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United States General Accounting Office
Washington, DC 20548

October 6, 2003

The Honorable Henry A. Waxman
Ranking Minority Member
Committee on Government Reform
House of Representatives

The Honorable Danny K. Davis
Ranking Minority Member
Subcommittee on Civil Service and Agency Organization
Committee on Government Reform
House of Representatives

Subject: *U.S. Postal Service: Status of Inspector General's Recommendations on the Supplier Diversity Program*

This report supplements our previous report to you responding to your request for current information on the representation of minorities and women at the U.S. Postal Service (USPS).¹ USPS's program to attract and award contracts to small, minority, and women-owned businesses is referred to as supplier diversity. In recent years, the USPS Office of Inspector General (OIG) has questioned the reliability of data related to the Supplier Diversity Program, such as the dollar value of contracts awarded to small, minority, and women-owned businesses. In a September 2001 report, the OIG made nine recommendations that it said would improve the reliability of this data. As agreed with your offices, our objective was to determine the status of USPS efforts to address the recommendations contained in the OIG report. To address our objective, we obtained, reviewed, and analyzed documentation from USPS and interviewed USPS and OIG officials concerning the status of these recommendations.

Results in Brief

USPS has addressed the nine OIG recommendations. According to USPS officials, they have taken actions to implement the OIG's nine recommendations, and they consider the recommendations closed. USPS believes that the actions taken have addressed the OIG's concerns and have strengthened the reliability of data related to its Supplier Diversity Program. The OIG agreed that its recommendations have been implemented and, as a result, it also believes that the reliability of USPS supplier diversity data has improved. Furthermore, USPS provided us with documents

¹See *U.S. Postal Service: Data on Career Employee Diversity*, GAO-03-745R (Washington, D.C.: Sept. 15, 2003).

showing the actions that it has taken to address the OIG recommendations. However, we did not independently determine whether the actions taken by USPS improved the reliability of its supplier diversity data.

Background

According to USPS, its Supplier Diversity Program seeks to provide suppliers with equal access to contracting opportunities. The program is intended to promote supplier participation reflective of the American supplier community and to encourage economic development. Its premise is that effective supplier diversity ensures that no suppliers are excluded from competition on the basis of race, color, religion, sex, age, or national origin. USPS has identified the program as a strategic business initiative vital to the success of the Postal Service. As such, USPS said that it must ensure that it is taking full advantage of the entrepreneurial spirit, capabilities, competitive pricing, products, and innovations offered by small, minority, and women-owned businesses.

Additionally, according to USPS, to demonstrate its commitment to reaching small, minority, and women-owned businesses, it has developed a 5-year supplier diversity plan. The plan focuses on maintaining a strong supplier base that includes small, minority, and women-owned businesses. While it does not set specific dollar goals, the plan is intended to ensure that USPS spends an increasing amount of its procurement dollars on goods and services from diverse businesses through fiscal year 2003. To monitor its progress, USPS tracks—yearly—the number of transactions and dollars awarded to small, minority, and women-owned businesses.

In 2001, the OIG conducted a review of the Supplier Diversity Program, specifically addressing contracting for supplies, services, and equipment purchases. The objectives of this review were to assess the reliability of supplier diversity data from fiscal year 1999 and to evaluate USPS's effectiveness in achieving supplier diversity spending plans. The OIG found that the supplier diversity data for fiscal year 1999 were unreliable because prime-contracting dollars awarded to small, minority, and women-owned businesses were overstated and subcontracting data were unsupported and unverified. Due to the unreliability of the supplier diversity data, the OIG could not determine whether the USPS was achieving its supplier diversity spending plans. The OIG concluded that supplier diversity data could not be used for tracking general trends, management diagnostics, benchmarking, and reporting. As a result, the OIG made nine recommendations that it said would improve supplier diversity data reliability and correct the errors identified.

USPS Has Implemented Supplier Diversity Program Recommendations

According to USPS, it has taken actions to address the OIG report's nine recommendations and considers the recommendations closed. In addition, we confirmed with the OIG that it considers the recommendations closed. Furthermore, USPS provided us with documents showing the specific implementation actions that it has taken in response to each OIG recommendation.

Table 1 shows each of the recommendations, the specific actions taken, and the dates that the actions taken to implement the recommendations were completed.

Table 1: USPS OIG Recommendations, USPS Actions, and Completion Dates

Recommendation number	Description of recommendation	USPS actions taken	Completion date
1	The Vice President (VP), Purchasing and Materials, should develop and implement contract administration procedures on updating the procurement database and contract files when changes occur in a supplier's socioeconomic status.	As recommended, USPS developed a purchasing and materials Administrative Instruction and added it to the purchasing manual to be used for all purchasing activities.	5/31/2002
2	The VP, Purchasing and Materials, should correct the socioeconomic classification in the procurement database of the suppliers of the 14 contracts identified in the OIG report.	USPS corrected the socioeconomic status designation of the contracts in question.	10/29/2001
3	The VP, Purchasing and Materials, should, for the remaining 104 contract actions identified in the OIG report, reconcile contract files to the procurement database and correct errors in socioeconomic status of suppliers.	USPS corrected the socioeconomic status designation of the contracts in question.	10/29/2001
4	The VP, Purchasing and Materials, should archive the procurement database at the end of the fiscal year as support for annual supplier diversity statistical reports.	USPS agreed to document and retain data for each accounting period, which includes the end of the fiscal year.	9/21/2001
5	The VP, Purchasing and Materials, should establish and implement standard criteria for recording basic pricing agreement amounts in the procurement database.	As recommended, USPS developed a purchasing and materials Administrative Instruction and added it to the purchasing manual to be used for all purchasing activities.	5/31/2002
6	The VP, Purchasing and Materials, should revise the purchasing manual to include policy requiring contracting personnel to de-obligate unused funds from contracts and the procurement database when contracts are terminated or cancelled.	As recommended, USPS developed a purchasing and materials Administrative Instruction and added it to the purchasing manual to be used for all purchasing activities.	5/31/2002
7	The VP, Purchasing and Materials, should include corrections to fiscal years' 1999 and 2000 statistics for small, minority, and women-owned businesses when developing the Purchasing Assessment Report for fiscal year 2001.	USPS added a footnote to the Fiscal Year 2001 Purchasing Assessment Report providing specific corrections to diversity data for fiscal years 1999 and 2000.	4/19/2002

Recommendation number	Description of recommendation	USPS actions taken	Completion date
8	The VP, Purchasing and Materials, should advise contracting officers that section 6.2.3 of the Purchasing Manual extends to subcontracting submittals and requires contracting personnel to review subcontract data submitted by prime suppliers.	USPS said that this recommendation is existing policy; however, during training for its Purchasing Review for Excellence Program provided to operational purchasing managers, USPS agreed to reinforce the requirement to maintain reports in the contract files.	9/21/2001
9	The VP, Purchasing and Materials, should require that quarterly subcontracting reports submitted by suppliers be maintained.	USPS said that this recommendation is existing policy; however, during training for its Purchasing Review for Excellence Program provided to operational purchasing managers, USPS agreed to reinforce the requirement to maintain reports in the contract files.	9/21/2001

Source: GAO analysis of USPS data.

A USPS official told us that implementing these recommendations has helped to improve overall supplier diversity data.

According to the OIG, it received and reviewed documentation of USPS actions taken to address the nine recommendations. The OIG said that it has closed all nine recommendations because it believes that the actions taken by USPS were responsive. The OIG also said that it believes that the reliability of USPS supplier diversity data has improved as a result of implementing the recommendations.

We reviewed documents USPS provided us showing the specific implementation actions that it has taken in response to each OIG recommendation. The documentation shows that USPS has addressed each of the nine recommendations. However, we did not evaluate whether the implementation of the recommendations has improved the reliability of the USPS supplier diversity data.

Agency Comments

We requested comments on a draft of this report from the Postmaster General. We received comments from USPS Vice President, Supply Management, that USPS agrees with the report's description of the actions USPS has taken to improve the reliability of its supplier diversity data. Further, he stated that USPS would continue to maintain an active supplier diversity program, which provides small businesses an opportunity to compete for its business. Additionally, he said that USPS is committed to improving and maintaining purchasing system data integrity to ensure accurate reporting and analysis of results. Finally, he said that as part of a recent restructuring, a team was created that is solely dedicated to the furtherance of data integrity within the Supply Management organization, and USPS continues to review data accuracy as part of its internal review program.

Scope and Methodology

To address our objective, we obtained, reviewed, and analyzed data and documentation from USPS and interviewed USPS officials about the Supplier Diversity Program and the actions the USPS has taken concerning data reliability issues. We obtained and reviewed the USPS Purchasing Manual describing the purpose, goals, and objectives of the Supplier Diversity Program. In addition, we obtained and reviewed information from the USPS Audit Tracking System regarding the status of OIG recommendations related to the Supplier Diversity Program. To determine whether the OIG had closed related recommendations, we interviewed the OIG and obtained relevant documentation. We performed our work from July 2003 through September 2003 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies of this report to the Chairman, House Committee on Government Reform, and the Chairman, Subcommittee on Civil Service and Agency Organization; the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Postmaster General; and to other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at www.gao.gov.

If you have any questions about this report or the enclosed data, you may contact me on (202) 512-4232 or at ungarb@gao.gov. Major contributors to this assignment included Sherrill Johnson, Dwayne Curry, and Tanisha Stewart.

Bernard L. Ungar



Director, Physical Infrastructure Issues

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Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
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