March 27, 2002

THOMAS G. DAY
VICE PRESIDENT, ENGINEERING

SUBJECT: Audit Report – Postal Service Test, Evaluation, and Quality
(Report Number DA-AR-02-004)

This report presents the results of our self-initiated audit of the Postal Service Test, Evaluation, and Quality group (Project Number 01BA008DA000). The objectives of this audit were to: (1) assess the functioning of Test, Evaluation, and Quality, and (2) evaluate the effectiveness of the group in performing its mission within the Postal Service.

The audit revealed Test, Evaluation, and Quality did not have formal written policies or procedures to develop documents used for performing tests and inspections of capital equipment. In comparison, benchmarking revealed that formal policies and procedures were a best business practice. Test, Evaluation, and Quality did not provide an independent assessment of programs. The group did not have any authority for program approval and assessment. Quality's lack of budget control further limited the group's independence and ability to evaluate programs.

We provided management with four recommendations regarding the Test, Evaluation, and Quality group. These recommendations included establishing formal policies and procedures, modifying the organizational reporting structure of the group, establishing roles and responsibilities and providing the Quality group with an independent budget. Management agreed with recommendations 1 and 3 to establish formal policies and procedures and to define roles and responsibilities. However, management disagreed with recommendation 2 to modify the organizational reporting structure and recommendation 4 to provide the Quality group with an independent budget. Management believed the current reporting structure provided sufficient independence for the testing process. They also believed the budget for the Quality group was appropriate. We consider recommendation 2 significant and plan to pursue this recommendation through the audit resolution process. We do not consider recommendation 4 significant and do not plan to pursue it through the audit resolution process. Management's comments and our evaluation of these comments are included in this report.

The OIG considers recommendations 1, 2, and 3 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 follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Tracy LaPoint, director, Developmental, at (703) 248-2100, or me at (703) 248-2300.

Ronald D. Merryman
Acting Assistant Inspector General
for eBusiness

Attachment

cc: John A. Rapp
Thomas P. Shipe
Sammy J. Seals
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

Test, Evaluation, and Quality's role is to conduct tests and compile data in support of equipment and systems acquisition. Two distinct subgroups exist within the group: (1) Test and Evaluation, and (2) Quality. Test, Evaluation, and Quality reports to Technology Acquisition Management within Engineering. The objectives of this self-initiated audit were to: (1) assess the functioning of Test, Evaluation, and Quality; and (2) evaluate the effectiveness of the group in performing its mission within the Postal Service.

Results in Brief

Test, Evaluation, and Quality did not have formal written policies or procedures to develop documents used for performing tests and inspections of capital equipment. In comparison, benchmarking revealed that formal policies and procedures were a best business practice. The absence of any procedures resulted in a lack of completeness, consistency and objectivity in test plans, testing processes, summary reports, and records maintenance.

Test, Evaluation, and Quality did not provide an independent assessment of programs. Unlike other testing and quality groups from benchmarked organizations, Test, Evaluation, and Quality did not have any authority on program approval and assessment. Quality's lack of budget control further limited the group's independence and ability to evaluate programs.

Summary of Recommendations

We provided management with four recommendations regarding the Test, Evaluation, and Quality group. These recommendations included establishing and adopting formal policies and procedures, modifying the organizational reporting structure of the group to assure an independent and thorough assessment of capital equipment programs, establishing roles and responsibilities, and providing the Quality group with an independent budget.

Summary of Management's Comments

Management agreed with recommendations 1 and 3 to establish policies and procedures and define roles and responsibility of the group. However, they disagreed with recommendation 2 to modify the organizational reporting structure. Management stated that Test, Evaluation, and Quality was independent of program management and added a dual reporting relationship was not necessary. Management also disagreed with recommendation 4 to

provide the Quality group with an independent budget. Management agreed this control was important but stated it currently exists. Additionally, management questioned the appropriateness of our best practices study. Management's comments, in their entirety, are included in Appendix B of this report.

Overall Evaluation of Management's Comments

Management's planned actions to formally document policies and procedures and establish roles and responsibilities are responsive to our recommendations. However, we plan to pursue recommendation 2, to modify the organizational reporting structure through the audit resolution process.

We believe a direct report to the vice president, Engineering, would enhance the current reporting structure to provide benefits including an independent report of test results, prevent suppression of unfavorable test results, and provide discipline and accountability through a formal reporting process. Since Test, Evaluation, and Quality was not responsible for data analysis and did not report to an independent entity high enough in the organizational hierarchy to be effective, there was no assurance that programs were objectively reviewed.

We do not agree with management questioning the appropriateness of the best practices study. In fact, the vice president, Engineering, suggested the Office of Inspector General consider this approach. Given the objective of the audit was to evaluate the functioning and effectiveness of Test, Evaluation, and Quality, it was appropriate that we contacted Fortune 500 companies that purchased capital equipment used in operating processes.

We do not consider recommendation 4 significant and therefore, do not plan to pursue it through the audit resolution process.

INTRODUCTION

Background

The Test, Evaluation, and Quality group reports to program management within Technology Acquisition Management; a subgroup of Engineering. Overall, Technology Acquisition Management oversees the acquisition, testing and acceptance, deployment, and integration of new technology systems to provide for increased efficiencies in mail processing and distribution, delivery, and material handling operations. These systems include complex automation equipment, advanced mechanization, material handling, robotics and vehicles.

More specifically, Technology Acquisition Management develops contract specifications, deployment strategies, and schedules. The group reviews and evaluates technical systems, monitors contract performance and provides sites with technical information necessary to prepare for delivery, installation, testing, and acceptance of equipment.

The groups reporting to Technology Acquisition Management are:

- Automation Equipment
- Material Handling Deployment
- Package Sorting and Customer Service Systems
- Test, Evaluation, and Quality

Test, Evaluation, and Quality's role is to conduct tests and compile data in support of equipment and systems acquisition. Specifically, they provide input to the test plan, organize test teams and testing processes, and perform setup and data collection.

Two distinct subgroups exist within Test, Evaluation, and Quality: (1) Test and Evaluation, and (2) Quality. The Test and Evaluation group is responsible for ensuring that equipment testing is fair, unbiased and thorough enough to adequately test the vendor's equipment. The Quality group primarily observes selected vendor processes and tests equipment at deployment sites.

Objectives, Scope, and Methodology

The objectives of this audit were to: (1) assess the functioning of Test, Evaluation, and Quality; and (2) evaluate the effectiveness of the group in performing its mission within the Postal Service. To assess the functioning of Test, Evaluation, and Quality, we determined whether they performed an independent assessment of equipment and controlled funding for program testing and quality functions.

To determine whether Test, Evaluation, and Quality performed an independent assessment of programs, we observed various types of testing including: proof of concept; competitive; first article; and, quality deployment acceptance testing. In addition, we interviewed Postal Service officials within Engineering and reviewed relevant documentation including test plans, statements of work, and summary test reports.

To evaluate whether Test, Evaluation, and Quality controlled program funding to provide an independent assessment of programs, we interviewed Postal Service officials within Test, Evaluation, and Quality and Technology Acquisition Management. In addition, we reviewed documentation including program correspondence and quality funding requests.

To evaluate the effectiveness of Test, Evaluation, and Quality in performing its mission, we assessed the adequacy of policies and procedures. In assessing policies and procedures we reviewed informal quality guidelines as well as test plans and summary reports prepared by Test, Evaluation, and Quality.

In order to determine best business practices, we benchmarked against Fortune 500 companies. Assuming the Postal Service were a private company, with revenues in excess of $64.5 billion in fiscal year (FY) 2000, it would rank 11th in the Fortune 500 listing. We contacted 46 companies (See Appendix A) to discuss the structure and function of their testing and quality groups for capital equipment. Eighteen companies shared information. Companies contacted for benchmarking were judgmentally selected from the top 200 of the Fortune 500 ranking by revenue for FY 2000.

The audit was conducted between April 2001 and March 2002 in accordance with generally accepted government auditing standards and included such tests of internal controls, as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

The Office of Inspector General (OIG) has conducted one previous audit relating to Test, Evaluation, and Quality, Decision Analysis Report Process (DA-AR-01-005, dated September 27, 2001). This report contained two recommendations concerning test plans, summary data and analysis of test results. Management agreed with the recommendations for sponsors to provide this information to ensure projections in Decision Analysis Reports are reasonable.

Additional research did not indicate any reviews by the Postal Inspection Service or General Accounting Office.

AUDIT RESULTS

Lack of Policies and Procedures	Test, Evaluation, and Quality did not have formal written policies or procedures to develop documents used for performing tests and inspections of capital equipment. Benchmarking revealed that formal policies and procedures were a best business practice. The absence of any procedures resulted in a lack of completeness, consistency and objectivity in test plans, testing process, summary reports, and records maintenance.
Best Business Practices	Benchmarking revealed all 18 companies[1] had procedures to inspect, test, and verify products met stated requirements. Specifically, companies had formally approved internal policies to define testing and quality procedures for equipment procurements. In addition, all companies required documentation of program results. Of the 18 companies, 15 created formal reports, while the remaining 3 used other formal procedures to communicate and document results. Due to the fact that all 18 Fortune 500 companies had policies and procedures, the OIG considered this a best business practice. Policies and procedures provide organization, completeness, and consistency for tests, summary data, and analyses. For example, one company's procedure was used to "establish a uniform acceptance criteria for procurement of major capital equipment and tooling." Another company's procedure stated, "test results shall be documented . . . to ensure that test requirements have been satisfied." Additionally, best practices indicated that all companies had record retention requirements. Product inspection and testing records were kept in hard copy or electronic files that were accessible for reference. We found that the Postal Service did not follow the best business practice of requiring formal internal testing and evaluation policies and procedures. The lack of policies and procedures may have contributed to Test, Evaluation, and Quality's inability to provide the OIG with an inclusive list of FY 2000 programs tested. We compiled a list of 22 programs[2] and requested test plans and results for each program. However, Test, Evaluation, and Quality was unable to provide requested information for all programs

[1] A total of 18 companies shared information with the OIG regarding testing and quality functions.
[2] The list was compiled from the best available information and may not be all-inclusive.

identified by the OIG. As a result, our review was limited because adequate information was not available. Therefore, we were not able to provide a complete evaluation of the effectiveness of Test, Evaluation, and Quality performing its mission within the Postal Service. Test, Evaluation, and Quality could provide a useful management tool by keeping accurate and complete program inventories.

Based on the limited information provided, we found that reports and test plans were inconsistent. Our review disclosed that these reports and test plans were based on the employee's previous reports and test plans. The detail and content of reports reviewed varied greatly and in some instances no reports were prepared at all. For example, the reports did not indicate if the objectives of the test, including performance elements were achieved. Given that the mission of Test, Evaluation, and Quality is to provide an unbiased and thorough review of equipment programs, it is imperative that they are able to provide complete, consistent and objective test plans, processes and reports. Best business practices of top performing companies illustrated the importance of policies and procedures in successfully evaluating equipment programs.

Recommendation

We recommend the vice president, Engineering:

1. Develop and formally adopt policies and procedures in accordance with best business practices to establish: (a) procedures to develop documents used for performing tests and inspections of capital equipment; and, (b) policies to specify reporting requirements and documentation of program results.

Management's Comments

Management agreed with the recommendation and stated a complete effort would be implemented within 6 months or by September 1, 2002.

Management commented on the OIG's statement that Test, Evaluation, and Quality was not able to provide the OIG with an inclusive list of FY 2000 programs tested and test plans and reports for each of the programs. Management contended this statement was misleading because OIG

representatives failed to obtain information for six tests, and five tests were not completed or data was provided to a group outside of Technology Acquisition Management for analysis.

In addition, management requested detailed information regarding the OIG's best practice study to assist in developing policies and procedures.

Evaluation of Management's Comments

Management's planned actions to document policies and procedures are responsive to our recommendation.

We do not agree with management's comments concerning the list of FY 2000 programs. Since Test, Evaluation, and Quality could not provide a list of FY 2000 programs tested, the OIG created a list from documentation provided by the group. More importantly, it is our contention that the organization responsible for testing programs should maintain a complete listing as well as the individual records of test plans and results.

In response to management's request for more detailed findings of the OIG's best practice study, OIG representatives are willing to meet with management to discuss results in further detail.

Lack of an Independent Assessment	Test, Evaluation, and Quality could not provide an independent assessment of programs. Unlike other testing and quality groups from benchmarked organizations, Test, Evaluation, and Quality did not have any authority on program approval and assessment. In addition, Quality's lack of budget control further limited the group's independence and ability to evaluate programs.
Best Business Practices	During our benchmarking we learned that 16 out of 18 of the benchmarked companies had testing and quality groups that were considered to operate as independent functional units. These groups were independent of program management or had a direct report to an authority higher than program management. All testing and quality groups within the 18 benchmarked companies had significant involvement in determining whether equipment was accepted or rejected. The testing and quality groups were required to approve equipment before final acceptance or worked in conjunction with program management and engineering experts to make an acceptance decision. In a study performed for the Department of Defense, dated June 1, 1999, regarding test and evaluation procedures, a best business practice was to "ensure the test organization reports high enough in the management hierarchy to be effective."[3] Furthermore, Test, Evaluation, and Quality staff indicated that Test, Evaluation, and Quality could perform more effectively if they reported to an authority other than program management. Using our benchmarking results, Test, Evaluation, and Quality should at a minimum report concurrently to the vice president, Engineering.
Reporting Structure	Test, Evaluation, and Quality did not perform an independent assessment of programs. The group tested equipment and reported unanalyzed performance data to program management; and was not responsible for data analysis or providing an overall evaluation of test results. Specifically, they had no authority in determining whether equipment was accepted or rejected. The manager, Technology Acquisition Management stated that Test, Evaluation, and Quality was 'extremely important' in the data collection effort for tests. This official added that the group's

[3] Best Practices Applicable to DoD Developmental Test and Evaluation, June 1, 1999.

expertise is in conducting tests and compiling data. Other than data collection, Test, Evaluation, and Quality did not have any involvement in whether equipment was accepted or rejected.

According to Test, Evaluation, and Quality employees, program management had ultimate authority over program decisions and information used to justify equipment acquisitions. Overall, Test, Evaluation, and Quality operated as a data collection function rather than providing an evaluation of equipment, an identified best business practice.

In addition, there was a lack of internal controls within the reporting structure because there was not a separation of duties. Program management had the ultimate authority over program decisions and controlled funding for quality assurance. Since Test, Evaluation, and Quality did not report to a level independent of program management, there were no checks and balances to ensure equipment met operational requirements.

During our audit the relationship between Economic Value Added bonuses and equipment deployment was brought to our attention. Economic Value Added bonuses for Postal Service management included the number of pieces of equipment deployed and capital dollars spent. Although we found no conclusive information that linked actual deployments of equipment for Economic Value Added bonuses, there was a perceived conflict of interest. The manager, Technology Acquisition Management agreed that this perception was readily apparent. As a result, the perception exists and management should reassess the current reporting structure.

Best Business Practices	Our benchmarking indicated that 15 companies had independent budgets for their quality groups. In general, these budgets were considered independent because funds were allocated by a source other than program management and were controlled by the quality group or an entity independent of the program requiring quality assurance. In addition to this best business practice, 10 of the 18 companies that shared information stated the program manager was not able to cut program funding for quality assurance. Of the remaining companies, six indicated

that cutting quality funding was unlikely and would be detrimental to program results due to the importance of quality assurance in the capital equipment procurement process.

Quality's Budget

The Quality group's lack of budget control further limited their independence. Our review determined this group could not adequately complete deployment acceptance testing.[4] For certain programs, program management requested Quality to reduce the amount of money needed to complete testing, or involvement was terminated due to the lack of sufficient funds.

Funding to support quality assurance functions is committed in the capital section of each program's Decision Analysis Report. However, Quality employees must submit documentation to program managers requesting these funds, and allocation approvals are the discretion of program management. This presents an increased risk that money allocated for quality functions may be appropriated for other program needs.

Furthermore, Quality staff indicated that funding was not always adequate to support quality functions. Since the Quality group was not always provided adequate funding, in certain cases equipment was not quality deployment acceptance tested and management did not have assurance equipment met operational and performance expectations.

Quality's ability to adequately support and independently evaluate programs is compromised because program management can unilaterally terminate funding for quality assurance functions.

Recommendation

We recommend the vice president, Engineering:

2. Modify the organizational reporting structure of Test, Evaluation, and Quality to have a direct report to his office as well as the manager, Technology Acquisition Management.

[4] Deployment acceptance testing is a final inspection of equipment performed by Quality after deployment.

Management's Comments	Management disagreed with our recommendation stating a dual reporting relationship was not necessary, beneficial, or practical. Management added it would create confusion, potentially result in costly program delays, and remove authority from the group assigned responsibility. Management also stated that Test, Evaluation, and Quality was independent of program management and reported directly to the manager, Technology Acquisition Management. Further, management stated our conclusion that Test and Evaluation was not independent was based on an incorrect belief that they reported to program management. Management stated Technology Acquisition Management, as a whole was responsible for assuring equipment met expectations. Management added this joint effort was most effectively and efficiently carried out through the reporting relationship currently existing within Technology Acquisition Management. Management questioned the appropriateness and thoroughness of benchmarking and indicated that Test, Evaluation, and Quality was independent of program management and had a direct report to an authority higher than program management. Additionally, management noted they take great comfort in knowing that after extensive review and observation by the OIG of its testing efforts and procedures, the OIG did not uncover any areas of concern.
Evaluation of Management's Comments	Management's comments are not responsive to our recommendation. We plan to pursue this recommendation through the audit resolution process. We believe a direct report to the vice president, Engineering, would enhance the current reporting structure to provide benefits including an independent report of test results, prevent suppression of unfavorable test results, allow senior Engineering management to review all critical program performance information, and provide discipline and accountability through a formal reporting process.

We do not agree with management's statement that Test, Evaluation, and Quality is independent of program management because they report to the manager, Technology Acquisition. Management did not address the issue that Test, Evaluation, and Quality's primary function was conducting tests and collecting data. Management did not explain who was independently responsible for data analysis and providing an overall evaluation of test results. Since Test, Evaluation, and Quality was not responsible for data analysis and did not report to an independent entity high enough in the organizational hierarchy to be effective, there was no assurance that programs were objectively reviewed.

We agree that the Technology Acquisition Management organization was responsible for assuring equipment met expectations. We agree that there are benefits from including input from all subgroups within Technology Acquisition Management. However, Test, Evaluation, and Quality did not perform an independent assessment of programs. As a result, the internal control structure for ensuring vendors met requirements and equipment was objectively evaluated was weakened. Furthermore, by enhancing the reporting structure, management can minimize the perceived conflict of interest of Economic Value Added bonuses being tied to equipment deployments.

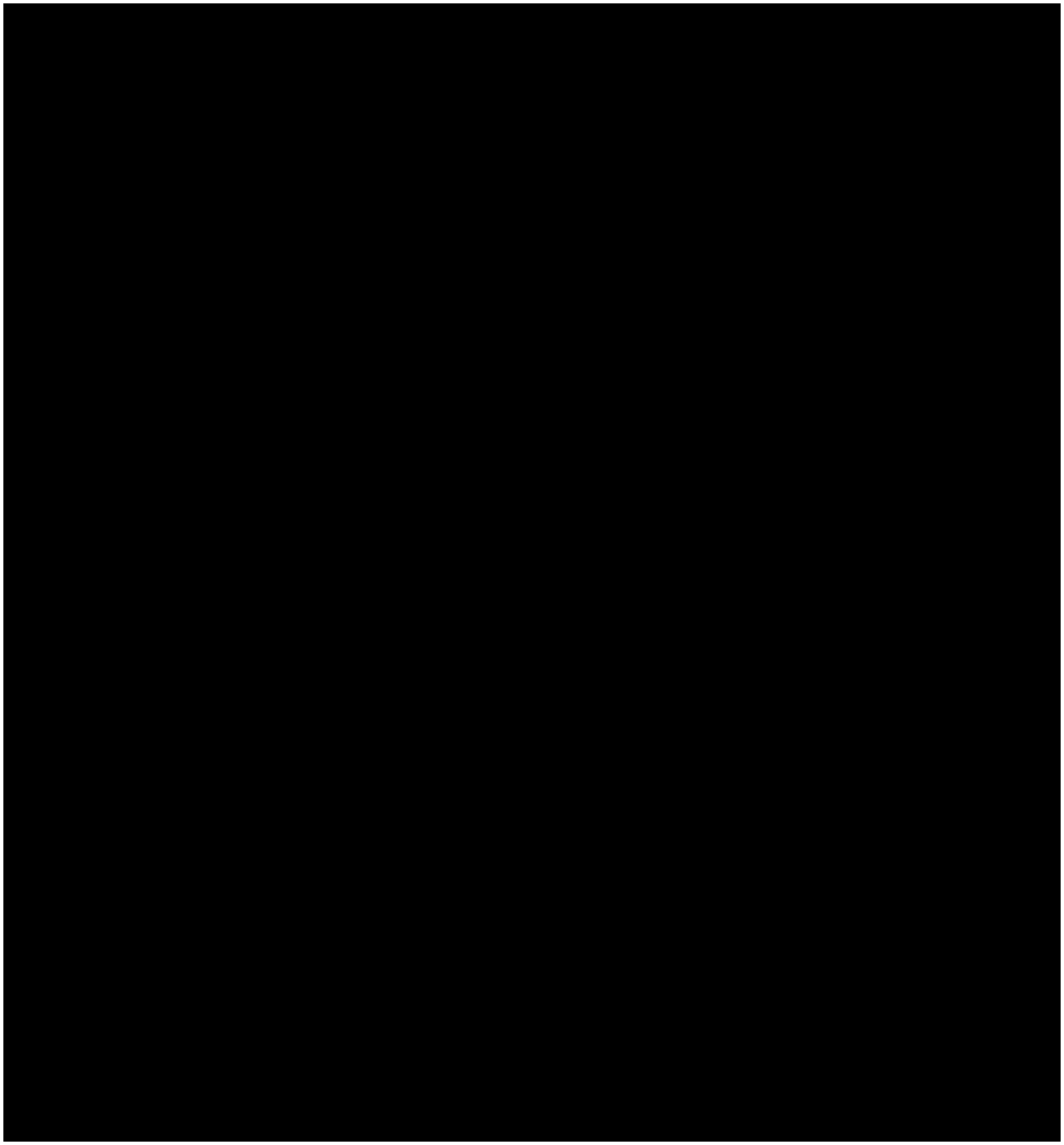
We also do not agree with management questioning the appropriateness and thoroughness of benchmarking for this audit. In fact, the vice president, Engineering, suggested the OIG consider this approach. Management attempted to challenge the study on the grounds that it included companies in "industries that are totally unrelated to that of the Postal Service." Given the objective of the audit was to evaluate the functioning and effectiveness of Test, Evaluation, and Quality, it was appropriate that we contacted Fortune 500 companies that purchased capital equipment used in operating processes. The OIG asked each company the same questions to determine their testing and quality policies and procedures, roles and responsibilities and reporting structure. We determined that best practices were the results shared by nearly all companies contacted.

	Finally, we are concerned about management's statement that they take great comfort that the OIG did not uncover any areas of concern. We believe the report contains significant matters that warrant management's attention. We plan to follow-up on management's corrective actions to our recommendations.
Recommendation	We recommend the vice president, Engineering: 3. Establish roles and responsibilities to ensure independence for testing and quality functions within the capital procurement process.
Management's Comments	Management agreed with our recommendation and stated that completion of policies and procedures in response to recommendation 1 will help ensure roles and responsibilities of the Test, Evaluation, and Quality group are more clearly defined. Additionally, management was immediately initiating a new process to: (1) more directly include input from all relevant groups in Technology Acquisition Management, and (2) more formally document the basis and rationale for acceptance decisions.
Evaluation of Management's Comments	Management's planned actions are responsive to our recommendation.
Recommendation	4. Provide Quality with control of their budget to ensure funding is available to support Quality's program responsibilities.
Management's Comments	Management disagreed with our recommendation stating they agreed this control was important and currently exists. Management added that contrary to the report finding, program management could not unilaterally terminate needed funding for quality assurance testing against wishes of the manager, Test, Evaluation, and Quality.
Evaluation of Management's Comments	Management's comments are not responsive to our recommendation. We agree that funding requests are based on estimates from the Quality group; however, funding allocations are dependent on program management's approval. During the audit we found

examples of equipment that was not quality deployment acceptance tested[5] due to insufficient funds allocated by program management. However, we do not plan to seek resolution on this recommendation.

[5] Deployment acceptance testing is a final inspection of equipment performed by Quality after deployment.

APPENDIX A. COMPANIES CONTACTED FOR BENCHMARKING



APPENDIX B. MANAGEMENT'S COMMENTS

THOMAS G. DAY
VICE PRESIDENT
ENGINEERING

UNITED STATES
POSTAL SERVICE

March 12, 2002

DONNA EDSALL
ACTING ASSISTANT INSPECTOR
GENERAL FOR eBUSINESS

Subject: USPS Response to OIG Report DA-AR-02-DRAFT

As requested, the below response is provided regarding your four recommendations in the above subject OIG Audit.

Recommendation:

Develop and formally adopt policies and procedures in accordance with best business practices to establish:

- Procedures to develop documents used for performing tests and inspections of capital equipment
- Policies to specify reporting requirements and documentation of program results

Engineering Response:

We agree with a need to more formally document policies and procedures within the Test, Evaluation, and Quality group regarding test plans, testing process, summary reports and records maintenance and retention.

Complete effort to be implemented within 6 months or by September 1, 2002.

We ask that OIG present us with more detailed findings of their best practice study to aid in developing the structure of these policies and procedures.

We take issue with several statements in the report:

- Our failure to provide the OIG with an inclusive list of FY 2000 programs tested along with test plans and results for each is misleading – the OIG reps failed to return and obtain this information for six of the tests, and for five of the tests, either the test was not completed or another group (EREA) was given all the data and performed the analysis.
- We do require and conduct very detailed and controlled testing of every equipment program at each appropriate stage (competitive, first article, and deployment) of the acquisition process which meets or exceeds the needs of our Engineering groups to make proper decisions regarding purchase and/or deployment of capital equipment for USPS.

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- The Test, Evaluation and Quality (TE&Q) group does not report to Program Management within the Technology Acquisition Management organization. They are independent to Program Management PCES Managers and report directly to the Manager, Technology Acquisition Management.

Recommendation:

Modify the organizational reporting structure of Test, Evaluation and Quality to have a direct report to his office as well as the manager, Technology Acquisition Management.

Engineering Response:

We disagree with this recommendation.

We do not believe that the dual reporting relationship recommended by the report is necessary, beneficial, or practical. It would create confusion, potentially result in costly program delays, and would remove authority from the group assigned responsibility. Justification for this recommendation is based on the OIG's assessment of existing reporting relationships, which is incorrect, and on a flawed benchmarking effort. Notwithstanding our concerns about the appropriateness of the benchmarking effort, the best business practices cited in the report already exist under current reporting relationships. Consequently, the report is lacking any justification and basis for this recommendation.

One of the audit goals was to evaluate the effectiveness of the Test, Evaluation, and Quality group in performing its mission within the Postal Service. The report assumes that this role is to conduct independent assessments of programs. While not explicitly defined in the report, it appears that "independent" means separate and distinct from program management. The report concludes that Test, Evaluation, and Quality did not perform an independent assessment of programs and recommends that the reporting structure of the group be changed. This conclusion appears to be partially based on the belief that Test, Evaluation, and Quality reports to the program management groups.

A closer look at the overall structure of the Technology Acquisition Management group reveals that there is a significant level of independence in the reporting relationships within the group. Unlike what is reported in the audit, the Test, Evaluation, and Quality group DOES NOT report to program management within Technology Acquisition Management. Additionally, a better understanding of the roles and responsibilities of the Technology Acquisition Management group would reveal that evaluation and acceptance of equipment is very much a collective effort and not one that can be delegated to a single group.

Our Technology Acquisition Management group as a whole is tasked, among other things, with specifying requirements and assuring that equipment and systems acquired and delivered meet expectations and requirements. This effort is carried out through the combined efforts and input from each of the subgroups within the office. This includes the various program management offices and the Test, Evaluation and Quality office. The existing reporting relationship ensures that the Technology Acquisition Management group possesses the resources and authority to carry out one of its prime responsibilities. As the report correctly indicates, acceptance of equipment and systems necessarily requires that the testing group work "in conjunction with program management and engineering experts to make an acceptance decision." Practice has shown that this joint effort is most effectively and efficiently carried out under the reporting relationships currently existing within the Technology Acquisition Management group.

This audit report recommendation is partially based on the OIG's assessment of best business practices derived from their benchmarking effort. While the report provides little detail on how this study was conducted, we strongly question the appropriateness and thoroughness of this effort. The survey included companies in industries that are totally unrelated to that of the Postal Service. It also arbitrarily assumes that practices followed represent "best business practices" without any apparent assessment of the effectiveness of these practices in the responding companies. Regardless, even a cursory review of our existing reporting relationships would reveal that they are in line with the best practices prescribed by the OIG.

The benchmarking effort revealed that testing and quality groups **"were independent of program management or had a direct report to an authority higher than program management."** Our Test, Evaluation and Quality group has both of these attributes. The group has its own executive level manager, is independent of the program management groups, and reports directly to an authority (Manager, Technology Acquisition Management) higher than program management.

Overall, we believe that existing reporting relationships appropriately allow us to best fulfill our responsibility of ensuring that the equipment and systems delivered to us by our vendors meet requirements. We thoroughly evaluate and rigorously test equipment in all phases of the acquisition process. Our testing efforts follow very specific and detailed test plans. We take comfort in knowing that after extensive review and observation of our testing efforts and procedures, the OIG did not uncover any areas of concern. In practice, the existing reporting relationships have been instrumental in successfully evaluating and accepting thousands of pieces of equipment and should not be changed as proposed.

Recommendation:

Establish roles and responsibilities to ensure independence for testing and quality functions within the capital procurement process

Engineering Response:

We agree that equipment testing, including acceptance testing, is an important aspect of the equipment acquisition process.

Completion of the effort described in response to recommendation #1 will help ensure that the roles and responsibilities of our Test, Evaluation and Quality group are more clearly defined. Additionally, we are also initiating immediately a new process which more directly includes input from all relevant groups in Technology Acquisition Management during first article test acceptance decision making and more formally documents the basis and rationale for these decisions.

Recommendation:

Provide Quality with control of their budget to ensure funding is available to support Quality's program responsibility

Engineering Response:

We agree that this is important, but believe that this control currently exists.

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The Test, Evaluation and Quality group has both an expense budget and a capital budget. These budgets are established and are scrutinized in much the same fashion as all budgets within the Engineering Group. In the case of their expense budget, there is absolutely no involvement of program management in establishing and administering this budget. Similarly the capital budget for this group is almost exclusively based on estimates from the group. Moreover, unlike the report suggests, program management can not unilaterally terminate needed funding for testing or quality assurance functions against the wishes and needs of the Manager of the Test Evaluation and Quality group. These decisions are subject to the review of the Manager of Technology Acquisition Management. For the most part, capital funding requested by the Test, Evaluation, and Quality group is authorized and available for fulfilling their responsibilities. However, when more efficient or effective alternatives are available, they may be pursued thereby affecting the amount of capital funding required.

Please advise me when/if any further discussion or information is needed.

Thomas G. Day

cc: Joyce Hansen, Director Audit Operations and Follow-up, OIG
Thomas Shipe, Manager, TAM
Sammy Seals, Manager, TE&Q
John A. Rapp, HQ