



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

Contract Postal Units Contract Oversight Audit Report

September 30, 2011

Report Number CA-AR-11-007



HIGHLIGHTS

IMPACT ON:

The audit will impact oversight of Contract Postal Units (CPUs) nationwide.

WHY THE OIG DID THE AUDIT:

Our audit objective was to evaluate U.S. Postal Service oversight of CPU contracts, primarily oversight provided by the contracting officer (CO) in assigning and overseeing contracting officer's representative (COR) duties. Our audit focused on how the CO ensures that CORs are validating and certifying payments for CPU services.

WHAT THE OIG FOUND:

The Postal Service must improve oversight of CPU contracts to ensure it is billed appropriately and services are received in accordance with contract terms. Specifically, Postal Service contracting officials did not certify about \$163 million in payments to CPUs during fiscal years 2009 and 2010. In addition, CORs did not perform all assigned duties and responsibilities as required based on contract administrative files reviewed. Finally, CORs did not always perform financial audits of CPUs as required.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Supply Management, modify CPU

contracts to include clauses identifying the submission of revenue data as an official invoice from the contractor and create a process that ensures the CO or COR validate and certify invoices prior to payment. In addition, we recommended mandatory training to ensure all CORs receive training within 2 weeks of notification of appointment; and development of an oversight mechanism to monitor whether CORs conduct quarterly performance and annual financial reviews, obtain completed appointment letters, and retain contracts in the administrative files.

WHAT MANAGEMENT SAID:

Management disagreed with the recommendations to require and certify invoices and the associated monetary impact. Management agreed to the recommendations regarding providing training and oversight.

AUDITORS' COMMENTS:

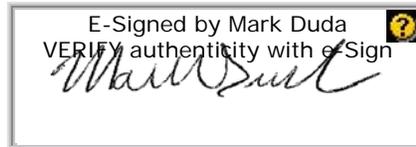
The OIG will work with the Postal Service through the resolution process regarding the recommendations on requiring and certifying invoices.

[Link to review the entire report](#)



September 30, 2011

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



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

SUBJECT: Draft Audit Report – Contract Postal Units Contract
Oversight (Report Number CA-AR-11-007)

This report presents the results of our audit of the Contract Postal Units Contract Oversight (Project Number 11YG015CA000).

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.

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TABLE OF CONTENTS

Introduction	1
Conclusion	1
Invoice Certification	1
Assigned Duties and Responsibilities.....	3
Annual Financial Audits.....	5
Recommendations	6
Management’s Comments	6
Evaluation of Management’s Comments.....	7
Appendix A: Additional Information	9
Background	9
Objective, Scope, and Methodology	9
Prior Audit Coverage	11
Appendix B: Monetary Impact	13
Appendix C: Summary of Duties not Performed by COR.....	14
Appendix D: Management’s Comments	15

Introduction

This report presents the results of our audit of Contract Postal Units' (CPU) contract oversight (Project Number 11YG015CA000). Our audit objective was to evaluate U.S. Postal Service oversight of CPU contracts, primarily the oversight provided by the contracting officer (CO) in assigning and overseeing contracting officer's representative (COR) duties. Our focus was on how the CO ensures that CORs are appropriately validating and certifying payments for CPU services. This self-initiated audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

A CPU is a supplier-owned or supplier-leased facility (operated by the supplier) under contract to the Postal Service to provide postal services to the public. Currently, there are 4,665 CPUs across the U.S. The Postal Service electronically paid about \$163 million to CPUs from October 1, 2008, to September 30, 2010.

The CO is responsible for ensuring the Postal Service has received goods and services and invoices are correct before payment. Validation and certification of invoices performed by the CO prior to payment is standard practice within the federal government. Postal Service policy allows the CO to delegate this role to a COR. However, the CO maintains responsibility to ensure critical reviews of invoices are performed before payment.

Conclusion

The Postal Service must improve oversight of CPU contracts to ensure it is billed appropriately and services are received in accordance with contract terms. Specifically, Postal Service contracting officials did not certify any of the about \$163 million in payments to CPUs during fiscal years (FYs) 2009 and 2010. In addition, CORs did not perform all assigned duties and responsibilities as required based on contract administrative files reviewed. Finally, CORs did not always perform financial audits of CPUs as required. The proper review and certification of contract payments and appropriate oversight of these contracts is critical, particularly when the Postal Service is moving to a village post office concept that will expand the use of CPUs.

Invoice Certification

Postal Service contracting officials did not certify about \$163 million in payments made to CPUs during FYs 2009 and 2010 as shown in Table 1. The Postal Service paid CPUs automatically every month without a CO or COR certifying the invoices. The CO stated that invoices are not validated or certified prior to payment.

Table 1: Summary of CPU Payments

Fiscal Year	CPU Payments
2009	\$81,999,971
2010	80,687,771
Total	\$162,687,742

Source: CPUT system

The Postal Service does not require the contractor to submit an invoice, but relies on a system called Contract Postal Unit Technology¹ (CPUT) to generate invoices based on sales transactions. CPU contractors with performance based contracts are paid based on sales volume. However, CPU contractors with fixed price contracts are automatically paid a flat monthly fee. The CO or COR were not required to review or sign the CPUT-generated invoices prior to payment. The CPU program manager stated that the prior system² required the CO to manually certify invoices prior to payment. The Postal Service determined that it could achieve greater efficiency by automating the CPU process by eliminating the certification and validation of invoices in the new system. The program manager further stated that they rely on CPUT for the accuracy of payments; therefore, no certification is necessary.

Postal Service policies and procedures require contracting officials to validate and certify invoices prior to payment³. This is a critical control to ensure payment is made only for services rendered. In addition, CPU contracts require compliance with the Prompt Payment Act⁴ and contain language that invoices should be certified prior to payment.

Other institutions that developed an automated system similar to CPUT for processing invoices included a method for the CO or delegated official to validate and certify invoices prior to payment. For example, the state of Idaho has an automated invoice payment process that allows the CO or designated official to validate and certify invoices prior to electronic payment. The Idaho system allows approval of one or more invoices at the same time. In addition, the Defense Financial Accounting Service has a system that receives invoices electronically and the CO validates and certifies invoices electronically prior to payment.

Since CPU contractors do not submit invoices and CPUT automatically generates invoices, there is a risk that the Postal Service could pay a contractor after a contract is closed or before services are rendered. One contractor continued to receive \$12,833 in payments from March 2010 to March 2011, 1 year after the contract ended. This

¹ CPUT, which became effective in FY 2003, is a web-based application which captures and transmits accounting data from retailer and supplier CPU locations.

² The prior system was called Contract Partner's Payment System.

³ Management Instruction (MI) 610-2000-2, dated March 7, 2000, requires invoices to be reviewed, dated, and signed by an approving official prior to payment. *Supplying Principles & Practices*, Process Step 5-11 and 5-12, Measure and Manage Supply, Make Payment Task, states 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.

⁴ Prompt Payment Act: 31 USC 3903 and CFR 1315.

occurred because the Postal Service continued to make fixed fee monthly payments after the contractor ceased operations. District officials recovered these payments. Payments to CPUs after contract termination represent a significant internal control weakness. Also, payments made to terminated contracts can occur because the CO or COR does not validate invoices generated in CPUT. If the CO or COR validated and certified invoices prior to payment, the Postal Service could avoid paying CPUs when the contract has been terminated. There is also a risk of making improper payments when contracts are modified or when all services contracted for have not been received.

We consider \$162,687,742 in payments that occurred during FYs 2009 and 2010 as unsupported questioned costs due to significant internal controls not properly applied to the certification of automated payments to CPUs⁵. See [Appendix B](#).

Assigned Duties and Responsibilities

CORs did not perform all appointed duties and responsibilities for CPUs as required⁶. Of the 188 randomly selected FYs 2009 and 2010 contract administrative files reviewed, 176 (or 94 percent) of the files contained discrepancies⁷. See [Appendix C](#) for more details by Postal Service area of operation. Seventy-one percent of the files contained two or more discrepancies, as shown in Table 2.

Table 2. Contract Administrative Files with Discrepancies

Number of Discrepancies	Number of Files with Number of Discrepancies	Cumulative Percentage
0	12	100%
1	43	94%
2	74	71%
3	38	58%
4	17	11%
5	4	2%
Total	188	

Specifically, the CO and CORs did not perform all assigned duties and responsibilities as required based on contract administrative files reviewed. The CO did not consistently sign appointment letters. CORs did not properly complete their titles and sign the letters. Some CORs did not conduct all quarterly reviews and, in addition, Postal Service employees other than the COR completed and signed quarterly review forms. Further, CORs did not retain copies of the contract or appointment letters in administrative files.

- **Incomplete COR Letters:** Of the 176 files with discrepancies, 144 had incomplete appointment letters. The CO did not sign 127 of those 144 (or about 89 percent).

⁵These 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 the Postal Service incurred.

⁶ Publication 156, *Postal Service Employees Guide to Contract Postal Units*.

⁷ We projected that 4,464 (or 96 percent) of all Postal Service CORs overseeing CPUs did not perform all of their duties and responsibilities.

Some CORs stated that they received instructions from the CO to return their letter with their signature and they did not receive a letter with the CO signature. The Denver Category Management Center issued instructions in April 2011 that all letters issued after June 2009 must contain a CO and COR signature. Of the remaining 17 letters, the COR's title was not properly completed or the COR did not sign the form.

- **Quarterly Reviews Done by Others:** Postal Service employees other than the COR completed and signed quarterly review forms for 88 of the 176 files. The COR must sign the quarterly review form and cannot delegate this responsibility to another employee. Some CORs were new to their position and unaware they should not re-delegate their responsibilities.
- **Quarterly Reviews Not Done:** The CORs did not conduct all quarterly reviews for 101 of the 176 files that contained discrepancies. Effective FY 2010, CORs were required to document quarterly reviews on a standard form, *Contract Postal Unit Quarterly Performance Review*⁸. Quarterly performance reviews are a tool to assist the COR in determining whether the contractor is providing quality performance and improving the business relationship. Some CORs interviewed stated they were not aware of their responsibility to conduct the reviews.
- **No Copy of Contract:** CORs did not retain a copy of the contract in 19 of the 176 files. CORs are required to maintain a copy of the contract in the administrative file but stated they had never seen a contract and/or were not aware that they should have a copy.
- **No COR Letter:** CORs did not retain appointment letters in 23 of the 176 files. When contracts are awarded, the CO appoints a COR through a formal letter of designation which defines the COR's duties and sets the limits of COR authority. The COR is required to maintain the original appointment letter in the administrative file. A partnership between the CO and the COR is essential to establishing and achieving the objectives of the contract. The CORs interviewed stated that they never received an appointment letter.

CORs did not perform their assigned duties because the CO and the CPU program officials did not train CORs regarding their specific responsibilities to administer CPU contracts. Postal Service Supply Management offers an online COR course to all CORs; however, it is not designed to specifically address the contract administration of CPUs. Accordingly, the Postal Service CPU program did not offer specific training to CORs. The CO acknowledged that CORs had not received specialized training. The CORs should have received training within 2 weeks of appointment notification. Based on our audit, in April 2011, the CO began training CORs specifically addressing the administration of CPUs as outlined in Publication 156, *Postal Service Employees Guide to Contract Postal Units*. However, attendance was not mandatory and there was not

⁸ Publication 156, Section 10-3.1.

full participation. CORs have multiple job responsibilities and may not have considered the training as a requirement.

In addition, the CO stated she did not provide oversight of the CORs because she doesn't have enough time to oversee more than 4,000 of them. The CO did not review the CORs' contract administrative files to determine whether the CORs performed reviews and maintained all required documents. The Postal Service requires CORs to maintain a contract administrative file containing records including quarterly reviews for at least 3 years after CPU contract termination⁹. The CO has an inherent responsibility to oversee the duties delegated to the COR. Good business practices dictate that this oversight be performed at a level that ensures these responsibilities are performed in accordance with policies and procedures.

The CPU is an extension of the Postal Service to the community. In order for the CPU program to be effective, it is critical for the COR to perform his/her duties and responsibilities. When CORs do not perform their assigned duties, the Postal Service may not know how the CPU is operating or whether the contractor is adhering to the contract. This could negatively impact the business relationship between the Postal Service and the CPU. The effectiveness of CPU oversight is becoming more critical to the Postal Service as it moves to the village post office concept and the expanded use of CPUs .

Further, we performed a judgmental review of quarterly reviews to determine whether CORs performed the required follow-up to previously cited issues at CPUs. Of the 60 CPU quarterly reviews we judgmentally selected, CORs addressed issues that were cited in the reviews.

Annual Financial Audits

CORs did not retain financial audit documentation for 53 of 130¹⁰ CPU administrative files for FYs 2009 and 2010. The CORs were unaware of this requirement. When CORs do not conduct financial audits¹¹ there is an increased risk of loss of cash, stamps, or other accountable items.

The Postal Service requires that CORs maintain financial reviews in the contract administrative files for at least 3 years after CPU contract termination¹². Some CORs we interviewed were not aware of the requirement to conduct financial reviews and to retain copies of the reviews in the administrative files. COs did not perform random reviews of CORs' contract administrative files to determine whether they performed reviews and maintained all required documents. The CO stated that she did not provide oversight because there are over 4,000 CORs.

⁹ Publication 156, Section 7-3.3.3.

¹⁰ We statistically selected another sample of administrative files from a universe of fixed-priced and non-Contract Access Retail System performance contracts. We projected that about 848 of 3,129 CPU administrative files¹⁰ did not contain a financial audit

¹¹ Financial audits are conducted once a year and include a stamp stock count and a review of the bond amount.

¹² Publication 156, Section 7-3.3.3.

Recommendations

We recommend the vice president, Supply Management:

1. Require CPU contractors to submit invoices for payment.
2. Create a process to ensure the contracting officer or contracting officer's representative validates and certifies invoices prior to payment, using data maintained in the Contract Postal Unit Technology system.
3. Establish a mandatory training procedure to ensure all contract officer representatives receive training of appointed duties within 2 weeks of notification of the contracting officer's representative appointment.
4. Develop an oversight mechanism to monitor whether contracting officer's representatives conduct quarterly performance and annual financial reviews, obtained completed appointment letters, and retain contract postal unit contracts in the contract administrative files.

Management's Comments

Management agreed with recommendations 3 and 4 and disagreed with recommendations 1 and 2 and the monetary impact. Overall, management stated that the CPU program manager reviews and provides approval for CPU payment requests prior to submission to the accounting service center. Management stated that the OIG incorrectly cited policies in Management Instruction 610-2000-2 (MI) and the Supplying Principles and Practices (SP&Ps). The MI and SP&Ps do not require supplier invoice submission for all contracts. Further, the Postal Service has established Sarbanes-Oxley (SOX) controls around the supplier sales reporting and payment process for CPUs. In addition, management stated that the September 22, 2009, instructional letter from Timothy Healy to the area vice presidents permits greater flexibility in accomplishing Quarterly Performance Reviews by permitting the CORs (or designee) to conduct the review.

Management specifically responded to recommendation 1 that the submission of revenue data cannot serve as a supplier's invoice as the OIG suggested. Revenue (sales) data is not the amount of payment that is due the supplier for services rendered. In regards to recommendation 2, management stated that the program manager reviews the validation log and the supporting documentation for completeness. Then, the program manager approves the payment record for payment. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 3 and 4 in this report and corrective actions should resolve these issues. Management disagreed with recommendations 1 and 2 to modify CPU contracts to include clauses identifying the submission of revenue data as an official invoice from the contractor and create a process to ensure the contracting officials validate and certify invoices prior to payment.

At our exit conference, management alluded that the contractor's submission of financial data into the CPUT system would be an acceptable alternative to our original recommendation 1 requiring contractors to submit invoices. CPUT data generate a calculation of payment due to a supplier based on financial data the supplier inputs. As such, recognition of the input of that data as an invoice by both the supplier and Supply Management through a contract modification would allow the course of action suggested with our draft report recommendation. However, it appears that management is no longer comfortable with that solution. Therefore, we have reverted to our initial recommendation to require contractors for CPUs to submit monthly invoices as a claim for payment for services provided, preferably electronically.

Management stated that the OIG incorrectly cited policies from the aforementioned MI and SP&Ps, which do not require supplier invoice submission for all contracts. The MI and SP&P's expect the submission of an invoice to be a general rule, but do provide for some specific exceptions. CPU contracts are not specifically excluded from the invoice submittal requirement.

Management stated that SOX controls were established around the supplier sales reporting and payment process for CPUs; however, the SOX controls are not a substitute for the CO's responsibility to certify invoices.

In regard to management's disagreement with recommendation 2, the CO or the COR are the only officials authorized to validate and certify invoices. The referenced program manager does not have the authority to validate and certify invoices. Invoice validation and certification should be performed by the authorized CO or COR prior to payment.

Management mentioned an instructional letter submitted by Timothy Healy when he was the vice president of Retail Product and Services, permitting CORs or designees to conduct quarterly performance reviews. CORs cannot delegate their performance review responsibilities. Only the CO has authority to designate a COR and assign their responsibilities. Recent CO training instruction provided to CORs specifically stated that CORs cannot delegate these responsibilities.

Also, management stated that we erroneously included closed CPUs in our count of 4,665 active CPUs nationwide. During FYs 2009 and 2010 there were approximately 4,665 CPUs that existed. We included those that were terminated but received

payments during FYs 2009 and 2010. Since the number of active CPUs is a revolving one, we changed the wording in the background section (page 9) to state there are approximately 4,000 CPUs.

The OIG will work with the Postal Service through the resolution process regarding recommendations 1 and 2. The OIG considers all the recommendations significant, and, therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

A CPU is a supplier-owned or supplier-leased facility (operated by the supplier) under contract to the Postal Service to provide postal services to the public. Currently, there are about 4,665 CPUs across the U.S. CPUs are typically located in retail establishments under contract to the Postal Service and staffed by the retailer's employees. The Postal Service has used CPUs to provide additional access to Postal Service products and services for over 100 years. CPUs offer the general public alternate access to Postal Service products after normal business hours. The objective of the CPU program is to reduce customer wait time in Post Offices, retain and increase Postal Service market share, reduce operational costs, and improve the customer satisfaction and retail revenue growth. The Postal Service considers CPUs to be one of the lowest cost-to-serve programs.

The sole CO, who reports to the Postal Service Supply Management Travel, Retail, and Temporary Service Category Management Center, is responsible for ensuring the Postal Service has received goods and services and that invoice amounts are correct. The Postal Service allows the CO to delegate the role to a COR. The COR is normally the postmaster at a Post Office near the CPU and they perform duties and responsibilities as assigned through the CO appointment letter. During 2009 and 2010, there were approximately 4,000 CORs for the CPUs. The CO is required to validate and certify the invoice prior to payment¹³. The CO may delegate the responsibility for certifying invoices to the COR, but the CO retains primary oversight responsibility for ensuring that duty is adequately fulfilled.

The CPU does not submit an invoice; instead, it submits monthly sales data the Postal Service uses to determine payment¹⁴ to the CPU. CPU creates an invoice for each CPU submitted to Postal Service accounts payable for payment because the accounts payable system will not make payments without an invoice. The CPU CO does not receive or review any invoice prior payment.

Objective, Scope, and Methodology

Our audit objective was to evaluate Postal Service oversight of CPU contracts; primarily the oversight the CO provides in assigning and overseeing COR duties. Our audit focused on how the CO ensures that CORs are validating and certifying payments for CPU services. To accomplish our objective, we:

- Reviewed Postal Service policies and procedures pertaining to certifying and validating invoices.

¹³ MI 610-2000-2, dated March 7, 2000, requires invoices to be reviewed, dated, and signed by the approving official prior to payment. *Supplying Principles & Practices*, Process Steps 5-11 and 5-12, Measure and Manage Supply, Make Payment Task, states that an invoice amount must be verified and approved before payment.

¹⁴ CPU Firm-fixed-priced contracts are paid fixed amounts monthly. Performance-based CPU contracts are paid based on a percentage of sales.

- Obtained the Postal Service's universe of CPUs and total payments for FYs 2009 and 2010.
- Developed statistical sampling techniques used to select CPUs to determine whether CORs are validating and certifying invoices prior to payment and are performing required oversight of CPUs by reviewing contract files¹⁵.
- Provided selected Postal Service CORs overseeing CPUs with a questionnaire on whether they are validating and certifying invoices prior to payment and other related questions. In addition, we requested CORs to provide information contained in contract files.
- Judgmentally selected quarterly reviews to determine whether CORs were provided follow-up actions to correct previously recorded issues.
- Interviewed Postal Service Headquarters officials, the Category Management Center manager, and COs to discuss the key controls over maintaining complete COR administrative files and gain an understanding of why the CO does not validate and certify invoices prior to payment.

We conducted this performance audit from January through September 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 officials on September 7, 2011, and included their comments where appropriate.

We assessed the reliability of CPUT's CPU contract and financial data by judgmentally sampling CPU payments to determine whether payments in the CPUT system represent actual payment by checking payments against accounts payable records. We detected no discrepancies and determined the data were sufficiently reliable for the purposes of this report.

¹⁵ CORs are required to maintain contract files on each CPU.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Information Technology: Contract Payment Oversight</i>	CA-AR-11-001	11/23/2010	\$192,692,060	Postal Service officials must improve oversight of Information Technology contract payments to ensure invoices are certified by designated COs or CORs and that COs and CORs reconcile invoices to receiving documents prior to certification. COR letters were not issued to proper personnel. Management agreed to ensure that proper personnel have a COR letter of designation allowing them to certify invoices for payment.
<i>Certification Process for Electronic Payments</i>	CA-AR-10-006	9/30/2010	\$5,600,000,000	Postal Service designated officials were not properly trained and the CO or COR did not ensure the contractor had accurate contact information and the CO or COR could not ensure that forwarded utility invoices were received and reviewed for accuracy prior to payment. Management agreed with the recommendation to provide COR training.

<p><i>Aviation Security Program at Contract Postal Units</i></p>	<p>SA-AR-09-005</p>	<p>7/7/2009</p>	<p>None</p>	<p>Postal Service CORs did not notify COs when transitioning their duties to new CORs. As a result, COs did not prepare letters of appointment to ensure proper designation of CORs and make them aware of their roles and responsibilities regarding CPUs. Management agreed with the finding to update COR appointment letters to clarify roles and responsibilities and reissue them to CORs who have responsibility for CPUs.</p>
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Appendix B: Monetary Impact

Finding	Impact Category	Amount
Invoice Certification	Unsupported Questioned Costs ¹⁶	\$162,687,742

¹⁶ Unsupported questioned cost is a subset of questioned costs and is claimed because of failure to follow policy or required procedures. This does not necessarily connote any real damage to Postal Service.

Appendix C: Summary of Duties not Performed by COR

We found 375 issues during our review of 176 CORs administrative files. These issues represent where CORs did not perform quarterly reviews or allowed others to perform the reviews, there was no appointment letter or incomplete appointment letter, or there was no copy of the initial contract retained. Two hundred and forty-five, (or 65 percent) of the issues were incomplete COR letters and appointed CORs not performing quarterly reviews. See Table 3:

Table 3: CPU Administrative File Discrepancies

Items Tested	Capital Area	Eastern Area	Great Lakes Area	Northeast Area	Pacific Area	Southwest Area	Western Area	Total
COR letter not properly completed	4	11	16	12	14	32	55	144
Appointed COR did not conduct quarterly reviews	5	6	12	1	9	21	34	88
COR did not conduct quarterly reviews	4	9	5	13	6	21	43	101
COR did not have contract	3	0	0	4	1	9	2	19
COR did not have appointment letter	3	2	2	2	3	4	7	23
Total	19	28	35	32	33	87	141	375

Appendix D: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



September 29, 2011

SHIRIAN HOLLAND

SUBJECT: Draft Audit Report – Contract Postal Units (CPU) Contract Oversight
(Report Number CA-AR-11-DRAFT)

We appreciate the opportunity to review and comment on the subject draft report. Management believes that there is a fundamental difference of opinion between the Office of Inspector General (OIG) and the Postal Service regarding our invoicing and certification process for actions under this audit. The OIG assessed unsupported questioned costs within this report citing the lack of invoice submission and certification prior to payment. We respectfully disagree and find that the CPU Program Manager reviews and provides approval for CPU payment requests prior to submission to our Accounting Service Center. Additionally, the OIG incorrectly cited the policies within Management Instruction FM-610-2000-2, *Compliance with Prompt Payment Act* and our *Supplying Principles and Practices (SP&Ps)*, Process Step 5-11 and 5-12 within this report. The management instruction and the SP&Ps policy do not require supplier invoice submission for all contracts. Payments to suppliers are governed by the terms of the contract. The Postal Service has established Sarbanes-Oxley (SOX) controls around the supplier sales reporting and payment process for CPUs. Therefore we are disagreeing with recommendations 1 and 2, and with the entire monetary impact. However, we have agreed to enhance the contracting officer representative (COR) and monitoring functions as stated in our response to recommendations 3 and 4.

Two other findings within the report are not accurately presented. First, on page 4, under the section titled, "Quarterly Reviews Done by Others," the OIG finds that

"Postal Service employees other than the COR completed and signed quarterly review forms for 88 of the 176 files. The COR must sign the quarterly review form and cannot delegate this responsibility to another employee. Some CORs were new to their position and unaware they should not redelegate their responsibilities."

This finding is incongruent with current policy. The September 22, 2009 instructional letter from Timothy Healy to the Area Vice Presidents provides greater flexibility in accomplishing the Quarterly Performance Reviews. The process permits "the COR (or their designee)" to "conduct the review." Second, page 7 of the report indicates the Postal Service currently has 4,665 active CPUs nationwide. The OIG may have erroneously included closed CPUs. The current number of active CPUs as of August 2011 is 3,594.

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AUDIT RECOMMENDATIONS

We recommend the vice president, Supply Management:

Recommendation 1. Modify contract postal unit contracts to include clauses identifying the submission of revenue data as an official invoice from the contractor. Contractors should be notified of the clause addition and informed that their revenue data submission constitutes an official invoice.

Management Response/Action Plan: We respectfully disagree with this recommendation. The submission of revenue data cannot serve as a supplier's invoice as the OIG suggested. Revenue (sales) data is not the amount of payment that is due the supplier for services rendered. In performance based CPU contracts, the sales data is used to calculate the payment due the supplier since the supplier earns a percentage for each dollar of sales. In firm fixed-priced CPU contracts, suppliers are not compensated based upon sales. Suppliers are compensated based upon the agreed to annual price, paid in arrears in twelve (12) equal monthly installments. Payments are made automatically without the added expense of a transaction-based invoice approach suggested by the OIG.

Target Implementation Date: Not applicable.

Responsible Official: Not applicable.

Recommendation 2. Create a process to ensure the contracting officer or contracting officer's representative validates and certifies invoices prior to payment, using data maintained in the Contract Postal Unit Technology (CPUT) system.

Management Response/Action Plan: We respectfully disagree with this recommendation. We already have controls in place to review the CPUT system data input. The program manager reviews the validation log and the supporting documentation for completeness. The program manager then approves the payment records for payment. This process is documented within a SOX control and tested by an independent third party accounting firm on a regular basis. We believe there are adequate controls and efficiencies within the CPUT application and processes. When combined with the other established controls for validation, the risk of improper (or duplicate) payments is minimal.

In its report, the OIG noted a single incident whereby a firm fixed-priced CPU was closed and the supplier continued receiving monthly payments. To address this single occurrence, we will explore the possibility of an additional control to prevent reoccurrence of similar improper payments. Since CPUT records all sales data, it may be possible to modify the application to generate an exception report to identify instances of no sales activity with a supplier. In considering changes to any process or system of controls in response to an identified weakness, the Postal Service must consider the benefit to be realized from affecting such a change in relation to both the costs of implementing the change and the impact on the risk to be mitigated. We appreciate the OIG bringing this to our attention.

Target Implementation Date: Not applicable.

Responsible Official: Not applicable

Recommendation 3. Establish a mandatory training procedure to ensure all contract officer representatives receive training of appointed duties within 2 weeks of notification of the contracting officer's representative appointment.

Management Response/Action Plan: We agree with the recommendation. A mandatory web based Contracting Officer's Representative (COR) course is available and policies are in place requiring that the COR training be completed within two weeks of the notification of COR appointment. Separate training was developed to assist with program specific aspects of CPU operational and contract management responsibilities. We agree to work cross-functionally to develop a process to ensure that the training has been completed.

Target Implementation Date: March 2012.

Responsible Official: Manager, Customer Products and Fulfillment Category Management Center (CMC) and Manager, Contract Postal Access Channels.

Recommendation 4. Develop an oversight mechanism to monitor whether contracting officer's representatives conduct quarterly performance and annual financial reviews, obtained completed appointment letters, and retain contract postal unit contracts in the contract administrative files.

Management Response/Action Plan: We agree with the recommendation. Quarterly performance reviews and annual financial reviews are a valuable control. As above, we will work cross-functionally with the appropriate retail and operational functions to ensure that a process is implemented to monitor these reviews. We will also determine how best to improve the COR appointment and record-keeping processes.

Target Implementation Date: March 2012.

Responsible Official: Manager, Contract Postal Access Channels and Manager, Customer Products and Fulfillment CMC.

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.

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