



February 3, 2006

EDWARD L. BROWN
MANAGER, ACCOUNTING SERVICE CENTER

SUBJECT: Audit Report – Terminated Station Contracts
(Report Number FT-AR-06-011)

This report presents an issue concerning payments made to contractors for terminated station contracts. We identified this issue during our annual audit of the fiscal year (FY) 2005 U.S. Postal Service Financial Statements – St. Louis Information Technology and Accounting Service Center (Project Number 05BM002FT002).

Background

The Postal Service awards contracts to establish and operate stations. These stations are usually located in retail stores or other places of business and are operated by contractors who accept mail from the public, sell postage and Postal Service supplies, and provide other selected services. The Postal Service has over 3,000 contract stations nationwide. In FY 2005, station contract payments totaled \$73.8 million.

Most station contracts are open-ended.¹ After St. Louis Accounting Service Center (ASC) personnel enter the contract information, including the payment schedule, into the Accounts Payable Accounting and Reporting System (APARS),² payments are made automatically to the contractor. Prior to January 2006, automatic payments continued until the St. Louis ASC received a termination notice from the Aurora Category Management Center (CMC) and stopped the payments. Currently the Aurora CMC is solely responsible for processing all station contract terminations.

¹ Contracts for which the Postal Service does not establish ending dates. These contracts are active until terminated by the contractor or the Postal Service.

² In August of FY 2005, the Postal Service replaced APARS with the Accounts Payable Excellence System.

Objective, Scope, and Methodology

The objective of this portion of the audit was to determine whether the Postal Service made payments for terminated station contracts. To accomplish our objective, we identified all terminated station contracts in the Strategic National Purchasing System as of February 1, 2005. We also identified all contract station payments³ made between January 1 and January 31, 2005, in APARS.⁴ We compared the data to identify possible payments made for terminated contracts. This resulted in a sample of 49 contracts, which we reviewed to determine whether the Postal Service made payments after it terminated the contract. We performed transaction tests on these systems' data, to include tracing selected financial information to source records. We also interviewed personnel from the St. Louis ASC and the Aurora CMC and reviewed applicable policies, procedures, and reports.

We conducted this portion of the audit from February 2005 through February 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our conclusions and observations with management officials and included their comments where appropriate.

Prior Audit Coverage

We have reported on payments made for terminated contracts beginning in FY 2000. In our FY 2000 report,⁵ we identified invalid payments of \$216,861 for terminated station and cleaning service contracts. Similarly, in our FY 2002 report⁶ we identified invalid payments totaling \$58,248 for terminated station contracts. Based on these audits, St. Louis ASC personnel took corrective actions to terminate future payments to these contractors and established accounts receivable for the invalid payments.

In our FY 2001 audit report,⁷ we identified invalid payments totaling \$218,000 for station contracts, including both duplicate payments and payments made on terminated contracts. Postal Service management took corrective action to either collect the payments or establish accounts receivable. In addition, the Postal Service planned to implement a review process to validate the existence of current station contracts.

In our FY 2003 audit report,⁸ we identified invalid payments totaling \$67,341 for terminated station contracts. Management stated the St. Louis ASC would develop and periodically update a report matching contract stations that have not had any revenue

³ Account 52301, Contract Station Service.

⁴ January 2005 was judgmentally selected.

⁵ *Terminated Cleaning and Station Contracts* (Report Number FT-LA-00-002, dated September 20, 2000).

⁶ *Terminated Station Contract* (Report Number FT-MA-02-004, dated August 2, 2002).

⁷ *Payments to Contract Stations and Vendors Providing Goods and Services* (Report Number FT-AR-02-011, dated March 6, 2002).

⁸ *Terminated Contract Stations* (Report Number FT-MA-04-002, dated February 11, 2004).

activity for a specified number of days against payments made to those stations. Postal Service personnel said those reports were put on hold pending implementation of automated processing to prevent duplicate payments on terminated contracts.

Results

Terminated Station Contracts

The Postal Service made payments for terminated station contracts. Specifically, the Postal Service continued payments on 15 (31 percent) of the 49 contracts reviewed, although the contracts were terminated. For three contracts terminated in calendar year (CY) 2002, the Postal Service made payments through August 2005. Further, for 12 contracts terminated in CY 2004, the Postal Service made payments as late as June 2005. Purchasing guidelines⁹ state the contracting officer must send the termination notice to the supplier and the St. Louis ASC simultaneously. Furthermore, St. Louis ASC desk procedures state that when the ASC receives a modification or notification to terminate, all future invoices scheduled for payment must be manually closed in APARS. The St. Louis ASC produced termination notices for two of the 15 contracts. However, we could not determine whether the St. Louis ASC received notifications for the remaining contracts. As a result, the Postal Service paid contractors \$290,370 for services not rendered.

As a result of our audit, St. Louis ASC personnel took corrective actions to stop payment on checks issued but not cashed (\$11,306) and to establish accounts receivable for invalid payment balances (\$231,450). In addition, St. Louis ASC personnel established a \$47,614 credit memo for two terminated contracts.¹⁰ Finally, St. Louis ASC personnel ceased payments totaling \$82,307 on terminated contracts that were scheduled through the end of CY 2005.¹¹

Appendix A shows the invalid amounts paid and future payments canceled for each of the 15 terminated contracts. We will report invalid payments of \$290,370 as questioned costs and future payments canceled of \$82,307 as funds put to better use in our *Semiannual Report to Congress*.

Management stated that by the end of CY 2005, responsibility for station contract payment processing will shift from the St. Louis ASC to the Aurora CMC. Additionally, the Postal Service plans to use Contract Postal Unit Technology (CPUT) for all contract station payments, which will identify terminated contracts and prevent automatic payments. Postal Service management said these new procedures will provide better controls to ensure the Postal Service does not make payments on terminated contracts.

⁹ *Interim Internal Purchasing Guidelines*, dated May 19, 2005, Section 6.9, Contract Termination.

¹⁰ Because the contractor has multiple Postal Service contracts, the Postal Service will offset open contract payments with amounts paid on terminated contracts.

¹¹ As of November 30, 2005, the St. Louis ASC collected \$154,524 of the accounts receivable and \$47,344 of the credit memorandum.

Because of the ongoing system plans and the shift in responsibility for processing of payments to contract stations, we are not making a recommendation at this time. However, we will continue to monitor this issue during the FY 2006 financial statements audit.

Management's Comments

Management agreed with the finding, including identified overpayments and, after notification, instituted a process to collect overpayments the OIG identified. Additionally, ASC management instituted an interim process in November 2005 to ensure they processed all contract terminations and implemented CPUT in December 2005. Finally, management advised that if the Postal Service had timely implemented CPUT, it would have eliminated the problems associated with termination orders the St. Louis ASC did not receive and process. Management's comments, in their entirety, are included in Appendix B of this report.

Evaluation of Management's Comments

Management's comments are responsive to the finding and actions taken should correct the issue identified. We will continue to monitor the newly implemented process during our future annual financial statements audit work.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Siewert, director, Financial Statements, or me at (703) 248-2300.

E-Signed by Inspector General 
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Acting Deputy Assistant Inspector General
for Financial Operations

Attachments

cc: Lynn Malcolm
Keith Strange
Vincent H. DeVito, Jr.
Elizabeth L. Novillis
Margaret A. Weir
Steven R. Phelps

APPENDIX A

SUMMARY OF PAYMENTS MADE/SCHEDULED
FOR TERMINATED CONTRACTS

Count	Vendor Number	Contract Number	Termination Date	Invalid Amount Paid ¹²	Future Payments Canceled ¹³
1	042945168EA00001	24782090S0129	6/25/2004	\$4,051	\$2,000
2	484622124SA00001	2BRPSR03B2706	8/26/2004	\$3,858	\$2,280
3	520807025EA00001	23748089P0168	4/12/2004	\$5,846	\$2,400
4	524124944SA00001	07235889P0429	2/12/2004	\$49,129	\$0
5	562358364SA00001	05268400F0490	4/2/2004	\$20,815	\$10,465
6	581824629EA00001	07236801B0559	4/23/2004	\$16,603	\$7,000
7	593380753SA00001	47563000V0360	6/10/2004	\$10,277	\$0
8	840803653EA00001	07235889P0423	5/27/2004	\$68,631	\$31,386
9	850054230EA00001	07236894P0672	4/24/2004	\$14,224	\$8,167
10	860428590EA00001	07236894P1353	3/26/2004	\$29,413	\$11,650
11	870258768EA00001	07236894P1083	7/5/2002	\$11,039	\$1,167
12	870258768EA00001	07236894P1087	7/5/2002	\$37,867	\$4,000
13	870258768EA00001	07236895X1149	7/7/2004	\$450	\$292
14	870265233EA00001	49778687X0662	12/31/2004	\$167	\$0
15	810506670EA00001	07236899P0551	6/14/2002	\$18,000	\$1,500
	Totals			\$290,370	\$82,307

¹² The total includes the established accounts receivable and stop payments on uncashed checks.

¹³ These future payments were canceled through December 31, 2005.

APPENDIX B. MANAGEMENT'S COMMENTS

FINANCE



January 12, 2006

DARRELL E. BENJAMIN, JR.

SUBJECT: Draft Audit Report – Terminated Contracts
(Report Number FT-AR-06-DRAFT)

We received and reviewed your December 9, 2005, draft audit report. The report contains no new recommendations for management comments.

There was one finding. The Postal Service made payments for terminated station contracts. Specifically, the Postal Service continued payment on 15 of the 49 (31 percent) contracts reviewed, although the contracts were terminated.

Management agrees with the audit findings. After notification of the overpayments, the Accounting Service Center (ASC) immediately instituted a collection process for the amounts by establishing accounts receivables or credit memos or by canceling outstanding checks issued to the suppliers. To date all but \$59,326.77 has been collected.

The ASC instituted an interim process in November 2005 which ensured that all contract transactions between the ASC and Commodity Management Center (CMC) in Denver are received and logged by both the sending and receiving offices. The logs are reviewed at the end of each week by both sides to ensure all contract terminations sent were received and processed. This process continued until the implementation of Contract Postal Unit Technology (CPUT) on December 5, 2005.

As information, management's response to previous audit findings indicated that a report would be developed to match revenue generated through the Field Sales Branch processing to payments issued through Accounts Payable Accounting and Reporting System (APARS). Requirements were developed for the report; however, it was not implemented due to the impending retirement of APARS and because CPUT was scheduled to be implemented in January 2005. Implementation of CPUT was delayed until December 2005. Had the implementation of CPUT gone according to schedule, it would have automated the processing of contract documents and payments and eliminated the problems associated with termination orders not received/processed at the St. Louis ASC.

We see nothing in this report or management's response, which contains proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

If you have any questions concerning this response, please contact Betty Novillis at 202-268-5583.

Thank you for providing this report.

A handwritten signature in black ink, appearing to read "Vincent H. Devito".

Vincent H. Devito
Manager, Accounting

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-5000
www.usps.com

cc: Mary Lawrence
Lynn Malcolm
Elizabeth L. Novillis
Keith Strange
Margaret A. Weir