

September 30, 1999

A. KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

RUDOLPH K. UMSCHEID
VICE PRESIDENT, FACILITIES

SUBJECT: Responsibilities of Contracting Officer's Representatives
(Report Number CA-AR-99-003)

This report presents the results of our review of the Responsibilities of Contracting Officer's Representatives at the Memphis Major Facilities Office, Columbia Facilities Service Office and the Capital Metro Facilities Service Office (Project Number 99RA009CA000). The report is the first in a series we plan to issue on the Responsibilities of Contracting Officer's Representatives for Facilities, Purchasing and Materials and National Mail Transportation Purchasing contracts. The audit was a self initiated review that was included in our fiscal year (FY) 1999 audit workload plan.

The audit revealed that United States Postal Service (USPS) management has a system in place to provide for Contracting Officer's Representative administration of construction contracts. However, our audit identified approximately \$103,791 in overpayments and \$2.2 million in stored materials that could result in an overpayment. Specifically, this report addresses concerns with guaranteed maximum price contracts; certifying stored materials; final inspections and acceptance; overpayment of invoices; contract time extensions; requirements for Contracting Officer's Representatives; and separation of duties. Management generally agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management will have corrective actions completely implemented by the end of FY 2000. Management's responses and our evaluation of these responses are attached to the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Kim H. Stroud, Director, Contracts or me at 703-248-2300.

Sylvia L. Owens
Assistant Inspector General
for Revenue/Cost Containment

Attachment

cc: Office of Deputy Postmaster General
Alan B. Kiel
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

The objective of our audit was to determine if Contracting Officer's Representatives (CORs) adequately administered construction contracts. We evaluated the adequacy of invoice certification, sufficiency of documentation, receipt of goods and services, and execution of contract modifications. We also reviewed the formal training, appointing, and terminating of CORs. We plan to evaluate the COR program in each purchasing activity, (Facilities, Purchasing, and Transportation). This report addresses our work at the Memphis Major Facilities Office, Columbia Facilities Service Office and the Capital Metro Facilities Service Office. The audit was a self initiated review that was included in our fiscal year (FY) 1999 audit workload plan.

Results in Brief

Facilities management has a system in place to provide for COR administration of construction contracts and if adhered to should provide reasonable assurance that the COR program is adequately administered. However, our audit identified several areas that need improvement. Specifically:

- Regular audits were not being performed on guaranteed maximum price contracts to determine potential shared savings.
- Contractors' invoices did not adequately support stored materials of approximately \$2.2 million.
- Final inspections and acceptance were not properly documented.
- Progress payments were made that the United States Postal Service (USPS) was not billed for, resulting in an overpayment of \$103,791.
- We found instances where the period of contract performance exceeded the contract completion date without proper justification or assessment of damages.

- In some instances, CORs were not properly trained, appointed, or terminated.
- Adequate separation of duties did not exist to ensure that the necessary checks and balances were in place to protect the integrity of the procurement process.

Appendix A is a summary of the contracts we reviewed.

USPS management has taken action to improve the COR process. For example, in 1996 as a guide, management developed a handbook and video titled, "You're a COR Now" to enhance the understanding of the overall program. This pamphlet is intended to be used for training and as a guide to the day-to-day responsibilities of the COR. Management was also reviewing a contractor developed compact disk to facilitate COR training, but the disk has not been released due to budget constraints.

In addition to issues related to COR responsibilities, we identified several contract administration issues, and this report contains our recommendations in these areas.

**Summary of
Recommendations**

We recommended that the Major Facilities Service Office Managers, Vice President, Purchasing and Materials and the Vice President, Facilities, implement improved procedures and controls over regular audits, contract documentation, contractor payments, justifications for project delays, training, appointing, and terminating CORs and separation of duties. Specific recommendations are contained in the body of this report.

**Summary of
Management's
Comments**

The Vice President, Purchasing and Materials and the Vice President, Facilities generally agreed with the recommendations contained in this report. Their responses to the recommendations included a summary of initiatives USPS has in progress, completed, or planned. Management will have corrective actions completely implemented by the end of FY 2000. We summarized management's responses in the report and included the full text of the responses in Appendix B.

**Evaluation of
Management
Comments**

Management's planned or implemented actions are responsive and address the issues identified in the report.

INTRODUCTION

Background

The Postmaster General has delegated contracting authority for construction to the Vice President, Purchasing and Materials and contracting authority for real estate to the Vice President, Facilities. A special delegation of construction authority for contracts over \$10 million was delegated to the Manager, Major Facilities Purchasing under the Vice President, Purchasing and Materials.

Facilities is an enabling organization within the USPS. Its role is to gather and provide data to postal management to assist with planning for facilities infrastructure investments. The Facilities Service Office actively searches for opportunities to solve ongoing facilities issues and assists in expediting the approval process. Once projects are approved, the Facilities Service Offices perform negotiations, contracting and design, and construction through project completion.

The project manager is designated by the contracting officer and is responsible for contract administration, payments, change requests, cost and schedule control. The project manager is the COR, whose prime responsibilities are to ensure that construction work is completed in accordance with the contract requirements. The COR is the point of contact with the contractor. The COR is responsible for proper administration and inspection of contracts assigned.

CORs may be assigned a range of responsibilities related to the administration of construction contracts. These responsibilities may include certifying invoices, reviewing guaranteed maximum price contracts, verifying the accuracy of supporting documentation, performing inspections, acceptance of goods and services, and properly documenting contract time extensions. In order to carry out their responsibilities, CORs should be properly trained, appointed, and terminated. It is also important that the contracting officer and CORs duties be clearly defined to ensure proper separation of duties.

Objective, Scope, and Methodology

The objective of the audit was to determine if CORs adequately administered construction contracts. We evaluated the adequacy of invoice certification, sufficiency of documentation, adequacy of receipt of goods and

services and execution of modifications. Also, we reviewed the COR training requirements, appointments, and termination of CORs.

We conducted audit work and interviewed USPS employees at the Memphis Major Facilities Office, Columbia Facilities Service Office, and the Capital Metro Facilities Service Office. Additionally, we visited and interviewed contract employees retained by the USPS to aid in the administration of facilities contracts. We reviewed applicable contract files, CORs files, architect, engineer files, and construction manager files. We also reviewed other relevant documentation, as we considered necessary.

For this phase of the review, we randomly selected 49 open and closed contracts valued at \$100,000 or more. The contracts were dated from September 1996 through December 1998. Our sample was selected from a contract listing provided by USPS Facilities Headquarters. This report summarizes audit work for the 49 contracts. We used computer-generated data to support findings and conclusions but we did not validate application controls. Instead, we assessed the reliability of this data by reviewing source documents and through discussions with management officials.

This audit was conducted from February through August 1999 in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials on August 10, 1999, and included their comments, where appropriate.

This summarizes our audit work at three locations and is the first in a series of reports we plan to issue. We will issue other reports to summarize our audit at other facilities locations.

AUDIT RESULTS

Guaranteed Maximum Price Contracts

The USPS contracts with Construction Management Support Service firms to perform monthly audits of contractors' costs for many reasons, to include determining any potential shared savings on guaranteed maximum price contracts. If the final cost of the total project is less than the guaranteed maximum price, the USPS and the contractor shares the savings in accordance with a contractually established ratio.

The Memphis Major Facilities Office manager, on February 5, 1998, issued instructions requiring all design and construction employees in his office to ensure that construction management firms perform monthly audits of guaranteed maximum price contracts.

Potential Shared Savings

The COR did not require monthly audits in three of the five guaranteed maximum price contracts we reviewed at the Memphis Major Facilities Office. For example:

- The first contract was awarded at a maximum contract award price of \$22,839,000. The ending period of performance for the contract was August 1999. The contract started in March 1998, but no audits have been accomplished to date to determine any potential shared cost savings.
- The second contract was started June 1998, and awarded at a maximum contract award price of \$22,098,000. The USPS made a substantial completion acceptance of the new facility on July 6, 1999; however, as of the date of our review, the construction management firm had not performed any audits.
- The third contract was awarded in February 1998 for a maximum of \$17,075,000. The facility was accepted on January 1999, but monthly audits were not performed to determine potential shared cost savings until May 1999. The audit identified \$677,000 in potential shared cost savings.

Monthly audits were not completed because USPS personnel are not requiring construction management firms to perform them at all or until late in the performance of the contract. As a result, shared cost savings are not identified and documented throughout the course of the contract.

Regular audits should be completed to identify potential shared cost savings. Not performing regular audits may greatly reduce the visibility of costs and impede the ability to identify potential savings when an audit is eventually performed. For example, where the construction manager performed monthly audits on a contract, he identified an excess of \$71,000 of disallowable charges over a period of 11 months.

Recommendations

The Major Facilities Service Office Manager should implement procedures and controls to:

1. Accomplish regular audits of guaranteed maximum price contracts to identify shared cost savings.
2. Adjust contractor payments based on the results of audits.

**Management's
Comments**

The Vice President, Facilities and the Vice President, Purchasing and Materials agreed with the recommendations. Management stated that an informal audit is conducted by the Design and Construction Manager with the receipt of each pay request. Managers will be required to include documentation in the contract file which shows the potential shared savings identified as a result of these audits. Also, payment amounts are based on documentation provided by the contractor and verification of completed work. Major Facilities Purchasing will implement the recommendations for all future projects.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendations.

**Certifying Stored
Materials**

Stored materials are reimbursable expenses to the contractor for materials bought and inventoried for the project. Stored materials are subject to proper verification of its value and can be kept at the construction site or a bonded warehouse within 25 miles of the construction site.

We identified approximately \$2.2 million in reimbursable contractor expenses for stored materials on five facility contracts that were not supported by proper documentation. These stored materials were identified at two locations as discussed below.

Columbia and the Capital Metro Facilities Service Offices:
We identified two projects which contained a total of nine progress payments for stored materials of approximately \$512,759 that were not properly supported by the required vendor or subcontract or invoices (See Appendix A).

Memphis Facilities Service Office: We identified four projects which contained a total of 15 progress payments for stored materials of approximately \$1.7 million that were not properly supported by the required vendor or subcontractor invoices (See Appendix A).

These conditions occurred for two reasons. First, the COR was not aware of stored materials verification procedures. Second, management stated the construction manager should be cognizant of the stored materials on site. The COR did not require external documentation (supplier's invoices) to support the cost and quantity of the stored materials. Without requiring the proper external documentation for stored materials on invoices, there is no assurance that USPS is paying for the actual material cost and there is the potential for USPS to make duplicate payments.

Recommendation

3. Facilities Service Office managers should require that contractor invoices include sufficient external supporting documentation before processing the invoice for payment.

**Management's
Comments**

The Vice President, Facilities and Vice President, Purchasing and Materials agreed with the recommendation. Management stated that the contracting officer should be responsible for enforcing this policy. The contracting officer signs final authorization on payments and as such should verify that all supporting documentation is in place. The contracting officer is ultimately responsible for ensuring that supporting documentation obtained by the COR is sufficient.

Facilities plans to complete the action on this issue on October 6, 1999, and Purchasing estimates completion prior to the end of FY 2000.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation.

**Final Inspection and
Acceptance**

USPS policy requires the COR to conduct a room-by-room survey and to ensure that equipment is in good working order. Discrepancies listed on the punchlist must be re-inspected, and unacceptable items must be reinspected. The inspection team prepares a punchlist of remaining defects and omissions and includes information necessary to locate and correct deficiencies. The COR considers inspection reports and makes recommendations as to whether the project is substantially complete.

Inspection teams are responsible for documenting and maintaining complete records on performance for (1) contract administration; and (2) assessing contractor performance.

**Documentation of the
Final Inspection**

We identified 12 of 49 facility contracts at three locations where final inspections were not properly documented in the contract file. In some cases, punchlists were documented in the official contract files but, there was no evidence that discrepancies were resolved.¹ Other project files did not contain a punchlist or any other evidence of final inspection.²

Final payments were made without documenting that the discrepancies were corrected. In addition, Facilities personnel told us that the official contract files did not contain evidence of final inspection, because the inspection results were maintained in the project manager's file or the construction manager's file. The purchasing manual requires that contract actions be documented, recorded, and maintained in official contract files. At the conclusion of projects, final inspection should be accomplished and facilities should not be accepted unless there are only minor (cosmetic) changes remaining on the punchlist.

At project conclusion pertinent information from other unofficial files should be consolidated into official contract files. In light of continuous reorganizations it is especially important that contract files contain complete and accurate information.

¹ Nine files contained punchlists without evidence of resolution.

² Three files did not contain a punchlist or any evidence of final inspection.

Adequate documentation of final inspection and acceptance would provide USPS reasonable assurance that the contractor met all contractual requirements. Otherwise, the USPS will have no guarantee that the contractor corrected deficiencies on the project before final payment is made.

Recommendation

4. The Vice President, Facilities in conjunction with the Facilities Service Office manager should require CORs to include the final inspection in contract files and recommend withholding final payment until discrepancies are corrected.

**Management's
Comments**

The Vice President, Facilities and Vice President, Purchasing and Materials agreed with the recommendation. Management stated that documenting field and final inspections is an extremely important issue to Facilities and has been previously addressed. Management will continue to stress compliance with this issue as the need arises. In addition, management stated that it is the contracting officer's responsibility to make sure that this documentation is obtained from the COR and that moneys are withheld.

Facilities plans to complete the action on this issue on October 6, 1999 and Purchasing estimates completion prior to the end of FY 2000.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation.

**Overpayment of
Invoices**

One of the responsibilities of CORs is to make recommendations to contracting officers, for payment of invoices submitted by contractors. USPS policy prescribes that progress payments be reviewed by CORs for completeness and accuracy and forwarded to the contracting officer for final approval. The amount of each payment is based on completed and accepted work during the payment period.

Progress Payments

CORs on two contracts recommended payments totaling approximately \$109,159 for expenses that were not included in the contractor's monthly progress payments. Specifically:

On one contract, the contractor billed for \$40,712. Based on the work completed, the COR reduced the payment to \$3,741. The contract specialist increased the invoice to \$107,533 to reflect what she thought was remaining on the contract. This condition occurred because the contract specialist corrected an addition error, but the invoice was correct. As a result, the contractor was overpaid approximately \$103,791. The overpayment occurred in November 1998 and was not discovered until our audit.

On another contract, the COR recommended payment for \$5,368 in design expenses that were not billed by the contractor on the invoice submitted. The COR stated that in his opinion, the contractor should be reimbursed for some of the design costs since he had completed the majority of this work. Consequently, the contractor received payment for design expenses that were never billed on any line item of the invoice. When payments are made without invoices, there is potential for duplication of payment when the contractor eventually submits invoices for expenses under the design line item.

Recommendations

The Facility Service Office Manager should require:

5. The contracting officer to recoup the \$103,791 overpayment on the contract.

6. The COR to instruct contractors to resubmit invoices when all appropriate cost are not shown on invoices.

**Management
Comments**

The Vice President, Facilities and Vice President, Purchasing and Materials agreed with the recommendations. Management stated that the appropriate Facility Service Officer would be contacted and the overpayment recouped. In addition, management will instruct CORs to have contractors resubmit invoices when all appropriate costs are not shown on invoices.

**Evaluation of
Management
Comments**

Management's comments are responsive to our recommendations.

**Contract Time
Extensions**

The contractor has a responsibility to complete work within the timeframe specified in the contract. According to the USPS Design and Construction Handbook, "If the contractor fails to diligently prosecute the work or to complete the work within the time specified, it is subject to termination of the right to proceed with the work for default and/or assessment of damages." The handbook requires that the contractor initiates and requests extensions when performance is delayed. The extensions should be negotiated and agreed upon by the COR and the contracting officer. Equitable adjustments are made to the contract depending on the cause of the delay. Most construction contracts provide for liquidated damages and other remedies for unexcused delays. The COR's failure to document delays will impair the USPS ability to recover these damages.

Period of Performance

Three of the contracts reviewed had gone beyond the contract completion date and in two of those cases no damages were assessed. For example, one contract exceeded the contract completion date by approximately 65 calendar days and no contract action was taken to extend the completion date or excuse the delay. If this was not an excusable delay, USPS would be entitled to damages for this delay. We could not determine why the COR allowed contract extensions without properly modifying the contract completion date. However, in their effort to complete the project, management told us that assessing damages would not be beneficial because the contractor might quit the project.

USPS should not authorize contract extensions without written justification and/or due contract consideration in the form of an equitable adjustment or other relief. Allowing the contractor to delay the project without an extension could result in a substantial financial loss for USPS. Delays to occupy buildings on time require USPS to incur excessive costs.

Recommendations

The Vice President, Facilities should:

7. Require contractors to submit written justification for contract delays and/or extensions in accordance with the terms of the contract.

8. Require the contracting officer to make a determination of the cause of the delay and negotiate an equitable adjustment or assess liquidated damages, when appropriate.

**Management
Comments**

The Vice President, Facilities and Vice President, Purchasing and Materials agreed with the recommendations. Management stated that Design and Construction Managers are the primary contracting officers in each office and are responsible for enforcing contracting related policy. The issue will be stressed at the upcoming October 6, 1999, national Design and Construction Managers meeting.

**Evaluation of
Management
Comments**

Management's comments are responsive to our recommendations.

**Requirements for
Contracting Officer's
Representatives**

CORs are appointed in writing by the contracting officers to administer the construction contract from award through project closeout and one year warranty inspection. The Headquarters' Purchasing and Policy Section requires formal COR training. The contracting officer provides written notification to contracting parties (i.e. COR, architect and engineering firm, contractor, etc.) regarding the designation, authorities, and limitations of CORs. USPS procurement handbook dated February 1992 stipulates that contracting officers should terminate CORs in writing. The contractor should receive a copy of the termination letter or separate letter advising CORs of the termination.

**Contracting Officer's
Representative
Responsibilities**

The CORs in 43 of the 49 contracts we reviewed had not received USPS COR training.³ Also, there were several instances where CORs were not properly appointed⁴ or terminated.⁵ For example, on the Centerville project, all three of these conditions existed. Three contract employees acted as CORs but they were not properly trained, appointed, or terminated. While this contract was still in process, all three contract employees left that office for other employment. However, the construction contractor was not notified in writing that those individuals were no longer authorized to represent USPS.

According to management, COR training was not provided to USPS employees because some CORs were also level I, II, or III contracting officers and they felt their contracting officer training was sufficient to monitor facilities contracts. Contract employees were not trained as CORs' because USPS policy did not require training of contract employees. CORs were not properly appointed because management was not aware of the requirement to issue an official appointment letter outlining CORs' responsibilities. This also occurred because the purchasing manual does not reference management instructions AS-710-95-13, which outlines these procedures. Facilities personnel told us that the pre-construction meeting conducted with all concerned parties (e.g. construction manager, USPS project manager, and contractor) summarizes the overall requirements of the project to sufficiently cover the COR appointment.

³ The three offices we reviewed did not require CORs to obtain training and certifications.

⁴ Twenty-one CORs were not properly appointed.

⁵ Nineteen CORs were not properly terminated, several of these were contract employees.

However, written records of roles, responsibilities, authority, and limitations need to be maintained in contract files to protect USPS interests.

Contractors should be formally notified of COR termination to prevent possible disputes. Training would also enhance the overall administration of facilities contracts and increase USPS ability to receive the best value for construction contracts.

Recommendations

The Vice President, Purchasing and Materials should

9. Make a determination on whether COR training as defined by Management Instruction AS-710-95-13 applies to Facilities project managers who are assigned as CORs.

The Vice President, Purchasing and Materials, in conjunction with the Vice President, Facilities should require the Facilities Service Office managers to:

10. Provide COR training to employees before they are assigned COR duties.
11. Ensure contracting officers issue appointment letters, which clearly define CORs' duties and responsibilities.
12. Issue termination letter to CORs and to construction contractors when contract employees are no longer authorized to represent postal and when CORs are replaced prior to the completion of contracts.

Audit Note

The Columbia Facilities Service Office informed us at a July 28, 1999, meeting that they have already implemented procedures requiring contracting officers to issue appointment letters outlining COR responsibilities. This satisfies the intent of recommendation 11 at this office.

**Management's
Comments**

The Vice President, Purchasing and Materials and Vice President, Facilities agreed with the recommendations.

The Vice President, Purchasing and Materials stated that Management Instruction AS-710-95-13 does apply to all CORs. Major Facilities Purchasing and Purchasing Policies

and Programs personnel will review the Management Instruction and existing training requirements for possible modification to address any unique design and construction COR training requirements. Further, they will require USPS instructors emphasize the proper way to administer the contracts addressed in this report.

The Vice President, Facilities agreed to COR designation and termination letters.

Corrective action is estimated to be completed prior to the end of FY 2000.

**Evaluation of
Management
Comments**

Management's comments are responsive to our recommendations.

Separation of Duties

According to the purchasing manual, "The contracting officer may appoint in writing one representative or more to perform any administrative function that does not involve a change in the scope of the work, specifications, cost or duration of contract performance." The Construction Administration and Facilities Inspection Handbook, dated July 1998 stipulates, "The Contracting Officer, Contracting Officer's Representative, Architect-Engineer, the Construction Manager and Contractor are the primary members of a project team." The contracting officer has the authority to enter into, administer, and terminate contracts. Also, the contracting officer is the only member of the project team with the authority to obligate USPS. The contracting officer appoints a project manager who is a COR, with prime responsibilities to ensure construction work is completed in accordance with contract requirements. The construction handbook further stipulates, "Team members should be completely aware of their responsibilities and limitations of their authority."

Dual Role

The Columbia Facilities Service Office Manager did not ensure that adequate separation of duties existed for 2 of 12 files reviewed.⁶ Specifically, the same individual acted as contracting officer, COR and architect and engineer on the same project. For example, in two separate instances, the Whitehall, Ohio; and the Camden, New Jersey projects, each had one individual signing various progress payments as the contracting officer and COR. According to the Facilities Service Office manager, these conditions occurred because of staffing restrictions, which required postal employees to cover dual roles and responsibilities. According to the Vice President, Facilities, this condition existed because he is attempting to empower project managers by holding them accountable for projects from beginning to end, resulting in increased authority and responsibilities. Proper separation of duties between the contracting officer and COR allows for necessary checks and balances and ensures the integrity of the procurement process.

⁶ Columbia Facilities Service Office managed 12 of 49 contracts we reviewed.

Recommendation

The Vice President, Facilities in conjunction with the Vice President, Purchasing and Materials should:

13. Ensure that adequate separation of duties exists between the contracting officer and COR on USPS Facilities contracts.

**Management's
Comments**

The Vice President, Purchasing and Materials agreed with the recommendation, stating that separation of duties is necessary to ensure the integrity of the purchasing process.

The Vice President, Facilities stated that he believes the issue needs further discussion with Purchasing and Materials management. He advised that the issue will be studied and suggestions for improvement will be provided to appropriate management officials.

Corrective action should be completed during FY 2000.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation.

Summary of Facility Contracts Reviewed

Contract Number	G M P	Stored Material	Final Inspection	Over payment	Contract Time Extensions	No COR Training	No COR Appointment Letter	No Replacement COR Letter	No COR Termination Letter	Separation of Duties
Columbia FSO										
1						X	X		X	X
2			X**		X		X		X	
3						X	X			X
4						X	X			
5		X	X*			X	X	X	X	
6						X	X			
7				X		X	X			
8			X**			X	X		X	
9			X**			X	X		X	
10			X*			X	X			
11						X				
12						X	X			
Capital Metro Facilities										
13										
14			X *			X	X		X	
15			X **			X			X	
16						X				
17						X				
18		X	X **	X		X	X		X	
19						X				

Summary of Facility Contracts Reviewed

Contract Number	GMP	Stored Material	Final Inspection	Over payment	Contract Time Extensions	No COR Training	No COR Appointment Letter	No Replacement COR Letter	No COR Termination Letter	Separation Of Duties
Memphis FSO										
00	512582-98-B-0008	X				X				
01	512582-98-B-0007					X				
02	512582-98-B-0002	X				X				
03	512582-98-B-0006	X				X				
04	512582-98-B-0005									
05	475450-96-B-0359					X	X			
06	475450-98-B-0167					X				
07	475450-97-B-0149					X			X	
08	475450-98-B-0171		X		X	X	X		X	
09	475450-99-B-0049		X*			X	X		X	
10	475450-98-B-0090					X	X	X	X	
11	475450-97-B-0263		X*			X	X	X	X	
12	475450-97-B-0244		X*				X		X	
13	475450-98-B-0056							X	X	
14	475450-98-B-0094		X			X		X	X	
15	475450-97-B-0138					X			X	
16	475450-99-B-0027					X				
17	475450-96-B-0349					X			X	
18	475450-98-B-0145					X	X			

Responsibilities of Contracting
Officer's Representatives

CA-AR-99-003

9	475450-97-B-0168						X				
10	475450-98-B-0270						X				

Summary of Facility Contracts Reviewed

Contract Number	G M P	Stored Material	Final Inspection	Over payment	Contract Time Extensions	No COR Training	No COR Appointment Letter	No Replacement COR Letter	No COR Termination Letter	Separation Of Duties
Memphis FSO										
1						X				
2						X				
3						X				
4						X				
5										
6		X	X *			X	X		X	
7		X				X				
8						X				
headquarters										
9						X				
Totals										
	3	6	12	2	2	43	21	5	19	2
Contract files that contain a punchlist without evidence of resolution.										
* Contract files did not contain a punchlist or any evidence of final inspection.										
** The Construction Manager performed a monthly audit of this contract and identified \$71,000 of disallowable charges.										

RUDY LMSCHIED
Vice President, Facilities



September 16, 1999

SYLVIA OWENS

SUBJECT: Audit Report Number CA-AR-99-Draft

This memo is in response to the subject report. We appreciate the thoroughness of your investigation and look at your findings as opportunities for improvement. Michael Goodwin has a meeting scheduled with the FSO/MFO Design and Construction Managers on October 6. Your report will be shared with the group and corrective direction given. It is also my understanding that Major Facilities Purchasing will be reviewing and updating handbooks, training, and contracts as necessary to reflect your recommendations.

Regarding the findings resulting from your visit to the Memphis MFO, we are currently in the process of moving project management responsibility for the projects greater than \$10 million to headquarters. It is anticipated that this will result in improved project oversight and procedural consistency.

We offer the following specific comments to your recommendations:

Guaranteed Maximum Price Contracts

An informal audit is conducted by the Design and Construction Manager with the receipt of each pay request. Payment amount is based on documentation provided by the contractor and verification of completed work.

We do not feel that a certified audit is necessary every month. Instead, on most projects, a certified audit prior to final payment should prove to be satisfactory.

Certifying Stored Materials

We agree with your recommendation, except for the fact that the contracting officer should be responsible for enforcing this policy. The contracting officer signs final authorization on payments and as such should verify that all supporting documentation is in place.

Final Inspection and Acceptance

We agree with your recommendation. The need to document field inspections and final inspections is an extremely important issue to Facilities and has been addressed in previous memorandums and newsletters to the field (copies attached). We will continue to stress compliance with this issue as the need arises.

Overpayment of Invoices

The appropriate FSO will be contacted and efforts implemented to recoup the \$103,791 overpayment that your audit identified.

4301 WILSON BOULEVARD, SUITE 300
ARLINGTON, VA 22203-1861
703-526-2727
Fax: 703-526-2740

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Contract Time Extensions

We agree with your recommendations and this issue will be stressed at the upcoming national Design and Construction Managers meeting. These managers are the primary contracting officers in each office and are responsible for enforcing contracting related policy.

Requirements for Contracting Officer's Representative

Major Facilities Purchasing has taken over all contracting training. They will be responsible for developing and implementing the identified COR training. We agree with your recommendations regarding designation and termination letters for CORs.

Separation of Duties

I believe that the entire concept of contracting versus a bifurcated process for separation of duties needs further discussion. It is my firm conviction that we have an opportunity to improve the process by adopting the best practices in the industry, supplemented by a regular audit review.

It is our position though, that as long as there is independent third party review, it is allowable for the Postal project manager to sign pay requests on their own projects. It is also our position that the project manager should be able to utilize their contracting authority to exercise contract modifications up to a pre-determined amount. This specific position has not been implemented as policy, since Major Facilities Purchasing is not in agreement. We will continue our discussions with Major Facilities Purchasing and issue clarification on the related policy.

Please let me know if we can be of any further assistance.

A handwritten signature in blue ink, appearing to read "S. Miller", is written over the text of the letter.

PURCHASING



September 20, 1999.

SYLVIA L. OWENS

THRU: KEITH STRANGE

KS
9/21/99

SUBJECT: Draft Audit Report on the Responsibilities of Contracting Officer's Representatives
(Audit Report Number CA-AR-99-Draft).

This responds to the recommendations contained in the subject audit report, dated August 19, 1999. The report identifies a number of important issues regarding the administration of design and construction contracts. To disseminate the findings of this report and avoid the repetition of mistakes, the following course of action will be implemented with regards to the report recommendations. Related efforts should be completed prior to the end of Fiscal Year 2000. Additionally, the attached includes other planned actions for addressing report recommendations.

- Once the final report is issued, Major Facilities Purchasing will distribute to all FSO and ASO Managers. The managers will be asked to share and discuss the findings and recommendations with their staffs.
- Purchasing, Policies and Programs will share the findings with the instructors that teach our contracting officers (CO) required courses and make sure they emphasize the proper way to administer the contracts in the areas in question.
- Major Facilities Purchasing, in conjunction with Facilities and Purchasing, Policies and Programs, will re-examine related procedures handbooks (Design and Construction Practices P-2 and the Construction Administration and Facilities Inspection Handbook) to make sure there is adequate coverage of the issues identified in this report.
- Major Facilities Purchasing will examine design and construction contracts to make sure they provide adequate protection with respect to the issues identified in this report.

Please direct any questions you may have to Robert Fraga at (703) 526-2786 or Marie Moroney at (202) 268-4117.


Juanda J. Barclay
Manager,
Purchasing Policies and Programs

Attachment

cc: Rudolph Umscheid
Michael L. Goodwin
Robert Fraga
Marie K. Moroney

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-6201
FAX: 202-268-4027

Attachment
OIG Audit Report Number CA-AR-99-Draft
Page 1 of 3

Guaranteed Maximum Price Contracts

Recommendations

The Major Facilities Service Office Manager should implement procedures and controls to:

1. Accomplish monthly audits of guaranteed maximum price contracts to identify shared cost savings.
2. Adjust contractor payments based on the results of audits.

Management's Comments

Agree with the recommendations.

Starting in September 1999, lead responsibility for contract administration of major facilities projects will be done in Major Facilities Purchasing. Major Facilities Purchasing will implement these recommendations for all future projects.

Certifying Stored Materials

Recommendation

3. Facilities Service Office managers should require that contractor invoices include sufficient external supporting documentation before processing the invoice for payment.

Management's Comments

Agree with the recommendation as noted below.

While we agree that proper documentation must be provided before processing invoices for stored materials, the responsibility to ensure supporting documentation obtained by the COR is sufficient resides with the COR and ultimately the contracting officer, not the FSO Manager.

Final Inspection and Acceptance

Recommendations

4. The Vice President, Facilities, in conjunction with the Facilities Service Office manager should require CORs to include the final inspection in contract files and recommend withholding final payment until discrepancies are corrected.

Management's Comments

Agree with the recommendation as noted below.

We agree that final inspection documentation should be included in contract files and moneys withheld until all punch list items are corrected. However, it is the responsibility of the contracting officer (not the Vice President of Facilities or the FSO Manager) to make sure that this documentation is obtained from the COR and that moneys are withheld as appropriate.

Attachment
OIG Audit Report Number CA-AR-99-Draft
Page 2 of 3

Overpayment of Invoice

Recommendations

The Facility Service Officer Manager should require:

5. The contracting officer to recoup the \$103,791 overpayment on the contract.
6. The COR to instruct contractors to resubmit invoices when all appropriate costs are not shown on invoices.

Management's Comments

Agree with the recommendations.

These recommendations will be addressed by Headquarters Facilities.

Contract Time Extensions

Recommendations

The Vice President, Facilities should:

7. Require contractors to submit written justification for contract delays and/or extensions in accordance with the terms of the contract.
8. Require the contracting officer to make a determination of the cause of the delay and negotiate an equitable adjustment or assess liquidated damages, when appropriate.

Management's Comments

Agree with the recommendations.

This is basic contract management. The responsibility for these actions remains with the contracting officer.

Requirement for Contracting Officer's Representatives

Recommendations

9. The Vice President, Purchasing and Materials should make a determination on whether COR training as defined by Management Instruction AS-710-95-13, *Contractor Officer's Representative Program*, applies to Facilities project managers who are assigned as CORs.

The Vice President, Purchasing and Materials, in conjunction with the Vice President, Facilities should require the Facilities Service Office managers to:

10. Provide COR training to employees before they are assigned COR duties.
11. Ensure contracting officers issue appointment letters, which clearly define CORs' duties and responsibilities.

Attachment
OIG Audit Report Number CA-AR-99-Draft
Page 2 of 3

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Attachment
OIG Audit Report Number CA-AR-99-Draft
Page 3 of 3

12. Issue termination letter to CORs and to construction contractors when contract employees are no longer authorized to represent postal and when CORs are replaced prior to the completion of contracts.

Management's Comments

Agree with the recommendations.

Management Instruction AS-710-95-13 does apply to all CORs. Major Facilities Purchasing and Purchasing Policies and Programs will review this Management Instruction and existing training requirements for possible modification to address any unique design and construction COR training requirements. It is our intent to find more cost-effective means for training postal CORs service wide. We project completing these efforts during Fiscal Year 2000.

Separation of Duties

Recommendations

13. Ensure that adequate separation of duties exists between the contracting officer and COR on USPS Facilities contracts.

Management's Comments

Agree with the recommendation.

We agree that separation of duties is necessary to ensure the integrity of the purchasing process. Major Facilities Purchasing and Purchasing Policies and Programs will sponsor a cross functional team to review existing policies and practices related to this recommendation and submit suggestions for improvement to appropriate Purchasing and Materials and/or Facilities management. We project completing this effort during Fiscal Year 2000.

RUDY UMSCHIED
VICE PRESIDENT, FACILITIES



September 29, 1999

SYLVIA OWENS
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Audit Report Number CA-AR-99-Draft

Please consider my letter of September 16 on the subject audit amended as follows:

Guaranteed Maximum Price Contracts

Recommendations 1 and 2

We agree with your recommendations. An informal audit is conducted by the Construction Manager with the receipt of each pay request. We will require the Construction Manager include documentation in the contract file which shows the potential shared savings identified as a result of these audits. Payment amount is based on documentation provided by the contractor and verification of completed work. Instructions for corrective action on this issue will be given to affected design and construction project managers.

Overpayment of invoices

We agree with your recommendation. We will instruct CORs to have contractors resubmit invoices when all appropriate costs are not shown on invoices. Instructions for corrective action on this issue will be addressed on October 6, 1999, at the Design and Construction Managers meeting.

Please contact Michael Goodwin at 703-526-2750, if further clarifications are necessary.

A handwritten signature in black ink, appearing to read "Rudy Umschied", written over a light blue circular stamp.

4301 WILSON BOULEVARD, SUITE 300
ARLINGTON, VA 22203-1861
703-526-2727
FAX: 703-526-2740

Major Contributors to [REDACTED]
This Report: