



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Delegations of Contracting Authority Outside of Supply Management

Audit Report

Report Number
SM-AR-14-007

August 5, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Five of the six delegations of contracting authority outside of Supply Management were reasonable and contained adequate controls over delegation requirements; however, internal controls and oversight of the Facilities delegation need improvement.

Background

The U.S. Postal Service's Supply Management organization is responsible for approving contracts to acquire goods and services. However, the postmaster general and the vice president, Supply Management, can delegate contracting authority to personnel outside of Supply Management.

In response to a U.S. Postal Service Office of Inspector General report issued in September 2010, the Postal Service revoked the majority of its delegations. As of September 2013, the Postal Service reported six delegations for marketing, real estate, confidentiality, and interagency agreements. Our objectives were to determine whether current delegations of authority are reasonable and internal controls are adequate.

What The OIG Found

Five of the six delegations were reasonable and contained adequate controls over delegation requirements; however, internal controls and oversight of the Facilities delegation need improvement. Facilities did not require contracting officers to meet professional qualifications or establish sufficient competition requirements for contracts. Also, Facilities could not identify its active contracts and did not timely submit the required annual reports.

These deficiencies occurred in an environment with no separation of duties in the Facilities program office that identified the need for services, established contracting policy, and secured contracts.

It would benefit the Postal Service to rescind the delegation and transfer the responsibilities for Facilities service contracts to the vice president, Supply Management, to ensure consistent contracting practices for procuring goods and services.

In addition, during our review we found Postal Service officials were not aware that Information Technology personnel executed revenue-generating agreements with mail service providers without a required delegation. Specifically, officials could not locate evidence of a delegation granting authority for personnel to sign agreements with service providers who provide address quality data to mailers. Without sufficient controls and oversight of delegations, the Postal Service is at risk of fraud and waste from improper contracting activity, which could harm the Postal Service's brand.

What The OIG Recommended

We recommended the postmaster general rescind the delegation to Facilities for service contracts and ensure personnel responsible for signing agreements with service providers have contracting authority.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 5, 2014

MEMORANDUM FOR: PATRICK R. DONAHOE
POSTMASTER GENERAL AND CHIEF EXECUTIVE
OFFICER

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". There is a small black dot in the upper right corner of the box.

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

SUBJECT: Audit Report – Delegations of Contracting Authority
Outside of Supply Management
(Report Number SM-AR-14-007)

This report presents the results of our audit of Delegations of Contracting Authority Outside of Supply Management (Project Number 13YG020SM000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Facilities did not require contracting officers to meet professional qualifications or establish sufficient competition requirements for contracts. Also, Facilities could not identify its active contracts and did not timely submit the required annual reports.

Introduction

This report presents the results of our self-initiated audit of Delegations of Contracting Authority Outside of Supply Management (Project Number 13YG020SM000). This audit is a follow-up to our previous audit of delegations of authority.¹ Our objectives were to determine whether current delegations of authority are reasonable and internal controls are adequate. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service's Supply Management organization is responsible for contracting goods and services; however, the postmaster general (PMG) and the vice president (VP), Supply Management, can delegate contracting authority to personnel outside of Supply Management. Delegations allow employees to negotiate and execute binding agreements between the Postal Service and other entities and establish policies to govern these agreements.

In response to the U.S. Postal Service Office of Inspector General (OIG) report issued in September 2010, the Postal Service revoked the majority of its delegations. As of September 2013, the Postal Service reported six delegations for marketing, real estate, confidentiality, and interagency agreements (see [Appendix B](#)).

When the OIG issued its report, Facilities was operating under a delegation of authority from the VP, Supply Management, which took effect December 23, 2005. The Postal Service revoked that delegation and replaced it with a delegation from the PMG to the VP, Facilities, which took effect May 7, 2013. Management stated that Facilities had real estate expertise to execute service contracts related to real estate transactions, such as property disposals and leases. During fiscal years (FY) 2012 and 2013, Facilities contracted with 196 suppliers for services totaling \$9.8 million to support more than 8,400 real estate transactions. The contracts included a national contract with CB Richard Ellis Group, Inc. (CBRE).² During FYs 2012 and 2013, the Postal Service paid CBRE \$5.4 million.

Conclusion

Five of the six delegations were reasonable and contained adequate controls over delegation requirements. These delegates³ performed and reported activities within their delegated authority and properly contracted for goods and services through Supply Management. However, internal controls and oversight of the Facilities delegation need improvement.

Facilities did not require COs to meet professional qualifications or establish sufficient competition requirements for contracts. Also, Facilities could not identify its active contracts and did not timely submit the required annual reports.

These deficiencies occurred in an environment with no separation of duties in the Facilities program office that identified the need for the services, established contracting policy, and secured contracts. We benchmarked against four government agencies and found that they delegated real estate authority to departments outside of their procurement departments. Two of the four also authorized their real estate COs to contract for goods and services, including real estate services, and required them to follow the same policies as the organization's procurement unit. In contrast, the Postal Service's Facilities delegation allowed the VP, Facilities, to develop contracting policies and procedures for real estate and related services that were separate from those developed by Supply Management.

¹ U.S. Postal Service *Purchasing Policies* (Report Number CA-AR-10-005, dated September 20, 2010).

² The OIG previously reported in the *Contracting of Real Estate Management Services* (Report Number SM-AR-13-001, dated June 12, 2013) that Postal Service Facilities officials did not establish a maximum contract value. Also, the Contracting Officer (CO) did not properly approve contract payments, appoint representatives to monitor contract performance, or ensure services were provided.

³ A person designated to act for or represent another or others.

Because of our prior audit work, the Postal Service took action to significantly reduce the number of delegations for goods and services; however, it did not improve the oversight of the Facilities delegation as evidenced by the internal control deficiencies with managing contracts and late financial reporting. It would benefit the Postal Service to rescind the delegation of authority and transfer the responsibilities for Facilities service contracts to the VP, Supply Management, to ensure consistent contracting practices for procuring goods and services.

In addition, our audit revealed Postal Service officials were not aware that Information Technology personnel executed revenue-generating agreements with mail service providers without a required delegation. Officials could not provide a delegation granting authority for personnel to sign agreements with service providers who provide data to mailers. Without sufficient controls and oversight of delegations, the Postal Service is at risk of fraud and waste from improper contracting activity, which could harm its brand.



Facilities did not require COs to justify noncompetitive contracts.

Facilities' Internal Controls Over Service Contracts

Internal controls and oversight of the Facilities delegation need improvement. Specifically, Facilities did not require COs to meet professional qualifications or establish sufficient policy requirements for competitive and noncompetitive contracts. Also, Facilities could not identify its active contracts and did not timely submit the required annual reports.

Contracting Officer Professional Qualification Standards

The Postal Service did not require Facilities COs to meet professional qualification standards, including annual contract training. The Facilities delegation allowed the VP, Facilities, to develop policies and procedures unique to contracts for real estate and related services. Prior to 2006, the Postal Service required COs to meet qualification and training standards; however, in 2006 the VP, Facilities, created an internal guidance document⁴ eliminating these requirements. Based on this revised guidance, Facilities COs need only meet the general requirements — specifically, COs must be career employees in good standing and have a sufficient understanding of Postal Service real estate contracting policies and procedures. In contrast, Supply Management COs must meet professional qualifications, including specific experience, education, and training requirements, to obtain and maintain contracting authority.⁵ The level of contract authority assigned to a Supply Management CO is based on years of experience. Also, as of July 30, 2007, Supply Management COs must have baccalaureate degrees and completed at least 24 semester hours in subjects related to purchasing. Furthermore, Supply Management COs must complete formal purchasing training to obtain contracting authority and 21 hours of training annually to maintain this authority. Requiring Facilities COs to meet professional qualification standards would decrease the Postal Service's risk of improper contracting activity.

Competition Requirements

The VP, Facilities, did not establish sufficient requirements to ensure fair competition in awarding contracts and completion of justifications for noncompetitive contracts. For competition of contracts, Handbook RE-1 states that, generally, purchases valued at more than \$25,000 are made on the basis of adequate competition.⁶ Further, internal guidance⁷ states that, under normal circumstances, COs should obtain two or three work proposals; however, the handbooks do not specify how to engage in fair competition. In contrast, the Postal Service requires Supply Management COs to do a comparative analysis of all proposals and rank them (including price proposals), discuss and negotiate with selected suppliers, and determine the best value for the Postal Service. In addition, selection committees ensure the process is fair and balanced.

Facilities did not require COs to justify noncompetitive contracts. In contrast, Supply Management requires justifications for contracts awarded noncompetitively.⁸ Not requiring justifications for noncompetitive contracts puts the Postal Service at risk of not receiving best value.

⁴ *Implementing Handbook RE-1 in Postal Real Estate Actions* was created from Handbook RE-1, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*.

⁵ *Supplying Principles and Practices*, General Practice 7-1, Appointment and Selection of Contracting Officers.

⁶ Handbook RE-1, Chapter 32, Section 322, Competition.

⁷ *Implementing Handbook RE-1 in Postal Real Estate Actions* was created from Handbook RE-1, *U.S. Postal Service Facilities Guide to Real Property Acquisitions and Related Services*.

⁸ *Supplying Principles and Practices*, Supplying Practice 2-10.3, Noncompetitive Purchases.

Identification of Active Contracts

Facilities could not identify the universe of active contracts. This occurred because Facilities did not require employees to put contracts into the electronic Facilities Management System (eFMS).⁹ In contrast, Supply Management COs must create contracts in Supply Management’s data system.¹⁰ Also, Facilities personnel did not receive training on how to create and input contracts for services in the eFMS. Rather than creating a contract number for each contract, they created separate contract numbers each time a contract payment was due. For example, the eFMS detailed 110 active contract numbers for a supplier with just one contract. Personnel should have created 110 work orders under one original contract number. In another example, five contracts for tax abatement services¹¹ were not in the eFMS. The CO stated that he only put information into the eFMS when payments were due and was not aware of any other file maintenance requirements.

If employees are not required to put contract information into the eFMS and are not trained on how to properly do it, management cannot ensure proper contract oversight or accuracy in reporting Facilities contracting activity.

These internal control deficiencies occurred in an environment where there was no separation of duties between the program office and contracting activities. The Facilities organization that identified the need for services was also responsible for establishing contracting policy and procuring services. We benchmarked against four government agencies and found that they delegated real estate authority to departments other than their procurement departments. Two of the four granted their real estate COs authority to contract for goods and services, including real estate services; however, the delegations required COs to follow the same policies as the organizations’ procurement units. See Table 1.

Table 1: Benchmarking of Real Estate Delegations

Organization	Real Estate Delegation	Contract for Real Estate Services
Postal Service	Yes	Yes
Architect of the Capitol	Yes	No
U.S. Department of the Army ¹	Yes	Yes
U.S. Department of the Navy ²	Yes	Yes
U.S. General Services Administration (GSA)	Yes	No

Source: OIG analysis.

¹ U.S. Army Family and Morale, Welfare and Recreation Command.

² Commander, Naval Installation Command.

⁹ The eFMS database is the official Postal Service record for real property inventory that it uses to manage all property-related projects including acquisitions, disposals, and repairs.

¹⁰ Contract Authoring Management System.

¹¹ Services performed by contractors to review the reasonableness of tax assessments for properties leased by the Postal Service and appeal the assessment, if appropriate. In return, the Postal Service pays the contractor a portion of any tax savings realized.

The Postal Service took action to significantly reduce the number of delegations for goods and services; however, it did not improve oversight of the Facilities delegation.

Oversight of Facilities Delegation

The VP, Facilities, did not timely submit the required annual financial report for FYs 2011 through 2013. The annual report summarizes contractual actions performed under the delegation, including the number and dollar amounts of contracts signed during the fiscal year and whether the contracts were awarded competitively or noncompetitively. Facilities personnel stated they did not timely submit FY 2011 or FY 2012 reports to Finance, as required by the delegation letter issued by the VP, Supply Management, because of reorganization activities within Facilities and Supply Management. Supply Management personnel overlooked submission of the report because they were in the process of rescinding other delegations of authority. During our audit, Facilities management were still revising the FY 2013 report and had not yet submitted it to the chief operating officer, as required by the delegation letter issued by the PMG. If the VP, Facilities, does not file the annual financial report, the real estate transactions and contract agreements under the delegation may not receive sufficient oversight. In June 2014, the VP, Facilities, submitted the required annual financial reports for FYs 2011 through 2013 to the chief operating officer.

In 2009, we reported that once the Postal Service delegated contractual authority it did not have adequate controls to ensure employees met financial due diligence and principles for guiding the delegations.¹² The Postal Service agreed to improve controls; however, in 2010, we reported the Postal Service had not improved the controls and a Postal Service official agreed to a noncompetitive contract under his delegation for purposes other than what the delegation allowed.¹³ The official created the \$1.6 million contract award to pay for a previous unauthorized contractual commitment.¹⁴ This action circumvented the appropriate contracting process and violated the terms of the delegation. Based on our recommendation, the Postal Service took action to significantly reduce the number of delegations for goods and services; however, it did not improve oversight of the Facilities delegation as evidenced by the internal control deficiencies with managing contracts and lack of timely financial reporting.

Due to the internal control deficiencies with Facilities contracts and the continued absence of oversight of delegations of authority, it would benefit the Postal Service to rescind the delegation of authority to Facilities and transfer the responsibilities for Facilities service contracts to the VP, Supply Management, to ensure consistent contracting practices for procuring goods and services. Without sufficient contracting controls and oversight, the Postal Service is at risk of fraud and waste from improper contracting activity, which could harm the Postal Service's brand.

¹² *Supply Management's Oversight of Delegations of Authority* (Report Number CA-AR-09-005, dated June 1, 2009).

¹³ *U.S. Postal Service Purchasing Policies* (Report Number CA-AR-10-005, dated September 20, 2010).

¹⁴ An unauthorized contractual commitment occurs when a Postal Service employee who has not been delegated contracting or local buying authority, or who exceeds such authority, by his or her actions causes another party to deliver or provide goods or services.

Oversight of Address Quality Service Agreements

Postal Service officials were not aware that Information Technology personnel executed revenue-generating agreements, called Address Quality Service agreements, with mail service providers without a required delegation. Specifically, management could not provide evidence of a delegation letter granting authority for Postal Service personnel to sign agreements with service providers who pay a license fee for mailing list data.¹⁵ These service providers paid a fee for licenses to develop and distribute address matching applications and to receive Postal Service change-of-address data, address mailing lists, and correction services. The agreements represent the Postal Service generating revenue for provision of services for compensation that is within the definition of a contract; therefore, personnel signing the agreements should have proper contracting authority. Postal Service personnel signed the agreements as COs' representatives but did not know who delegated contracting authority to them.

Postal Service personnel responsible for managing the PMG's delegations of contracting authority could not locate a current delegation and stated they would have to do further research to determine whether one ever existed. Therefore, we are taking the position that a delegation letter does not exist and the Postal Service should issue one for this revenue-generating activity. Without the delegation of contracting authority, the agreements are not legally binding unless ratified¹⁶ by a Postal Service official with contracting authority. The OIG is reviewing the sufficiency of the agreements in another audit.

¹⁵ As of January 21, 2014, there were 515 active National Change of Address (NCOA)^{Link} agreements. NCOA^{Link} is one of several modules in the NCOA system and is used to help mailers correct their mailing address lists.

¹⁶ Ratification is the process of formalizing and approving contracts that have been entered into without authorization. Ratification is not automatic and the employee who causes the ratification may be required to assume some or all of the liability for the contract in addition to other administrative sanctions.

Recommendations

We recommend the postmaster general rescind the delegation to Facilities for service contracts and ensure personnel responsible for signing agreements with service providers have contracting authority.

We recommend the postmaster general and chief executive officer:

1. Rescind the delegation to the vice president (VP), Facilities, for real estate services contracts and transfer the responsibilities for these contracts to the VP, Supply Management, to ensure consistent contracting practices for the procurement of goods and services.
2. Establish an interim process to ensure that Facilities timely submits the annual financial report of real estate transactions, as required in its delegation letter, until management rescinds the delegation.
3. Determine whether current Address Quality Service agreements should be ratified.
4. Delegate contracting authority to personnel responsible for signing Address Quality Services agreements.
5. Develop a process to identify contracts and agreements that may not have a delegation of authority.

Management's Comments

Management agreed with the findings and recommendations 2, 3, 4, and 5; however, management disagreed with recommendation 1. Specifically, although management agreed that improvements in the Facilities organization are needed, management did not agree that rescinding the delegation to the VP of Facilities is the appropriate way to improve contracting practices. Rather, management stated the VP of Facilities is developing a plan, which includes a schedule for implementation of corrective actions, to address the OIG's concerns. The following actions will be addressed by the plan, scheduled to be completed by September 23, 2014:

- Review standards and qualifications for COs in other Postal Service areas and develop appropriate standards for issuing and maintaining warrants for Facilities' COs.
- Develop a process for noncompetitive and competitive contracting for real estate services based on the existing policies and procedures for competition used by the Postal Service, including those of Supply Management.
- Determine available and appropriate training for Facilities' personnel to ensure compliance with the improved contracting processes to be developed.

In response to recommendation 2, management agreed to establish a process by September 30, 2014, to ensure Facilities timely submits the annual financial report of real estate transactions.

In response to recommendation 3, management agreed to review current Address Quality Service agreements and issue ratifications as needed. Management's target implementation date is September 30, 2014.

In response to recommendation 4, management agreed to delegate contracting authority to personnel responsible for signing Address Quality Service agreements. Discussions are underway, and management's target implementation date is September 30, 2014.

In response to recommendation 5, management agreed to develop a process by September 30, 2014, that identifies contracts and agreements that may not have a delegation of authority. Management stated that discussions are underway between

the Postal Service's Office of General Counsel and Address Management to advance the completion of this recommendation.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to all the recommendations and the corrective actions should resolve the issues in the report related to recommendations 2, 3, 4, and 5.

Regarding management's response to recommendation 1, we cannot determine whether corrective actions will resolve the related issue in the report. Rescinding Facilities' delegation of authority would be in the best interest of the Postal Service because of the internal control deficiencies with Facilities' contracts and the continued absence of oversight of delegations of authority. Nevertheless, developing and implementing the plan to address the concerns provide an opportunity to improve the Facilities contracting practices. We emphasize that these actions should be comparable in quality and standards to Supply Management's contracting practices. The recommendation will remain open until the OIG can assess the plan and timeframes for implementation.

Regarding management's response to recommendation 5, for clarification, we recommend the Postal Service identify any contracts and agreements that may not have an appropriate delegation, not just Address Quality Service agreements.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

***During FYs 2012 and 2013,
Facilities contracted with
196 suppliers for services
totaling \$9.8 million to
support more than
8,400 real estate transactions.***

Background

The Postal Service's Supply Management organization is responsible for contracting for the majority of the Postal Service's supplies and services. Federal law¹⁷ grants the authority, which states that only the PMG; the VP, Supply Management; COs with written statements of specific authority; and others designated in writing have the authority to bind the Postal Service with respect to entering into, modifying, or terminating any contract for acquiring property, services, and related purchasing matters.

The PMG and the VP, Supply Management, have used the authority to delegate contracting outside of Supply Management. Delegations of contracting authority allow Postal Service employees to negotiate and execute binding agreements between the Postal Service and other entities. As of September 2013, the PMG and the VP, Supply Management, have six delegations of contracting authority outside of Supply Management.

In response to an OIG report issued in September 2010, the Postal Service revoked all delegations related to purchasing goods and services, except for the delegation to the VP, Facilities. That VP continued to have authority to execute service contracts related to real estate transactions, such as property disposal and leases. The VP, Supply Management, said the delegation remained in place because these contracts are related to real estate transactions, which are outside the expertise of Supply Management, and that most of the contracts are for small amounts paid to local vendors for services that are immediately needed. During FYs 2012 and 2013, Facilities contracted with 196 suppliers for services totaling \$9.8 million to support more than 8,400 real estate transactions. The contracts include a national contract with CBRE. During FYs 2012 and 2013, the Postal Service paid CBRE \$5.4 million.

As of September 2013, the PMG and the VP, Supply Management, had five other delegations of authority in place. Those delegations are for marketing, confidentiality, and agreements with other federal agencies.

Objectives, Scope, and Methodology

Our objectives were to determine whether current contracting delegations of authority are reasonable and internal controls are adequate.

¹⁷ Title 39 Code of Federal Regulations, Section 601.104, Postal Purchasing Authority.

To accomplish our objectives, we:

- Reviewed delegations of authority and interviewed Supply Management personnel; the chief marketing and sales officer, executive VP; the VP, Global Business; and the manager, Digital Alliances, to determine whether internal controls were in place to track and monitor these requirements.
- Reviewed documentation to determine whether Postal Service officers and VP, Sales, redelegated their authority based on their delegation and obtained the names of the individuals receiving the redelegation of authority.
- Interviewed employees in the Postal Service's Office of General Counsel to determine the office's role in the delegation process.
- Used Accounts Payable Excellence and Enterprise Data Warehouse (EDW)¹⁸ reports and traced Marketing, Sales, and Facilities transactions to certified invoices and determined whether they were within the scope of their delegations.
- Reviewed Facilities CO delegations and interviewed 11 COs to verify active real estate contracts, determine qualification and training requirements, obtain training records, and ensure performance of duties were within the scope of the delegations.
- Interviewed the manager, Facilities Information Systems, to gain an understanding of Facilities contracting in the eFMS and how COs use the system for contracting for real estate services, payments, real estate transactions, and leases.
- Benchmarked against the Architect of the Capitol, Department of the Army, Department of the Navy, and the GSA to determine whether their Facilities delegations were comparable to the Postal Service's Facilities delegations.
- Reviewed Address Quality Service agreements to determine whether they were signed by Postal Service personnel with contracting authority.

We conducted this performance audit from March 2013 through August 2014,¹⁹ in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 6, 2014, and included their comments where appropriate.

We assessed the reliability of computer-generated data in the eFMS and EDW to source documentation to verify compliance with delegations and validate contract award information. As part of our assessment, we determined that we could not rely on data in eFMS to identify the universe of active contracts; however, we determined the eFMS data we used for reviewing contract payments were sufficiently reliable for the purposes of this report.

¹⁸ The EDW provides a single repository for managing the Postal Service's corporate data assets.

¹⁹ The OIG suspended the audit from October 1 to 16, 2013, because of the federal government shutdown.

Prior Audit Coverage

The OIG issued *Contracting of Real Estate Management Services* (Report Number [SM-AR-13-001](#), dated June 12, 2013), which concluded that Postal Service Facilities officials should improve oversight to mitigate inherent risks associated with the CBRE contract. Specifically, there are conflict of interest concerns and no maximum contract value. In addition, the CO did not properly approve contract payments, appoint CO representatives to monitor contract performance, or ensure services were provided. As a result, it is difficult for the Postal Service to determine whether the outsourcing effort has been or will be effective in reducing costs. Management agreed with our recommendations to establish a reasonable maximum contract value based on historical budgets and designate COs' representatives and specify their duties to monitor contract performance and approve payments.

Appendix B: Summary of Delegations

Delegator/Delegate	Redelegations Issued	Authority Allowed Per Delegation Letter
PMG Delegations		
Chief Marketing and Sales Officer, Executive VP	2 ¹	Promotional and revenue-generation agreements.
VP, Global Business	3	International promotional and revenue-generation agreements.
VP, Facilities	74	Real estate and related services contracts.
President, Digital Solutions ²	1	Growth opportunity agreements for digital electronic commerce.
VP, Supply Management Delegations		
All Officers	67	Nondisclosure agreements ³ (NDA) and interagency agreements. The authority can be redelegated to Postal Career Executive Service (PCES) direct reports.
VP, Sales	14	Redelegation of authority to PCES direct reports to sign NDAs within the functional area.

Source: OIG analysis of delegation of authority letters provided by the Postal Service.

¹ The chief marketing and sales officer, executive VP, redelegated authority to the VP, Channel Access. In addition, the VP, Channel Access, redelegated the authority to the 81 district managers to execute no-fee licensing agreements between the Postal Service and retailers that offer package shipping and related services.

² The PMG issued the delegation to the president, Digital Solutions, who retired. Before retiring, he redelegated the authority to the manager, Digital Alliances, on February 1, 2013, and this delegation remained active.

³ NDAs protect the interest of both parties when business imperatives require mutual sharing of sensitive business information.

Appendix C: Management's Comments

PATRICK R. DONAHOE
POSTMASTER GENERAL, CEO



July 25, 2014

LORI DILLARD
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response to Draft Audit Report—Delegations of Contracting Authority
Outside of Supply Management (Report No. SM-AR-14 DRAFT)

This is in response to the Office of Inspector General (OIG) draft audit report "Delegations of Contracting Authority Outside of Supply Management," dated June 30, 2014. I understand from the report that the OIG did not find any evidence of fraud, misappropriation of funds or payments made for work not supplied. Notwithstanding that no damage to the Postal Service has been found as a result of the deficiencies listed in the draft report, management agrees that strengthening controls over the delegation and contracting processes would be beneficial to the operations of the Postal Service and reduce the risk of improper contracting.

In section "A" below, management has addressed several of the OIG's findings. In section "B" below, management has addressed the OIG's recommendations.

A. The OIG Draft Audit Report Findings:

1. Contracting Officer Professional Qualifications Standards

Contracting Officers for Facilities are not required to meet specific professional qualification standards including annual contract training. Rather, they need only be career employees in good standing with sufficient understanding of the Postal Service's real estate contracting policies and procedures. In contrast, Supply Management requires its Contracting Officers to meet specific experience, education, and training requirements in order to obtain and maintain contracting authority. The level of contract authority assigned to a Supply Management Contracting Officer is based on years of experience. Further, such Contracting Officers must have baccalaureate degrees and at least 24 semester hours completed in subjects related to purchasing. In addition, there is a requirement for both initial training to obtain contracting authority and for annual training thereafter to maintain this authority.

Management's Response: As discussed below, Facilities agrees that more training would be beneficial for improving the knowledge and abilities of its Contracting Officers. In the discussion of specific recommendations of the OIG, management has noted that Facilities will create professional development plans so that its Contracting Officers meet specific professional qualifications.

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WASHINGTON, DC 20260-0010
WWW.USPS.COM

2. Competition Requirements

The Vice President, Facilities, did not establish sufficient requirements to ensure fair competition in awarding contracts and completion of justifications for noncompetitive contracts. For competition of contracts, *Handbook RE-1* states generally purchases valued at more than \$25,000 are made on the basis of adequate competition. *Handbook RE-1 IMP* states that, under normal circumstances, Contracting Officers are to obtain two or three proposals for the proposed work. However, the handbooks do not provide specifics on how to obtain fair competition. In contrast, Supply Management sets forth a requirement that their Contracting Officers perform a comparative analysis of all proposals, rank proposals (including price proposals), discuss and negotiate with selected suppliers, and determine the best value for the Postal Service. In addition, selection committees are involved to ensure the process is fair and balanced. Facilities did not require its Contracting Officers to complete justifications for noncompetitive contracts. In contrast, Supply Management requires justifications for contracts awarded noncompetitively.

Management's Response: As discussed below, management agrees that improvements to the contracting process are warranted and as a result will require that Facilities establish sufficient requirements to ensure and document adequate competition.

3. Identification of Contracts

Facilities could not identify the universe of active contracts. This occurred because Facilities did not require employees to put contracts into the electronic Facilities Management System (eFMS). In contrast, Supply Management Contracting Officers must create contracts in its contract data system. Also, Facilities personnel did not receive training on how to create and input contracts for services in eFMS. Rather than creating one contract number for each contract, they created separate contract numbers each time a payment to a contractor was required. For example, the eFMS detailed 110 active contract numbers for a supplier when there was actually just one contract. Personnel should have created 110 work orders under the original contract number. In another example, five contracts to perform tax abatement services were not in the eFMS. The responsible Contracting Officer stated that he only put information into the eFMS when payments were due, and was not aware of any other file maintenance requirements. If employees are not required to input contract information into the eFMS and are not trained on how to properly do it, management cannot ensure proper contract oversight or accuracy in reporting Facilities contracting activity.

Management's Response: Management agrees that all active Facilities' contracts should be placed into the eFMS, as is currently required by Facilities. Management agrees that additional training of Facilities' personnel on how to create and input contracts for services in the eFMS is warranted. The specific incidents reported by the OIG of two individuals who did not properly enter contracts into the eFMS have been rectified by Facilities.

4. Annual Financial Reports

The Vice President, Facilities, did not timely submit the required annual financial report for fiscal years 2011 through 2013.

Management's Response: These annual reports have been submitted by the Vice President, Facilities, as noted in the OIG Audit and will continue to be submitted annually.

B. The OIG Draft Audit Report Recommendations:

- 1. Rescind the delegation to the Vice President, Facilities, for real estate services contracts and transfer the responsibilities for these contracts to the Vice President, Supply Management, to ensure consistent contracting practices for the procurement of goods and services.**

Management's Response: Management disagrees with this recommendation. Management agrees that improvements in the contracting practices of the Facilities organization are needed. Management does not believe, however, that rescission of the delegation to the Vice President, Facilities, is the appropriate mechanism to improve contracting practices. Rather, the Vice President, Facilities, is in the process of undertaking the following actions to address the OIG's concerns, and expects to complete these actions within 60 days of the date of this memorandum:

- a. Conduct a review of the standards and qualifications for Contracting Officers in other parts of the Postal Service, and, based upon such review, develop a plan to adopt appropriate standards for issuing warrants and for maintaining such warrants for Facilities' Contracting Officers. The plan shall also include a schedule for implementation of such standards and qualifications.
 - b. Examine the existing processes and procedures for competition used by the Postal Service to acquire goods and services, including those of Supply Management, and based upon such review, develop a process for noncompetitive and competitive contracting for real estate services. The plan shall also include a schedule for implementation of such process.
 - c. Determine available Postal Service and third-party training programs regarding purchasing, and based upon an examination of such programs; determine appropriate training for Facilities' personnel to ensure compliance with the improved contracting processes to be developed. The plan shall also include a schedule for implementation of such training.
- 2. Establish an interim process to ensure that Facilities timely submits the annual financial report of real estate transactions, as required in its delegation letter, until the delegation is rescinded.**

Management's Response: Management agrees with this recommendation insofar as establishing a process for timely submitting the annual financial report is concerned. I will direct the Vice President, Facilities, to implement such process to ensure that this annual reporting is done on a timely basis within 60 days and report back to management on the process established. Management does not agree with the notion that the delegation should be rescinded for the reasons stated in number 1 above.

Responsible Official: Manager, Facilities Planning
Target Implementation Date: September 2014

- 3. Determine whether current Address Quality Service agreements should be ratified.**

Management's Response: Management agrees with recommendation. Upon issuance of appropriate delegations of authority, Management will review all current Address Quality Service license agreements and issue ratifications as needed and appropriate.

Responsible Official: Manager, Address Management
Target Implementation Date: September 2014

4. Delegate contracting authority to personnel responsible for signing Address Quality Service agreements.

Management's Response: Management agrees with recommendation. Discussions to advance the completion of this recommendation are currently under way between the Postal Service's General Counsel and Address Management.

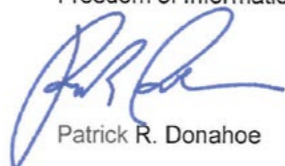
Responsible Official: Manager, Address Management
Target Implementation Date: September 2014

5. Develop a process to identify contracts and agreements that may not have a delegation of authority.

Management's Response: Management agrees with recommendation. Discussions to advance the completion of this recommendation are currently under way between Postal Service's General Counsel and Address Management.

Responsible Official: Manager, Address Management
Target Implementation Date: September 2014

In conclusion, Management appreciates the OIG's efforts in auditing the Postal Service's delegations of contracting authority outside of Supply Management and preparing this audit report. The draft report and management's responses set forth in this memorandum do not contain information that management believes may be exempt from disclosure under the Freedom of Information Act.



Patrick R. Donahoe

cc: Chief Operating Officer and Executive Vice President
Chief Information Officer and Executive Vice President
General Counsel and Executive Vice President
Vice President, Facilities
Vice President, Product Information
Vice President, Supply Management
Manager, Address Management
Manager, Facilities Planning
Corporate Audit and Response Management



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