



November 23, 2010

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Information Technology Contract Payment Oversight
(Report Number CA-AR-11-001)

This report presents the results of our audit of information technology (IT) contract oversight (Project Number 09YG043CA000). This self-initiated audit addresses operational risk. Our overall objective was to evaluate the adequacy of oversight for IT contract payments. Specifically, we determined if contracting officers (COs) issued letters to contracting officer's representatives (CORs) detailing their responsibilities and limitations and if invoices were properly certified. We also reviewed the invoice approval process to determine if the CORs reconciled invoices to receiving documents before certifying the invoices for payment. Additionally, we determined if the Postal Service collected interest on advance payments for software maintenance contracts. See [Appendix A](#) for additional information about this audit.

For fiscal years (FY) 2008 and 2009, the Postal Service paid approximately \$592 million for 654 IT retail and hardware contracts. Supply Management's IT Category Management Center (CMC) is responsible for creating and maintaining contracts for IT retail, hardware, and software systems. The CO is ultimately responsible for assuring that the Postal Service has received any goods and services contracted for and that invoices are correct before the Postal Service pays them.

The standard practice the federal government uses to ensure that contract terms are met is certification of vendor invoices prior to payment. Postal Service policy allows the CO to delegate this role to a COR, through a formal letter of designation that defines the CORs duties and responsibilities,¹ which includes verifying invoices upon receipt and certifying invoices for payment. COR duties also include performing and documenting the acceptance of delivered goods. CORs generally also have expert knowledge of the terms of the contract to which they have been assigned. However, the CO maintains responsibility for ensuring proper invoice review before payment.

¹ Management Instruction (MI) PM-610-2001-1, *Contracting Officer's Representative Program*, dated April 3, 2001, states that COs may appoint a COR through a letter of designation that details their responsibilities and limitations.

Conclusion

Postal Service's officials must improve the oversight of IT contract payments to ensure that invoices are certified by designated COs or CORs and the COs and CORs reconcile the invoices to receiving documents prior to certification. We determined that COs issued letters of designation to CORs detailing their responsibilities and limitations. CORs also generally have expert knowledge of the contract to which they are designated. As such, the COR performs an important CO duty that has been delegated specifically to them. To ensure they can adequately perform this duty, the COR has been given training, specific information on the contract itself and instruction from the CO.

However, the COR's invoice certification responsibilities were improperly transferred to Postal Service personnel who did not have letters of designation allowing them to certify invoices for payment. Also, COs did not always appoint CORs, so those without COR letters of designation, training, or specific knowledge of the contract were certifying invoices for payment. In addition, these employees usually did not reconcile invoices to receiving documents prior to certifying invoices. As a result, the controls ensuring appropriate certification were significantly weakened.

Lack of COR Letters of Designation and Invoice Certification

We reviewed a statistical sample of 255 IT retail and hardware invoices valued at \$49,958,851 for FYs 2008 and 2009 and found that 219 of them (86 percent) were not properly certified by a COR. Additionally, only nine invoices were reconciled to receiving documents prior to certification for payment. This occurred because COR letters were not issued to the proper personnel. Specifically, certifications for IT hardware invoices were centralized under IT Value² and IT Value personnel were not designated as CORs. In addition, COs did not appoint CORs for IT hardware purchase orders viewed as small, non-complex, and low-risk; and there were misunderstandings regarding CORs' responsibilities for IT retail invoices. Thus, the individuals certifying the invoices did not have the necessary knowledge of the contract to ensure terms were met before payment was made. It is important that either COs or properly trained CORs certify invoices and that they reconcile invoices to receiving documents to ensure that the purchases comply with the terms and conditions of the contract.

Based on our sample results, we statistically project that there were \$192,692,060 in improperly certified invoices that we classify as unrecoverable unsupported questioned costs. These costs are questioned because the invoices did not contain the required approvals prescribed by Postal Service policy. These amounts are not necessarily

² IT Value practices shared services and supports the internal activities (financial management, resources management, portfolio management, and business investments) that are consolidated for the IT organization. The IT Value group recently changed its name to IT Business Management.

actual losses incurred by the Postal Service. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Supply Management, direct the manager, Information Technology, Category Management Center, to:

1. Ensure that proper personnel have a contracting officer's representatives (CORs) letter of designation that allows them to certify invoices for payment.
2. Require CORs to reconcile invoices to receiving documents prior to certification for payment.

Management's Comments

Management agreed with the intent of the findings and recommendations; however, they disagreed with the extrapolation of monetary impact. They stated that lack of a COR designation did not result in improper invoice certification. Also, they stated that their policy does not require that a COR be assigned to every contract and, in many cases, an office could be designated to certify invoices. Management also disagreed with our classification of the monetary impact and believed we should have classified the costs as disbursements at risk due to employees not following proper internal controls and processes. See [Appendix F](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments partially responsive to the recommendations in the report; and finds that management's corrective actions will not resolve the issues identified in the report. We will work with management through the recommendation resolution process to ensure that the significant issues identified are thoroughly addressed.

With regard to recommendation 1, management stated a specified designated office has the ability to certify invoices for payment. Regarding recommendation 2, management stated they plan to communicate their payment process guidelines to CORs and the specified designated office in the contract by February 2011.

Certification of invoices and the reconciliation of receiving documents are significant internal controls in the purchasing process. As such, the Postal Service's Supplying Principles and Practices state that processing invoices is a responsibility assigned to the CO. At the Postal Service, and within the federal acquisition community, that responsibility can be delegated to a COR, with the caveat that they are adequately trained, have expert knowledge of the applicable contract, and be specifically delegated that responsibility under the oversight and instruction of the CO. Therefore, management must ensure that a designated COR, not a specified designated office, certifies invoices and reconciles receiving documents to invoices prior to certification. If

a COR is not delegated, the CO is responsible for invoice certification and reconciliation.

The Postal Service's Supplying Principles and Practices state that a CO is responsible for contract management, which includes ensuring receiving reports are received and proper payments are made to the supplier. A CO must be a career employee in good standing and must meet the qualifications for a particular level of experience, education, and training. A CO may delegate certain duties and responsibilities to a COR through a letter of designation. Such duties may include verifying invoices and certifying invoices for payment. COs and CORs are responsible for the success of the contracting process. A partnership between the two is essential to establishing and achieving the objectives of the contract.

Our statistical results represent the projection of the dollar amount of invoices not properly certified by either a CO or COR. Because the invoices did not contain the required approvals, the amount is properly classified as unrecoverable unsupported questioned costs.


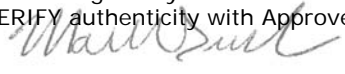
Other Matters

Although policy required interest to be collected on advance payments for software maintenance contracts, the Postal Service did not collect this interest during FYs 2008 and 2009. Postal Service officials stated that collecting interest on these contracts was unreasonable because suppliers would not agree to include the clause in the contract. It is also a common industry practice to pay these fees in advance. We agree that collecting interest on these types of payments may not be common in the IT industry.

As a result of our audit, on August 2, 2010, the Postal Service issued MI PM-610-2010-2, *Advance Payments*, which changed policies regarding advance payments, including no longer requiring the Postal Service to collect interest on advance payments for software maintenance contracts. This action resolves the issue identified during our audit; therefore, we are not making any recommendations for this finding.

The OIG considers the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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 Mark Duda 
VERIFY authenticity with ApproveIt


Mark W. Duda
Deputy Assistant Inspector General
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

COs are assigned to administer contracts and ensure that all contract terms are carried out. COs are ultimately responsible for assuming the Postal Service has received goods and services and been invoiced in the correct amount before paying the invoice. A CO may delegate a portion of their responsibility to a COR through a letter of designation. The letter defines the CORs duties and sets their authority limits. The letter of delegation may include the following responsibilities:

- Furnishing the supplier directly with technical assistance and provide guidance in all aspects of the contract;
- Providing the CO with a copy of all change orders issued;
- Providing the CO written notification of any dispute that cannot be resolved between you and the supplier regarding contract performance;
- Keeping accurate records of all interim and final contract testing procedures outline in the Statement of Work;
- Keeping a daily log; and
- Verifying invoices upon receipt and certifying them for payment.

Postal Service policy allows for advance payment when upfront payment for the item or service being purchased is considered a common trade practice (e.g., software maintenance). In most cases, when the Postal Service issues advance payments, the supplier must pay interest on the daily balance of un-liquidated advance payments at the daily rate.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective for this audit was to evaluate the adequacy of oversight for IT contract payments. Specifically, we determined if COs issued letters to CORs detailing their responsibilities and limitations and whether they properly certified invoices. We also reviewed the invoice approval process to determine if the CORs reconciled invoices to receiving documents before certifying the invoices for payment. Additionally, we determined if the Postal Service collected interest on advance payments for software maintenance contracts.

To accomplish our objectives, we reviewed Postal Service policies regarding certification of invoices and advance payments. We discussed the policies with Postal Service personnel including COs, CORs, and IT program and budget personnel. We

identified the universe of FYs 2008 and 2009 purchase orders for IT retail and hardware systems. From the universe, we statistically selected a sample of purchase orders and associated invoices. For the sampled invoices, we obtained documentation from the CO and, if applicable, the COR to determine if the COs issued proper COR letters and whether the invoices were properly certified. We statistically projected the sample results to the universe.

In addition, the Postal Service provided us with a list of all advance software maintenance contracts for FYs 2008 and 2009.

We conducted this performance audit from September 2009 through November 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on September 28, 2010, and included their comments where appropriate.

We assessed the reliability of the contract payment data by reviewing source invoices and interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Certification Process for Electronic Payments</i>	CA-AR-10-006	9/30/10	\$5.6 billion	The Postal Service did not certify electronic payments and must improve oversight to ensure that payments to contractors are properly certified and the agency has received goods and services before payment. Management generally agreed with our recommendations or agreed to take actions to resolve the issues identified. However, management did not agree

				with the monetary impact reported.
<i>The Postal Service's Certification Process for Non-Mail Freight Transportation Invoices</i>	CA-AR-09-002	2/18/09	\$41,916,714	The Postal Service could improve their oversight to ensure that non-mail freight transportation invoices are properly certified and goods and services are received. Management implemented our recommendation to develop and implement written procedures for the independent review of invoices to confirm the receipt of goods and services and to ensure accurate payment.

APPENDIX B: DETAILED ANALYSIS

Lack of COR Letters of Designation and Invoice Certification

We sampled 65 of the 654 IT retail and hardware purchases orders the Postal Service entered into during FYs 2008 and 2009. For the 65 purchase orders, we sampled a total of 255 invoices valued at \$49,958,851 as shown in [Appendix C](#).

According to “You’re a COR Now,”³ a CO is allowed to appoint a COR through a formal letter of designation that defines the CORs duties and responsibilities, which includes verifying invoices upon receipt and certifying invoices for payment. COR duties also include performing and documenting the acceptance of delivered goods.⁴ CORs generally have expert knowledge of the terms of the contract they are assigned.

We found \$49,160,640 to be improperly certified due to personnel certifying invoices without a letter of designation. We determined this occurred because:

- For most IT hardware purchase orders, the COs issued COR letters of designation to IT Technology Support personnel. However, IT Value personnel were actually certifying the invoices associated with the purchase orders without proper COR letters of designation from the COs.⁵ Supply Management personnel were aware this was occurring and had discussed it with IT Value personnel but they did not take steps to correct it as it was not seen as a problem.
- The COs stated that they did not appoint CORs for small, non-complex, and low-risk IT hardware purchase orders. Therefore, for 11 of the sample purchase orders,⁶ personnel without COR letters of designation were certifying the invoices associated with the purchase orders.
- For IT retail invoices, the COs issued COR letters of designation to Retail Service Equipment personnel. However, due to a misunderstanding of responsibilities, an operations specialist in the group who was not designated as a COR was certifying invoices.

It is important that either COs or properly trained CORs certify invoices to ensure that the purchases comply with the terms and conditions of the contract. Individuals in these roles generally have expert knowledge of the terms of the contract, which their certification is based on.

³ MI PM-610-2001-1, *Contracting Officer's Representative Program*, dated April 3, 2001, requires CORs to view the “You’re a COR Now” video or read the “You’re a COR Now” pamphlet.

⁴ Acceptance of delivered goods may be documented by an acceptance certificate, which may be present on an inspection form, receiving report, shipping document or packing list.

⁵ Although not designated as COR's, most IT Value personnel certifying invoices for payment had received COR training.

⁶ For the 11 purchase orders, we reviewed 38 invoices.

Of further concern, employees certifying invoices were not always reconciling the invoices back to receiving documents. Only nine of the 255 invoices sampled were reconciled prior to certification for payment.⁷ According to “You’re a COR Now,” COR duties include performing and documenting the acceptance of delivered goods.⁸ This is critical to ensuring that contract terms and conditions are met.

The control environment surrounding the certification of IT invoices is weakened on multiple fronts. Individuals are certifying invoices when they are not specifically authorized by the CO to do so, do not have expert knowledge of contractual terms, have not been trained in the duties of a COR, and generally are not reconciling invoices prior to authorizing payment.

Based on our sample results, we projected that there was \$192,692,060 in improperly certified invoices. See [Appendix E](#) for details of our statistical projection.

⁷ All nine invoices for purchase order number 1BCHSO-05-B3090 were properly reconciled.

⁸ Acceptance of delivered goods may be documented by an acceptance certificate, which may be present on an inspection form, receiving report, shipping document or packing list.

APPENDIX C: PURCHASE ORDERS REVIEWED

No.	Purchase Order No.	Invoices Sampled	Dollars Sampled	Dollars Questioned
1	1BITRT-08-B0001	11	\$794,554	\$0
2	102591-00-R1804	25 ⁹	3,657	0
3	1BITRT-08-C0033	2	684,690	684,690
4	1BITRT-08-C0016	1	8,705	8,705
5	1BITRT-08-C0018	1	41,956	41,956
6	1BITRT-08-C0035	1	875,520	875,520
7	1BITRT-09-C0001	25 ¹⁰	22,466,599	22,466,599
8	1BITRT-08-C0011	1	68,310	68,310
9	1BITRT-07-B0010	1	198,720	198,720
10	1BITHW-09-B0009	6	7,892	7,892
11	1BITHW-08-B0001	1	13,960	13,960
12	1BITHW-08-B0025	1	38,105	38,105
13	475630-01-N0129	1	7,548	7,548
14	1BITHW-08-B0015	2	5,800	5,800
15	1BCHSO-05-B3090	9	190,024	190,024
16	102591-02-Q0114	25 ¹¹	10,936	10,936
17	1BITHW-07-C0048	1	24,960	24,960
18	1BITHW-07-C0061	8	338,047	338,047
19	1BITHW-07-C0087	2	(2,104) ¹²	(2,104)
20	1BITHW-07-C0103	1	16,556	16,556
21	1BITHW-07-C0133	1	128,960	128,960
22	1BITHW-07-C0136	1	30,564	30,564
23	1BITHW-07-C0207	12	232,368	232,368
24	1BITHW-08-C0017	1	262,311	262,311
25	1BITHW-08-C0053	2	24,273	24,273
26	1BITHW-08-C0069	1	1,700,000	1,700,000
27	1BITHW-08-C0074	1	10,617	10,617
28	1BITHW-08-C0083	1	10,532	10,532
29	1BITHW-08-C0117	1	12,666	12,666
30	1BITHW-08-C0136	1	20,191	20,191
31	1BITHW-08-C0150	2	513,580	513,580
32	1BITHW-08-C0152	2	105,490	105,490
33	1BITHW-08-C0167	1	70,815	70,815
34	1BITHW-08-C0176	1	14,848	14,848
35	1BITHW-08-C0191	3	31,218	31,218
36	1BITHW-08-C0198	1	16,047	16,047

⁹ We randomly sampled 25 of the 408 invoices associated with this purchase order.

¹⁰ We randomly sampled 25 of the 39 invoices associated with this purchase order.

¹¹ We randomly sampled 25 of the 72,369 invoices associated with this purchase order.

¹² This purchase order was a negative amount because a refund was applied for a returned item.

No.	Purchase Order No.	Invoices Sampled	Dollars Sampled	Dollars Questioned
37	1BITHW-08-C0201	1	\$24,914	\$24,914
38	1BITHW-08-C0212	1	11,659	11,659
39	1BITHW-08-C0216	1	795,173	795,173
40	1BITHW-08-C0235	1	22,419	22,419
41	1BITHW-08-C0240	1	1,858,648	1,858,648
42	1BITHW-08-C0261	2	199,529	199,529
43	1BITHW-08-C0267	17	871,854	871,854
44	1BITHW-09-C0027	1	42,802	42,802
45	1BITHW-09-C0037	1	12,000	12,000
46	1BITHW-09-C0059	1	15,790	15,790
47	1BITHW-09-C0070	3	45,763	45,763
48	1BITHW-09-C0117	2	4,301,453	4,301,453
49	1BITHW-09-C0121	2	397,903	397,903
50	1BITHW-09-C0135	2	2,999,989	2,999,989
51	1BITHW-09-C0138	2	24,273	24,273
52	1BITHW-09-C0143	3	1,635,310	1,635,310
53	1BITHW-09-C0144	2	175,294	175,294
54	1BITHW-09-C0145	1	97,920	97,920
55	1BITHW-09-C0148	1	11,968	11,968
56	1BITTL-03-M5157	10	1,750,806	1,750,806
57	1BITHW-08-C0223	1	248,764	248,764
58	1BCHSO-04-F1756	1	4,374,327	4,374,327
59	1BITHW-09-B0004	2	232,818	232,818
60	1BITHW-09-B0016	1	995	995
61	1BITHW-07-B0022	5	244,464	244,464
62	1BITHW-08-B0041	2	28,652	28,652
63	1BITHW-08-B0012	11	9,940	9,940
64	266351-99-F0330	6	4,699	4,699
65	1BITHW-07-B0039	14	539,810	539,810
	TOTAL	255	\$49,958,851	\$49,160,640

APPENDIX D: MONETARY IMPACT

Finding	Impact Category	Amount
Lack of Proper COR designation, training, and failure to perform key duties	Unrecoverable Unsupported Questioned Costs ¹³	\$192,692,060

¹³ These costs are questioned because the invoices did not contain the required approvals prescribed by Postal Service policy. These amounts are not necessarily losses incurred by the Postal Service.

APPENDIX E: STATISTICAL RESULTS

Using the Postal Service's Enterprise Data Warehouse System, we identified 654 purchase orders during FYs 2008 and 2009 for IT retail and hardware. We randomly sampled 65 of the purchase orders. For the 65 purchase orders, we reviewed a total of 255 invoices. We found 219 invoices (or 86 percent) valued at \$49,160,640 were improperly certified as shown in the table below.

	Total Purchase Orders	Number of Invoices	Dollars
Universe	654	151,091	\$592,647,270
Sample	65	255	49,958,851
Improperly Certified	63	219	49,160,640

We performed a two-stage unrestricted variable appraisal¹⁴ of the sample results. We determined at the one-sided 95 percent confidence interval, that \$192,692,060 will be claimed as unrecoverable unsupported questioned costs as shown in the table below.

	One-Sided 95 Percent Confidence Interval on the Lower Bound
Lower Limit	\$192,692,060 ¹⁵
Z-Value Used	1.644853626951
	Two-Sided 95 Percent Confidence Interval
Lower Limit	\$49,598,168
Upper Limit	1,829,665,800
Precision Amount	890,033,816
Precision Percent	94.72%
Z-Value Used	1.959963984540

¹⁴ A two-stage unrestricted variable appraisal is an appraisal of a form of a cluster sample in which a random sample of primary units is taken and then random subsamples of secondary unit are taken from each primary unit.

¹⁵ Since the precision percent at the 95 percent confidence interval is greater than the Office of Inspector General's acceptable rate of 20 percent, we are reporting the lower limit of the 90 percent confidence interval as a one-sided 95 percent confidence interval.

APPENDIX F: MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



November 12, 2010

LUCINE M. WILLIS

SUBJECT: Draft Audit Report Response – Information Technology (IT) Contract Payment Oversight (Report Number CA-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. Management agrees with the intent of the two recommendations, however, disagrees with the reported monetary impact as categorized.

The report classified \$192,692,060 in monetary impact as unrecoverable, unsupported questioned costs based on the lack of Contracting Officer Representative (COR) designation, training, and failure to perform reconciliation to receiving documents. This monetary impact was extrapolated from a statistical sample of invoices. We disagree that the lack of a COR designation results in an improper invoice certification. Our policy does not require that a COR be assigned for every contract; in many cases, an office is designated in the contract to certify invoices. Therefore, the inclusion of all contracts in which a COR was not appointed in this extrapolation is improper and should not be included within the calculations.

Furthermore, we disagree with the categorization of the monetary impact and conclude that any dollars associated with an invoice certified without proper reconciliation of receiving documents, may be categorized as non-monetary impact, disbursements at risk. This category is defined as the dollar value of disbursements made where proper internal controls and processes were not followed.

The audit disclosed that in some instances there was a COR designated through a delegation letter; and there was an office designated in the contract (IT Business Systems & Retail Service Equipment) for invoice receipt and certification. This conflict as to who would be responsible for invoice receipt and certification needs to be corrected.

The OIG's report identified two recommendations. We recommend the vice president, Supply Management; direct the manager, IT, Category Management Center (CMC), to:

Recommendation 1: Ensure that proper personnel have a COR letter of designation that allows them to certify invoices for payment.

Management Response/Action Plan: Management agrees with the intent of this recommendation when the CO determines a COR is required to certify invoices. There seems to be a conflict between the purchase order documentation indicating the specified designated office for invoice receipt and certification, and the COR letters of designation indicating that individual to receive and certify invoices. Our action plan is to review the current COR letters of designation, the active purchase orders and make any necessary changes.

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Target Implementation Date: February 2011.

Responsible Official: VP Supply Management.

Recommendation 2: Require CORs to reconcile invoices to receiving documents prior to certification for payment.

Management Response/Action Plan: We agree with this recommendation when CORs are appointed and assigned the responsibility to certify invoices. To be responsive to this recommendation, the IT CMC will communicate our payment process guidelines to IT Business Systems and Retail System Equipment to ensure procedures are in accordance with policy for managing and certifying invoices in cases where either a COR or an office is designated in the contract.

Target Implementation Date: February 2011.

Responsible Official: VP Supply Management.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at 202-268-4833.



cc: Joseph Corbett
Ross Philo
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Charles McGann
Deborah Judy
Gerri Wallace
Corporate Audit and Response Management