



February 18, 2009

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – The Postal Service’s Certification Process for Non-Mail Freight Transportation Invoices (Report Number CA-AR-09-002)

This report presents the results of our self-initiated audit of the U.S. Postal Service’s certification process for non-mail freight transportation invoices (Project Number 08YG025CA000). Our objective was to assess whether Postal Service officials ensured that non-mail freight transportation invoices were properly certified and goods and services were received prior to invoice payment. See [Appendix A](#) for additional information about this audit.

### Conclusion

Postal Service officials could improve their oversight to ensure that non-mail freight transportation invoices are properly certified, and goods and services are received.

### Invoice Certification

Postal Service contracting officials did not certify \$41,916,714 in invoices paid to Ryder Integrated Logistics Inc. (Ryder) and C. H. Robinson Company (CHR) from July 1, 2006, through June 30, 2008. This occurred because the contracting officer (CO) relied on annual post-performance invoice audits by the Defense Contract Audit Agency (DCAA). While DCAA did perform two audits on a portion of the invoices for one of the contractors, these audits did not — nor were they intended to — provide assurances that contractors are properly rendering services. Determinations as to whether goods and services were received should be performed by Postal Service officials at the locations receiving the goods or services.

As a result, contracting officials cannot be assured that accurate rates are charged, customers are receiving goods, deliveries are timely, and approved price schedules are being used. Therefore, we classified payments of \$41,916,714 as unrecoverable unsupported questioned costs<sup>1</sup> because significant internal controls were not properly

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<sup>1</sup> Unrecoverable unsupported questioned costs are costs that are unnecessary, unreasonable or an alleged violation of law or regulation. These costs are also not supported by adequate documentation. We question these costs because no independent party performed required certification prior to payment.

~~This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.~~

applied to the non-mail freight transportation invoices. We will report these unsupported questioned costs in our *Semiannual Report to Congress*. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Supply Management, direct the Manager, Supply Management Operations, to coordinate with the contracting officer to:

1. Develop and implement written procedures for the independent review of invoices to confirm the receipt of goods and services and to ensure accurate payment.

### **Management's Comments**

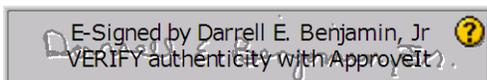
Management agreed with the finding, recommendation, and monetary impact and stated the \$41,916,714 of unrecoverable unsupported questioned costs was the result of a miscommunication regarding their reliance on DCAA audits to assure that contractors properly rendered services. Management stated they did not intend to circumvent the invoice certification process, and agreed to develop an action plan to include a determination on the use of a third party reviewer for the current contracts, development of valid statistical sampling for invoice auditing, and an auditing process. See [Appendix C](#) 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 responsive to the recommendation and the corrective action should resolve the issue identified in the finding. Regarding management's statements about their reliance on DCAA, we reiterate that neither DCAA nor we communicated that the reviews should be relied upon as verification that contractors were properly rendering services.

We will report \$41,916,714 as unrecoverable unsupported questioned costs in our *Semiannual Report to Congress*. The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when management completes corrective actions. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation 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 L. Leonhardt, Director, Supply Management, or me at (703) 248-2100.



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

Attachments

cc: Myrna J. Murphy  
James Dwight Young  
Stanley A. Lipinski  
Russell A. Sykes  
Royale A. Ledbetter  
James P. Leonard  
Frank R. Scheer  
Delores M. Gentry  
Katherine S. Banks

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service entered into contracts with CHR and Ryder for global surface and air transportation services for non-mail freight in fiscal year (FY) 2006. The contracts provide for carrier management, shipment management, online tools and training, freight bill audit and payment, invoicing, claims management, and standardized accessorial schedules and rates.

A Postal Service facility submits a request for the shipment of non-mail freight items to CHR or Ryder.<sup>2</sup> The contractor then solicits at least three bids and negotiates with carriers depending on shipment requirements. The contractor provides facility officials with the best quote. The facility official generates a bill of lading upon acceptance of the quote. The contractor reviews the carrier's charges and prepares an invoice including its fees and the carrier's fees to the Postal Service. The contracts allow the contractors to self-certify their invoices and submit payments directly to the Information Technology and Accounting Service Center (IT/ASC). The IT/ASC makes payments directly to the contractor and the contractor pays the carrier.

From calendar year 2003 through part of 2006, the CO used prepayment audit services provided by National Traffic Services (NTS) and post-payment audit services provided by the U.S. General Services Administration (GSA) to validate freight transportation payments on previous contracts.<sup>3</sup> A prepayment audit compares the charges on the bill against the charge permitted under the contract. The Postal Service paid NTS \$213,907 to review freight transportation invoices totaling \$62,728,506 during this time. NTS recovered \$1,881,304 that was returned to the Postal Service. GSA post-payment audits for the same period resulted in recoveries of approximately \$87,000 returned to the Postal Service. The CO did not retain the services of NTS or GSA to review CHR and Ryder invoices.

### OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess whether Postal Service officials ensured that employees properly certified non-mail freight transportation invoices and the agency received goods and services prior to invoice payment. The scope of our audit included invoices paid to CHR and Ryder from July 1, 2006, through June 30, 2008.

To accomplish our audit objective, we reviewed the CHR and Ryder contract files. In addition, we reviewed the contractors' actual practices to determine if they were

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<sup>2</sup> A facility selects a contractor based on shipping requirements. CHR transports full truckload requirements only. Ryder transports both full truckload and less than full truckload.

<sup>3</sup> GSA administers the pre-payment and post-payment audit programs of freight transportation payments under 41 CFR, Sections 102-118. An agency may perform a required prepayment audit by creating an internal prepayment audit program, contracting directly with a prepayment audit service provider, or using a GSA contractor.

meeting requirements for verifying receipt of goods. We also interviewed the CO and the CO's representative to determine what controls, procedures, data, and guidelines are used to ensure goods are received and invoices are prepared and certified.

We conducted our audit from June 2008 through February 2009 in accordance with generally accepted government auditing standards and included tests of internal controls that were 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 January 5, 2009. We relied on data obtained from the contractor database systems. We did not audit these systems directly, but performed a limited review of data integrity to support our reliance on the data. We compared invoice data the contractors provided to invoices paid in the Postal Service's Accounts Payable System. As a result, we found no variances and confirmed the invoices were paid.

### PRIOR AUDIT COVERAGE

We identified five DCAA reports issued within the past 4 years related to this subject.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Financial Risk Assessment of Ryder of Ann Arbor, Michigan</i>	CA-CAR-06-004	11/15/2005	\$0	The financial risk assessment did not show indications of significant unfavorable financial conditions that would warrant the performance of a detailed financial capability audit.
<i>Audit of Accounting System and Financial Capability Risk Assessment of C.H. Robinson Worldwide</i>	CA-CAR-06-008	12/16/2005	\$0	The audit determined the contractor's accounting system is adequate for accumulating and billing costs.  The audit also determined there are no indications of significant conditions that would warrant the performance of a financial capability audit.

<p><i>Agreed Upon Procedures Review to Verify Costs Included on Invoices Submitted for Reimbursement by C.H. Robinson Worldwide 5BMSTR-05-B-3003</i></p>	<p>CA-CAR-06-011</p>	<p>3/1/2006</p>	<p>\$0</p>	<p>The review determined the costs included in C.H. Robinson invoices are in accordance with the terms of the contract and are reasonable and adequately supported.</p>
<p><i>Report on Key Performance Indicators including Procurement Savings of Contract 5BSMSTR-05-B-3002 and Accounting System of Ryder Integrated Logistics Incorporated</i></p>	<p>CA-CAR-07-017</p>	<p>7/30/2007</p>	<p>\$203,498</p>	<p>The audit determined the contractor is not meeting key performance indicator goals for on-time delivery and pickup. In addition, the contractor overstated overall cost savings for the period January 1 through June 30, 2006, by \$203,498.</p> <p>The contractor concurred with the intent of the findings and recommendations.</p>
<p><i>Specific Costs Included on Invoices Submitted by C.H. Robinson Worldwide</i></p>	<p>CA-CAR-08-021</p>	<p>5/7/2008</p>	<p>\$0</p>	<p>DCAA disclosed that fuel surcharges billed resulted in instances where the amount charged did not match the diesel fuel price indices.</p> <p>DCAA also identified program management issues that warrant corrective action by the CO. The contractor agreed with the intent of the findings and recommendations.</p>

## APPENDIX B: DETAILED ANALYSIS

### Invoice Certification

Postal Service officials could improve their oversight to ensure that non-mail freight transportation invoices are properly certified and goods and services are received. Specifically, contracting officials did not certify \$41,916,714 in invoices paid to Ryder and CHR from July 1, 2006, through June 30, 2008. The CO's representative did not independently test invoices or transactions reported by the contractors on their bi-weekly report to validate that goods and services were received and invoices were accurate. The CO and CO's representative stated they assumed contractor information was accurate unless they received complaints from customers. In addition, they did not review or validate rates prior to the contractor submitting invoices directly to the IT/ASC for payment. They relied strictly on the contractors' self-certification of invoices.

This occurred because the CO relied on annual post-performance audits by DCAA to review invoices. While DCAA performed two audits on a portion of the invoices for one of the contractors, these audits were based on agreed upon procedures and did not, nor were they intended to, provide assurances that contractors are properly rendering services. Postal Service officials at the locations receiving those goods or services should determine whether the goods and services were received. The CO stated he did not have the resources to conduct independent reviews of the invoices.

The CO is responsible for verifying the accuracy of invoices by reviewing the prices established for products and/or services and ensuring that contract performance is meeting Postal Service requirements.<sup>4</sup> The Postal Service engaged the services of Ryder and CHR to certify carrier invoices. However, payments are made directly to Ryder and CHR and there is no oversight to ensure invoice accuracy.

Ultimately, it is the CO's responsibility to ensure the contractor fulfills contract terms, which includes monitoring contract performance. Without verification, contracting officials cannot be assured that accurate rates are charged per approved price schedules, deliveries are timely, and customers are receiving goods. In addition, by not monitoring performance, the Postal Service risks having the contractors select poor performing carriers. As a result, we are reporting unrecoverable unsupported questioned costs of \$41,916,714.

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<sup>4</sup> Supply Management Practices and Principles, Process Step 5: Measure and Manage Supply, Make Payment Task.

## APPENDIX C: MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT



February 11, 2009

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – The Postal Service Certification Process of Non-Mail Freight  
Transportation Invoices (Report Number CA-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject audit report. Management generally agrees with the monetary impact and the finding and recommendation. The following addresses our complete response.

**Monetary Impact:** As stated in the report, the monetary impact occurred because the contracting officer relied on annual post-performance invoice audits by the Defense Contract Audit Agency (DCAA). Prior to contract award, the Postal Service coordinated with the OIG to establish a third-party review of the processes and performance of the two contractors under the newly established Transportation Management Service Providers Program. It was our understanding that DCAA would be performing our third-party review. From inception of the awards, the Non-Mail Freight Team transferred transactional data to DCAA for the audits, with the understanding that included in the process and performance audit would be a review of sampled invoices for compliance with the invoice certification process. Per the report, DCAA did perform two audits on a portion of invoices for one of the contractors. During this audit, it was brought to our attention that DCAA's "audits did not – nor were they intended to – provide assurances that contractors are properly rendering services." This is a major miscommunication resulting in the \$41,916,714 unsupported, unrecoverable, questioned costs, but does not fall into the category of waste, fraud and abuse as transactional services have been rendered by the contractor. Although we generally agree that the monetary impact, as described, is accurate, we must state that the Postal Service never intended to circumvent the invoice certification process.

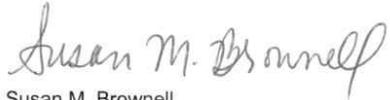
Further, transportation and logistics services were rendered and audited, in part, through regular reviews between the Non-Mail Freight Team and program clients, as well as post-action reviews for emergency response activities, e.g., Hurricane Katrina. However, these were done randomly without a statistical auditing process in place since we believed that all auditing was being conducted by DCAA.

**Recommendation 1:** We recommend the Vice President, Supply Management, direct the Manager, Supply Management Operations, to coordinate with the contracting officer 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.

**Management Response:** Management agrees with the finding and recommendation and will provide a high-level action plan to the OIG within the next 45 days with anticipated implementation of the plan by 4<sup>th</sup> quarter of FY2009. The action plan will include, along with milestones for completion, our determination on the use of a 3<sup>rd</sup> party reviewer for the current contracts, development of valid statistical sampling for invoice auditing, and an auditing process.

475 L'ENFANT PLAZA SW  
WASHINGTON, DC 20260-6200  
202-268-4040  
FAX: 202-268-2755  
WWW.USPS.COM

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.



Susan M. Brownell

cc: Myrna J. Murphy  
James Dwight Young  
Stanley A. Lipinski  
Russell A. Sykes  
Royale A. Ledbetter  
James P. Leonard  
Frank R. Scheer  
Delores M. Gentry  
Katherine S. Banks