July 7, 1999

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DEPUTY POSTMASTER GENERAL

M. RICHARD PORRAS
CHIEF FINANCIAL OFFICER AND SENIOR VICE PRESIDENT

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SUBJECT: Year 2000 Initiative: Review of Administration Management Advisory Report Number FR-MA-99-002

This report presents the results of our review of Administration of the Year 2000 (Y2K) Initiative. We conducted this review at the request of the Vice President, Finance, and Controller, to examine the opportunities to save resources associated with the Y2K initiative.

This is the seventh in a series of Office of Inspector General (OIG) reports regarding the United States Postal Service (USPS) Y2K initiative. Four reports addressed the system aspects of the Y2K initiative. Additional OIG reports addressed the overall status of Y2K readiness in the USPS as related in Congressional testimony and contractor indemnification. This report discusses the management of the Y2K contracts and the costs associated with these contracts.

Results in Brief

The review identified that opportunities exist to improve oversight of the Y2K program. Specifically, we noted that:

- adequate controls were not always in place to monitor contractor activities;
- information had not always been provided to Integrated Business Systems Solutions Center personnel to help in controlling Y2K resources;

- work products provided by contractor personnel were not always timely or adequate;
- the numbers or expertise of contractor personnel assigned at various site locations did not always correspond to the amount of work needed. Additionally, the layers of contractor managers were unnecessary in certain instances;
- contractor personnel did not always timely submit documentation for proper security clearances. In addition, local Postal management was not always aware that certain contractor employees had received security clearances; and
- a Y2K contractor was permitted to deviate from USPS travel regulations.

We offered USPS management eight suggestions that provide opportunities to save resources.

Summary of Management Response

Management noted that the revised report more accurately represents the budget, management structure and responsibilities of the Integrated Business Systems Solutions organization than the initial draft report. However, management voiced the opinion that the report did not reflect the substantial input they provided in writing and in discussions to the OIG during and subsequent to the initial release of the draft report.

Despite their concerns, management indicated that they concurred with and have planned or taken action to address the eight suggestions in this report. We summarized these responses in the report and included the full text of the comments in the Appendix.

Evaluation of Management Response

Management's responses were generally responsive to the issues raised in the report and the corrective actions implemented or planned should provide opportunities to save resources. However, management's reply was not Responsive to our suggestion to analyze the process of granting security clearances to contractor personnel to ensure that security clearances are granted in a timely manner.

Background

USPS's original budget estimate for the entire Y2K initiative was between $500-670 million. In April-May 1998, an initial budget of $255 million was developed for FY 1999. In August of 1998, a zero-based budget of $340-350 million was developed for FY 1999. The USPS Controller Approved a budget of $159 million. Based on expenditures during the first quarter of fiscal year FY 1999, Postal officials became concerned that total Y2K expenditures for FY 1999 would significantly exceed the budgeted amount. USPS continues to revise the estimate and funds required on a monthly basis and stated that this budget will remain fluid through the year 2000. During our review, USPS management revised its FY 1999 Y2K budget to $274 million.

The Y2K problem results from the way computer systems store and process dates. In many systems, the year 2000 will be indistinguishable from 1900, thereby causing potential system failure.

In 1998, USPS used automation and information systems to deliver 198 billion pieces of mail, maintain its nationwide network of over 38,000 post offices and facilities, and pay its more than 775,000 career employees. This dependency on automation makes USPS highly susceptible to the Y2K problem. As a key element in our nation's communication and commerce infrastructure, its preparedness may be crucial to the nation's Y2K readiness. Both the private sector and government may rely on USPS as a contingency if their systems fail on January 1, 2000.

In 1993, the USPS Vice President for Information Systems provided guidance for solving the Y2K problem within USPS. Initially, only one USPS headquarters organization, Information Systems, was committed to, and engaged in, a solution even though it was a Postal-wide problem. In 1995, USPS established a two-person Y2K program office. In 1997, USPS expanded the program office to 12 people and selected an Executive Program Director, who reported to the Vice President of Information Systems, to lead, manage, and report on the Y2K Initiative. During this time, USPS recognized the scope and complexity of the Y2K challenge, and hired contractors to assist in managing and correcting the problem. The status of the Y2K Initiative as of April 30, 1999, was as follows:

- USPS management identified 141 computer applications that were severe and/or critical to its operations. USPS management has certified 131 of 141 (93 percent) applications as remediated. Management reported that remediation of 124 of the 131 (88 percent) certified severe and critical applications has been independently verified.

- USPS management has certified 251 out of 282 (89 percent) important but not critical applications as remediated. Out of these applications, 65 out 74 (88 percent) Tier 2A applications were verified as remediated.

- USPS management has certified 30 of 38 (79 percent) types of Severe/Critical Mail Processing Equipment as being Y2K compliant. In addition 835 of 2,269 (37 percent) suppliers critical to USPS have been classified as either Y2K ready or expected to be ready.

The management of information systems in the field is organized into business area portfolios. Portfolio managers serve as functional Chief Information Officers to control delivery of work performed, issues related to budget, and assignment of projects to Integrated Business Systems Solutions Centers.

The Vice President, Information Systems, is accountable to the USPS Management Committee on all Y2K activities. The Vice President, Information Systems, established a Program Management Office responsible for leading, managing, and reporting on the Y2K initiative. The Program Management Office periodically provides USPS senior management briefings on the status of Y2K and submits reports to the Office of Management and Budget on a quarterly basis. USPS managers are absolutely accountable and responsible for completing key Y2K readiness activities on schedule. The Vice President, Finance, and Controller, has overall responsibility for funding the Y2K initiative and controlling the costs.

Objective, Scope, and Methodology

The objectives of our review were to determine whether: (1) Y2K resources were properly allocated to ensure that projects were completed timely and adequately; (2) contract terms were reasonable and billings were in accordance with contract terms; and (3) project tasks were necessary for ensuring Y2K compliance.

We interviewed management and operating officials, reviewed contract files, analyzed contract information, obtained system documentation, and reviewed various management reports relating to Y2K. We conducted our review from December 1998 through March 1999 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections.* We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Observations

Contractor Oversight

Y2K contractor oversight needed improvement. Responsible USPS individuals did not always implement adequate controls to monitor contractor activities. As a result, there is a reduced level of assurance that USPS resources are being expended for valid or necessary tasks of Y2K projects

Purchasing Manual, Issue 1, Section 6.1.1.c, dated January 31, 1997, states that USPS personnel involved in contract administration should direct their efforts to meet contract objectives, including monitoring costs and other activities intended to ensure compliance with contract terms. Section 6.2.3.a continues that, in addition to appointing representative (see section 6.1.1.b), the contracting officer may name one or more representatives to coordinate the activities of other representatives or to provide technical direction.

The following issues were brought to our attention during discussions with USPS personnel:

- USPS headquarters personnel did not task Integrated Business Systems Solutions Center personnel to monitor contractor employees' time and job assignments;

- USPS officials did not always monitor the activities of contractor personnel at USPS and non-USPS facilities to know which contractor employees were working on what projects; and

- Integrated Business Systems Solutions Center personnel were not fully empowered to monitor contractor employees working on projects for which they were responsible.

Portfolio managers monitored the contracts by deliverable milestones. However, monitoring by deliverables did not always assure that the project was completed in an efficient manner (i.e., contractor personnel reworked tasks, did not work on their assigned tasks, or were not fully employed). To identify contractor employees and ensure the reasonableness of their time charges to Y2K projects, USPS implemented the Program Cost Tracking System in early 1999. This initial step was taken to improve the monitoring of Y2K contractor charges.

We also found that USPS headquarters and contractor personnel generated tasks subsequent to the completion of independent verification. The purpose and necessity of these tasks were not communicated to Integrated Business Systems Solutions Center personnel. The following examples were brought to our attention by USPS Personnel:

- a contractor generated a list of over 50 questions requesting documentation not included as part of certification packages submitted for postage meter modules. The list was sent to an Integrated Business Systems Solutions Center manager for completion; however, the purpose of the questionnaire was not understood. Other Integrated Business Systems Solutions Center personnel said their verification/certification was not adversely affected when they did not complete the questionnaire. Completion of the questionnaire required significant contractor and Integrated Business Systems Solutions Center employee resources;

- two contractors were requesting similar information on USPS hardware and software components from Integrated Business Systems Solutions Center

	employees. In addition, much of the information was already generated as part of the Y2K initiative. The unwillingness of the two contractors to cooperate and share information resulted in additional work for both contractor and Integrated Business Systems Solutions Center personnel; and • a contractor requested Integrated Business Systems Solutions Center personnel to verify a listing of external interface files. Integrated Business Systems Solutions Center personnel identified errors and provided suggested revisions. However, subsequent contractor listings were not revised, and the contractor continued to request that Integrated Business Systems Solutions Center personnel verify the listing. At the time of our review, this listing was still not accurate, and Integrated Business Systems Solutions Center employees are unsure of its purpose.
Resource Management Oversight	Integrated Business Systems Solutions Centers provided resources for remediation of systems to the responsible portfolio managers. However, Integrated Business Systems Solutions Center personnel were not always aware of resource constraints. Although portfolio managers sometimes shared resource information as a courtesy to the Integrated Business Systems Solutions Center personnel, emphasis was not placed on managing the dollar resource limitations. Consequently, there was a reduced level of assurance that resources were expended effectively. Since the portfolio managers were generally not located where the Y2K remediation occurs, they require input from the Integrated Business Systems Solutions Center personnel to better monitor the resources amounts. We noted that the Integrated Business Systems Solutions Center is now providing input into the resource process. These new procedures were needed to provide assurance that USPS personnel properly manage expenditures to the budget.
Contractor's Work Processes	Contractors did not always meet commitment dates for work products. In addition, the contractors provided information that sometimes contained errors or was incomplete. Contractor delays and errors caused contractor or USPS employees to perform repetitive work. Specifically:

- at one Integrated Business Systems Solutions Center, a contractor was responsible for performing source code scans to search for date fields to determine the scope of work required. In November 1998, the contractor advised Integrated Business Systems Solutions Center officials that the source code scans would be performed at a local contractor facility with completion to take five days or less. This commitment was not met, and a month elapsed with little progress. As an alternative, the contractor attempted to perform manual source code scans, but the magnitude of the effort prohibited the contractor from completing the source code scans timely. Similar situations have occurred with this contractor that extended the time to complete the code scan efforts timely and proceed with remediation efforts;

- the delay in the preceding instance caused the target completion dates for another application to slip approximately two months. The source code for this application was provided to the same contractor but was not scanned at the contractor's facility until one month later. At that time, the contractor discovered that its equipment could not read the source code. The contractor subsequently requested that USPS employees provide the source code again in an alternate format. It was not until the third attempt that the contractor was successful;

- another contractor responsible for performing source code scans for different applications did not meet committed completion dates. In one instance, a week after the agreed upon completion date, the contractor's lead project coordinator committed to take action to complete the source code scans. However, the coordinator started a three-week vacation and, upon return, the source code scans still were not complete. The contractor completed the source code scans approximately two months after scheduled completion; and,

- the same contractor created and delivered system test scripts that contained several errors. Integrated Business Systems Solutions Center personnel returned the package with comments regarding necessary corrections. A review of the second package disclosed that the quality was only marginally better than the first,

	and the test script still was not in a useable format. Integrated Business Systems Solutions Center personnel, with other contractor personnel, prepared the third and final test script to expedite the process of forwarding it to the independent verification group.
Contractor Personnel Utilization	Portfolio managers did not always coordinate and/or communicate with appropriate Integrated Business Systems Solutions Center personnel prior to placing contractor personnel at the site. The portfolio managers did not believe it was necessary to coordinate with the Integrated Business Systems Solutions Center before sending contractor personnel to the Centers. However, contractor employees were sent for specific work assignments at the Integrated Business Systems Solutions Centers, but the timing or numbers of personnel assigned did not always correspond with the existing workload. The placement of contractor employees at Integrated Business Systems Solutions Centers without the input of center managers resulted in unnecessary Y2K contract costs. The following are examples of this condition: • Integrated Business Systems Solutions Center personnel stated that approximately eight contractor employees were deployed to a site to work on the Y2K initiative for Postage Meters Systems when only two employees were needed at that time. The employees were sent based on the contract schedule rather than the project progress to date. Since contractor employees did not live in the vicinity, travel was required. Integrated Business Systems Solutions Center personnel eventually coordinated with contractor management to remove the unnecessary employees; • a contractor with expertise in COBOL was assigned to the Y2K initiative for the Centralized Meter Licensing System applications even though only two programs for that system were written in that language. This contractor employee was sent to the Integrated Business Systems Solutions Center without consulting site management regarding the criticality of programs or resource requirements. Integrated Business Systems Solutions Center personnel coordinated with contractor management to eventually remove the employee; and

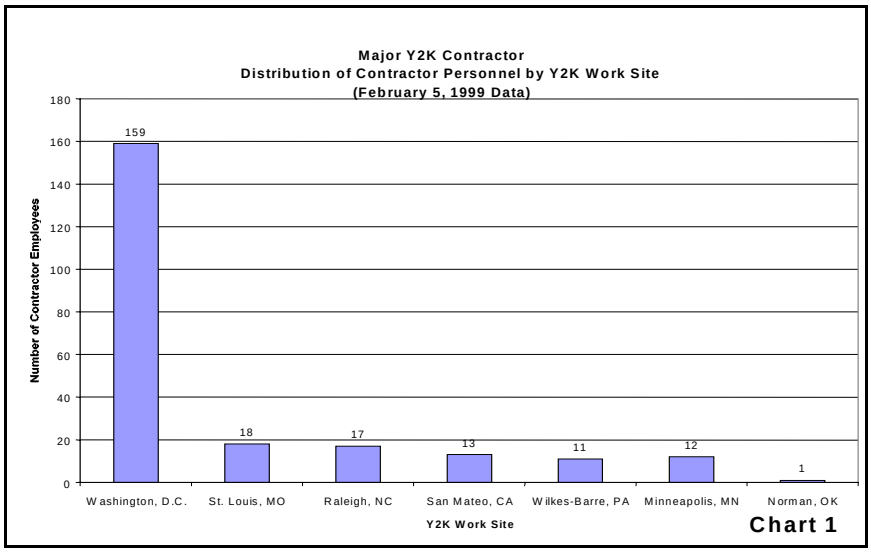
- during the independent verification process, completion dates for certain Meter Accounting and Tracking System tests were extended from mid-January to late February 1999. Headquarters personnel did not communicate this change to the contractor, resulting in contractor personnel being placed at the Integrated Business Systems Solutions Center prior to being needed.

About one year ago, Integrated Business Systems Service was reorganized into the Integrated Business Systems Solutions office to include a group of portfolio managers. These managers were responsible for the systems in each of the four business areas: mail operations, marketing, enabler, and finance. The portfolio managers assumed responsibility for the Y2K project from the Integrated Business Systems Service Center directors in late 1998 and early 1999. USPS management stated that Integrated Business Systems Solutions Center personnel are process, work product quality, and resource managers for the work they are assigned. Integrated Business System Solutions Center management and personnel were not accountable for the success of the Y2K effort; they were resources working on Y2K projects along with suppliers selected by the portfolio managers to work, in some instances, with Center personnel.

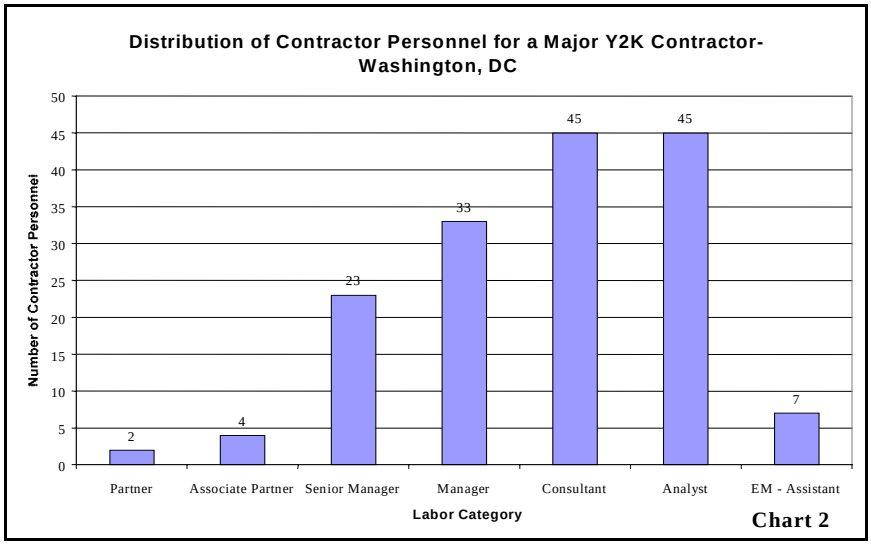
Further, the layers of contractor managers were unnecessary in certain instances. The use of multiple levels of management resulted in unnecessary Y2K contract costs.

- the number of Y2K program management contractor personnel located in Washington, DC, was disproportionate to the numbers located at field sites. While the majority of the work is performed at field sites, 159 of the 231 (69 percent).

- Y2K program management contractor personnel were located in Washington, DC. (See Chart 1 for details.)



Further, these 159 contract personnel located in Washington, DC, were responsible only for program level work to support the business owners and portfolio managers located at USPS headquarters. (See Chart 2.)



- multiple layers of contractor management were placed on teams that supported Y2K projects at a Integrated Business Systems Solutions Center:

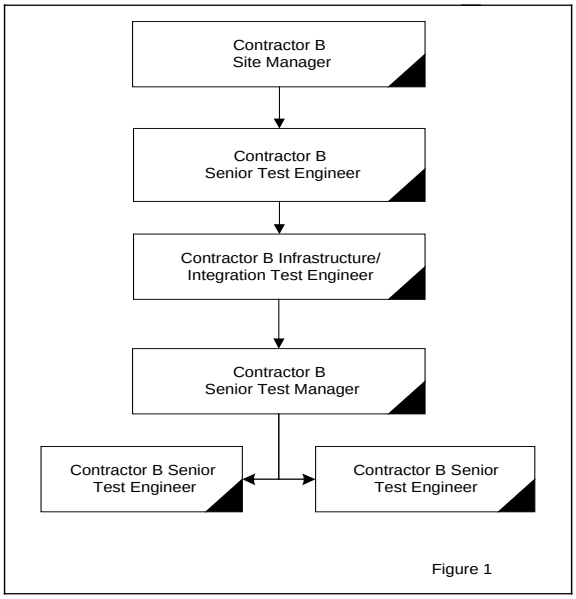


Figure 1

- in one instance we noted that four managers were directly or indirectly supervising the work of two employees. (See Figure 1.) Management eliminated one manager and reassigned another. However, two levels of management remained to supervise directly or indirectly the two employees. (See Figure 2.)

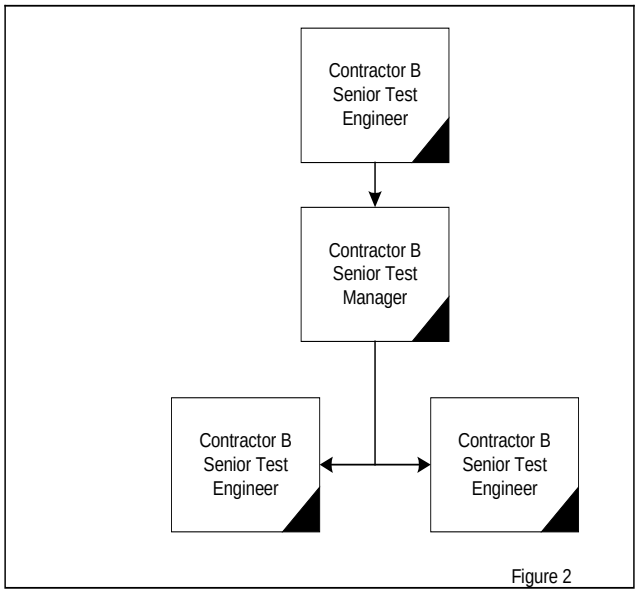


Figure 2

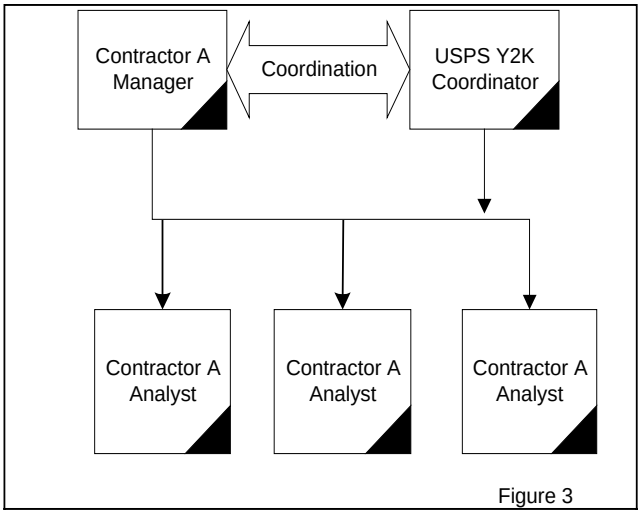


Figure 3

Integrated Business Systems Solutions Center officials advised that USPS and contractor personnel were working to consolidate this contractor's managerial responsibilities with those of another contractor manager.

Contractor Personnel Clearances

Contractor personnel did not always timely submit documentation for proper security clearances. In addition, local Postal management was not always aware that certain contractor employees had received security clearances. These personnel were not permitted to access the Mainframe and, therefore, could not perform certain contract tasks related to their expertise.

Section 272.311 of *Administrative Support Manual* 12, dated June 1998, requires contractor employees to obtain a clearance from the USPS when those employees have access to occupied postal facilities and/or to postal information and resources. Section 272.345 allows contractor employees who need a sensitive clearance to gain access to postal facilities as long as documentation sufficient for a non-sensitive clearance is provided. Specific issues we noted included:

- as of January 19, 1999, at least 21 Y2K contractor employees were working without at least an interim sensitive clearance. This occurred, in some instances, because the contractor failed to submit the appropriate documentation timely. These employees started working as early as June 1998. We also identified nine contractor employees that had received a clearance but the local service center did not receive the information.

In addition, we identified contractor employees that received interim sensitive clearances up to six months after being hired; and

- additional contractor employees had been “rolled on” (hired), worked for 2 to 4 months, and then “rolled off” (terminated) before receiving an interim or final sensitive clearance.

Furthermore, without interim sensitive clearances, a risk exists for security breaches to occur (e.g., unauthorized use of another contractor employee’s LOGON identification and password). Additionally, the USPS paid for contractor employees’ time even though they may not have been fully productive.

It should be noted that in at least one Integrated Business Systems Solutions Center, USPS management took action to remove contractor employees that did not have the minimum interim security clearance. While this was a positive step, USPS should disallow payments for contractor employees without a sensitive security clearance to perform contractual Y2K tasks. USPS should also find productive work for contractor personnel to perform while awaiting their clearances.

Contractor Travel

Certain travel concessions were made for a Y2K contractor that deviated from USPS regulations. Personnel at various Integrated Business Systems Solutions Center disclosed that these concessions affected USPS employee morale and hurt working relationships.

This contractor was allowed weekly travel home whereas USPS travel regulations allow one trip home every three weeks. In addition, USPS negotiated a contract modification with this contractor that provided for fixed amounts for certain travel expenses. These include subway or cab fare without documentation, and a fixed amount for trips to the airport and car rentals.

USPS needs to consistently apply its procedures with employees and contractors.

Suggestions and Management Comments

Suggestion	The Vice President, Information Systems in conjunction with the Vice President, Purchasing and Materials should: 1. Improve contract management by • including Integrated Business Systems Solutions Center management leadership in contractor-monitoring duties for Y2K projects; • providing USPS monitoring of all contractor activities, both at USPS and non-USPS facilities (when practicable); and • ensuring that USPS personnel responsible for Y2K projects continue to evaluate the reasonableness of contractor employee time charges entered into the Program Cost Tracking System.
Management Comment	Contracting Officer's Representatives have provided training on the contracts and roles, responsibilities, and functions of contractor monitoring by postal managers at each Integrated Business System Solution Center. In addition, procedures for performing detailed analysis and audit of each invoice have and will continue to ensure reasonableness of time charged to USPS contracts.
Evaluation of Management Comments	Management's comments are responsive to our suggestion.
Suggestion	2. Analyze all post-certification Y2K tasks to ensure that they are necessary.
Management Comment	The Postal Service Program Plan has been reviewed and approved by the Year 2000 Executive Council and the costs and the benefits of each planned activity have been considered to ensure each activity is necessary. Additionally, USPS management will continue to require independent verification for applications categorized as Severe/Critical. Independent verification of Mail Processing Equipment and other selected Y2K related activities will also be required.

Evaluation of Management Comments	Management's comments are responsive to our suggestion.
Suggestion	3. Identify and then obtain reimbursement for rework costs caused solely by contractor actions, if permitted under current contract language. Ensure that future contracts include such language.
Management Comment	Management stated that they know of no situation, caused solely by contractor actions, under which excess cost have been incurred by the Postal Service. In addition, current contract language contains warranty and liability provisions for defective workmanship that would allow USPS to seek consideration from suppliers.
Evaluation of Management Comments	Management's comments are responsive to our suggestion.
Suggestion	4. Improve communication and contractor utilization by • Allowing Integrated Business Systems Solutions Center management leadership to coordinate the timing and numbers of contractors assigned prior to contractor start dates; • re-evaluating Y2K resource requirements periodically based on individual accomplishments and critical completion dates; and, • continuing review of contractors' staffing at each site and implementing a process to terminate excess resources.
Management Comment	Responsible USPS managers will continue to be responsible for determining the timing and numbers of contractor personnel assigned to projects. Re-evaluation of contractor resources is on-going based on the task, scope, and nature of the work. Processes exist to terminate excess contractor resources.
Evaluation of Management Comments	Management's comments are responsive to our suggestion.

Suggestion	5. Analyze the process for granting security clearances to contractor personnel to ensure that security clearances are granted in a timely manner.
Management Comment	The Y2K Program Management Office and Integrated Business Systems Solutions worked with the Inspection Service to negotiate an agreement that would enable USPS to quickly obtain skilled Y2K resources without putting security at risk. Additional full-time resources were obtained to process Y2K-related clearances.
Evaluation of Management Comments	Management's reply is not responsive. OIG noted that security clearances were not always timely requested for contractor personnel. USPS management needs to address how it will improve the security clearance process to ensure that contractor personnel provide the necessary information within acceptable timeframes to allow security clearances to be processed in a timely manner.
Suggestion	6. Ensure that contractor personnel are performing productive work while awaiting a security clearance. Disallow contractor payments for employees without a sensitive security clearance but who are required to have a sensitive clearance to complete contractual Y2K tasks.
Management Comment	Accountable USPS managers are responsible for ensuring contractor personnel awaiting a security clearance are performing productive work. Waiver requests have been processed, without incident, when contractor work was required to be performed without a sensitive clearance.
Evaluation of Management Comments	Management's comments are responsive to our suggestion.
Suggestion	7. Require contracts to follow USPS travel policy.
Management Comment	Management replied that travel is a contract term, and as such is subject to negotiation. However, contractors' employees are generally required to follow USPS travel requirements without deviation. In one instance a contractor was allowed to deviate from standard travel policy for a period of time while contract terms were being definitized.

Evaluation of Management Comments	Management's comments are responsive to our suggestion.
Suggestion	8. The Vice President, Finance, and Controller, should continually monitor the Y2K budget to ensure that the amounts are sufficient and properly allocated among the various Y2K areas.
Management Comment	A Financial Management Team working in liaison with the Information Systems Support Staff regularly monitors and reviews the status of Year 2000 funding. The Year 2000 Executive Council reviews and makes final decisions on exceptional funding requests. That same Council also monitors the Year 2000 budget and makes business decisions to support success of the initiative.
Evaluation of Management Comments	Management's comments are responsive to our suggestion.

We appreciated the cooperation and courtesies provided by your staffs during the review. If you have any questions, please contact me at (703) 248-2300.

//Signed//
Colleen A. McAntee
Assistant Inspector General
for Performance

Attachment

Cc: A. Keith Strange
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M. RICHARD PORRAS
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June 7, 1999

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Assistant Inspector General
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Subject: Year 2000 Initiative: Review of Administration
Management Advisory Report Number FR-MA-99-XXX

Dear Ms. McAntee:

I am pleased to provide you our response to the subject report. We believe the responsibility for answering the first seven suggestions lies with Information Systems. Our response details actions taken or planned for the eighth suggestion noted in the report.

You suggest the project management "continually monitor the Y2K budget to ensure that the amounts are sufficient and properly allocated among the various Y2K areas."

We agree with this suggestion and have implemented it. We have assigned a Financial Management Team headed by Kristine Wright to work with the Information Systems Support staff to regularly monitor and review the status of Year 2000 funding. This process includes certification of funds, review of Program Cost Tracking System Information, generation of accruals and reviews for changes in funding for program activities. A process for reviewing and presenting the financial status of the project has been developed and is regularly presented to the Year 2000 Executive Committee, as are requests for additional funds.

The Finance team believes there are now adequate controls in place to effectively manage the quality and cost of contractor work related to the Year 2000 effort. The Year 2000 program leaders from Information Systems, Operations and Government Relations are clearly identified in the Postal Service program plan and understand they are responsible and accountable for Year 2000 contractor efforts. They continue to work diligently to ensure appropriate oversight is maintained to accomplish the Year 2000 objectives. The finance team assists them in this effort through regular budget reviews and rigorous examination of plans.

If you require additional information with respect to this response, please contact Kristine Wright, Year 2000 controller, at (651) 406-1058.

Sincerely,

M. Richard Porras

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UNITED STATES POSTAL SERVICE

June 10, 1999

Ms. Colleen A. McAntee
Assistant Inspector General
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Arlington, VA 22209-2020

SUBJECT: Response to OIG Report Year 2000 Initiative: Review of Administration Management Advisory Report Number FR-MA-99-XXX

Dear Ms. McAntee:

Enclosed please find our response to the subject report which details actions taken or planned for each of the eight suggestions noted in the report.

Thank you for providing the opportunity to meet with your staff on April 28, 1999, to discuss your initial report findings. The meeting resulted in a better understanding of some of the issues and the management structure of the Year 2000 effort. Although we noted that the revised report more accurately represents the budget, management structure and responsibilities of the IBSS organization, it does not reflect the substantial input provided your office in writing and in discussions during and subsequent to the meeting contravening the report observations. While additional discussions might resolve some of the observations noted in the report, we believe there is greater value in directing our comments to the specific suggestions included in the report.

Adequate controls have been and continue to be in place to effectively manage the quality and cost of contractor work related to the Year 2000 effort. The work segment leaders identified in the Postal Service Program Plan are responsible and accountable for Year 2000 contractor efforts and they continue to work diligently to ensure appropriate oversight is maintained to accomplish the Year 2000 objectives.

With respect to your request to identify portions of the report which are exempt from disclosure under the Freedom of Information Act (FOIA), we would appreciate having the opportunity to identify such information when the final report is issued internally. Additionally, we recommend that the information posted on your web page be limited to the report suggestions and the Postal Service management responses thereto.

If you require additional information with respect to this response, please contact James L. Golden, Year 2000 Initiative Executive Program Director, at (703) 526-2888.

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Response to Suggestions
In the OIG
Review of Administration Management Advisory Report

Summary Comments

While the eight suggestions in this report are valid, they largely describe processes and procedures that existed as early as 1998. We believe the observations in the report do not accurately reflect the extent of management controls and monitoring activity presently in place and functioning throughout the organization. However, this response addresses only the specific suggestions in the report.

In order to put our responses to the suggestions in context, the following brief description of the program organizational structure is provided:

- The Integrated Business Systems Solutions (IBSS) organization is comprised of Portfolios and resource centers.
- Portfolio Managers represent their functional business area vice presidents and are responsible and accountable for success of information technology projects.
- Center managers are suppliers to Portfolio Managers. They are process, work product quality, and resource managers for work assigned to their center.
- Contracting Officer's Representatives (CORs) represent the Contracting Officer and are responsible for contract oversight and administrative functions .
- Technical representatives are designated at the site level to perform local contractor administrative functions.
- Year 2000 representatives at each site are responsible for organizational and operational activities.
- Portfolio Resource Management Analysts are assigned for portfolio-specific organizational, operational, and administrative functions.

Response to Suggestions

1. ***Improve contract management by:***

   - ***Including Integrated Business Systems Solutions Center management leadership in contractor-monitoring duties for Y2K projects;***

   Response: Complete. Contract monitoring duties are performed by the postal manager accountable for the work as defined in Year 2000 Initiative program plans. In the case of Year 2000 projects under Information Systems, the responsible personnel are the IBSS Portfolio Managers, not the IBSSC Managers.

   IBSS Portfolio Managers are responsible for monitoring the suppliers performing remediation and program/project management facilitation for their portfolio. The manager of the Independent Verification work segment is responsible for monitoring suppliers performing IV activities across Centers and portfolios. The remaining work segment managers monitor suppliers supporting their work segments.

   "Road Shows" were held at each of the IBSSC's by the CORs to explain the contracts, roles and responsibilities and functions of the tasking. In addition, contractor leads are required to provide weekly status reports to Portfolio Managers as well as local site managers detailing the tasks being worked on and the progress made.

- ***Providing USPS monitoring of all contractor activities, both at USPS and non-USPS facilities (when practicable);***

Response: Complete. Accountable postal work segment managers have and will continue to monitor contractor activities at USPS facilities. Additionally, the Contracting Officer, Contract Administrator, and Contracting Officer's Representatives assigned to the contracts perform monitoring from a program level. While it would be ideal for a USPS manager to be on site at non-USPS facilities to monitor contractor activities, this is typically not practicable given the number of managers available for such duties and the location of many contractor facilities. However, we continue to review work product output and the contractor employee time charges entered into Program Cost Tracking System (PCTS), whether the contractor employee is located at a USPS or a non-USPS facility.

- ***Ensuring that USPS personnel responsible for Y2K projects continue to evaluate the reasonableness of contractor employee time charges entered into the Program Cost Tracking System***

Response: Complete. We have and will continue to perform detailed analysis and audit of each invoice submitted by the contractors to ensure costs are reasonable and appropriately reflect time charged to USPS contracts. To facilitate this process, contractors working on the Year 2000 Initiative record their time each week in the PCTS. The responsible postal manager to whom each supplier is assigned reviews and approves the time recorded prior to invoices being paid.

2. ***Analyze all tasks performed subsequent to Y2K certification to ensure that they are necessary.***

Response: Complete. In mid-1998, the OIG reviewed our certification and verification processes and assisted us with guidance with respect to process improvements. This guidance has been incorporated into our processes. The Postal Service Program Plan has been reviewed and approved by the Year 2000 Executive Council and the costs and the benefits of each activity have been considered to ensure each activity is necessary. We continue to follow the defined process for certification. Additionally, we continue to require independent verification for applications categorized as Severe/Critical. Independent Verification is also required for Mail Processing Equipment and for other selected Year 2000-related activities.

3. ***Identify and then obtain reimbursement for excess costs caused solely by contractor actions, if permitted under current contract language. Ensure that future contracts include such language.***

Response: Complete. We know of no situation under which excess costs have been incurred by the Postal Service caused solely by contractor actions. Current contract language contains provisions for warranty of final product and liability for defective workmanship that would allow us to seek consideration for supplier actions.

4. ***Improve communication and contractor utilization by:***
   - ***Allowing IBSSC management leadership to coordinate the timing and numbers of contractors assigned prior to contractor start dates***
   - ***Re-evaluating Y2K resource requirements periodically based on individual accomplishments and critical completion dates; and***
   - ***Continuing review of the contractors' staffing at each site and implementing a process to terminate excess contractor resources***

Response: Complete. As noted earlier, responsible USPS managers monitor contractor performance through the life cycle of their work. This includes hiring/staffing contractor

2

personnel, directing their work assignments, controlling the time they spend on the efforts and assessing the quality of the services delivered.

- The accountable postal managers determine the numbers and skills of personnel required to perform the work and from where the resources will be staffed consistent with the Year 2000 work plans.
- Staffing requests detailing the numbers and skills of contractor personnel to be hired are developed and are approved by the accountable postal manager.
- The accountable postal manager assigns each contractor resource to a specific Year 2000 task and ensures that this is entered into the USPS Program Cost Tracking System (PCTS) for time validation.
- Contractors provide a weekly report to the accountable postal managers detailing the progress of work being performed for the Year 2000 effort as well as the status of specific contract deliverables.
- On a weekly basis, though sometimes more frequently, postal management assesses the quality and timeliness of supplier work against agreed upon work plans, and those who are not performing as required are rolled off and replaced as needed.

We will continue to have the postal manager who is accountable for the projects be responsible for determining the timing and numbers of contractors assigned to those projects. Re-evaluation of resource requirements, contractor resources assigned, and the organization of such resources is on-going based on the task, scope, and nature of work remaining to be performed and we are making adjustments appropriately. There is a process in place to terminate excess contractor resources.

5. ***Analyze the process for granting security clearances to contractor personnel to ensure that security clearances are granted in a timely manner.***

Response: Complete. The Year 2000 PMO and IBSS worked with the Inspection Service to negotiate an agreement that would enable us to get skilled resources to work on Year 2000 projects as quickly as possible without putting security at risk. The Year 2000 PMO obtained two full-time resources to process Year 2000-related clearances as a top priority.

6. ***Ensure that contractor personnel are performing productive work while awaiting a security clearance. Disallow contractor payments for employees without a sensitive security clearance but who are required to have a sensitive clearance to complete contractual Y2K tasks.***

Response: Complete. The accountable USPS manager is responsible for ensuring contractor personnel who are awaiting a security clearance are performing productive work consistent with the guidance established by the Inspection Service and Information Systems management. We have processed waiver requests with the Inspection Service, without incident, in situations in which we need to have a contractor working on Year 2000 without a sensitive clearance. When we grant contractor personnel a waiver or interim clearance and productive work is performed, we are obligated to pay for work performed.

7. ***Require contracts to follow USPS travel policy.***

Response: Complete. There was one contractor that was initially awarded a "Letter Contract" requiring definitization. The Letter Contract required travel in accordance with the F-15 Handbook; however, a deviation to the travel policy was requested by the contractor to allow for weekly travel home by their employees. This was supported by the Year 2000 Initiative as a necessary one-time conciliation to be effective until definitization of the contract. Upon completion of the negotiations the requirement for travel within the F-15 guidelines, without deviation, was reinstated with a cost comparison model approved by Finance. The cost comparison is submitted for each traveler and a review is made by the

3

Year 2000 PMO COR audit staff. USPS pays only those charges that are less than or equal to the travel costs under the F-15. However, it should be noted that travel is a contract term and, as such, is subject to negotiation. Generally, contractors are required to comply with the F-15 Handbook guidelines.

8. ***Continually monitor the Y2K budget to ensure that the amounts are sufficient and properly allocated among the various Y2K areas.***

Response: On-going. Early in 1998 an individual was assigned by Finance in an oversight capacity to monitor the budget. Subsequent to the initial assignment, Finance assigned a Financial Management Team headed by a Controller working in liaison with Information Systems Support staff to regularly monitor and review the status of Year 2000 funding. Exceptional funding requests are moved through an evaluation process to the Year 2000 Executive Council for final review and decision. The Year 2000 Executive Council also reviews and monitors the budget and makes business decisions appropriate to the success of the initiative.

4

Report Synopsis

GENERAL INFORMATION

REPORT NUMBER: _____ **REPORT DATE:** _____

REPORT TITLE: _____

_____

_____

_____

EVALUATOR-IN-CHARGE: _____ **DIRECTOR:** _____

FINDINGS/OBSERVATION

NUMBER OF FINDING/OBSERVATIONS: _____

NONCURRENCES: Mgmt did not agree. _____
(Indicate finding/observation headings and numbers)

1.
2.
3.
4.

RECOMMENDATIONS/SUGGESTIONS

NUMBER OF RECOMMENDATION/SUGGESTIONS: _____

NONCURRENCES: Mgmt did not agree. _____
(Indicate recommendation/suggestion headings and numbers)

1.
2.
3.
4.

NUMBER OF CORRECTIVE ACTIONS TAKEN DURING AUDIT: _____

TOTAL FUNDS PUT TO BETTER USE: _____

TOTAL QUESTIONED COST: _____

UNSUPPORTED COST INCLUDED IN QUESTIONED COST: _____

Report Summary:

Provided a one to two paragraph summary of the your report. Be sure to identify purpose, any requestors, results, and whether management concurred with the observations and suggestions. ***(Report Title, Report Number and date issued)***