



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Contract Funding Approval

Audit Report

August 24, 2011

Report Number CA-AR-11-005



HIGHLIGHTS

August 24, 2011

Contract Funding Approval

Report Number CA-AR-11-005

IMPACT ON:

This audit will impact the U.S. Postal Service's purchasing policies and its compliance with Sarbanes-Oxley (SOX) requirements.

WHY THE OIG DID THE AUDIT:

Our objective was to evaluate the Postal Service's contract funding approval process and validate whether the contract funding was properly approved before the Postal Service entered in a contractual agreement. Specifically, we determined whether contracting officials obtained requisitions through the eBuy system to validate contract funding approvals.

WHAT THE OIG FOUND:

Postal Service officials generally submitted eBuy requisitions to validate the funding approval process before entering contractual agreements during fiscal years 2008 and 2009. However, we found that Postal Service officials did not submit and approve eBuy requisitions for 16 of 143 (11 percent) randomly selected contracting actions totaling over \$600 million before making contractual commitments. Proper authorization to fund contracts aids in complying with SOX requirements and controls over the Postal Service purchases to prevent fraud.

WHAT THE OIG RECOMMENDED:

The U.S. Postal Service Office of Inspector General (OIG) recommended

that the Postal Service direct program office officials to submit eBuy requisitions for contract funding approval for transportation contracts within the Contracting Authoring Management System before making contractual commitments. In addition, we recommend that Supply Management, Network Operations Logistics and International Operations establish an agreement to ensure an approved eBuy requisition for surface transportation contracts is obtained as required.

WHAT MANAGEMENT SAID

Management agreed with all findings, recommendations and monetary impact. They stated although purchase plans described the funding requirements for these contractual commitments, and approval indicated funding was available; they have agreed to ensure authorized funding for transportation requirements are, at a minimum, generated and approved through a requisition on a fiscal year basis.

AUDITORS' COMMENT:

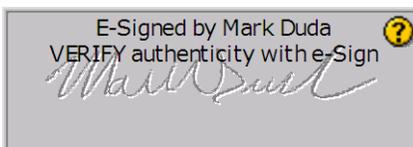
The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)



August 24, 2011

MEMORANDUM FOR: CYNTHIA F. MALLONEE, MANAGER, LOGISTICS
MARY J. MAHNKE, ACTING EXECUTIVE DIRECTOR,
INTERNATIONAL OPERATIONS
SUSAN M. BROWNELL, VICE PRESIDENT, SUPPLY
MANAGEMENT



FROM: Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Contract Funding Approval
(Report Number CA-AR-11-005)

This report presents the results of our audit of Contract Funding Approval (Project Number 11YG021CA000).

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.

Attachments

cc: David E. Williams
Giselle E. Valera
Joseph Corbett
Leonard W. Kilburn
Cheryl D. Martin
J. Dwight Young
Karen A. Pompanella
Royale A. Ledbetter
Douglas P. Glair
Trent K. Ensley
Susan A. Witt
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction	1
Conclusion	1
Contracting Actions Without an eBuy Requisition	1
Recommendations	4
Management's Comments	5
Evaluation of Management's Comments.....	5
Appendix A: Additional Information	6
Background	6
Objective, Scope, and Methodology	6
Prior Audit Coverage	8
Appendix B: Monetary Impact	9
Appendix C: Contracting Actions Without an eBuy Requisition during FYs 2008 and 2009	10
Appendix D: Management's Comments.....	11

Introduction

This report presents the results of our audit of Contract Funding Approval (Project Number 11YG021CA000). This self-initiated audit addresses financial risk. Our objective was to evaluate the U.S. Postal Service's contract funding approval process and validate whether contracts were properly approved before the Postal Service entered into a contractual agreement. Specifically, we determined whether contracting officials obtained requisitions through the eBuy system to validate contract funding approvals. See [Appendix A](#) for additional information about this audit.

In fiscal years (FYs) 2008 and 2009, the Postal Service maintained approximately 23,205 active contracting actions valued at \$5.9 billion in the Contracting Authoring Management System (CAMS). The goods and services requisitioned for contracting actions are to be submitted via eBuy, a Postal Service electronic tool. eBuy is the preferred Postal Service method for order placement and is intended to streamline purchasing processes and deliver significant cost savings through web-based, self-servicing requisitioning. eBuy also provides employees with web access to a fully integrated electronic requisitioning, approval workflow, invoice certification, and reconciliation report process. Effective January 11, 2003, all employees who have web access must use eBuy for all requisitions¹.

Conclusion

Postal Service officials generally submitted eBuy requisitions to validate the funding approval process before entering contractual agreements during FYs 2008 and 2009. However, officials did not submit eBuy requisitions for 16 of 143² (11 percent) randomly selected contracting actions, totaling more than \$600 million, before making a contractual commitment or incurring potential liabilities. Without funding approval documentation, contracting officers (CO) are at risk, because they have not received the authorization to spend program office funds. Furthermore, the Postal Service might not have the funds necessary to pay its obligations, or it might be obligated to pay for a contractual commitment that was not management's intent. Proper authorization to fund contracts also aids in complying with Sarbanes-Oxley (SOX) requirements and controls over the Postal Service purchases to prevent fraud.

Contracting Actions Without an eBuy Requisition

Postal Service officials did not submit eBuy requisitions before making contractual commitments for 16 of 143 (11 percent) randomly selected contracting actions during

¹ Mandatory Use of eBuy memorandum, December 23, 2002.

² We randomly selected 143 contracting actions from CAMS within six Supply Management portfolios. We identified 16 contracting actions that did not have eBuy requisitions.

FYs 2008 and 2009. Specifically, International Operations (INO)³ officials did not submit a requisition for one air transportation contract, valued at \$390,508,219. Further, Surface Operations⁴ officials did not submit requisitions for two surface transportation contracts, valued at \$15,179,902. Commercial Air Operations⁵ did not submit requisitions to fully fund \$195,700,098 for 13 air transportation contracts. See Table 1 for the number of contracting actions without an eBuy requisition.

Table 1: FYs 2008 and 2009 Contractual Actions Without an eBuy Requisition		
	Number of Contracting Actions	Total Unsupported Contracting Actions
International Operations	1	\$390,508,219
Surface Operations	2	15,179,902
Commercial Air Operations	13	195,700,098
Total	16	\$601,388,219

In December 2002, Deputy Postmaster General Patrick Donahoe⁶ issued a memorandum stating that, effective January 11, 2003, all employees who have web access must use eBuy for all requisitions. He reiterated the same in a memorandum dated December 19, 2007. Further policy denotes that a CO must ensure that sufficient funding has been approved before making a contractual commitment or incurring potential liabilities for the Postal Service⁷. Furthermore, the CO or persons with requisite authority must verify that the contract is appropriately funded as indicated by an eBuy approval notification⁸.

The current INO officials stated they inherited the contracting action without an eBuy requisition when management transitioned, and they could not provide a reason as to why a requisition was not submitted. Surface Operations and Commercial Air Operations officials told us that their focus was on mail operations and moving the mail, not submitting eBuis.

³ INO, a component of the Postal Service Global Business, is responsible for providing truly universal service worldwide. INO arranges transportation with airlines and ocean carriers, monitors suppliers, and works with other postal organizations worldwide to resolve problems and enhance and improve services.

⁴ Surface Operations, a component of the Postal Service Network Operations, is responsible for the administration of the national surface transportation network by establishing policies related to fleet operations, highway contact service, and rail transportation.

⁵ Commercial Air Operations, a component of the Postal Service Network Operations, is responsible for developing the commercial air transportation network that is used by the Postal Service to transport First-Class™, Priority, and Express Mail® products.

⁶ Mr. Donahoe is the current postmaster general.

⁷ *Supply Management Transportation Portfolio Administrative Instruction* (SMTP-2005-001, dated April 7, 2005).

⁸ USPS .211.CA004 Key Control - Air Transportation

In April 2005, the manager of Supply Management Transportation Portfolio (SMTP) issued an administrative instruction with concurrence from Network Operations and INO management. The instructions defined the responsibilities and processes in awarding or renewing contracts. Network Operations and INO are responsible for providing funding approval and submitting funding documents in the eBuy system. SMTP should be consulted for information necessary to form a reasonable funding estimate. COs must ensure that sufficient funding certification has been received before making a contractual commitment for the Postal Service.

In August 2009, current Supply Management Air Transportation contracting officials and Network Operations officials reiterated the SMTP 2005 agreement and revised the agreement to accommodate annual eBuy submissions to be in alignment with the budget for air transportation contracts. The current officials agreed that at the beginning of the fiscal year, Network Operations will assign its budget to the various types/modes of transportation and will generate and approve an eBuy requisition for each type/mode of transportation to authorize funding for the fiscal year. Supply Management will assign contracts to each eBuy requisition and will copy the eBuy for each of the assigned contract files. In FY 2010, INO contracting officials submitted eBuy requisitions for subsequent air transportation contract renewals. Commercial Air Operations officials as well submitted a bulk funding requisition for subsequent air transportation contracting actions. However, the Transportation Portfolio had not established an agreement with Network Operations or INO defining how eBuy requisitions will be submitted for surface transportation contracting actions.

Supply Management Infrastructure and Supply Chain Management Strategies officials stated that while an approved eBuy is currently required by policy, they believe that it may be more beneficial to rely on the approved purchase plan signatures for authorization in the future. One concern about this approach is that the purchase plan process does not include a member from the budget office to ensure that funds are available and the purchase plan may not always be signed by the program official with appropriate authorization authority. Furthermore, the Postal Service might not have the funds necessary to pay its obligations, or it might be obligated to pay for a contractual commitment that was not management's intent. Finally, proper authorization to fund contracts aids in complying with SOX requirements and controls over the Postal Service purchases to prevent fraud.

Because officials did not obtain eBuy requisitions to validate contract funding, we classified the value of these 16 contracting actions, \$601,388,219, as unsupported questioned costs. We questioned these contract values, because they are not supported by adequate documentation for contract funding and 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.

Recommendations

We recommend the manager, Logistics, and acting executive director, International Operations:

1. Direct program office officials to submit eBuy requisitions for contract funding approval for transportation contracts within Contract Authoring Management System prior to contractual commitments.

We recommend the vice president, Supply Management:

2. Establish an agreement with Network Operations and International Operations to ensure approved eBuy requisitions for surface transportation contracts is obtained as required.

Management's Comments

Management agreed with all findings, recommendations, and monetary impact associated with the 16 transportation contracts where funding was not provided before award. Management also stated although purchase plans described the funding requirements for these contractual commitments, and approval indicated funding was available; they have agreed to ensure authorized funding for transportation requirements are, at a minimum, generated and approved through a requisition on a fiscal year basis. 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 corrective actions should resolve the issues identified in the report.

Management agreed to ensure that authorized funding for transportation requirements are at least generated and approved through a requisition on a fiscal year basis. But, management still considers the purchase plan adequate to authorize funding, because it describes the funding requirements and indicates approval that funding is available. However, as stated in the report, we do not agree that the purchase plan is adequate, because the purchase plan does not include a member from the budget office to ensure that funds are available. Further, the purchase plan may not always be signed by the program official with appropriate authorization authority.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. 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.

Appendix A: Additional Information

Background

For FYs 2008 and 2009, the Postal Service maintained approximately 23,205 active contracting actions, valued at \$5.9 billion, in CAMS. The goods and services requisitioned for these contracting actions were to be submitted via eBuy, a Postal Service electronic tool. eBuy is the preferred Postal Service method for order placement. eBuy is intended to streamline purchasing processes and deliver significant cost savings through web-based, self-servicing requisitioning. eBuy provides employees with web access to a fully integrated electronic requisitioning, approval workflow, invoice certification, and reconciliation report process. Effective January 11, 2003, all employees who have web access must use eBuy for all requisitions.

On April 7, 2005, the SMTP established a set of guidelines to add structure to the business relationship between SMTP, INO, and Network Operations management (NOM). According to the guidelines, before awarding a contract, contracting officials work with INO and NOM through a purchasing team⁹ to discuss the proposed purchase. It is the responsibility of SMTP personnel to ensure timely, responsive, and effective support in awarding or renewing contracts for services. INO and NOM are responsible for providing funding approval in which SMTP should be consulted to form a reasonable funding estimate.

INO and NOM initiate the eBuy2¹⁰ requisition¹¹ process. A funding document, also known as a requisition, is submitted via the eBuy2 system using the 'off-catalog'¹² procedure. The eBuy2 approval chain is predetermined in the system, and the approvers consist of program, contracting, and budget officials.

After approval of the requisition, the eBuy2 system routes the requisition to Supply Management for the execution of the contract. A CO must ensure that sufficient funding certification has been received before making a contractual commitment or incurring potential liabilities for the Postal Service, (such as a purchase, modification, or renewal) requiring additional funds.

Objective, Scope, and Methodology

Our objective was to evaluate the Postal Service's contract funding approval process and validate whether contract funding was properly approved before the Postal Service entered a contractual agreement. Specifically, we determined whether contracting

⁹ Purchase team consists of individuals from SMTP and NOM that work together to develop an individual purchasing plan that discusses the main factors affecting the purchase such as market conditions, availability of competition, and anticipated cost based on the statement of work.

¹⁰ eBuy2 is the preferred Postal Service method for order placement. All Postal Service personnel with Internet access must use eBuy2 for all requisitions.

¹¹ A requisition is an internal request for equipment and supply items across commodities.

¹² Off-catalog refers to creating a requisition for products or services not offered on-catalog.

officials obtained requisitions through the eBuy system to validate contract funding approvals.

To accomplish our objective, we randomly selected a sample of 143 contracting actions, valued at approximately \$2.1 billion, from approximately 23,205 active contracting actions maintained in CAMS. We reviewed the *Supplying Principles and Practices*, SMTP Administrative Instructions, and eBuy guidelines. In addition, we interviewed Supply Management officials, COs, Postal Service program offices to determine the eBuy requisition process.

We conducted this performance audit from March through August 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe 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 on July 6, 2011, and included their comments where appropriate.

We assessed the reliability of CAMS data by validating the sample data obtained from CAMS to supporting documentation in the contract files. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<p><i>Fiscal Year 2010 Postal Service Financial Statements Audit - St. Louis Information Technology and Accounting Service Center</i></p>	<p>FT-AR-11-009</p>	<p>3/31/2011</p>	<p>\$39,797,030</p>	<p>CO approved one air transportation contract within the Logistics Contract Management System without verifying the eBuy requisition had been properly approved and funded as required. Because of management's continuing efforts and improvements, we did not make recommendations. As a result, management chose not to respond formally to this report.</p>

Appendix B: Monetary Impact

Finding	Impact Category	Amount
Contracting Actions Without an eBuy Requisition	Unsupported Questioned Costs ¹³	\$601,388,219

Postal Service officials did not submit eBuy requisitions for 16 of 143 contracting actions before making a contractual commitment or incurring potential liabilities. Proper authorization to fund contracts aids in complying with SOX requirements and controls over the Postal Service purchases to prevent fraud. Because officials did not obtain eBuy requisitions to validate contract funding, we classify the value of these 16 contracting actions, \$601,388,219 as unsupported questioned costs. [Appendix C](#) illustrates the 16 contracting actions without an eBuy requisition.

¹³ We questioned these costs, because Postal Service officials did not ensure an eBuy requisition was received before making a contractual commitment or incurring potential liabilities. These amounts are not necessarily losses incurred by the Postal Service.

Appendix C: Contracting Actions Without an eBuy Requisition during FYs 2008 and 2009

Category Management Center	Contract Number	Committed (Action) Amount	FY 2008 eBuy (Requisition) Amount	Unsupported Questioned Costs (partial and/or no requisition)
Bulk eBuy Submitted for FY 2008			(\$103,000,000)	
Air Transportation	SNET-08-IAS	\$ 25,102,687		
Air Transportation	SNET-08-MFE	32,172,602		
Air Transportation	SNET-08-MAS	13,912,152		
Air Transportation	SNET-08-MAS	15,073,743		
Air Transportation	SNET-08-WFS	36,613,111		
Air Transportation	SNET-08-CFI	13,805,228		
Air Transportation	SNET-08-EZT	41,143,128		
Air Transportation	SNET-08-CFI	14,974,265		
Air Transportation	SNET-08-GLS	1,272,466		
Air Transportation	SNET-08-QAS	8,336,674		
Air Transportation	SNET-08-MFE	43,795,920		
Air Transportation	SNET-08-UPS	2,169,646		
AIR TRANSPORTATION SUBTOTAL		\$ 248,371,622	(\$103,000,000)	\$145,371,622
Global Air Acquisition	5AAIMT-06-B-0007	390,508,219	-	390,508,219
Commercial Air Transportation	AMOT-2003-08-CO-MICRONESI	50,328,476	-	50,328,476
Surface Transportation	5BSMTR-09-B-0016	1,457,870	-	1,457,870
Surface Transportation	5BSMTR-09-B-0012	13,722,032	-	13,722,032
SUBTOTAL		\$456,016,597	\$0.00	\$456,016,597
TOTAL UNSUPPORTED QUESTIONED COST				\$601,388,219

Appendix D: Management's Comments



August 15, 2011

SHIRIAN HOLLAND

SUBJECT: Draft Audit Report – Contract Funding Approval
(Report Number CA-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We agree with the findings and monetary impact associated with the 16 transportation contracts where funding was inadvertently not provided prior to award. Although purchase plans described the funding requirements for these contractual commitments, and approval indicated funding was available; we have agreed to ensure authorized funding for transportation requirements are, at a minimum, generated and approved through a requisition on a fiscal year basis.

AUDIT RECOMMENDATIONS

We recommend the Manager, Logistics and Executive Director International Operations:

Recommendation 1. Direct program office officials to submit eBuy requisitions for contract funding approval for transportation contracts within Contract Authoring Management System (CAMS) prior to contractual commitments.

Management Response/Action Plan: We agree to establish eBuy requests for surface and air transportation contractual requirements to be awarded in CAMS. These will be processed in accordance with an agreement to be jointly established with Supply Management. The agreement will be communicated to the program office officials responsible for approving transportation funding.

Target Implementation Date: October 2011.

Responsible Official: Manager, Logistics and Executive Director International Operations in coordination with Supply Management.

We recommend the Vice President, Supply Management:

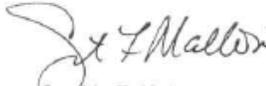
Recommendation 2. Establish an agreement with Network Operations and International Operations to ensure approved eBuy requisitions for surface transportation contracts are obtained as required.

Management Response/Action Plan: As discussed and agreed to during the exit conference, we plan to implement an agreement with Network Operations and International Operations for surface and air transportation requirements to be awarded in CAMS. This agreement will require a bulk funded requisition to be established at the beginning of each fiscal year. These funds will be tracked against spend to ensure that additional funds are provided when required.

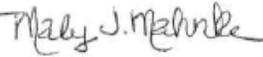
Target Implementation Date: October 2011.

Responsible Official: Manager, Logistics and Executive Director International Operations in coordination with Manager, Budget Initiatives.

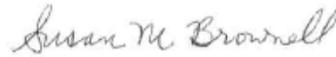
We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at 202 268-4833.



Cynthia F. Mallonee
Manager, Logistics



Mary J. Mahnke
Acting Executive Director
International Operations



Susan M. Brownell
Vice President
Supply Management

- cc: David Williams
Giselle Valera
Joseph Corbett
Leonard Kilburn
Cheryl Martin
Dwight Young
Karen Pompanella
Royale Ledbetter
Douglas Glair
Trent Ensley
Susan Witt
Corporate Audit and Response Management