



September 30, 2010

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Certification Process for Electronic Payments
(Report Number CA-AR-10-006)

This report presents the results of our self-initiated audit of the U.S. Postal Service's certification process for electronic payments (Project Number 09YG050CA000). Our objective was to assess whether Postal Service officials properly certified electronic payments to ensure the agency receives goods and services prior to paying the invoice. See [Appendix A](#) for additional information about this audit.

The contracting officer (CO) is ultimately responsible for assuring the Postal Service has received goods and services and been invoiced in the correct amount before paying an invoice. The standard practice that ensures this throughout the federal government is the certification of vendor invoices prior to payment. Postal Service policy allows the CO to delegate this role to a contracting officer's representative (COR). However, the CO maintains responsibility for ensuring that this critical review is properly performed before payment. The Postal Service made approximately \$5.6 billion in electronic payments from April 1, 2008, to March 31, 2010, for various transportation, utility, and telecommunications contracts. Specifically, these payments include \$4.8 billion in annual rate Highway Contract Route (HCR) services managed by the Surface Transportation Category Management Center (CMC), approximately \$666 million in utility services, and approximately \$158 million in telecommunication services. Two contractors, Energy United and ProfitLine, processed and paid these utility and telecommunication bills on behalf of the Postal Service.

Conclusion

Postal Service officials must improve oversight of electronic payments to ensure that payments to contractors are properly certified and that the agency has received goods and services before payment. The Postal Service did not certify approximately \$5.6 billion in electronic payments. Certification prior to payment is necessary to ensure that the Postal Service has been appropriately billed and that goods and services have been received.

Certification of HCR Payments and Utility and Telecommunication Invoices

Postal Service officials did not certify approximately \$5.6 billion of payments as follows:

- HCR payments of \$4.8 billion.
- Utility payments of \$666 million for services at approximately 2,400 Postal Service facilities.
- Telecommunication payments of \$158 million, including \$6 million in fees paid to a contractor to process those invoices.

HCR suppliers were not required to submit invoices for their services, which the Postal Service automatically paid with no assurance that trips were completed and payments were correct. In addition, Postal Service COs and CORs did not certify utility and telecommunication invoices prior to payment. Although the Postal Service designated individuals to receive invoices for review, positive certification of their accuracy was not required before payment.

We classified these payments as unsupported questioned costs due to significant internal controls not properly applied to the certification of automated payments for highway contract services and payment of utility and telecommunication invoices. These costs are questioned because they are not supported by adequate documentation or because employees did not follow required procedures. The use of the category “unsupported questioned costs” does not necessarily indicate actual loss incurred by the Postal Service. See [Appendix B](#) for our detailed analysis of this topic.

Management Oversight of HCR Payments

Surface Transportation CMC management could not identify the COs responsible for \$1.2 billion in HCR payments in the Postal Service’s Accounts Payable Excellence (APEX) database. In addition, the Postal Service paid approximately 1,900 HCR payments (valued at about \$7.6 million) 31 days or more after the HCR contract end date. Payments fell between 31 and 2,150 days after contract end date. However, 92 percent of those payments occurred within 1 year of the contract end date. These contracts are paid monthly, with the payment occurring at the beginning of the service month. Payments made more than 30 days after contract end date are questionable, as there would be no basis for the payment under normal circumstances.

Management provided a description of the payments after we made several inquiries during our audit and at our exit conference held August 30, 2010. Management’s description of the payments was not sufficient to support such payments after the contract end date, as the payments were made well after services halted and further payment would not be authorized. In addition, management does not have adequate controls in place to identify the COs responsible for overseeing HCR payments and to

ensure that payments are not made after contract expiration. As a result, we are reporting \$7,586,085¹ as recoverable questioned costs due to improper HCR payments made to HCR contractors 31 or more days after contract end dates. See [Appendix B](#) for our detailed analysis of this topic.

Management Oversight of Utility Invoices

Designated Postal Service officials were unaware of their roles and responsibilities for receiving and reviewing utility invoices from Energy United, the contractor. This occurred because no one properly informed the officials of their responsibilities or trained them in how to perform them. In addition, contact information in the Utility Management System (UMS)² was inaccurate. Postal Service officials did not ensure information in the system was updated consistently and timely. Because designated officials were not properly trained and the CO or COR did not ensure that the contractor had accurate contact information, the CO or COR could not ensure that utility invoices forwarded were received and reviewed for accuracy prior to payment.

During April 2009 through January 2010, Postal Service officials erroneously paid utility invoices by at least \$233,000 dollars, including a \$43,000 payment applied to the wrong Postal Service utility account. During the same time period, there was an additional \$148,000 in refunds to the Postal Service that the CO could not explain. These overpayments occurred because officials at Postal Service facilities made payments directly to utility companies, unaware that the contractor paid their invoices. The contractor received the refunds from the utilities for the Postal Service and forwarded the refunds to the appropriate Postal Service program office. However, the CO did not adequately analyze and reconcile the refunds received to determine their root cause or whether additional overpayments may have occurred. The reconciliation process could help the Postal Service identify facilities that receive refunds due to rate changes, deposits, and overpayments; and trends in refunds.

We recommend the vice president, Supply Management:

1. Develop an oversight mechanism to monitor and ensure contracting officers' and/or designated officials' receipt and certification of invoices.
2. Reiterate to contracting officers and/or their designees their roles and responsibilities; and the importance of following Postal Service criteria, policies, and procedures for certifying invoices prior to payment to ensure that invoices are correct and goods and services were received.

¹ See Appendix C for calculation of unsupported questioned costs.

² The UMS system provides detailed facility consumption, cost profiles, bill payments, auditing information rate optimization for selected Postal Service facilities. The system also provides Postal Service officials with contact information (for example, name, email, phone, etc) for submitting utility invoices for review and creating easy to use reports available for management.

We recommend the vice president, Supply Management, direct the manager, Transportation Portfolio, to:

3. Develop and implement written procedures for receiving invoices for annual highway contract route services and verifying that services were rendered prior to payment.
4. Identify contracting officers and notify them to oversee and administer all highway contract route payments in the Postal Service Accounts Payable Excellence System.
5. Review the \$7.6 million in payments made more than 30 days after contract end dates, ensure that payments were properly supported, and collect overpayments.

We recommend the vice president, Supply Management; direct the manager, Facilities Portfolio, to:

6. Provide detailed, consistent training for all designated officials on their roles and responsibilities and usage of the Utility Management System.
7. Regularly reconcile payments made for utility services to identify and collect overpayments.
8. Ensure that the designated official contact information in the Utility Management System is accurate and that the system requires positive certification by the designated official before invoice payment.

Management's Comments

Management generally agreed with recommendations 2, 5, 6, 7, and 8. Management's response pointed out some of the efficiencies gained through electronic invoices and discussed some of the flexibilities they believe are allowable in the invoice certification process, including the practice of designating an office to certify invoices.

Management's response for recommendation 1 and 4 did not note agreement or disagreement. With regard to recommendation 1, management stated that within their policies, oversight mechanisms exist to ensure that payment processes are planned and adequate controls are established for those payments. They further stated they would conduct a compliance review of invoice receipt and certification in FY 2011, based on a sample of contracts from each portfolio that require invoice submission and certification. Regarding recommendation 4, management stated there was some confusion with what was requested, but they were in the process of re-reviewing the U.S. Postal Service Office of Inspector General's (OIG) request for determining and matching the responsible CO to the \$1.2 billion in HCR payments made in the Postal Service's APEX database. They agreed to provide a list of all the COs and routes for which they are responsible by October 30, 2010.

Management disagreed with recommendation 3, stating the Postal Service has a streamlined payment process in place for HCR contracts and a system to automatically pay HCR suppliers at contracted rates. They also stated that the OIG's recommendation as they understood it would require their estimated 15,000 HCR suppliers to submit an itemized invoice requesting payment for each trip operated on a monthly basis. They felt this would require the Postal Service to re-verify and approve for payment approximately 180,000 invoices and 23,000,000 trips per year; and that the magnitude of this invoicing effort would require an unsubstantiated amount of added work and potential cost for the Postal Service and its' suppliers with little added benefit. Management also stated that they believed they had adequate compensating controls, most notably in their ability to take action on exceptions retroactively. However, management did say that they would work with Network Operations to strengthen the control process.

Management also disagreed with the monetary impact identified in the audit, stating that the majority of the monetary impact associated with each program is based upon the premise that an invoice must be submitted by a supplier and that a person who is a CO or designated CO's representative is the only person who has the authority to certify an invoice. They further stated they have a long established policy that allows contractors to be paid automatically at the conclusion of each accounting period without submitting an invoice. They stated that their policies also provide the COs with the flexibility to negotiate alternate payment procedures to satisfy unique business requirements, such as those that exist with utilities and telecommunications.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 2, 5, 6, 7, and 8 and management's corrective actions should resolve the issues identified in the report. Although management did not state agreement with recommendation 1, their corrective actions planned should resolve the issues identified.

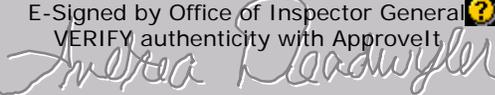
We have concerns regarding some of management's statements in their response. Specifically, management points out that Postal Service purchasing policies provide significant flexibilities that COs can exercise. While these policies allow a great deal of flexibility in their implementation, exercising them to the maximum is not always in the best interest of the Postal Service. Ensuring that goods and services have been received and appropriately billed before payment is a primary function of contract administration and, ultimately, the COs responsibility. The Postal Service has a general policy of appointing CORs through a letter from the CO outlining the specific responsibilities being delegated and instructions for completing them. The COR is also generally required to take training on those duties. This mirrors a fundamental contract administration control applied throughout the federal government. To replace this practice with general delegations on a broad scale diminishes the control significantly and provides no assurance that staff members who certify invoices have had sufficient training or any knowledge of the terms of the contract being administered.

In implementing recommendations 1 and 2, it is important that the Postal Service address the importance of receiving and certifying invoices before making contractual payments. For recommendation 4, the Postal Service needs to both identify the COs responsible for oversight of the \$1.2 billion in HCR payments identified and ensure those COs review payments to ensure they are correct.

We will work with the Postal Service through the resolution process regarding recommendation 3. There is no substitute for the control of receiving an invoice for services rendered and verifying that services were provided as agreed before payment is made. Having an exception process is not a substitute for assuring receipt of services before payment. The Postal Service requires certification of air transportation invoices before making payments to them and uses data collected in various Postal Service systems to facilitate certification. We believe the Postal Service could take a similar approach using the significant amount of data it collects on its HCR contractors to facilitate the invoice review process. For example, beginning November 1, 2010, the Postal Service will require its HCR contractors to provide them with global positioning satellite data for all long-haul routes every 30 minutes. Management could use that data to verify that it has received HCR services. Management appeared to believe that our recommendation was to require a separate invoice for every HCR trip. That was not the intent. Invoices should be received for the monthly services provided by the HCR carriers and should contain sufficient detail to confirm compliance with the terms of the contract. Trip-by-trip detail would most likely not be necessary to meet this criteria.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Management stated in their comments they provided the OIG with documentation to address recommendation 7; however, additional information is required to satisfy the intent of the recommendation. Consequently, the OIG requests written confirmation when corrective action(s) 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 recommendation(s) can be closed.

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

E-Signed by Office of Inspector General
VERIFY authenticity with ApproveIt


For
Mark Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Joseph Corbett
Paula Garner
Albert J. Novack
James Dwight Young
Ann C. Mueller
Russell Sykes
Susan Witt
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The CO is ultimately responsible for assuring the Postal Service has received goods and services and been invoiced in the correct amount before the agency pays an invoice. Postal Service policy allows the CO to delegate this role to a COR; however, the CO maintains responsibility for ensuring that this critical review is properly performed before payment. The Postal Service paid approximately \$5.6 billion in electronic payments from April 1, 2008, to March 31, 2010, for various transportation, utility, and telecommunications contracts. Specifically, these payments include \$4.8 billion in monthly annual rate HCR services managed by the Surface Transportation CMC, approximately \$666 million in utility services, and approximately \$158 million in telecommunication services.

HCR contractors are not required to submit invoices and receive fixed payments every month based on the terms of the contract. Payment adjustments are made after the fact on an exception basis only. Two contractors, Energy United and ProfitLine, processed utility and telecommunication invoices. These companies provide bill payment administration for a myriad of utility and telecommunication bills for the Postal Service.

HCR Electronic Payments

Five COs are responsible for overseeing approximately 13,300 HCR contracts from approximately 330 Postal Service facilities nationwide. In October 2009, Postal Service Headquarters restructured and decreased from eight to five the number of COs responsible for HCR contracts at the District Network Office. These COs now report to the manager, Supply Management Surface Transportation CMC.

The COs establish recurring contract payments by putting the annual rate contracts into the Transportation Contract Support System (TCSS), monitoring annual rate contracts, and forwarding information related to the contracts to the CMC for any necessary contract adjustments. The contractor is not required to submit an invoice and receives a fixed payment every month based on the terms of the contract. Payment adjustments are made after the fact on an exception basis only. COs deduct lump sum payments from contractors' monthly payments when facility administrative officials notify them that contractual obligations were not met. Otherwise, they would not be aware of a contractor's non-performance.

Utility Invoices Electronic Payment

In August 2007, the Postal Service awarded a contract to Energy United to assist with streamlining and centralizing the bill payment process, gathering and capturing utility cost and consumption data, developing databases, billing audits and corrections, and utility data reporting and rate optimization associated with selected Postal Service

facilities. Currently, the contractor pays utility invoices on behalf of the Postal Service for approximately 2,400 Postal Service facilities.

Energy suppliers forward invoices to the contractor via mail or Electronic Data Interchange (EDI). Once received, the contractor manually enters data into the UMS and checks it for accuracy and completeness (for example, the correct account number, amount due, etc.). Upon completion of the data entry process, the contractor forwards an email to designated Postal Service officials for review. The contractor then submits an invoice to the Information Technology/Accounting Service Center (IT/ASC) to receive funds to pay the energy suppliers.

There are no “read receipts” to ensure the designated official reviews the information prior to paying the bill and the official is not required to respond to the email notification unless the invoice charges are incorrect. The time allotted to review utility invoices is 3 to 15 days, depending on the payment due date. The contractor pays the utility invoice without review results from the designated officials.

Telecommunication Invoice Electronic Payments

The Postal Service conducts business with local voice service providers and mobile service providers nationwide. Currently, there are 140,000 Local Area Network lines and approximately 20,000 mobile lines. Prior to June 2006, each facility manager or postmaster was responsible for monitoring his or her local telephone lines, which included reviewing, verifying, and certifying invoices before submitting them to the district office for payment.

Telecommunication invoices for local voice and mobile service are currently processed by ProfitLine, which receives all Postal Service local voice and mobility invoices. Invoices are batched weekly and available online for district IT managers and designated officials at Postal Service Headquarters to review. Officials have 2 days to review the telecommunication invoices; however, the contractor pays the invoices on behalf of the Postal Service regardless of whether the invoice was approved or rejected. The IT/ASC then automatically pays the contractor.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess whether Postal Service officials properly certified electronic payments to ensure the agency received goods and services prior to invoice payment. To accomplish our objective, we:

- Obtained the Postal Service’s universe of electronic payments for monthly annual rate HCR services; utility services for approximately 2,400 postal facilities; and telecommunication services covering April 2008 to March 2010.

- Reconciled HCR payments to the TCSS to identify COs responsible for administering HCR contracts in various Postal Service areas of operations. We also compared the payments to contract end dates to determine if any payments occurred 30 days or more after a contract ended.
- Interviewed Postal Service COs regarding the invoice submission, payment, and certification process associated with automated invoices generated prior to payment.
- Interviewed designated Postal Service officials regarding their roles and responsibilities in reviewing utility and telecommunication invoices.

We obtained electronic payment information from APEX. We did not test the controls of this system; however, we confirmed the accuracy and reasonableness of the data summaries with Postal Service officials. In addition, we reconciled monthly annual rate HCR payments to the TCSS. We found no material differences and determined that the data were sufficiently reliable for the purposes of this report. In addition, we coordinated with OIG audit teams performing financial statement and internal control audits due to the magnitude of payments not appropriately certified by Postal Service officials. We also consulted with OIG criminal investigators on the significant internal control discrepancies in the receipt and payment processes.

We conducted our audit from December 2009 through September 2010 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 that 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 August 30, 2010.

PRIOR AUDIT COVERAGE

Our report titled *The Postal Service's Certification Process for Non-Mail Freight Transportation Invoices* (Report Number CA-AR-09-002, dated February 18, 2009) concluded that Postal Service officials could improve their oversight to ensure that non-mail freight transportation invoices are properly certified and goods and services are received. Management agreed with our finding that Postal Service COs 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. As a result, we classified payments of \$41,916,714 as unrecoverable unsupported questioned costs because significant internal controls were not properly applied to non-mail freight transportation invoices. 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

Certification of HCR Payments

Postal Service officials did not certify approximately \$4.8 billion in automated payments for monthly annual rate highway contract services from April 2008 through March 2010. The COs responsible for these HCR contracts did not validate that all trips were performed prior to automatic payments scheduled in the TCSS and that payments were accurate. HCR contractors are also not required to submit invoices prior to payment, increasing the risk that the Postal Service may make payments for services not rendered.

This occurred because HCR contractors were automatically paid with no assurance that trips were completed and payments were correct. COs stated that there are no Postal Service policies/procedures requiring certification of HCR recurring payments prior to payments actually being made and they do not test the validity of payments. The IT/ASC pays the contractor automatically at the conclusion of each month for which payment is due based on rates the CO establishes in TCSS. The COs we interviewed assumed that when they established rates in the TCSS the payments would be correct. In addition, administrative officials at Postal Service facilities would occasionally notify them when suppliers were not performing their duties. If COs were notified that a contractor did not perform a trip, they would submit a Postal Service Form 7440, Contract Route Service Order, to the IT/ASC for a pay adjustment. However, a negative exception process is not a certification of performance.

The Postal Service generally issues annual-rate HCR contracts for 4-year terms; however, rates and route changes frequently occur during the contract term. COs have to manually change rates in the TCSS. If COs do not make rate changes correctly or timely, the IT/ASC may pay an erroneous rate and have to later make a pay adjustment. A supplier's submission of an invoice to the Postal Service for payment is certification that services have been performed and are being billed in accordance with the contract terms. If a supplier does not submit an invoice for services and a CO does not confirm whether services were rendered before payment, there is no certainty that payments are correct and services were rendered in accordance with the contract. Thus, contractors are not held accountable for meeting contract terms and COs are not verifying that payments are accurate and that services were rendered prior to payment as required in *Supply Principles and Practices*³.

Due to the lack of invoices to support payments to HCR suppliers and the CO not confirming contractor performance prior to payment, we classified \$4,756,098,561 of recurring monthly HCR payments from April 2008 through March 2010 as unsupported

³ Supplying Practices, Process Step 5-11 and 5-12, Measure and Manage Supply, Make Payment Task, state that an invoice amount must be verified and approved before payment. The CO, in conjunction with Finance, must ensure that all payments are made once a legitimate invoice has been processed.

questioned costs⁴. We question unsupported questioned costs because they are not supported by adequate documentation or because employees fail to follow required procedures. The use of the category “unsupported questioned costs” does not necessarily indicate actual loss incurred by the Postal Service.

Certification of Utility Invoices

Postal Service officials did not properly certify \$666,006,255 in utility invoices paid from April 2008 through March 2010. A contractor, Energy United, paid utility invoices on behalf of the Postal Service for nearly 2,400 Postal Service facilities. These invoices were not properly certified because COs did not institute an appropriate certification process. Neither the COs or COR certified invoices. Designated officials were not required to respond to the contractors’ notification of utility invoices unless there were discrepancies.

In addition, Postal Service officials instructed the contractor to pay the utility invoices without certification in order to prevent potential interruption of utility services at facilities and application of late fees. However, based on the contractual agreement with the contractor, the Postal Service would not incur any late fees on utility payments. The net payment terms for the invoices is from 7 to 30 days, which allows the Postal Service sufficient time to receive, review, and certify invoices. Also, payment of the invoices via EDI automates the bill payment process and facilitates a more precise on-time payment structure. Because designated officials were not required to certify the utility invoices paid by the contractor, we classified \$666,006,255 in utility invoices as unsupported unrecoverable questioned costs.

Certification of Telecommunication Invoices

Designated Postal Service officials did not certify \$151,671,852 in telecommunication invoices from April 2008 through March 2010. The contractor, ProfitLine, paid the invoices on behalf of the Postal Service without certification from a CO or COR. In addition, neither the CO nor the designated COR certified \$6,290,981 in invoices submitted by the contractor for its management fees for the period of April 2008 through March 2010. An individual who was not authorized as a COR certified the fees. The CO did not adhere to policy by allowing an individual to certify invoices without a COR delegation letter.

Telecommunication invoices were not properly certified because COs did not institute an appropriate certification process. Neither the COs or COR certified invoices. The contractor used an automated system to process and analyzes invoices against a standard template developed for Postal Service invoices, consolidated them, and sent them via email for officials to review and approve. Officials were instructed to indicate approval or rejection of an invoice. There was also a field for comments related to the

⁴ See [Appendix C](#) for calculation of unrecoverable unsupported questioned costs.

approval or rejection of each invoice, however, the Postal Service always paid the invoices in full regardless of whether they were approved or rejected.

The contractor analyzed each invoice prior to payment to identify any rate or charge anomaly. They automatically identified and flagged exceptions for further review after payment and filed claims for credits, if appropriate. The contractor recovered approximately \$9 million in overpayments of telecommunication invoices through its “pay and chase” process from April 2008 through March 2010. The Postal Service could have potentially avoided some of these overpayments if Postal Service officials had certified invoices prior to payment. In addition, Postal Service officials would be able to catch anomalies not covered by the generic contractor’s analysis.

Because the CO and COR did not certify telecommunication invoices and invoices for management fees prior to payment, we are reporting unsupported unrecoverable questioned costs of \$157,962,833⁵, consisting of \$151,671,852 in telecommunication invoices and \$6,290,981 in contractor management fees from April 2008 through March 2010.

Management Oversight of HCR Payments

Surface Transportation CMC management could not identify the COs responsible for approximately \$1.2 billion in HCR payments identified in the Postal Service’s APEX database. The five COs, that report to the CMC, are assigned to HCR contracts by postal areas of operation. However, there were \$1.2 billion HCR payments in the APEX database that were classified as belonging to various Postal Service program offices other than postal areas of operations, as shown in Table 1 below. CMC management could not answer our inquiries about which COs were responsible for overseeing the contracts related to these payments.

\$1.2 Billion HCR Payments in APEX

Area Name	Amount Paid	Invoices
VP Transportation	\$1,162,978,467	20,268
Intl Transportation	12,086,500	225
VP Expedited Shipping	2,169,882	215
Global Business	934,220	237
Employee Resource Management	509,285	37
Supply Management	394,819	22
Engineering	91,508	26
No Description	22,654	2
	\$1,179,187,335	21,032

⁵ See [Appendix C](#) for calculation of unrecoverable unsupported questioned costs.

In addition, approximately 1,900 HCR payments (valued at \$7.6 million) were paid 31 days or more after the HCR contract end date. More than 56 percent, \$4,307,739, of these payments were classified as belonging to other Postal Service program offices in Table 1 above. Payments fell between 31 and 2,150 days after the contract end date. However, 92 percent of those payments occurred within 1 year of the contract end date. These contracts are paid monthly, with the payment occurring at the beginning of the service month. Payments made more than 30 days after the contract end date are questionable, as there would be no basis for the payment under normal circumstances.

Management provided a description of the payments after our exit conference on August 30, 2010. However, additional information is necessary to support the payments, particularly since the payment occurred after the contract end date. Payments disbursed after the closure of a contract are unauthorized unless another contractual agreement is in effect. We notified our OIG criminal investigators of these payments that occurred after the contract end date. We are reporting \$7,586,085⁶ as recoverable questioned costs due to improper HCR payments made to contractors more than 30 days after contract end dates.

Management Oversight of Utility Invoices

Designated officials were unaware of their roles and responsibilities for receiving and reviewing utility invoices from the contractor. This occurred because no one properly informed them of their responsibilities or trained them to perform them. In addition, contact information in the UMS was inaccurate. Postal Service officials did not ensure information in the system was updated consistently and timely. Because the designated officials were not properly trained and the CO or COR did not ensure that the contractor had accurate contact information, the CO or COR could not ensure that utility invoices forwarded were received and reviewed for accuracy prior to payment.

During April 2009 through January 2010, Postal Service officials erroneously paid utility invoices by at least \$233,000 dollars, including a \$43,000 payment applied to the wrong Postal Service utility account. Postal Service facilities were unaware the contractor paid their invoices and made payments directly to utility companies. During the same time period, there was an additional \$148,000 in refunds to the Postal Service that the CO could not explain. The CO did not adequately analyze and reconcile the refunds received to determine their root cause or whether additional overpayments may have occurred. The contractor received the refunds from the utilities for the Postal Service and forwarded the refunds to the appropriate Postal Service program office. The CO maintained a log of refunds that did not include all refunds received by the program office. We consulted with OIG criminal investigators on this internal control discrepancy. The institution of a reconciliation process could help the Postal Service identify facilities receiving refunds due to rate changes, deposits, and overpayments and trends in refunds that may be relevant to multiple facilities.

⁶ See [Appendix C](#) for calculation of unrecoverable unsupported questioned costs

APPENDIX C: MONETARY IMPACT

Unrecoverable Unsupported Questioned Costs

We classified these costs as unrecoverable unsupported questioned costs due to the significant internal controls not properly applied to certification of electronic payments for HCR services and utility and telecommunication invoices. These amounts are not necessarily actual losses incurred by the Postal Service.

Total Payments for HCR, Utility and Telecommunication Services April 2008 through March 2010 (Q3, FY 2008 – Q2, FY 2010)	
Service	Payments
HCR	\$4,756,098,561
Utility Services	666,006,255
Telecommunication Services	157,962,833
Total	\$5,580,067,649

Telecommunication Invoices and Contractor Management Fee Payments April 2008 through March 2010	
Service/Fee	Payments
Telecommunication Invoices	\$151,671,852
Contractor Management Fees	6,290,981
Total	\$157,962,833

Recoverable Questioned Costs

We questioned these costs because Postal Service officials paid HCR contractors 31 or more days after contract end dates without providing an explanation of payments.

HCR Overpayments April 2008 through March 2010	
Service	Payments
HCR	\$7,586,085

APPENDIX D: MANAGEMENT'S COMMENTS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



September 28, 2010

LUCINE M. WILLIS

SUBJECT: Draft Audit Report Response – Certification Process of Electronic Payments (Report Number CA-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report in which you raise a series of concerns related to the certification process of electronic payments associated with three specific programs within the Postal Service, our highway contract routes, utilities, and telecommunications management. This memorandum is designed to provide specific responses to the recommendations and comment on the findings within the report.

Postal Service's General Conclusion

The OIG's objective for this audit was to "assess whether Postal Service officials properly certified electronic payments to ensure the agency receives goods and services prior to paying the invoice". The three processes that were audited, highway contract routes, utilities, and telecommunications are unique commodity programs where specific procedures were established to improve, streamline and automate the payment process. The various processes that were established for each commodity are practical given the high volume of actions and include sufficient controls to ensure the Postal Service has received and paid for the services requested. Although, we can agree that some controls may require strengthening to ensure compliance, the Postal Service has achieved substantial efficiencies through these streamlined processes by reducing Prompt Payment Act penalties and administrative work hours. Additionally, the expense management firms contracted by the Postal Service review telecommunication and utility bills to ensure vendor billing is accurate, resolve tax charges, review usage and consumption to determine if service charges are outside an acceptable range, and monitor for unauthorized usage.

We do not agree with the monetary impact of \$5.6 billion of unsupported questioned costs. The majority of the monetary impact associated with each program is based upon the premise that an invoice must be submitted by a supplier and that a person(s) who is a contracting officer or designated contracting officer representative is the only person who has the authority to certify an invoice. Our policies (Clause B-74 Payment (Highway)) relating to highway contracting specifically state that suppliers are to be paid automatically at the conclusion of each accounting period and that they are not required to submit an invoice. This long-established policy has been in place with the industry for decades. Additionally, our policies provide contracting officers with flexibility to negotiate alternate payment procedures to satisfy unique business requirements. Such is the case for utilities and telecommunications where the Postal Service has contracted with suppliers to perform audits and reviews of submitted invoices to ensure the Postal Service has received and paid for the appropriate services requested. The payment procedures for

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

telecommunications and utilities were vetted through our Finance organization. Our policies also state that invoices must be sent to and approved by a specified office as designated within the contract. It does not require that a contracting officer be the only person that must approve or certify an invoice, or that a contracting officer representative must be assigned to perform that function, but allows for the specified office to determine the appropriate responsibility and required resources to accomplish that task. Within these three programs, reviewers approve payments, decline payments or identify exceptions to payments for the purpose of ensuring the Postal Service has received and paid for the appropriate goods and services requested.

The OIG's report identified eight recommendations. They are provided below along with management's responses.

We recommend the vice president, Supply Management:

Recommendation 1: Develop an oversight mechanism to monitor and ensure contracting officers' and/or designated officials' receipt and certification of invoices.

Management Response Recommendation 1: Within our policies, oversight mechanisms exist to ensure that payment processes are planned and adequate controls are established for those payments. This is done initially during the establishment of the Purchasing/Supply Chain Management (SCM) Team and the review and approval of purchase plans and contract awards. The Contracting Officer, in conjunction with the Program Office, assesses resources for the purchase, defines activities including guidance and procedural documentation, administers the contract, and ultimately closes out the contract. In FY 2011 the Postal Service will conduct a compliance review of invoice receipt and certification. Such review will be based on a sample of contracts from each Portfolio that require invoice submission and certification.

Recommendation 2: Reiterate to contracting officers and/or their designees their roles and responsibilities; and the importance of following Postal Service criteria, policies, and procedures for certifying invoices prior to payment to ensure that invoices are correct and goods and services were received.

Management Response Recommendation 2: We agree with this recommendation and will communicate our payment process guidelines regarding receipt, verification and approval of invoices for those contracts that require invoice submission and certification. Our target for completing this activity is March 2011. Please note that the review and approving guidance on telephone bills was communicated in the September 23, 2010 Postal Bulletin.

We recommend the vice president, Supply Management; direct the manager, Transportation Portfolio, to:

Recommendation 3: Develop and implement written procedures for receiving invoices for annual highway contract route services and verifying that services were rendered prior to payment.

Management Response Recommendation 3: The Postal Service has in place a streamlined payment process for HCR contracts and a system to automatically pay HCR suppliers at contracted rates. We have established controls requiring on-site Administrative Officials to document any non-compliance for payment adjustments. These procedures are comparable to best in class supply chain practices and are documented in the following publications (Postal Operating Manual – Chapter 5, Contract Award Notice to Administrative Official, Handbook 501 – *Highway Contract Route Administration* (to be revised and republished), and Handbook SP-1 – *Contract Delivery Services*).

As we understand the OIG's recommendation, our estimated 15,000 HCR suppliers would be required to submit an itemized invoice requesting payment for each trip operated on a monthly basis. In turn, the Postal Service would be required to re-verify and approve for payment each

trip operated. Based on our analysis, the Postal Service operates approximately 96,000 trips per day resulting in approximately 23,000,000 trips per year. That would require a review of approximately 180,000 invoices and to re-certify the itemization of approximately 23,000,000 trips per year.¹ The magnitude of this invoicing effort and the need for a time-definite review would require an unsubstantiated amount of added work and potential cost for the Postal Service and for its suppliers with little added benefit.

Currently, verification of services received is performed at the local level through Administrative Officials at Postal Service facilities on a daily basis. All Postal facilities use one of the following methods to record daily transportation operations:

- Hard copy Postal Service Form 5398: this is a schedule of all the trips that are planned to be dispatched and or received at the facility within the eight hour period. This document is an exact match to the planned contracted service for the day.
- Surface Visibility System: this is an electronic version of the Form 5398 and is available at most of our larger mail processing facilities.
- Transportation Information Management Electronic System (TIMES): this is an electronic version of the Form 5398 and is available at most of our medium and smaller facilities.
- Postal Service Form 5399: this is used at our small facilities (down line post offices and delivery units) to record inbound and outbound transportation activity.

During normal mail processing operations postal facilities receive and dispatch trucks, and this activity is recorded in one of the forms referenced above. These are for planned trips and completion of those forms confirms that the supplier assigned to that route has provided the contracted services. At the end of each tour, assigned local employees review the appropriate document for that facility to ensure that all trips (inbound/outbound) have arrived or been dispatched. Where the service has been performed, no further action is required and the supplier is paid as part of the regular monthly payment. If a trip is missed and cannot be accounted for, local personnel will issue the supplier a route irregularity (Postal Service Form 5500) with copies to the supplier, Administrative Official, and is retained in the local contract file. In turn, the Administrative Official will send a request to the contracting officer to deduct a specific amount from the supplier's next check for omitted service and the contracting officer makes the required adjustment.

We agree to explore opportunities in coordination with Network Operations that will strengthen controls on the above process by examining solutions that could potentially automate or enhance our current procedures. However, these opportunities are subject to development of an acceptable solution and obtaining the necessary funding. We anticipate a strategy to be formulated by Quarter 3, FY2011.

Recommendation 4: Identify contracting officers and notify them to oversee and administer all HCR payments in the Postal Service Accounts Payable Excellence (APEX) System.

Management Response Recommendation 4: There was some confusion as to what was being requested during the auditing period. Management of HCR contracts is completed through the TCSS which interfaces with the APEX system for the purpose of making payments. We are in the process of re-reviewing the OIG's request for determining and matching the responsible contracting officer to the \$1.2 billion in HCR payments made in the Postal Service's APEX database, and agree to provide a list of all the contracting officers and routes for which they are responsible by October 30, 2010.

Recommendation 5: Review the \$7.6 million in payments made more than 30 days after contract end dates, ensure that payments were properly supported, and collect overpayments.

¹ Since our supplier base and trip operation varies daily (some trips operate seven days per week and others operate less frequently) the data provided was pulled from TCSS on September 21, 2010 for the trips running that day. This data can be provided upon request.

Management Response Recommendation 5: We agree with this recommendation. We have completed our initial review of these contract payments and they appear to be valid. The top reasons these payments were issued is due in part to requests for equitable adjustments for emergency service; lump sum transactions for various activities associated with postal caused delay; additional services performed; under payment due to changes in service; fuel adjustments; late invoicing by the supplier for services performed during PEAK holiday season; other equitable adjustments; and claims. We will complete our review and provide you with a summary of our analysis of these payments by October 30, 2010.

We recommend the vice president, Supply Management, direct the manager, Facilities Portfolio, to:

Recommendation 6: Provide detailed, consistent training for all designated officials on their roles and responsibilities and usage of the Utility Management System.

Management Response Recommendation 6: We agree with this recommendation and will coordinate with the program office to facilitate any training or communications that would be required to ensure consistent training by February 2010.

Recommendation 7: Regularly reconcile payments made for utility services to identify and collect overpayments.

Management Response Recommendation 7: We agree with the intent of this recommendation and we currently have methods in place to reconcile payments and identify and collect overpayments. Documentation on these methods was provided to the OIG auditors on September 2, 2010. If the OIG believes gaps remain in our process we will explore the feasibility, costs, and best method of implementing an enhanced solution.

Recommendation 8: Ensure that the designated official contact information in the Utility Management System is accurate and that the system requires positive certification by the designated official before invoice payment.

Management Response Recommendation 8: We agree to: 1) coordinate with the program office to establish periodic interval reviews of designated official contact information. The first review is currently being performed by UMS Program Administrators under the direction of the program office. Anticipated completion date is December 2010; and, 2) explore the feasibility, costs, and best method of implementing a solution to positive certification. This assessment will be completed by March 2011.

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
 Paula Garner
 Albert J. Novack
 James Dwight Young
 David Williams
 Sam Pulcrano
 Ross Philo
 Corporate Audit and Response Management