

GAO

Report to the Chairman, Subcommittee  
on the Postal Service, Committee on  
Government Reform and Oversight,  
House of Representatives

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January 1996

# POSTAL SERVICE

## Conditions Leading to Problems in Some Major Purchases







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General Government Division

B-260011

January 18, 1996

The Honorable John M. McHugh  
Chairman, Subcommittee on the Postal Service  
Committee on Government Reform and Oversight  
House of Representatives

Dear Mr. Chairman:

As agreed with the Subcommittee, this report provides information to you that the Chairman of the former House Post Office and Civil Service Committee requested about whether changes were needed in the Postal Service's purchasing program. The Committee cited five purchases that, because of problems that occurred, it said did not reflect favorably on the Service's procurement policy or the wisdom of exempting the Service from many of the purchasing rules that apply to other federal agencies.

Four of these purchases were the subject of earlier reports we issued in response to requests from the Postal Service oversight committees. These purchasing problems involved the following:

- the purchase of a site in Queens, NY, that is unusable because of toxic contamination;
- the purchase of an air transportation hub that was flawed because the selection of the location was not in accordance with the criteria in the solicitation;
- ethics violations in an automation contract; and
- an award for air transportation service, which was set aside by the courts because of a conflict of interest that existed when the award was made.

In the fifth case the Investigations Subcommittee of the former Committee reported that the Postal Service, because of a number of failures in its procurement process, paid an excessive amount for a building in St. Louis. During our work, the Committee added a sixth case involving a building that was purchased in the Bronx, NY, but is not usable for its intended purpose. We added a seventh case involving the purchase of automation equipment because, as in the award for air transportation, an arbitrator determined that a conflict of interest existed when the award was made, which resulted in costly damages being levied against the Postal Service. Appendix I includes additional information on each purchase and citations to our applicable reports.

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Although these problem purchases were a small percentage of the total, and occurred over several years, each involved significant dollar outlays and resulted in excessive cost, delay, and adverse publicity for the Postal Service.

Our objectives were to determine (1) if the problems were attributable to some underlying cause or causes that should be addressed through a legislative solution and, if not, (2) whether additional procedural safeguards could be employed by the Postal Service to minimize future occurrences of such problems.

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## Background

The Postal Reorganization Act of 1970 granted the Postal Service its independent status and allowed the Service to develop its own purchasing rules and regulations. Although it had the authority for greater flexibility, the Service followed prevailing federal practices until 1988 when it adopted a new procurement manual designed to take advantage of the best public and private purchasing practices. Compared to federal purchasing requirements, the Service's rules were designed to give contracting officers more discretion in meeting the needs of operating customers. For example, the federal policy of "full and open competition," as required for most federal contracts by the Competition in Contracting Act of 1984 [41 USC 253(a)(1)(A)] was replaced with a policy of "adequate competition," and postal contracting officers may limit competition to selected or prequalified offerors. In 1991, we reported<sup>1</sup> that there had been no problems from the adoption of the new purchasing rules but that they also had not been used enough to be declared a success.

After a 1986 conviction of one of the Postal Board of Governors for fraud in a major purchase of automation equipment, the Senate and House postal oversight committees requested that we examine Postal Service purchasing practices. We reported<sup>2</sup> that while the Postal Service routinely applied accepted internal controls to deter fraud, this did not guarantee that purchases could not be compromised by collusion or errors in judgment.

Total purchases by the Postal Service in 1994 amounted to \$4.6 billion, including \$2.4 billion for facilities and equipment, and \$2.2 billion for

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<sup>1</sup>PROCUREMENT REFORM: New Concepts Being Cautiously Applied at the Postal Service (GAO/GGD-91-103, Aug. 6, 1991).

<sup>2</sup>POSTAL PROCUREMENT: An Assessment of Postal Purchasing Practices (GAO/GGD-88-65, May 12, 1988).

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transportation. The proposed purchase of a capital and expense (i.e., noncapital) item costing \$7.5 million or more is to be reviewed by a Capital Investment Committee, made up of Service executives and the Postmaster General. The Postal Board of Governors must also review proposed capital purchases costing \$10 million or more. Board of Governors' approval is not required for purchases of expense items, including supplies or services such as transportation. However, if the expense item purchase exceeds \$10 million, the Board of Governors is to receive an "information letter" on the purchase. Service officials said that the Board of Governors may review certain purchases because of their significance or unusual nature, regardless of the amount. In 1994, the Board of Governors reviewed 16 projects.

Three of the seven purchases we reviewed involved ethics problems. The Postal Service is covered by the Ethics in Government Act of 1978. Under this act, the Service is required to provide an ethics program to implement the act and related governmentwide regulations. The Office of Government Ethics periodically reviews the adequacy of executive agency ethics programs, including the Service.

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## Results in Brief

Given the circumstances of the seven purchases, we do not believe that the problems were due to causes that should be addressed through legislation. The problems were due to poor judgment and decisions to circumvent existing internal controls to meet perceived operational exigencies. Nevertheless, the Postal Service can improve its purchasing organization and methods to help safeguard against such future occurrences, and the Service has actions under way to do so.

After most of the problem purchases occurred, the Postal Service took an important step to increase oversight and accountability over the purchasing process. It combined separate transportation, facilities, and general procurement offices under one purchasing executive. This executive is undertaking an overall assessment of the purchasing program, emphasizing results achieved, and plans to build quality into the process. The purchasing office also plans to review solicitations and contracts, including a requirement for more explicit documentation of and rationale for contracting officers' business and policy actions. Other initiatives are also under way or planned to improve the education, training, certification, and ethics awareness of contracting officers and personnel. The Office of Government Ethics has also recently recommended the correction of a number of continuing deficiencies in the Postal Service's

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ethics program. The recommendations are designed to ensure that improvement in the program continues through more consistent oversight and strong management support. In an October 3, 1995, letter to the Office of Government Ethics, the Postal Service's General Counsel expressed overall agreement with the recommendations and outlined actions taken to improve the Service's ethics program.

We believe the changes planned by the Postal Service and recommended by the Office of Government Ethics, if fully implemented, can help prevent the recurrence of such purchasing problems. But because many of these problems were caused by a combination of poor judgment, managers agreeing to shortcut or circumvent controls, or contracting officers not fully resolving known conflicts of interest, no initiative can guarantee the elimination of these problems. Top postal management can reduce the risk of such problems happening again if they demonstrate commitment to completing, in a reasonable time, the various initiatives under way.

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## Objectives, Scope, and Methodology

Concerned about the adequacy of the Postal Service's procurement program, the Chairman of the former House Post Office and Civil Service Committee asked us to determine (1) if previously reported problems with several Postal Service purchases were due to any underlying causes that should be addressed through a legislative solution, and if not, (2) whether additional procedural safeguards could be employed by the Service to minimize future occurrences of such problems. Following the 1995 congressional reorganization and the elimination of the House Post Office and Civil Service Committee, we agreed to report to the newly formed Subcommittee on the Postal Service of the House Government Reform and Oversight Committee.

To address the objectives, we reviewed our and other published reports on these purchases, as well as contract files and associated records. We discussed the purchases with the Service's purchasing personnel and executives and collected general purchasing and performance data. To understand the oversight process for major purchases, we obtained information from and interviewed responsible officials at the Board of Governors, the Capital Investment Committee, and the Postal Inspection Service. We also discussed recent developments in federal purchasing reform and contract oversight and compliance with the former Assistant Administrator for Acquisition Policy of the General Services Administration. Because three of the seven purchases involved ethics problems, we reviewed recent Office of Government Ethics reports on the

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Service's ethics program and discussed the program with Office of Government Ethics officials.

The Postmaster General provided written comments on a draft of this report. His comments are discussed on page 11 and reprinted in appendix II. Our work was done between August 1994 and May 1995 in accordance with generally accepted government auditing standards.

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## Insufficient Attention to Some Practices Contributed to Risk of Contractual Problems

The problems encountered in the seven purchases we reviewed had various causes, but certain practices recurred. These included officials agreeing to forgo required checks and reviews in the purchase process and failing to resolve conflict-of-interest situations, both real and apparent.

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## Internal Controls Sidestepped

Problems with real estate transactions were apparently due to shortcutting important integrity safeguards through a mistaken sense of urgency. Contributing factors were the belief, not always correct, that other parties were interested in the properties or that offers to sell in areas where suitable sites were scarce were good opportunities.

For example, in the St. Louis case, space was needed to house a data processing center that was being displaced from the main post office to make room for automation equipment. Because of an internal breakdown in communication, the facilities officials responsible for finding a new site were not aware of the moving date until a few months beforehand. Outright purchase would normally have been used; however, because capital funds were not available at the time, field real estate specialists arranged to acquire the building through a lease/purchase agreement. The Capital Investment Committee approved the project, which was then canceled by the Chairman of that Committee because of the General Counsel concerns about the financing arrangements between the Service and the building's seller.

The next day the real estate specialists were directed to immediately, and without time to prepare, renegotiate the purchase from lease/purchase to an outright purchase. Congressional and Postal Inspection Service reports on this purchase further disclosed the following:

- The Capital Investment Committee was not given an opportunity to approve the purchase.

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- The purchase was seriously misrepresented before the Board of Governors, including erroneous information that the Service needed to close the deal quickly because another party was anxious to buy the building.
  - The Postal Service paid \$12.5 million to the seller who had acquired the building for \$4 million earlier the same day.

In another case, the Postal Service accepted an unsolicited offer for purchase of a building in the Bronx, NY, on the basis that suitable sites in the area were hard to find, and the building presumably could be used as a general mail facility to solve severe mail processing capacity limitations in the area. However, the building was acquired before complete suitability assessments were made. The building was later determined to be unusable for its intended purpose because it did not have sufficient room for automated mail processing equipment. The building is used for Priority Mail and other mail processing from the main post office. In December 1995, when commenting on our proposed report, Service officials said that the Capital Investment Committee had approved \$5 million for design work on the building and that the Postmaster General's and Board of Governors' approval will also be requested.

When most of the seven purchases occurred, the purchasing function was not organized in a way that fostered contracting officers' independence. This was according to a 1993 study by the Logistics Management Institute entitled "Consolidating Postal Contracting," which was commissioned by the Postal Service. At the time, the contracting function was fragmented into independent groups for purchasing, transportation, and facilities. This structure, according to the study, led to inconsistent accountability over the performance and integrity of the contracting process.

The study also found that contracting officers were not sufficiently independent because many of them reported directly to those officials who required the contracted products or services. Not only did this make it extremely difficult for contracting officers to exercise independent judgment and follow Postal Service policies, but the soundness of contracting decisions could be subordinated to their timeliness. No compliance or contract file reviews of major pending purchases were being made in any of the three groups, and contracting personnel in facilities and transportation were inadequately trained to handle their responsibilities. In some cases, contracting was a secondary duty assigned to individuals with other program responsibilities.

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The study recommended that the Postal Service establish a single purchasing executive, reporting to the Postmaster General, with management authority over the three separate purchasing groups. The study also stated that the new purchasing executive could resolve other weaknesses, such as training and the independence of the contracting workforce.

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## Ethics Violations

Three of the seven purchases involved ethics violations. The most severe, discussed below, were two similar instances in which the contracting officer failed to correct situations where individuals had financial relationships with the Postal Service and with certain offerors.

In the 1992 award of a 10-year contract for air transportation, a consultant, who was helping the Postal Service review the proposals, informed the Service that he had a job offer that he might accept from one of the offerors to the solicitation. The Service's General Counsel advised the contracting officer that the consultant should either decline the job offer or be removed from the evaluation team. The contracting officer instead approved an arrangement whereby the consultant should merely remain out of contact with the offeror until after the contract was awarded. The offeror won the contract, which was then challenged by a losing offeror. The court set aside the contract because of the conflict of interest that existed when the proposals were evaluated. The Service incurred extra costs of \$10 million, paid to the original winning offeror for start-up costs incurred, and \$8 million annually for a more costly replacement contract.

In another case, during the development and purchase of automated barcode sorting systems, the Postal Service first retained a consultant in 1990 for software development. Shortly thereafter, the consultant sought permission from the Service to offer related support to the barcode system supplier. The Service responded by inserting conflict-of-interest clauses into its contract with the consultant that prohibited him from entering into contracts with the system supplier. However, the Service did not enforce the clauses, and the consultant was retained under contract by the supplier. Despite advice from the Service's General Counsel that the contract with the consultant should not be renewed, the arrangement continued while the Service tested and solicited proposals for upgraded barcode sorters. A contract was awarded to the same supplier in March 1993. The losing offeror claimed it had been put at a competitive disadvantage and damaged by the dual relationship of the consultant with

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the Service and the supplier. An arbitration panel agreed and ordered the Service to pay \$22.2 million to the losing firm.

According to the Office of Government Ethics, the Postal Service's control of its ethics environment has been of concern. Since 1991, the Office has made three reviews of the Service's program because of the Service's persistent problems; typically, executive branch agencies are reviewed once every 5 years. In 1991, the Office reported that its recommendations from a 1987 report had not been implemented although the Service reported that actions had been taken to resolve those deficiencies. Improvements needed were timely collection and review of public financial disclosure statements, revisions to the confidential reporting system, development of a formal ethics education and training program, establishment of a program monitoring system, and additional staff resources. The long-standing problems in the Service's ethics program were primarily attributed to a lack of strong support by top management and inadequate staff resources. The Office requested that the Service report its progress in correcting the deficiencies by March 1991 and every 60 days until the recommendations were implemented.

In 1993, the Office reported that many of its earlier recommendations remained to be acted upon and that, while some progress was being made by ethics officials, overall the Postal Service did not have an effective ethics program. The General Counsel advised the Office in April 1993 that the Service had been unable to devote sufficient resources to the ethics program. As part of an overall downsizing of the Service, headquarters staffing dropped by about 30 percent from August 1992 through April 1993.

On August 9, 1995, the Office reported that some improvements had been made but that more work was needed to develop an effective program. The Postal Service still had difficulty in administering a program that complied with applicable laws and regulations. All areas of the program were found to require improvement. The Office recommended that the Service ensure that

- written procedures for administering the public and private financial disclosure systems are prepared as required by the Ethics in Government Act of 1978,
- disclosure reports are filed in a timely manner,
- late filing fees are collected or that late filers request waivers from the Office,

- ethics orientation for new employees be improved to comply with the Office's governmentwide ethics regulations,
- ethics officials improve their coordination with the Postal Inspection Service about the resolution of conflict-of-interest situations, and
- the Office is notified about conflict-of-interest violations that are referred to the Department of Justice.

In an October 3, 1995, letter to the Office of Government Ethics, the Postal Service's General Counsel expressed overall agreement with the recommendations and outlined actions taken or planned to address each of the Office's recommendations to improve the Service's ethics programs. According to the General Counsel, the preparation of written procedures for financial disclosure was a top priority and would be finished in early 1996. The General Counsel said that a backlog of unreviewed public financial disclosure reports had been eliminated, late-filed reports had been investigated, and procedures for ensuring timely filing of future reports and handling of late filing fees and related waivers were being considered. Other actions taken included an increase in ethics program staff resources by (1) adding two ethics positions under the General Counsel, (2) designating an ethics coordinator for each headquarters department whose duties include administering training and financial disclosure requirements, and (3) designating 170 ethics resource individuals in field units to handle routine questions.

The General Counsel said actions were also taken to improve ethics awareness. These actions included (1) development of an introductory ethics orientation video, which was shown to about 700,000 employees nationwide in 1993 and 1994; (2) distribution of a letter from the Postmaster General to all postal employees in 1993, providing the names and telephone numbers of ethics advisors; and (3) training of up to 7,000 employees who filed financial disclosure reports each year in 1993, 1994, and 1995 to meet Office of Government Ethics regulations. The actions included steps to improve ethics awareness of contracting officers and other employees with significant procurement responsibilities, such as mandatory all-day ethics training for 1,100 such employees in 1993, and 2-1/2 hours of ethics training for the same number in 1994. Regarding the resolution of apparent conflict-of-interest cases, the General Counsel's office and the Postal Inspection Service agreed to quarterly coordination meetings, and the Postal Service set up an ethics advisory council to help resolve possible conflict-of-interest situations. The General Counsel was not aware of any referrals of conflict-of-interest cases to Justice in the past 3 years.

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## Purchasing Problems Have Been Costly

The seven purchases totaled about \$1.33 billion. We estimate that the Postal Service expended about \$89 million for penalties or unusable and marginally used property, portions of which could be recovered if the properties were leased or sold. The expended amount consists of

- \$32 million in penalties to injured parties to compensate them for damages caused by the conflicts of interest during the awards for air transportation and automation equipment;
- \$12.5 million for the St. Louis building, which as of August 1995, the Postal Service was in the process of trying to lease or sell;
- \$14.7 million for a site in Queens, which is unusable due to contamination; and
- \$29.5 million for the Bronx building, which is essentially unusable for its intended purpose.

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## Administrative Changes Taken and Planned to Reduce the Risk of Problem Purchases

In November 1993, in response to the previously mentioned 1993 study of purchasing practices, the Postal Service placed the three independent procurement groups under one purchasing executive to ensure more consistent control over purchasing operations. This official has established goals to better train, qualify, and educate contracting professionals to handle more abstract decisionmaking under the more flexible discretion they are allowed. Recognizing the need for additional review and other processes to reduce errors, the purchasing office plans to adopt additional higher levels of review, including requirements for contracting officers to document the policy and business rationales for the particular purchasing decisions.

In keeping with presidential initiatives emphasizing performance reviews that focus more on results rather than conformance to regulations, the Postal Service's purchasing office hopes to build better quality into its purchasing cycle. The purchasing office also recognizes the need for additional self-assessments within its purchasing office. Details of this approach are still under study, as is how the independence of contracting officers from those with program responsibility will ultimately be defined.

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## Conclusions

Problems occurred in the purchasing function for the purchases we reviewed mainly because Postal Service officials circumvented internal controls to speed up the purchasing process and failed to adequately deal with known or potential ethics violations. We believe that the changes that the Service has made to improve major acquisition integrity are steps in

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the right direction. The consolidation of the three independent purchasing units under a single responsible purchasing executive should help ensure more consistent management of major purchases, as should the other plans to improve the purchasing process and the training and ethics awareness of purchasing personnel. The Office of Government Ethics' recommendations, concurred in by the Service, are designed to ensure that improvement in the program continues through more consistent oversight and strong management support. If implemented, the Service's actions should complement its other initiatives.

The most well-designed purchase program can be compromised if officials choose to avoid controls to satisfy perceived operational exigencies, as occurred with many of the purchases that we reviewed. However, we believe that top management's continued support of these reform initiatives could help improve procurement integrity and help prevent the recurrence of such problems.

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## Agency Comments

Responding to our report, the Postmaster General said that the consolidation of purchasing activities in 1993 was a significant step forward. He said that the Service is continuing with a number of improvements, including contracting officer qualification standards, enhanced training programs, improved methods of monitoring major purchases, and renewed emphasis on ethics awareness. He believes that the separation of contracting officers from operational organizations will result in an enhanced awareness of contractual and legal issues, as well as better overall decisionmaking.

The Postmaster General recognized that the purchasing process had been compromised, not because of fundamental defects in the Postal Service's purchasing policies, but because officials chose to deviate from those policies. He emphasized the need for the Service to have the purchasing flexibility envisioned in the Postal Reorganization Act of 1970 and that if errors in judgment or flaws in the purchasing methods are discovered, the Service will move rapidly to correct them and prevent any recurrence. A copy of the Postmaster General's letter of December 18, 1995, is included as appendix II.

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We are sending copies of this report to the Postmaster General, the Postal Service Board of Governors, and other congressional committees that

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have responsibilities for Postal Service issues. Copies will also be made available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions about this report, please call me on (202) 512-8387.

Sincerely yours,

A handwritten signature in black ink, reading "J. William Gadsby". The signature is written in a cursive style with a large, sweeping initial "J" and a long, horizontal flourish extending to the right.

J. William Gadsby  
Director, Government Business  
Operations Issues

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# Summary of Seven Postal Service Problem Procurements

Item/service purchased	Award date and amount	Our analysis of problems and their principal causes	Status as of August 1995
Site in Queens, NY, for a general mail facility	August 13, 1986, \$14.7 million	The desire to secure a site for a general mail facility to resolve long-standing mail processing problems overrode environmental concerns and prudent financial management. Two sites were purchased when one was needed. The Phelps-Dodge site proved unusable because of hazardous waste contamination, and a provision requiring the seller to clean up the site before transfer of title was removed from the final purchase agreement. This left the Postal Service with a site that it cannot use or sell without additional costs or concessions. <sup>a</sup>	Cleanup of the site was suspended in 1987 when contamination was found to be more widespread than expected. The Postal Service was in litigation to get the seller to clean up the site so that it can be sold.
Building in the Bronx, NY, for a general mail facility	August 10, 1989, \$29.5 million	The Postal Service accepted an unsolicited offer for this building before fully assessing its suitability and performing a cash flow analysis. A building was needed to alleviate severe mail processing problems in the area, and reportedly no other such sites or buildings were on the market. The building was subsequently deemed unusable as a general mail facility because it did not have enough room for automated sorting equipment. <sup>a</sup>	The building housed Priority Mail processing and other operations from the main post office.
Image processing equipment for the mail barcoding and automation program	February 25, 1991, \$95 million	As a courtesy, Postal Service officials accepted meals and travel from a German firm affiliated with the successful offeror. These actions violated the law and governmentwide and postal standards of conduct. While the actions created the appearance of a conflict of interest, they were not sufficient to invalidate the award. <sup>b</sup>	Equipment delivery under the contract was scheduled to be completed by the end of fiscal year 1997.
Air transportation hub for expedited mail	November 8, 1991, \$105 million	In selecting the location for this hub, the Postal Service did not give the same weight to the selection criteria that it stated in the solicitation. While the winning location (Indianapolis) was a top competitor for the award, because of this and other deficiencies in the evaluation process, we were unable to determine which competitor would have won if the evaluation had been consistent with the request for proposal. <sup>c</sup>	Air hub was in service.
Building in St. Louis, MO, for a data processing center	December 16, 1991, \$12.5 million	A breakdown in the review and approval process for this real estate purchase caused procurement safeguards to be circumvented and many failures to occur. The most notable was that the Postal Service paid a real estate development firm \$12.5 million for a building that the firm had acquired earlier the same day for \$4 million. <sup>d</sup>	The building temporarily housed the data processing center. The Service planned to rent or sell the building.

(continued)

**Appendix I  
Summary of Seven Postal Service Problem  
Procurements**

<b>Item/service purchased</b>	<b>Award date and amount</b>	<b>Our analysis of problems and their principal causes</b>	<b>Status as of August 1995</b>
Air transportation service for expedited mail	September 16, 1992, \$107.8 million annually	Contrary to the advice of the Postal Service's legal department, the contracting officer failed to resolve a conflict of interest on the part of an individual who helped evaluate the contract proposals and at the same time had a job offer pending from the successful offeror. As a result of the conflict of interest, the award was set aside by the courts and a replacement contract was awarded to one of the unsuccessful offerors. The Service paid \$10 million to the original winning offeror to settle its claim under the contract, which was then set aside. Also, the new contract cost \$8 million more annually than the old contract (both were for 10 years). <sup>e</sup>	Air service was in operation.
Barcode sorting equipment	March 10, 1993, \$250 million	The contracting officer failed to correct an apparent conflict-of-interest situation involving an individual who was a technical consultant on this equipment to both the Service and the winning offeror. The dispute was submitted to an arbitration panel, which awarded \$22.2 million in damages to the unsuccessful offeror.	Final delivery under the contract was scheduled for 1996.

<sup>a</sup>POSTAL SERVICE: Decisions to Purchase Two Properties in Queens, New York (GAO/GGD-92-107BR, July 17, 1992).

<sup>b</sup>POSTAL PROCUREMENT: Ethics Violations Did Not Invalidate an Automation Contract (GAO/GGD-92-119, Aug. 13, 1992).

<sup>c</sup>POSTAL PROCUREMENT: Eagle Air Hub Selection Not in Accordance With Solicitation (GAO/GGD-92-127, Aug. 12, 1992).

<sup>d</sup>SYSTEM FAILURE: USPS PURCHASE OF 555 WASHINGTON AVENUE, ST. LOUIS, MO (Committee Print 102-8, Aug. 10, 1992, report prepared by the Subcommittee on Investigations, Committee on Post Office and Civil Service, House of Representatives).

<sup>e</sup>POSTAL SERVICE: Issues Related to Settling a Disputed Contract for Air Transportation (GAO/GGD-94-92, Mar. 24, 1994).

Source: GAO analysis of U.S. Postal Service data.

# Comments From the U. S. Postal Service

MARVIN RUNYON  
POSTMASTER GENERAL, CIO



December 18, 1995

Mr. J. William Gadsby  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for the opportunity to review and comment on the draft report entitled, U.S. Postal Service: Conditions Leading to Problems in Some Major Purchases.

We are pleased that the General Accounting Office (GAO) has commented favorably on steps we have taken to improve the organization of our purchasing functions. We share the GAO's belief that the effort we initiated in 1993 to consolidate authority and responsibility for all Postal Service purchasing with the Vice President, Purchasing and Materials, is a significant step forward. As an ongoing element of that reorganization, we are continuing a number of improvements throughout our purchasing activities, including contracting officer qualification standards, enhanced training programs, improved methods of monitoring major purchases, and a renewed emphasis on ethics awareness.

The GAO has also recognized that our purchasing consolidation has ensured the independence of contracting officers on major purchases by distancing them from the operational organizations that are specifying contract requirements. We believe this will provide improved performance in the purchasing process, as well as an enhanced awareness of contractual and legal issues. We expect, quite simply, to have better overall decision making as a result of these changes.

The GAO recognizes that the purchases discussed were a small percentage of total Postal Service purchases and more importantly, when errors did occur they were not the result of fundamental defects in our purchasing policies. Rather, the process was compromised when officials chose to deviate from those policies. It is vital to our efforts to provide service to the American public and to keep the Postal Service competitive that we have the flexibility in purchasing that was envisioned by the Postal Reorganization Act. We need more innovation, consistent with sound business practices, in our purchasing approaches as we continue to improve our service and financial performance. If errors in judgment occur or flaws in our purchasing methods are discovered, we will move rapidly to correct them and prevent any recurrence.

If you wish to discuss any of these comments, my staff is available at your convenience.

Best regards,

A handwritten signature in black ink that reads "Marvin Runyon".

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