



Highlights of [GAO-04-540](#), a report to the Chairman and Ranking Member, Special Panel on Postal Reform & Oversight, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The Postal Service is on the cusp of a major transformation to improve its fiscal outlook. One part of this transformation involves procurement. The Postal Service is homing in on supply chain management, a process that has helped successful private-sector companies leverage their buying power and identify more efficient ways to procure goods and services.

To assist congressional efforts to enact fundamental postal reform, GAO was asked to determine (1) the extent to which the Postal Service has been successful in implementing and realizing savings from its supply chain management initiatives and (2) whether these initiatives have had an effect on small businesses.

What GAO Recommends

GAO is recommending that the Postal Service improve implementation of its bulk fuel program, consider adjustments to reverse auction procedures, and focus more attention on small businesses in carrying out supply chain management initiatives. In written comments on a draft of this report, the Postal Service generally agreed with our recommendations and stated that it will consider reestablishing small business targets if current achievements begin to slip. GAO believes the Postal Service should have a mechanism in place to ensure accountability and transparency in its small business contracting.

www.gao.gov/cgi-bin/getrpt?GAO-04-540.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-4841 or cooperd@gao.gov.

POSTAL SERVICE

Progress in Implementing Supply Chain Management Initiatives

What GAO Found

The Postal Service has had mixed success in implementing the supply chain management initiatives we reviewed: the bulk fuel program; reverse auctions for transportation contracts; and national contracts for boxes, custodial supplies, labels, retail packaging, and tires. The Postal Service reported over \$78 million in fiscal year 2003 savings and revenue from these initiatives. However, the Postal Service has been unable to recover millions of dollars in potential savings because of implementation problems with the bulk fuel program. For other savings initiatives, baseline data used to calculate savings were, in some cases, inaccurate or could not be validated because the Postal Service lacks a system for harnessing annual spending data.

Three Major Savings Initiatives Have Encountered Difficulties

Initiative	Intended benefit	Challenges
Bulk fuel program	Leverage Postal Service's buying power of millions of gallons of diesel fuel purchased by highway contractors who deliver mail to U.S. distribution centers	Postal Service projected \$18 million in annual savings but reported only \$1.1 million in savings for fiscal year 2003; many highway contractors have been reluctant to participate in the program; millions of dollars will not be recouped due to lack of automated system to accurately adjust fuel prices.
Reverse auctions	Enable highway contractors to compete for contracts by using Web-based bidding	Over \$5.9 million in savings were reported for fiscal year 2003; \$2.1 million of this amount is questionable because of incorrect baseline data; some auction procedures may not elicit best price.
National contracts	Consolidate smaller contracts for goods and services into large, nationwide contracts	\$71.1 million in savings and revenue were reported for fiscal year 2003 under the national contracts GAO reviewed; GAO could not validate this amount because the Postal Service has no accurate baseline information on how much was spent on these commodities prior to the supply chain management initiative.

Source: GAO's analysis of Postal Service data.

Since the Postal Service started using the national contracts GAO reviewed, the number of small business suppliers has dropped dramatically. Acquisition plans for most of these contracts did not address small business participation, either at the prime or subcontractor level. GAO could not determine the effect that the bulk fuel program and reverse auctions have had on small businesses because Postal Service contracting officers and contractors have been using incorrect business size standards, and, as a result, the reported small business accomplishments are not accurate. Further, the Postal Service's new supplier diversity policy does not establish targets for contracting with small businesses. Therefore, the Postal Service will have difficulty gauging the effect of supply chain management initiatives on these businesses and holding contracting officers accountable for implementing the policy's objective of ensuring improvement in the Postal Service's relationships with small businesses.