



**UNITED STATES POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL**

1735 NORTH LYNN STREET
SUITE 10000
ARLINGTON, VA 22209-2020

MEMORANDUM OF INTERVIEW

Interview Date:	MARCH 10, 2010
Case Name:	BERNSTOCK, ROBERT F. - PRESIDENT - MAILING AND SHIPPING SERVICES - WASHINGTON, DC
Case Number:	09UIHQ0132GC11SI
Interviewee:	SUSAN M. BROWNELL
Interview Location:	U.S. POSTAL SERVICE HEADQUARTERS, WASHINGTON, DC
Interviewed By:	S/A (b)(7)(C) S/A (b)(7)(C) AND INV (b)(7)(C)
Witnesses:	N/A

On March 10, 2010, Special Agents (b)(7)(C) and Investigator (b)(7)(C) U.S. Postal Service Office of Inspector General (OIG), interviewed Vice President Susan Brownell, Supply Management, regarding Supply Management's role in awarding non-competitive contracts for President Robert Bernstock, Mailing and Shipping.

Brownell was provided with a copy of the OIG Garrity Warnings, which she read and certified that she understood before providing the reporting agent (RA) with the following information:

Brownell was promoted to the position of vice president of Supply Management in 2006. Brownell is a 1984 graduate from Catholic University, and subsequent to her graduation entered the Navy contracting intern program. Upon completion of her internship, she received a contracting officer appointment in the Naval Sea Systems Command, where she remained until 1991. In 1991, Brownell transferred to the Postal Service from the Department of the Navy to take an EAS-25 contracting officer position.

Brownell said that she is familiar with the Federal Acquisition Regulations (FAR) and government contracting rules from her experience with the Navy, however the Postal Service has not followed any form of government procurement policy since 1970 when they were exempted by law. Brownell noted that the Postal Service has never followed the FAR, which came into existence in the 1980's.

Sole Source Procurement Process

The Management Instruction (MI) on Non-competitive Purchases (MI SP-S2-2007-1) is the process by which the Postal Service does sole source procurements. The requesting office is required to document the requirement through the business case justification, which provides the rationale for the sole source procurement.

There are five rationales for sole source procurements that are exceptions to competition. Postal Service policy is that it is good business to compete. Brownell pointed out that the Postal Service competes a higher percentage of contracts than the federal government agencies.

The procurement is built on a business case provided by the requesting organization. If the business case is found insufficient, there is no procurement. The case demonstrates that the source is so unique and so special that the procurement does not warrant competition. Supply Management looks at the business case justifications and evaluations, which are kept in the contract files. Procurements over \$250,000 require the signature of the organization's vice president on the business case justification.

Supply Management assigns the procurement request to a contracting officer, who signs the Statement of Work (SOW). There is no strict order in which the documents have to be prepared, and they can be prepared in tandem. Typically, there is the request, the sole source business case by the customer, and the evaluation determining the best sourcing approach. Sometimes a contracting officer might have a cadre of suppliers available, and encourage business partners to compete. However, if the case is already written, showing a supplier is unique and the best, the decision is made at the vice president level. They advocate the purchase, and the contracting officer is responsible for its execution.

Brownell was asked if the contracting officer just "fills in the blanks" before executing a procurement. Brownell said she checked on the four sole source contracts discussed in recent newspaper articles. The contracting officer did not accept the initial draft, but worked with the client to "beef up" the non-competitive justification to make it sufficient. Some clients have no purchasing experience, so the Postal Service contracting officers spend a lot of time helping clients ensure the justification meets the contracting officer's level.

Regarding whether that process is appropriate, Brownell described the Postal Service procurement process as very collaborative. The Supplying Principles and Practices (SP&P) are very strong, and the concept of a very collaborative purchasing team runs throughout the process. The client establishes a need, the contracting officer establishes the team, and they focus on customer service. The purchase team works together toward a common objective.

(b)(5),(b)(7)(C)

(b)(5),(b)(7)(C)

They are required to write a memo, do an assessment of the process proposed by the supplier, and write a memo of price reasonableness. She agreed that the contracting officers did not do this for the contracts in question, but combined the data in the non-competitive documentation. She thinks it was sporadic. A couple did the various steps and a couple combined all the above in the non-competitive justification.

Regarding whether more analysis would have been appropriate for the Tatum LLC contract, Brownell said that they did some analysis. She agreed there were some shortcomings in some of the file documentation.

(b)(5),(b)(7)(C)

According to Brownell, the contracting officer would not know if there were any in-house resources capable of doing the work. Managers can hire people to perform work, or spend their budgets on contracting out the work.

Brownell agreed that ultimately it is Supply Management's responsibility to make the decision to sole source a procurement. When the contracting officers sign the contract, they make the sourcing decision and the deal with the supplier. Brownell said that when the contracting officers signed the non-competitive justification, they were performing their due diligence. The contracting officer made his/her decision when they agreed with the noncompetitive justification provided by the business unit requesting the contract award.

Brownell was asked where the fail-safes are to prevent giving work to relatives, as in the case of Alan Alvarez. She listed three changes she is considering they need to make to prevent this in the future.

(b)(5),(b)(7)(C)

Brownell was asked whether Supply Management is responsible to look for conflicts of interest and Brownell replied "No," they don't have a responsibility to question a manager requesting a contract about conflicts of interest. She said she has built a client/customer relationship with the business units and Supply Management and her staff relies on the honesty and judgment of the requestor. However, Brownell thinks both contracting officers and clients have a responsibility all through the procurement process to identify potential risks. Brownell said if contracting officers suspect a conflict of interest exists, they could go to the Law Department and ask them to conduct a review. If contracting officers are suspicious of any other issue, they seek advice, further review, and remedial actions. Contracting officers are reactive and not proactive.

(b)(5),(b)(7)(C)

Brownell said she does not think there is anything in their current policy that would ensure people with the authority to hire contractors (officers and PCES) are checked by the contracting officer for conflicts of interest. If Supply Management added a certification requirement, that type of check would be made. Conflict of Interest checks are currently performed as part of the process now, when panels or teams examine proposals on the competitive side. They are asked if they have any conflicts with the suppliers competing and verify it as part of the routine process. They do not have the same set of processes on the non-competitive side. Brownell thinks the assumption needs to be validated or checked, raising a fine point, through the certification process. The assumption is that there is self-elimination in case of a conflict of interest.

Regarding market research done by Supply Management, Brownell said that when they are trying to kick off the procurement process, the research could take various forms. Other products or firms are evaluated to see if there is still a compelling reason. If the reason is that "I need it tomorrow," they are not spending a lot of time on market research. Sometimes Supply Management contracts with market research firms to do this, because some markets they know and others they do not know. They need to beef up the part of the requirement about quality and past performance.

Brownell said that any award action is reviewed by one level higher in the organization. The signatures should be on file documenting this review, and the contract files are deficient if they lack their signatures. Brownell admitted that many of the non-competitive justifications for Bernstock's personal service contractors lacked the required signatures for approval of the contracts by Supply Management. Brownell said she allows her staff to circumvent policy and accept electronic signatures and e-mail

approvals, but admitted that it was a policy violation. She said upon her review of Bernstock contractors' files, she noticed deficiencies and said that there was recent OIG audit finding that stated they need to keep better documentation. Brownell said they conduct a lot of business through electronic databases and e-mail, and want to eventually use electronic tools to capture all the information related to a contract. However, she acknowledged that paper documentation continues to be a weakness in Supply Management and is still required by current policy.

Based on a recent Supply Management review, Brownell said that she found the form the contracting officers used to relay their input and analysis was lacking. Specifically, information regarding reasonableness and price determination was not there. She reviewed the non-competitive justifications and price negotiation memos, and saw that the contracting officers did the core job, covering the basics of having all the documents and the suppliers' proposals in the file, but were deficient in the documents' substance. She commented that her subordinates have some improvements to work on for the non-competitive contracting process. Brownell offered the reason why the contracts were deficient was because the contracting officers are overloaded, and as a result, some things get "short shrift." Brownell said over 30% of their positions are not filled and there are cracks in the system. She and her managers are re-emphasizing Supply Management policies, and conducting remedial training as needed. Brownell reiterated that the Management Instruction on non-competitive purchases is Postal Service policy, binding on the contracting officers and clients

(b)(7)(C)

Robert Bernstock

Brownell did not provide Bernstock with procurement training. She met with him when he first came on board to explain their processes, how the system worked, and how it was structured. As he got things going, they discussed competitive and non-competitive procurements. When Bernstock first arrived, he "hit the ground running," with a presentation to the Board of Governors on his plans to turn around the revenue. She thought (b)(7)(C) supported his needs right away, and an SOW was developed. Bernstock probably said he needed support right away from a person who knows what needs to be done and had his staff work on contracting with Lynn Alvarez. She said she did not believe he was involved in getting L. Alvarez on board.

Brownell said the changes he made needed to happen. He was asked to shake things up, turn the place on its head, and make money. He got organization and structure in

the Marketing department, and was asked to do a huge thing for the Postal Service. She observed that he could not do this with folks used to doing things a different way, and he needed some trusted support, which is why he was authorized personal service contractors. Brownell said that the contracting vehicle used to procure services for Bernstock was a joint decision. No one could twist a contracting officer's arm to sign it. The reporting agent (RA) showed Brownell an October 26, 2004, memorandum signed by Postmaster General (PMG) John Potter containing the subject "Contracting Authority and Involvement of the Postal Service in Business Deals," and asked her to review it and comment. Brownell said the letter sets a uniform standard for executives to handle contracts under delegated authority. Delegated authority is the transference of contracting authority from the vice president of Supply Management to any Postal Service employee to contract with a business for services or goods. Brownell said she is responsible for delegating authority to employees. The memorandum pre-dates Brownell's tenure as vice president, but said the PMG's memorandum reiterates guidance set forth in the Supply Principles and Practices (SP&P).

Brownell is responsible for all the Postal Service's purchasing, so she delegates her purchasing authority to direct reports, and they delegate down to the Field Service Officers (FSO) and ultimately contracting officers. Bernstock does not have the authority to financially obligate the Postal Service, except through specific delegated authority. For example, Bernstock has delegated authority to financially bind the Postal Service in a deal with The Walt Disney Company (Disney) to jointly market the new Toy Story movie and Priority Mail products through television advertisements. He is bestowed the authority because of his marketing expertise and his involvement in direct negotiations with Disney.

Brownell said the memorandum's requirement for contracts to undergo legal review only pertains to contracts awarded under delegation of authority and strategic alliances. Brownell said that even though the memorandum states that all non-competitive contracts should undergo legal review, the memorandum does not require legal review for contracts awarded by contracting officials in Supply Management. Brownell acknowledged that there were no legal reviews performed for contracts awarded on Bernstock's behalf, because the contracts all contained standard language regarding the terms and conditions. Brownell stated that the Law Department has a very limited staff and her staff only seeks legal advice after they determine a potential risk. However, contracts awarded in Supply Management undergo a second level review by an uninvolved employee to ensure that the contracts do not contain potential risks that would financially hurt the Postal Service. She said that "the [contracting] system is set up for risk mitigation and all of Bernstock's contracts were subjected to a higher level review."

Brownell acknowledged that the memorandum requires the business evaluation group to review non-competitive contracts, but said that the review only pertains to a review of the delegated authority.

Brownell said that all existing delegations of authorities are reviewed regularly by a committee housed in Denver, CO, that evaluate their necessity. The Law Department reviews a delegated authority for limits and conditions. Brownell admitted that Supply Management has been "a little deficient in the file documentation" regarding delegations of authority. Her office is currently conducting a review of all contracts awarded under delegated authority. They have recently questioned some contracts and returned to the individual responsible for the contract to review the following:

1. Are they doing what they are supposed to, to the degree they are supposed to?
2. Improvements to shore up, fill the gaps, and the best way to do that.

3.	(b)(7)(C)	
	(b)(7)(C)	There was already a requirement to do market research. (b)(7)(C)
	(b)(7)(C)	

Alan Alvarez

Regarding Alan Alvarez, Brownell said she did not know if Bernstock was aware of the sibling relationship between Alan and Lynn Alvarez. When Brownell became aware of this relationship through her team, she made a strong recommendation that Bernstock accepted. Brownell went to Bernstock and Mary Anne Gibbons, and they decided to cancel A. Alvarez's contract. She could not tell Bernstock's level of involvement in this matter.

With all the attention on A. Alvarez, they are planning to compete L. Alvarez's current contract rather than extend it. They need to meet Bernstock's longer-term needs for core support around strategic planning. They need someone with the right skill set, and the right number of folks to support his needs. Bernstock was receptive to that. It is their plan to re-compete for broader support for the marketing strategy work.

Brownell commented that the Postal Service probably should not have hired A. Alvarez, L. Alvarez's brother. (b)(7)(C) is working to get a cadre of suppliers on hand, and completing the ordering agreements so that they can respond quickly to Postal Service needs, without relying on non-competitive contracts.

Richard Sorota

Brownell said it was Bernstock's call to bring in Richard Sorota to mentor employees. There was a question about extending Sorota's contract. The problem was that it was for a short period, for reduced hours. They are looking at the value of his support to

senior managers. Brownell does not see that Sorota is going to continue at the same number of hours and rate as before.

Brownell was asked why Sorota's contract was let for compelling business reasons, when he did not come on board right away. She described these reasons as "broad buckets." Compelling business interests can mean he had expert skills as well as convey the element of urgency. This requirement could also be filled under the single source requirement, showing Sorota's skills are best suited to the Postal Service's needs.

Kimberly Wolfson

Brownell said they are probably not extending Wolfson's contract, which extends through the end of the year at the "awesome" rate of \$75 an hour. According to Brownell, "These people [contractors brought on by Bernstock] are good."

The Postal Service's view is that they are a federal entity, operating on revenue. They have to run like a bank and respond to business needs, but balance the public oversight and role. They operate a business and need flexibility to react, but be successful. They only control the market for First Class Mail. They cannot split it, but take the best of the best, in a unique environment.

Brownell thinks they could do a better job of training private sector people hired by the Postal Service.

Brownell recalled Gibbons briefing her when she (Brownell) was promoted. In the private sector, the business is all about networking and whom they know. That is the reason the PMG brought these people on in the first place. Bernstock has a very private sector mentality, but he reaches out and asks questions, and is obviously concerned about the scrutiny he faces.

Regarding whether Bernstock ever asked about these contracts, Brownell said he did not ask about L. Alvarez directly. (b)(7)(C) not Bernstock, asked about Sorota.

(b)(7)(C)

Brownell said that she understood (b)(7)(C) did not want to contract directly with the Postal Service, hence (b)(7)(C) subcontract through Campbell Ewald. He did not want to be bothered to write a contract, and it was easier to come in as a subcontractor. (b)(7)(C) works ten hours a week, up to \$250,000 a year. This was a fixed-price contract, with (b)(7)(C) time estimated at ten hours a week. The price depends on the advice they are getting. Brownell said she thought the Postal Service halved (b)(7)(C) usual billing rate.

Brownell discussed how they backed out Drafftcb from the Campbell Ewald contract. (b)(7)(C) former chief executive officer (CEO). It was her understanding that the strategic evaluation changed, leading them to break apart the contract. Under Anita Bizzoto, Bernstock's predecessor, there were many initiatives and directions, but Bernstock is a proponent of "fewer, bigger, better." (b)(3):39 USC 410 (c)(2),(b)(7)(C)

(b)(3):39 USC 410 (c)(2),(b)(7)(C)

(b)(3):39 USC 410 (c)(2),(b)(7)(C)

(b)(3):39 USC 410 (c)(2),(b)(7)(C)

(b)(3):39 USC 410 (c)(2),(b)(7)(C) Brownell said that information should be in the negotiation memorandum, in the modification for the breakout. She observed that with the growth in scope, they could not get the extra work for the same price as before.

Brownell said that (b)(7) is a sole source subcontractor, for whom they do not write sole source justifications. She stated there was no markup for (b)(7) in the Campbell Ewald contract.

Liz Shuttleworth

Shuttleworth was initially awarded a non-competitive personal services contract in Mailing and Shipping to work with Bank of America on (b)(3):39 USC 410 (c)(2),(b)(7)(C) intelligent mail bar code under the company Tatum, LLC. However, Supply Management recently performed an out of scope modification for Shuttleworth and Tatum, LLC, to manage the redevelopment of USPS.COM website, under a Mailing and Shipping program called Project Phoenix. Brownell admitted that the out of scope modification was improper and stated it was not her preferred way to contract for Shuttleworth's services. Supply Management should have used a solicitation for contractors to conduct the Project Phoenix work.

Brownell said that prior to Shuttleworth's involvement as project manager, Accenture was responsible for performing the project management work on the Phoenix project. (b)(3):39 USC 410 (c)(2),(b)(7)(C)

The Tatum, LLC justification was sent to the Law Department for an ethical conflict of interest review, which was performed by Helen Grant. This step is performed only if the contracting officer thinks there might be a conflict of interest. Brownell noted that the Office of Government Ethics conflict of interest rules are focused more on personal relationships, i.e. whether family members are involved or not, and Shuttleworth's relationship with Bernstock did not rise to the questionable level.

Lynn Alvarez

Brownell did not know that there was a financial conflict of interest with regard to L. Alvarez working for Bernstock in another business venture. She did not know how L. Alvarez would have the time to do this, as she is charging many hours to the Postal Service. She would have questions about that, because it was never disclosed by anybody. She would want to know Bernstock's role in the business, and whether he was a member of the operating board.

Brownell said they are getting ready to compete the requirement for L. Alvarez's work. She wants to do the right thing going forward, and does not want to perpetuate the problems in the Washington Times. She would need the ethics advisors to look at the issue. There are two realms; either there is a conflict of interest, or there is an appearance of a conflict of interest. Brownell thinks the overarching criteria to substantiate a conflict of interest and deny L. Alvarez a contract is to answer the question: Did Bernstock gain a direct financial benefit from someone such as L. Alvarez receiving a contract award by the Postal Service?.

Brownell said from a cost and business standpoint, she considers L. Alvarez's contract award a good deal. Defending the non-competitive award to L. Alvarez, Brownell said publicly competing a new contract and soliciting others for consideration, would not necessarily yield a better result than what we have now with L. Alvarez. Brownell explained that Bernstock talks "in shorthand," and that "L. Alvarez puts all the meat on it," in a presentation they can all understand. [Agent's Note: Brownell argued that L. Alvarez is vitally important to Bernstock's operation because she understands him and what he wants to ensure success of M&SS, due to her experience working for Bernstock.]

Attachment: Memorandum from PMG Potter, dated October 26, 2004


Potter Memo -
Contracting Procedur

PREPARED BY: (b)(7)(C)

DATE: June 7, 2010