



December 3, 2009

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Office Supplies National Contract Compliance
(Report Number CA-AR-10-002)

This report presents the results of our review of Postal Service employees' compliance with the national OfficeMax contract (Project Number 09YG026CA000). We performed this review at the request of, and in coordination with, the Services Portfolio manager. Our goal was to assist Supply Management officials in monitoring employees' compliance of purchasing office supplies from the OfficeMax national contract to improve their leveraging of spend on this contract. This audit addresses operational and financial risk. See [Appendix A](#) for additional information about this audit.

Conclusion

Employees generally complied with purchasing office supplies through the national contract and obtaining purchase approval using the eBuy system. Employees made 95 percent of office supply purchases (or \$69 million of \$74 million) through the OfficeMax catalog in eBuy between April 2008 and March 2009. However, employees could improve compliance by obtaining contract pricing and receiving requisition approval prior to purchase. During our audit, we also identified 163,446 transactions with OfficeMax (valued at \$8,979,032) that circumvented the requisition approval controls implemented in the eBuy system.

Office Supplies Not Purchased at Contract Pricing

Postal Service employees did not always purchase office supplies and printing services available through the national OfficeMax contract at contract pricing. Twenty-nine¹ of the 77 invoices reviewed contained office supplies or printing services not purchased at contract pricing. On 11 invoices², employees paid \$1,158 more than the contract price for office supplies and on the remaining 18 invoices³, employees paid \$5,089 less than the contract price. The majority of the lower price items were for printing services. When employees make purchases not using the national contract and do not inform

¹ Nineteen of these invoices were for office supplies and printing services purchased at OfficeMax but not at the contract price. The remaining nine invoices were for purchases at other vendors.

² Five of these invoices were for purchases employees made through OfficeMax, but at more than the contract price.

³ Fourteen of these invoices were for purchases employees made through OfficeMax at less than the contract price and without informing the contracting officer of the lower prices.

contracting officers (COs) of lower purchase prices, the Postal Service does not realize leveraged spend efficiencies.⁴

This occurred because employees thought they were following established policies and procedures for ordering office supplies. In addition, they did not contact OfficeMax to obtain item price matching or renegotiate pricing when applicable. Employees gave the following reasons for not following policies and procedures:

- They could not locate the item in the national OfficeMax catalog;
- OfficeMax could not meet the delivery time; or
- They thought they received the contract price.

However, we found that these items were available in the catalog. In addition, office products are not emergency essential items and employees can order them from OfficeMax if inventory is managed properly.

As a result, we identified at least \$35,526 of unrecoverable questioned costs⁵ based on items purchased in excess of the contract price. We also identified at least \$51,388 of funds put to better use⁶ based on items priced below contract pricing that employees bought from other vendors but which they could have potentially renegotiated with OfficeMax to lower or match the other vendors' price. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Supply Management:

1. Reiterate to employees the requirements relevant to proper use of the national office supplies contract, including the requirement to contact the supplier to obtain item price matching, when applicable, to maximize potential supply chain management savings.

We also recommend the vice president, Supply Management, direct the manager, Services Portfolio, to instruct the manager of the Eastern Services Category Management Center to:

2. Review printing services contract pricing for potential cost savings opportunities through renegotiated prices.

⁴ Leveraged spend efficiencies are gained through use of negotiation techniques with a supplier that include and focus on the total amount spent with that specific supplier.

⁵ Unrecoverable questioned costs are unnecessary, unreasonable, or an alleged violation of law or regulation. We questioned these costs, because the purchase prices of items reviewed exceeded the contract price.

⁶ We classify funds put to better as amounts the Postal Service could use more efficiently by implementing recommended actions.

Requisition Approval Not Received Prior to Purchase

Employees did not always receive the required requisition approval prior to making purchases. Eleven of the 77 invoices reviewed did not have eBuy requisition approval before purchase. This occurred because employees received verbal authority, forgot to get authorization, were unaware of the policy or needed the item urgently and obtained approval after purchase. Employees are required to obtain prior funding approval for all purchases. Without appropriate prior approval, these purchase commitments could be unauthorized and invalid.⁷ As a result, there could be a cumulative effect on local office supply and purchase card expenditure budgets. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the vice president, Supply Management:

3. Issue supplemental guidance to ensure employees are aware of and understand the policies and procedures requiring eBuy approval for requisitions prior to making a purchase to prevent unauthorized contractual commitments.

Backdoor Order Transactions

While conducting our review, we became aware of a process called "backdoor ordering," which allows OfficeMax to create office supply orders on behalf of Postal Service employees and submit them to the eBuy system for tracking and electronic invoicing. The backdoor ordering process circumvents controls in the eBuy system. Specifically, there is no validation that an employee actually placed an order, the items ordered were correct, or that the requisition received proper approval before payment.

The Postal Service established the backdoor order entry process when it created the OfficeMax contract in January 2000. At that time, there were still a substantial number of offices without access to the Internet or the eBuy system. The backdoor process allowed these offices to mail, fax, or telephone orders to OfficeMax, who would enter the order into the system for processing and payment. The Postal Service established this process so these sites could benefit from using the national contract. Since there is no validation of purchase approval or independent certification of the invoice before payment, we identified \$8,979,032 in unrecoverable unsupported questioned costs⁸ for the 163,446 backdoor transactions that occurred from July 2007 through June 2009. Postal Service officials propose that the forthcoming eBuy2 system will eliminate backdoor orders altogether. Until the new system is operable, officials need to implement an internal control system that prevents circumventing the approval and invoice certification processes. See [Appendix B](#) for our detailed analysis of this topic.

⁷ The value of these 11 invoices (\$4,736) is included in our calculation of questioned costs and funds put to better use for transactions purchased over and under the contract price. Therefore, we are not claiming monetary impact for this finding.

⁸ Unrecoverable unsupported questioned costs are unnecessary, unreasonable, or an alleged violation of law or regulation. We questioned these costs because they were not validated and certified before payment.

We recommend the vice president, Supply Management,

4. Establish and implement authorization and invoice certification control procedures for backdoor ordering and invoicing.

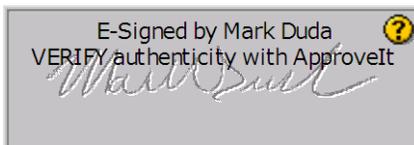
Management's Comments

Management generally agreed with the findings and recommendations. Management stated that it was not their intent to require invoice validation and approval for backdoor ordering transactions prior to purchase, and disagreed with our monetary impact relevant to these transactions. However, management noted that the new eBuy2 system would eliminate backdoor ordering transactions. Management said they would update policies and procedures in the roll out of eBuy2 and communicate them, particularly as they relate to our audit, to all Postal Service employees. Management expects to complete these actions as they roll out eBuy2 beginning in December 2009 and ending in April 2010. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report. We continue to find the lack of prior approval for backdoor ordering transactions to be a significant control problem. Without appropriate prior approval, these purchase commitments could be unauthorized and invalid. However, the elimination of backdoor ordering transactions will resolve this problem.

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.



Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Joseph Corbett
Craig D. Partridge

Susan A. Witt
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

As part of the strategic goals of reducing costs and furthering competitive and business objectives, the Postal Service entered into a partnership with OfficeMax Government Solutions⁹ for supply products. On January 7, 2000, the U.S. Postal Service awarded a national contract for the purchase of a full range of office supplies to OfficeMax. On February 7, 2006, the agency added Impress printing service pricing to the contract. Using this service is not mandatory, but it provides an additional sourcing option. Between April 2008 and March 2009, the Postal Service spent more than \$69 million for office supplies through the contract.

The Eastern Services Category Management Center (CMC) in the Supply Management Services Portfolio manages the contract. The CMC currently monitors office supply spending through a Microsoft Access database.

Postal Service employees must purchase all office supplies from OfficeMax with the following two exceptions:

- (1) If OfficeMax cannot meet a required delivery date and another supplier can, employees have the option of purchasing from that competitor.
- (2) If an employee obtains a lower total cost with a supplier other than OfficeMax, they have the option of asking OfficeMax to match the price or to purchase the item at the lower cost from the other supplier.¹⁰

To provide accessibility to the contract pricing, an electronic catalog of OfficeMax products is available in eBuy.¹¹ Employees must use eBuy for requisition approval whether they purchase the item on or off catalog.¹²

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess Postal Service employees' compliance in purchasing office supplies through the national contract and determine whether management granted approval for these purchases using the eBuy system.

⁹ Previously, OfficeMax Government Solutions had the following names: Boise Cascade Office Products, Inc.; Boise Office Solutions; and, most recently, BCOP Federal.

¹⁰ *National Mandatory Requirements Contract for Supplies Awarded to OfficeMax Government Solutions*, Material Logistics Bulletin (MLB) number MLB-CO-00-002, dated December 29, 2008.

¹¹ eBuy is an electronic commerce portal that provides Postal Service employees with electronic requisitioning, approval, and invoice certification capability.

¹² On-catalog and off-catalog refers to whether the item was purchased using the national OfficeMax catalog in eBuy.

To accomplish our objective, we interviewed Supply Management Eastern Services CMC COs. We also reviewed contract file documentation, responses received from questionnaires sent to employees, and guidance establishing the use of the national contracts.

We obtained a list of off-catalog office supplies purchased between April 2008 and March 2009 from the Accounts Payable Excellence and Purchase Card systems. There are no specific fields in the Postal Service databases that identify office supplies, therefore, we used a query the Eastern Services CMC currently uses to extract this category of purchases.¹³ We analyzed the results of the query to remove purchases not related to office supplies to finalize a universe of office supply transactions. We also obtained from the CO those price lists that were in effect when employees made purchases.

We conducted a nationwide statistical sample and compared off-catalog purchase prices to the price lists to determine whether the items purchased were available through the national OfficeMax catalog and the respective price differences. We also analyzed purchase documentation to determine whether there was requisition approval before purchasing through the eBuy system.

We conducted this performance audit from March through December 2009 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 on October 6, 2009, and included their comments where appropriate.

We relied on data obtained from Postal Service database systems.¹⁴ We did not directly audit the systems but performed a limited data integrity review by validating a sample of data to source documentation. We did note there are no key data fields to identify office supply purchases. Although this data limitation constrained our work, we were able to compensate by applying alternate procedures as previously discussed in this report.

¹³ The Eastern Services CMC Category Spend tool defines total category spend based on queries that incorporate a combination of named suppliers and category key words typically associated with suppliers doing business in the subject categories.

¹⁴ We obtained data from the APEX, eBuy, and Purchase Card systems.

PRIOR AUDIT COVERAGE

There was one prior report related to compliance with the terms and conditions of national contracts. The U.S. Postal Service Office of Inspector General issued the *Audit of Compliance with the Use of MSC Industrial Supply Co., Inc. and W. W. Grainger, Inc. National Contracts* (Report Number CA-AR-07-004, dated May 23, 2007), which concluded that Postal Service employees placed orders for maintenance, repair, and operations supplies outside of the MSC and W. W. Grainger national contracts. As a result, the Postal Service incurred unrecoverable questioned costs of approximately \$217,113 based on items purchased in excess of the contract price, and we identified \$1,751,112 in funds put to better use based on items priced below contract pricing that could potentially be renegotiated to lower the contract price. Management generally agreed with the findings and recommendations.

APPENDIX B: DETAILED ANALYSIS

Office Supplies Not Purchased at Contract Pricing

Postal Service employees generally complied with using the national OfficeMax contract to purchase office supplies. Of the \$74 million in offices supply transactions identified, employees purchased 95 percent of them from the OfficeMax eBuy catalog. Twenty-nine¹⁵ of the 77 invoices reviewed contained office supplies or printing services that employees did not purchase at the contract price. On 11 invoices,¹⁶ employees paid \$1,158 more than the contract price and on the remaining 18 invoices¹⁷, employees paid \$5,089 less than the contract price. The majority of the lower price items were for printing services.

Employees thought that they were following established policies and procedures requiring them to order supplies from the national contract with OfficeMax. In addition, they did not contact OfficeMax to obtain item price matching or renegotiate pricing when applicable. Employees gave the following reasons for not following policies and procedures:

- They could not locate the item in the national OfficeMax catalog;
- OfficeMax could not meet the delivery time; or
- They thought they received the contract price.

However, we found that these items were available in the catalog. In addition, office products are not emergency essential items and employees can order them through OfficeMax if inventory is managed properly.

Employees made five of the 18 lower priced purchases with other vendors. Postal Service policy indicates that employees may purchase office products with another vendor if available at a lower total cost; however, they also have the option of requesting a price match from OfficeMax.¹⁸ The remaining lower price purchases were for printing services at local OfficeMax stores. Employees indicated they made these purchases according to the contract, but obtained local pricing.

When employees do not make purchases using the national contract and do not inform COs of lower purchase prices than the contract price, the Postal Service does not realize leveraged spend efficiencies. As a result, we identified at least \$35,526 of unrecoverable questioned costs based on items purchased in excess of the contract

¹⁵ Nineteen of these invoices were for office supplies and printing services that employees purchased at OfficeMax but for which they did not obtain the contract price. The remaining nine invoices were for purchases made through other vendors.

¹⁶ Five of these invoices were for purchases at OfficeMax for which employees paid more than the contract price.

¹⁷ Fourteen of these invoices were for purchases at OfficeMax for which employees paid less than the contract price and did not inform the contracting officer of the lower prices.

¹⁸ *National Mandatory Requirements Contract for Supplies awarded to OfficeMax Government Solutions*, MLB number MLB-CO-00-002, dated December 29, 2008.

price. We also identified at least \$51,388 of funds put to better use based on items priced below contract pricing that employees bought from other vendors; but which, they could have potentially renegotiated with OfficeMax to lower or match the other vendors' price.

Requisition Approval Not Received Prior to Purchase

Postal Service employees did not always receive requisition approval before making purchases. Eleven of the 77 invoices reviewed (or about 14 percent) did not receive eBuy requisition approval before purchase. This occurred because employees received verbal authority, forgot to get authorization, were unaware of the policy or needed the item urgently and obtained approval after purchase. Two of the 11 invoices with no approval did not have eBuy requisition support: One employee indicated they received verbal authorization and one forgot to obtain approval. Purchasers for the remaining eight invoices obtained approval in eBuy after the purchase. One employee indicated they needed the item urgently and obtained approval the day after purchase and another employee was unaware of the policy of approval for all purchases. We did not receive an explanation for not obtaining prior approval for six purchases.

All purchases must have eBuy approval in advance of purchasing.¹⁹ Without appropriate prior approval, these purchase commitments could be unauthorized and invalid. As a result, there could be a cumulative effect on local office supply and purchase card expenditure budgets.

Backdoor Order Transactions

Employees typically purchase office supplies through eBuy's online OfficeMax catalog. An employee creates a requisition in eBuy, which electronically forwards the request to the appropriate approving official. Once approved, eBuy transmits the request to OfficeMax via Electronic Data Interchange (EDI).²⁰ The order is fulfilled and an invoice is transmitted back via EDI, which eBuy validates to the employee who submitted the request before sending it to the Information Technology/Accounting Service Center (IT/ASC) for payment.

A backdoor order occurs when an employee contacts OfficeMax to purchase products listed on the contract. An OfficeMax representative initiates the order and a file is transmitted from the OfficeMax system to eBuy via EDI. Once the order is fulfilled an invoice is transmitted back via EDI, which eBuy validates to the OfficeMax-submitted request and then sends to the IT/ASC for payment. The Postal Service established the backdoor order entry process when it created the OfficeMax contract in January 2000. At that time, there were still a substantial number of post offices without access to the Internet or the eBuy system. To afford these sites the benefits of the national contract,

¹⁹ Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying*, Sections 332.1 and 411.

²⁰ Electronic Data Interchange is the application-to-application exchange of business data in a standardized format.

the backdoor process allowed these offices to mail, fax, or telephone their orders to OfficeMax who would then enter the order into the system for processing and payment.

The backdoor ordering process circumvents some controls of the eBuy system. Specifically, eBuy does not document required approvals for these transactions and there is no assurance that the employee actually placed the order or that the order was correct before payment. Postal Service officials contend that some of these backdoor transactions may have received bulk funding approval for specific purchases approved in advance. However, they did not provide documentation to support that these transactions received bulk funding approval. Therefore, it is questionable as to whether there was approval before payment.

Employees are required to reconcile purchases charged to their finance number²¹ that occur after payment is made. However, because there is no validation of purchase approval or independent certification of invoice prior to payment, we identified \$8,979,032 in unsupported questioned costs for 163,446 backdoor transactions that occurred from July 2007 through June 2009. Postal Service officials propose that the eBuy2 system launching in mid-November 2009 will eliminate backdoor orders. Until the new system becomes operable, officials should implement an internal control system to correct the controls that allow circumvention of the approval and invoice certification processes.

²¹ *National Mandatory Requirements Contract for Supplies Awarded to OfficeMax Government Solutions*, MLB-CO-00-002, dated December 29, 2008.

APPENDIX C: MONETARY IMPACT

Calculation of Unsupported Questioned Costs, Unrecoverable and Recoverable Questioned Costs, and Unrecoverable Revenue

We performed a stratified variable sample of 77 invoices from a universe of 20,916 office supply invoices, valued at \$3.8 million. Postal Service officials overpaid approximately \$1,158 on 11 invoices, which reflected a price paid that was more than contract pricing. In addition, Postal Service officials underpaid approximately \$5,089 on 18 invoices, which reflected a price paid that was less than contract pricing. We used the \$1,158 overpayment and \$5,089 underpayment to project questioned costs and funds put to better use to our universe, respectively.

We calculated with a 95 percent confidence level that our population contains at least \$35,526 in unrecoverable questioned cost for items purchased at higher prices than contracting pricing and at least \$51,388 in funds put to better use where lower priced items could have been obtained through the national contract by either price matching or contract pricing renegotiation. Further, we are claiming the 163,446 backdoor transactions occurring between July 2007 and June 2009, valued at \$8,979,032, as unsupported questioned costs, because there is no validation of purchase approval or independent certification of invoice before payment.

Finding	Description	Amount
Office Supplies Not Purchased at Contract Pricing	Unrecoverable questioned costs	\$35,526
	Funds put to better use	51,388
Backdoor Order Transactions	Unsupported questioned costs	8,979,032
	TOTAL	\$9,065,946

APPENDIX D: MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



November 19, 2009

LUCINE WILLIS

SUBJECT: Draft Audit Report – Office Supplies National Contract Compliance
(Report Number CA-AR-10-DRAFT)

Thank you for your time in performing this requested audit and for the opportunity to review and comment on the subject draft audit report. The 95 percent compliance with the use of the office supplies catalog in eBuy is a great achievement and encouraging as we continue enhancing the various catalogs and the eBuy system. The report's findings and recommendations have been reviewed and we agree that some improvements are necessary to ensure compliance with pricing and with the requisition approval process. The following is our full response to the recommendations contained in the report.

Monetary Impact: We have reviewed and agree to the monetary impact of \$35,526 unrecoverable questioned costs and \$51,388 of funds put to better use. However, under the validation of backdoor order transactions, the OIG states that "since there is no validation of purchase approval or independent certification of the invoice before payment, we identified \$8,979,032 in unrecoverable unsupported questioned costs . . ." It was never the intent to have a requirement that would validate these orders prior to payment, it is a pay and chase process and the validation is accomplished through reconciliation at the budget level. Therefore, we do not agree with this monetary impact as reported.

General Comment: Several changes are currently being implemented for the purchase of office supplies and printing services, and a new requisition system (eBuy2) is being rolled out to enhance the buying process. We are also working with the SOX team on requirements to close gaps in the requisition process. And, we recently implemented organizational changes to improve the efficiency of local purchasing activities and will have two new Purchasing Shared Services Centers fully operational in April 2010. The Purchasing Shared Services Center's capabilities will include a customer service call center, district-level local buying support, client outreach communications, and demand-management guidance for managing supplies and services consumption. Overall, these improvements will assist in eliminating the concerns raised in this audit and enhance national contract compliance.

The OIG's report recommends that the Vice President, Supply Management:

Recommendation 1: Reiterate to employees the requirements relevant to proper use of the national office supplies contract; including the requirement to contact the supplier to obtain item price matching, when applicable, in order to maximize potential supply chain management savings.

Response: We agree with the intent of this recommendation and will issue a communication announcing the new contract awards for office supplies and their proper use once they have been awarded and implemented in eBuy2. It is anticipated that contracts will be awarded in December 2009 and catalogs established in eBuy2 by the end of February 2010. The current Office Max contract is anticipated to be extended in eBuy until March or April 2010 to ensure the transition is completed to eBuy2, and the new pricing will be incorporated for the interim period.

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In accordance with the August 6, 2003 Postal policy related to purchasing office supplies off-catalog, the price matching policy which is applicable to the current contract allows two exceptions: 1) the option to purchase from a competitor if Office Max (then Boise) was unable to meet the required delivery date; and, 2) if a lower price was found with a supplier other than Office Max, there was an option to ask for a price match or to purchase the item at the lower price from the other supplier. Based on the policy, price matching is an option but not a requirement. Since there will be ongoing competition among catalog suppliers in the eBuy2 system, we foresee changing the price matching policy in the future. In order to avoid confusion, we intend to communicate the new policy upon deployment of the new catalogs.

Recommendation 3: Issue supplemental guidance to ensure employees are aware of and understand the policies and procedures requiring eBuy approval for requisitions prior to making a purchase to prevent unauthorized contractual commitments.

Response: In our forthcoming eBuy2 system "Go Live" communications, we will ensure that the approval and reconciliation requirements are highlighted. These communications will be accomplished in phases beginning December 2009 through January 2010.

Recommendation 4: Establish and implement authorization and invoice certification control procedures for backdoor ordering and invoicing.

Response: We agree that the backdoor ordering process in eBuy has the potential for misuse, however, there has not been any indication that this has actually occurred. The eBuy2 system is being phased in during the next few months. Since the backdoor ordering process has been eliminated under that new system, developing additional control procedures for the old system would not be beneficial and the change could negatively impact the transition to eBuy2. Currently, monthly reconciliations are required at the budget level and should suffice to eliminate any potential risk during the short life cycle remaining for eBuy. We are, thereby, requesting closure of this recommendation.

The OIG also recommended that the Vice President, Supply Management, direct the Manager, Services Portfolio, to instruct the Manager of the Eastern Services Category Management Center to:

Recommendation 2: Review printing services contract pricing for potential cost savings opportunities through renegotiated prices.

Response: Management agrees with this recommendation. With the current agreement for copying services expiring in December 2009, we are analyzing and defining a strategy to potentially implement managed print services contract(s). We estimate that this strategy will be implemented and contract(s) awarded by April 2010.

We do believe that this report contains some pre-decisional information that would be exempt under the Freedom of Information Act. Specifics will be provided by separate communications. If you have any questions about this response, please contact Susan Witt, 202 268-4833.

Susan M. Brownell

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