



July 11, 2008

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Management of Contract Changes – Hallmark Custom Marketing, Inc. (Report Number CA-AR-08-007)

This report presents the results of our audit of the management of contract changes for the contract with Hallmark Custom Marketing, Inc.<sup>1</sup> for ReadyPost<sup>2</sup> shipping supplies (Project Number 08YG003CA000). Our objective was to determine whether there were unnecessary or inappropriate increased costs due to contract changes to the Postal Service's contract with Hallmark Custom Marketing, Inc. for ReadyPost shipping supplies. The audit was self-initiated as part of a review of U.S. Postal Service's management of contract changes and addresses the agency's contracting process operational risk. The Postal Service reviewed a discussion draft of this report and had no comments or concerns. Click [here](#) to go to the Appendix for additional information about this audit.

## Conclusion

We did not identify any unnecessary or inappropriate increased costs to the Postal Service due to changes in the contract with Hallmark Custom Marketing, Inc. for ReadyPost shipping supplies. Contract modifications were not the result of poor contract planning or inappropriate concessions to the contractor. The significant increase in contract value over the life of the contract was mainly to cover purchases necessitated by increased sales of ReadyPost shipping supplies. Therefore, we are not making any recommendations.

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<sup>1</sup> The contract (Contract Number 412735-00-B-1317) was originally awarded to The Ensemble Company, a subsidiary of Hallmark Cards, Inc. Later, The Ensemble Company was dissolved and its key businesses were integrated into the Hallmark Marketing Corporation. Subsequently, the contract was transferred to Hallmark Custom Marketing, Inc. through a novation agreement.

<sup>2</sup> The ReadyPost program is designed to increase the revenue contribution of mailing services by providing convenient shipping supplies to customers.

We did note that, when exercising the last 2-year contract option on July 1, 2007, the Postal Service restructured the pricing of the contract to break out transportation and program support costs from the overall unit cost. Management expected the restructuring to result in cost savings of \$8 to \$10 million per year for the remaining 2 years of the contract. However, Postal Service personnel stated they would not perform the data analysis necessary to determine whether the cost savings are being achieved until July 2008.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Judy Leonhardt, Director, Supply Management, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin,   
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.  
Deputy Assistant Inspector General  
for Support Operations

Attachment

- cc: H. Glen Walker
- Mark P. Nepi
- Caroline Z. Boyle
- Susan A. Witt
- Katherine S. Banks

## APPENDIX: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service awarded the ReadyPost contract on June 26, 2000, to standardize a range of Postal Service-branded retail packaging and mailing supplies for resale at its retail sites. This contract is fixed priced with economic price adjustments and was for an initial term of 3 years with options to renew for three 2-year terms for up to a total of 9 years. The initial contract was for [REDACTED]; subsequently, there have been 78 contract modifications and the contract is currently valued at [REDACTED]. The significant increase in contract value over the life of the contract was mainly to cover purchases necessitated by increased sales of ReadyPost shipping supplies. It is expected to generate an estimated \$642 million in gross revenue through fiscal year 2007.

### OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether there were unnecessary or inappropriate increased costs due to contract changes to the Postal Service's contract with Hallmark Custom Marketing, Inc. for ReadyPost shipping supplies. Specifically, we reviewed contract modifications to determine the reasons for changing the contract and determined if those changes were necessitated by poor contract planning or inappropriate concessions to contractors.

We reviewed and documented pertinent Supply Management policies and procedures regarding contract changes. For the ReadyPost contract, we obtained and reviewed contract files including the basic contract, contract modifications, funding and administrative changes, revenue and expense data, contract approvals and authority, and the exercise of options. We interviewed key contracting personnel, including the contracting officer.

We conducted this performance audit from May through July 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on July 1, 2008, and included their comments where appropriate. We did not rely on computer generated data to support our audit findings.

## **PRIOR AUDIT COVERAGE**

We did not identify any prior audits or reviews related to the objective of this audit.