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POSTAL SERVICE

Express Mail Hub Contract Award Was Flawed

Statement of L. Nye Stevens, Director
Government Business Operations Issues
General Government Division

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss our postal procurement report Eagle Air Hub Selection Not in Accordance With Solicitation (GAO/GGD-92-127) which you are releasing today. The Postal Service announced on October 8, 1991, that it had selected Indianapolis as the permanent hub for its Eagle Air Network which sorts and transports Express and Priority Mail among about 30 cities in the United States. You asked us to examine five questions relating to this competitive procurement, which generated 14 offers from airports in the eligible four-state area of Illinois, Indiana, Kentucky, and Ohio. We found no deficiencies in our review of three of the questions:

First, the 14 criteria specified in the solicitation were valid and credible. We found that these criteria were similar to those used by the Postal Service in other solicitations, and none of the offerors questioned the relevance of these criteria during the solicitation and evaluation process or in the subsequent bid protest.

Second, we found that even though the Postal Service did not advertise the solicitation, adequate competition was obtained in alternative ways. Because solicitations were sent to 36 airports and 14 responded with offers, the competition obtained was adequate.
Third, we found no evidence that the selection process was compromised by undue political influence. While the files contained correspondence from many members of Congress supporting local offers, in our opinion the letters and the Postal Service's responses were routine for a project of this magnitude and we found no evidence that they affected the final decision. The contracting officer swore under oath that he was in no way pressured or influenced to select, or not select, any of the sites, and reaffirmed this statement to us.

Scoring Plan Inconsistent

While the written selection criteria were valid, you also asked us to determine whether the contract award decision was in fact based on these criteria. We found several deviations from the requirements in the solicitation. First, the scoring plan that the Postal Service used had the effect of diluting the significance of the solicitation's most important factor -- delivery time or move-in date. The solicitation required delivery of the hub facility to be made within 365 days and stressed that "time is of the essence" in the solicitation. While the scoring plan accorded 20 points for delivery time, any proposed delivery date that met the minimum acceptable time of 365 days was automatically given 18 points. Thus a much earlier delivery time, such as the 8 months (or 240 days) offered by Rickenbacker airport in Columbus, was scored only two points

higher than the minimally acceptable delivery time of Indianapolis. In effect, the most important criterion was given a relatively low differential of two points.

The significance of this inconsistency is that the Postal Service, without notifying offerors, changed the major qualitative criterion into one with minimal importance. It is unacceptable for an agency to adopt a scoring plan inconsistent with the evaluation criteria contained in the solicitation.

Selection Was Not Based on All Criteria

A second deviation was that the selection committee did not properly consider all the award factors in the selection decision. Rather than compare the technical scores and proposed costs of all seven of the proposals that had been determined to be in the competitive range, the selection committee compared the costs and technical scores of only the top two technical contenders -- Fort Wayne and Indianapolis. Since Indianapolis had both a better technical score and a lower cost than Fort Wayne, it was selected as the "best value" to the Postal Service. The failure to include the costs of all seven offerors in the competitive range (including Peoria and Rickenbacker which had at the time of selection lower costs than Indianapolis) was a violation of the solicitations terms and the Postal Service Procurement Manual.

The Postal Service contended that it established a second competitive range of two offerors. However, we found no convincing evidence to support this contention. Offerors were notified that Indianapolis had won the competition, but they were not told their offers were technically unacceptable as required by the Procurement Manual when a new competitive range is established.

Cost Estimates Were Inconsistent and Contained Errors

Even had the Postal Service sought to include all seven competitive range offers in the final selection decision, we question whether the cost estimates the Postal Service developed for each offer were reliable or useful for this purpose. The Postal Service itself, both before and after the award, identified a large number of problems with the estimates. We identified other inconsistencies, including landing fees, residual value, and operating costs of the mechanization system. For example, because of ambiguities in the solicitation, offerors submitted varying assumptions on aircraft landed weights which are used to calculate the landing fees airports charge to cover operating costs. No two offerors submitted the same landed weight estimates for the first year, with estimates ranging from 1.3 to 4.1 billion pounds. The offerors also used varying assumptions to adjust for the planned growth in the fleet over a

5-year period. Rickenbacker, for instance, increased the year 1 fleet gradually each year until year 5, resulting in a higher total landed weight and related landing fees than its competitors who assumed (as the Postal Service intended) that the fleet would not increase in years 1 through 4, but would expand 31 percent in year 5. Because of these inconsistencies and others identified by the Postal Service itself, we were not able to determine a correct net present value for each proposal. Had the deficiencies in cost estimates and the selection process not occurred, Indianapolis might still have won the competition because it certainly was among the top technical competitors. We do not know whether or not Indianapolis' offer was the best value under the terms of the solicitation, but neither did the Postal Service at the time it made the award.

Bid Protest Not Satisfactorily Resolved

Your fifth question was whether the bid protest, filed by Rickenbacker on October 15, 1991, and later joined by Dayton, was appropriately resolved. It was denied in part and dismissed in part by the Associate General Counsel of the Postal Service on February 10, 1992.

Our review of the bid protest and related documents leads us to agree with the protester's allegation that the low point differential assigned to the delivery time or move-in date factor negated its significance as the most important evaluation criterion. We believe that the Postal Service disallowed the bid protest without satisfactorily resolving its key issue. Our disagreement with the rationale for disallowing the bid protest does not mean, however, that the Postal Service was unfair or biased in its decision.

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That is a brief summary of the message of our report, Mr. Chairman. Since we issued it, the Postal Service has circulated a lengthy defense of its selection of Indianapolis. I would like to repeat that we are not asserting that the Postal Service would have selected another offer if it had followed the solicitation. The information we had was not good enough for us to determine which offer was the best overall value to the government, nor, at the time the selection was made, was it good enough for the Postal Service to have confidence that its choice represented the best value.

My colleagues and I will be pleased to respond to any questions.

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