coordinated effort, develop and disseminate clearly defined guidance on roles and responsibilities for the major construction contracting process.

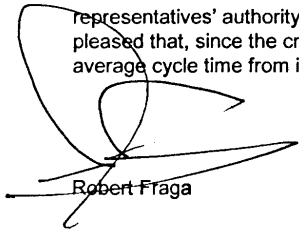
We concur with this recommendation. Major Facilities Purchasing will work with Facilities to develop a responsibility matrix to be approved by both the vice president of Purchasing and Materials and the vice president of Facilities. The approved matrix will be disseminated to all pertinent personnel.

**Recommendation:**

- 3- The vice president of Purchasing and Materials continue testing and planning for implementation of the Automated Project Management System to ensure formal monitoring of contract timeliness and ability to measure performance of major construction process.

We concur with this recommendation. The implementation of this system is approximately 1 1/2 months behind schedule due to unforeseen hardware and software problems. We intend to begin testing the system in the fall and deploying to all projects as soon as possible. We believe this system will provide us with the data necessary to analyze and implement improvements to the contracting process.

We are gratified that your finding and review of contract performance for 33 major construction facility contracts identified "no major problems relating to contracting officer authority, contracting officer representatives' authority or responsible persons at the sites for monitoring purposes." We are also pleased that, since the creation of Major Facilities Purchasing, there has been a reduction in the average cycle time from issuing solicitations to contract award from 191 days to 140 days.



Robert Fraga

cc: Clarence E. Lewis, Jr.  
Richard J. Strasser  
John R. Gunnels  
Rudy Umscheid  
Dianne VanLoozen

RUDY UMSCHIED  
VICE PRESIDENT, FACILITIES



September 26, 2000

BILLY J. SAULS  
ASSISTANT INSPECTOR GENERAL  
FOR BUSINESS PROTECTION

SUBJECT: Draft Audit Report – Review of Postal Service Major Construction  
Contracting Process (Report Number FA-AR-00-DRAFT)

This memorandum is in response to the observations and suggestions outlined in the subject audit report, dated August 9. The objective of the audit was to review the effectiveness of the major construction contracting process in assuring contract timeliness, and management controls over contract cost and performance. The result of the audit did not identify any major problems in the contracting process but did identify opportunities for improvement in the following areas:

- Contract performance and modifications
- Management controls
- Contract timeliness

In general, Facilities' management concurs with the recommendations outlined in the audit report regarding suggestions for continuing improvement. More specifically, our plan of action regarding the above issues is outlined below:

1. **Contract Performance and Modifications:** There appears to be some confusion in the contract modification process and how to analyze whether or not the USPS falls within the approximate industry standard of 5 percent for new construction and 15 percent for repair and alteration projects. Of the 33 major construction facility contracts reviewed, 11 were identified as exceeding the industry standard. In order to analyze this effectively, one needs to review the actual scope of each modification to determine if the change is outside of the original project scope. Out of scope changes are not considered in the industry standard percentages and therefore should not be factored into this analysis. The industry standards of 5 and 15 percent are typically for modifications associated with design deficiencies, unforeseen conditions, minor scope omissions, and/or redesign of work identified on the original contract documents. Major scope additions and decision analysis report (DAR) modifications fall outside of this and should not be factored into the analysis when comparing our efficiency to that of industry. Of the 11 projects identified as exceeding the industry standard, we believe that the majority of the modifications fall into the category of major scope additions. Eliminating this type of modification from the analysis will show that the USPS meets or exceeds the industry standard in most cases.

The audit further states that "...if the Postal Service had remained within industry standards for the 11 contracts, they would have avoided \$19 million in contract modification costs." This statement is misleading because it implies that these costs could have been completely avoided and the result would have been a cost savings to the project. If the modifications were for Postal Service changes, major scope changes and/or DAR modifications that were omitted from the original contract documents, but deemed necessary for successful

-2-

completion of the project, the cost of this work could not have been avoided. Incorporating this additional scope into the contract via modification, or including it in the original contract documents, would still result in the Postal Service having to expend the funds. We do agree that it would be more cost effective to have this scope identified in the original contract documents when pricing is being solicited in a competitive environment versus negotiating the modification with a single source after the contract is awarded.

Regarding the specific recommendation, Facilities has an ongoing program to review contract modifications in an effort to identify causes for modifications and to incorporate the appropriate recurring changes into our standard design criteria.

2. **Management Controls:** A responsibility matrix that outlines the responsibilities of Facilities and Major Facilities Purchasing is currently being finalized and should be complete by November. This matrix identifies the major activities from planning through project completion and indicates which organization has the primary responsibility, support responsibility or joint responsibility. The completion of this effort will comply with the audit recommendation that we develop and disseminate clearly defined guidance on roles and responsibilities for the major construction contracting process.
3. **Contract Timeliness:** The recommendation on this issue was only made to the vice president, Purchasing and Materials, but Facilities will continue to support and fund the implementation of the automated project management system on future major projects. Once operational, this system should provide information that will be beneficial to both organizations.

None of the information above, or in the subject audit report, is considered to contain proprietary or other business information.

  
Rudy Umscheid