

April 30, 2001

KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

RUDOLPH K. UMSCHIED
VICE PRESIDENT, FACILITIES

SUBJECT: Audit Report - Responsibilities of Contracting Officers' Representatives
(Report Number CA-AR-01-002)

This report presents the results of our second and final review of responsibilities of contracting officers' representatives for Facilities contracting (Project Number 99RA009CA000). The audit was a self-initiated review that was included in our fiscal years 1999 and 2000 audit workload plans. The objective of our audit was to determine if contracting officer representatives adequately administered facility construction contracts.

We found that some contracting officer representatives were not administering contracts as required by Postal Service Purchasing regulations. For example, we found that a contracting officer representative improperly classified and managed a guaranteed maximum price contract, and modifications to finalize notices to proceed were not timely. In addition, contract work orders were not issued and invoice certifications were not performed in the manner required by Postal Service Purchasing regulations. Further, contractors' actual performance periods exceeded contract completion dates; contracting officer representatives were insufficiently trained, and improperly appointed and terminated; and separation of duties was inadequate. We made nine recommendations to address these issues.

Management agreed with eight of our recommendations but did not fully agree with one recommendation. The Office of Inspector General (OIG) considers recommendations 1-9 significant and, therefore, require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until OIG provides written confirmation that the recommendations can be closed. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Hermeta Martin-Reddon, acting director, Contracts, or me at 703-248-2300.

Billy Sauls
Assistant Inspector General
for Business Protection

Attachment

cc: John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

This is the second and final report on the responsibilities of contracting officer representatives in Facilities contracting. The objective of our audit was to determine if contracting officer representatives adequately administered facility construction contracts at Facilities Service Offices located in Atlanta, Georgia; Dallas, Texas; Denver, Colorado; Chicago, Illinois; Kansas City, Missouri; Greensboro, North Carolina; New York, New York; San Francisco, California; and Windsor, Connecticut; and Administrative Service Offices located in Billings, Montana; Mid Florida, Florida; Lancaster, Pennsylvania; Little Rock, Arkansas; Nashville, Tennessee; Omaha, Nebraska; and Phoenix, Arizona.

Results in Brief

As a result of the audit, we determined that management has policies and procedures in place to provide for adequate contracting officer representative administration of construction contracts. However, we found that some contracting officer representatives were not administering contracts as required by Postal Service Purchasing regulations. For example, a contracting officer representative improperly classified and managed a guaranteed maximum price contract, and modifications to finalize notices to proceed were not timely. In addition, contract work orders were not issued and invoice certifications were not performed in the manner required by Postal Service Purchasing regulations.

We also found that policies and procedures were not always followed, resulting in insufficient contracting officer representative training; a lack of appointment, replacement, and termination letters for representatives; unjustified contract extensions; a lack of separation of duties; and improper classification and management of a guaranteed maximum price contract. These issues were previously addressed in our prior report. Management agreed with the recommendations provided to address these issues and have begun taking corrective actions.

Summary of Recommendations

We recommend the vice president, Purchasing and Materials, and the vice president, Facilities, continue to fully implement corrective actions that address issues identified in our first audit, and make additional improvements to

contract administration procedures with regard to the transfer and management of contracts, and the proper execution of modifications, work orders, and invoice certifications.

**Summary of
Management's
Comments**

Management agreed with eight of our nine recommendations but did not fully agree with recommendation three. Management asserted that Postal Service Purchasing policies allow contract modifications for unforeseen conditions and changes requested by local management. Therefore, it is difficult to draw hard lines around the "scope" of a contract. In the specific instance cited, management stated it is likely that the additional work requested met the definition of unforeseen conditions and/or local management requests.

Regarding management's response to recommendation three, we maintain that approximately \$669,000 was used on a contract to fund modifications for work we believe was outside the scope of the original contract. Accordingly, we recommended the vice president, Facilities reemphasize the importance of not issuing modifications for work outside the scope of the original contract. Although management believes the work in question is within the general scope of the contract, management agreed to encourage the contracting officer's representative to consult with his managers in the future on borderline situations involving the scope of additional contract work. Therefore, management's planned actions are responsive to recommendation three. We summarized these comments in the report and included the full text of comments in Appendix C.

**Evaluation of
Management
Comments**

Management's planned or implemented actions are responsive and address the issues identified in this report; therefore, no further action is required.

INTRODUCTION

Background

Facilities is defined as an enabling organization established to gather and provide data to Postal Service operations to assist in planning and implementing facilities infrastructure investments. The Facilities Service Office actively searches for opportunities to solve ongoing facilities issues, some of which have remained unresolved for many years, and where possible, expediting the approval process for these opportunities. Once decisions are made and facilities projects are approved, the Facilities Service Office performs all negotiations, contracting, design, and construction through project completion.

Facilities contract administration is primarily conducted by a contracting officer representative in conjunction with the contracting officer. The contracting officer representative may be assigned a wide range of responsibilities for administering facility construction contracts. These responsibilities may include certifying invoices, reviewing guaranteed maximum price contracts, performing inspections, accepting goods and services, and properly documenting contract time extensions. In carrying out contracting officer representative responsibilities, the representative should be properly trained, appointed, and terminated when appropriate. It is also important that contracting officer and contracting officer representative duties be clearly defined to ensure proper separation of duties.

Objective, Scope, and Methodology

The objective of the audit was to determine if contracting officer representatives adequately administered facility construction contracts. We evaluated the execution of modifications, sufficiency of documentation, adequacy of receipt of goods and services, and the adequacy of invoice certification. Also, we reviewed contracting officer representative training, appointments, and terminations.

We interviewed Postal Service employees as well as contract employees retained by the Postal Service to aid in the administration of facilities contracts at the Facilities Service Offices in Atlanta, Georgia; Dallas, Texas; Denver, Colorado; Chicago, Illinois; Kansas City, Missouri; Greensboro, North Carolina; New York, New York; San Francisco, California; and Windsor, Connecticut; and Facilities Service Offices in Administrative Service Offices

in Billings, Montana; Mid Florida, Florida; Lancaster, Pennsylvania; Little Rock, Arkansas; Nashville, Tennessee; Omaha, Nebraska; and, Phoenix, Arizona. We also reviewed applicable contract files, contracting officer representative files, and architect and engineering files. We reviewed other relevant documentation, as were considered necessary.

We judgmentally selected 114 open and closed contracts valued at \$100,000 or more. The contracts were dated from September 1996 through December 1998. Our sample was selected from a contract listing provided by Postal Service Facilities Headquarters. We conducted this audit in two phases. We issued a report on September 30, 1999, that covered 49 contracts reviewed during the first phase. This report for the second phase summarizes audit work for the remaining 65 contracts. We used computer-generated data to support findings and conclusions, but we did not validate application controls. Instead, we assessed the reliability of this data by reviewing source documents and through discussions with management officials.

This audit was conducted from September 1999 through April 2001 in accordance with generally accepted government auditing standards and included tests of internal controls that 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

Our first report, Responsibilities of Contracting Officer's Representatives, report number CA-AR-99-003, was issued on September 30, 1999. The audit disclosed that:

- Regular audits were not being performed on guaranteed maximum price contracts to determine potential Postal Service savings.
- Contractors' invoices did not adequately support stored materials.
- Final inspections and acceptance were not properly documented.
- Progress payments were made that the Postal Service was not billed for.

- Contractor's period of contract performance exceeded the contract completion date without proper justification or assessment of damages
- Some contracting officer representatives were not properly trained, appointed, or terminated.
- Adequate separation of duties did not exist to ensure necessary checks and balances were in place to protect the integrity of the procurement process.

We made recommendations to address these issues. Management agreed with the recommendations and has started to take corrective actions.

AUDIT RESULTS

We determined that management has policies and procedures in place to provide for adequate contracting officer representative administration of construction contracts. However, we found that some contracting officer representatives were not administering contracts as required by Postal Service Purchasing regulations. For example, a contracting officer representative improperly classified and managed a guaranteed maximum price contract, and modifications to finalize notices to proceed were not timely. In addition, contract work orders were not issued and invoice certifications were not performed in the manner required by Postal Service Purchasing regulations.

We also found that policies and procedures were not always followed resulting in insufficient contracting officer representative training; a lack of appointment, replacement, and termination letters for representatives; unjustified contract extensions; a lack of separation of duties; and improper classification and management of a guaranteed maximum price contract. These issues were previously addressed in our prior report. Management agreed with the recommendations provided to address these issues and has started to take corrective actions.

We also found problems with contract administration and modifications, as well as notices to proceed and finalize contract prices and terms. We also found that contract work orders were not issued and invoice certifications were not performed in the manner required by Postal Service Purchasing regulations.

Contract Administration and Modifications

Contracting officer representatives are responsible for administering the terms of guaranteed maximum price contracts. Guaranteed maximum price contracts are contracts, which allow the Postal Service to share in any cost savings, established by the terms of the contract. If the final cost of the total project is less than the guaranteed maximum price, the Postal Service shares in the savings in accordance with a contractually established ratio. The Postal Service contracts with construction management support service firms to perform monthly reviews of contractors' costs for many reasons, including determining any potential shared savings on guaranteed maximum price contracts.

We identified a guaranteed maximum price contract originally issued by the Major Facilities Office, which was subsequently transferred to another office. The contracting officer representative in the second office administered the contract as if it were a fixed-price contract instead of a guaranteed maximum price contract. According to the contracting officer representative, he was not aware of the contract type because it took the originating office several months to transfer the contract documents to his office. In addition, after receiving the contract files the contracting officer representative overlooked the contract type. As a result, no monthly reviews were performed and the Postal Service missed the opportunity to share potential cost savings.

In addition, the same contract had \$2.2 million in modifications. Specifically, the contract was awarded to design, build, and install security systems at four Postal Service facilities, however, approximately \$669,000 was used to fund modifications for work we believe was outside the scope of the original contract. For example, one modification in the amount of \$170,000 was issued for the installation of landscape material at a Postal Service site. Examples of other modifications we believe were outside the scope of the original contract include modifications for traffic analysis, lobby finishes, and road widening.

According to the Real Estate, Design and Construction Handbook, Procedure 270.70, modifications should be made only to correct design deficiencies and unforeseen conditions. Additionally, as stated in the Purchasing Manual, Section 1.7.1.a, purchases valued at more than \$10,000 (the competitive threshold) must be made on the basis of adequate competition, whenever appropriate, to ensure the price is fair and reasonable. The contracting officer representative stated he believes all work was within the general scope of the original contract. However, we believe this work was outside the original intentions of the contract and should have been treated as new work, subject to competition requirements. The lack of competition for the new work resulted in the Postal Service having no assurance of a fair and reasonable price.

Recommendation	The vice president, Facilities, should: 1. Establish policies that include specific instructions/checklist detailing procedures for transferring projects between offices.
Management's Comments	Management agreed with our recommendation and stated that standard procedures will be established by headquarters Facilities and distributed to the field offices by October 1, 2001.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation.
Recommendation	2. Provide specific training to the contracting officer representative involved in the contract on the proper transfer of projects and files from other offices and what action to take when a project is transferred without proper files.
Management's Comments	Management agreed and stated training will be provided by the Atlanta Facilities Service Office manager, Design and Construction within 60 days of our final audit report.
Evaluation of Management's Comments	Management's comments are responsive to our recommendation.
Recommendation	3. Reemphasize to the contracting officer representative involved in the contract the importance of not issuing modifications for work outside the scope of the original contract.
Management's Comments	Management disagrees with our recommendation regarding out of scope contract work. Management believes in the specific instance cited, unforeseen conditions provide the contracting officer/contracting officer's representative with latitude to determine whether necessary changes are within the general scope of the contract. Although management believes in this instance the work was within the general scope of the contract, the contracting officer's representative will be encouraged to consult with his managers on borderline situations involving scope of work additions in future procurements. Management also stated

that we incorrectly characterized guidance on modifications from the Real Estate, Design and Construction Handbook, Procedure 270.70.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation. However, the OIG disagrees with management's comments regarding our finding. We feel the issuance of any modifications for work outside the scope of the original contract should thoroughly be reviewed and evaluated to ensure a fair and reasonable price is obtained. We do feel that management's comment encouraging the contracting officer's representative to consult with his manager on borderline situations an appropriate response. The OIG also disagrees with management's statement that we incorrectly stated guidance on modifications from the Real Estate, Design and Construction Handbook, Procedure 270.70. This information was correctly cited and referenced from the appropriate source at the time of our audit. After researching and reviewing management's reference to section 6.5 of the new Handbook P-2, Design and Construction Purchasing Policies, dated March 1999, we did not find any language in the policies to support management's statement that modifications are allowed for unforeseen conditions and local management requested changes. Further, management's assertion that unforeseen conditions provide the contracting officer/contracting officer's representative with latitude to determine whether necessary changes are within the general scope of the contract is a broad interpretation of the policies.

Recommendation

4. Direct the contracting officer on this contract to close out the contract and use proper procedures for completing any other contractual requirements.

**Management's
Comments**

Management stated that according to the contracting officer, the project cited in our report has been closed out.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation.

**Notices to Proceed
and Finalize Contract
Prices and Terms**

Our review at one Facilities Service Office revealed a contract originally valued at \$4,911,131, which had nine notices to proceed without timely negotiation of a contract price. The notices to proceed included the Postal Service estimated cost for the additional contract changes. Modifications to finalize the contract price and terms were eventually issued; however, in some cases the modifications were issued after the work was completed. Notices to proceed are issued when contract changes are required to allow a supplier to proceed with work up to the estimated total cost prior to a modification being issued to finalize the contract price and terms. According to Section 6.5.2.c of the Purchasing Manual, contracting officers must promptly negotiate equitable adjustments resulting from the contract changes and follow up when claims for equitable adjustments are not received within 30 days. Contrary to Postal Service's procurement requirements, nine notices to proceed were not negotiated and, therefore, contract price and terms were not finalized until an average of 190 days after the notices to proceed were issued. For example, in one case the notice to proceed was issued in November 1998, however, the modification was not finalized until October 1999, 332 days after the notice to proceed was issued. The total value of the notices to proceed was \$1,211,508.

According to the contracting officer representative, notices to proceed were issued to allow work to begin; however, sometimes the contractors were not expedient in finalizing their pricing. The contracting officer and the contracting officer representative are responsible for ensuring that the modifications finalizing contract price and terms are issued in a timely manner.

As a result of this practice, the Postal Service's contract negotiation position was weakened because the Postal Service had to determine if contractors' costs were reasonable after costs had been incurred and work completed. In addition, the contractor had no incentive to control costs. Specifically, the contractor was aware of the estimated cost, which could have been overstated and based progress payments upon these estimates. This left the Postal Service with little or no leverage in negotiating a fair and reasonable price.

Recommendation

The vice president, Facilities, should:

5. Ensure the contracting officer involved in this contract is negotiating equitable adjustments resulting from change orders and finalizing contract prices and terms as prescribed by the Purchasing Manual.

**Management's
Comments**

Management agreed with the recommendation and stated that they will pursue action upon confirmation from our office on the appropriate contracting officer to be notified. It is anticipated the corrective action will be implemented within 60 days of our final report. Management also stated that this issue will be stressed at the national Design and Construction Managers meeting scheduled for April 25, 2001.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendation. We verbally provided the manager, Design and Construction with the contracting officer's name based on the information in our files.

Work Orders and Invoice Certification

Our review in one district revealed that a contracting officer representative exceeded his authority by issuing work orders to the contractor, and did so without notifying the contracting officer. According to Exhibit 2.4.6.c-20 of the Design and Construction Purchasing Practices Handbook, the contracting officer is the person delegated the authority to place work orders against the contract up to the contracting officer's warrant authority. Since the contracting officer did not place the orders or receive copies of the work orders, he could not properly account for the work being performed or the dollars expended.

In addition, the contracting officer representative certified invoices for deficient work without making appropriate adjustments to the invoices. As a result, there was no assurance that the contractor ever completed the work or that Postal Service ever received what was paid for.

Upon receipt of invoices, an on-site Postal Service employee performed an inspection and notified the contracting officer representative of the status of the work completed. Although, the deficiencies and incomplete work were documented during the inspection, the contracting officer representative approved the invoices in full and forwarded them to the contracting officer without noting the deficiencies. Relying upon the contracting officer representatives' certification, the contracting officer signed the invoices for payment.

According to the contracting officer representative, the incomplete or deficient work was usually not significant; therefore, he did not hold up payment for work he considered minor. Consequently, he approved the invoices and forwarded them to the contracting officer to certify and make payment. The contracting officer representative should have adjusted the invoices to exclude the incomplete or deficient work prior to forwarding them to the contracting officer. According to Section 6.2.3.a of the Purchasing Manual, inspection and acceptance requires inspection of goods or services and acknowledgement that they conform to quality and quantity requirements established in the contract. Furthermore, as stated in Section 6.4.2.b of the Purchasing Manual, invoices submitted before performance or delivery violates the certification provision of the "Invoices clause."

Recommendations

The vice president, Facilities, should ensure that the contracting officer involved in this contract:

6. Issue written orders for all work under this contract.
7. Does not approve monthly progress payments without adequate supporting documentation.
8. Does not recommend full payment of invoices for work that is deficient or incomplete.

**Management's
Comments**

Management agreed with the recommendations. The District Administrative Services manager will be notified in writing of the finding and recommendation within 30 days from issuance of the final report. Further, the District Administrative Services manager will explain to the manager, Maintenance the limits of his authority.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendations.

Repeat Findings

The following three areas of concern were presented in our prior report; however, we also noted them during this phase of the audit:

- In 2 of the 65 contracts reviewed, the actual period of performance exceeded the contract completion date without proper justification or assessment of damages to the contractor.
- In 38 of the 65 contracts reviewed, the contracting officer representative had not received required training; 19 had not been properly appointed and 6 were not properly terminated.
- In 2 of the 65 contracts reviewed, adequate separation of duties did not exist. The contracting officer representatives served in dual roles signing progress payments as the contracting officer representative and signing as the approval official.

In response to our September 30, 1999, report, management provided planned corrective actions to address these types of issues (See Appendix A).

Recommendation

The vice president, Purchasing and Materials, and the vice president, Facilities, should:

9. Provide an update to the Office of Inspector General documenting the progress made in implementing the planned corrective actions submitted in response to the September 30, 1999 report.

**Management's
Comments**

Management agreed with the recommendation. The vice president, Purchasing and Materials, provided the OIG an update on the status of corrective actions submitted in response to our September 30, 1999, audit report. In a memorandum dated March 12, 2001, the OIG was advised that all necessary steps to implement recommendations in the prior report are now complete. In addition, they plan to cascade this final report under their Purchasing Review for Excellence Program to Facilities Services Office managers. They will also request these managers to cascade the report to Administrative Services Office managers within

their area of responsibility. Also, management stated that they are in the process of developing and deploying a Postal Service intranet accessible Web-based training program for contracting officer's representatives.

**Evaluation of
Management's
Comments**

Management's actions are responsive to our recommendation.

APPENDIX. MANAGEMENT'S COMMENTS

Printed Name



March 12, 2001

BILLY SAULS

SUBJECT: Update to Audit Report Number CA-AR-98-003, Responsibilities of
Contracting Officer's Representatives

All necessary steps to implement the subject report recommendations for Purchasing and Materials are completed. As of March 2001, only three recommendations have an open status in the Automated Tracking System (ATS). These recommendations are now considered complete, and were updated in ATS on March 8, 2001. For your convenience, a copy of the latest ATS status of open recommendations for this audit report is attached.

Please direct any questions you may have to [REDACTED] of my staff, at [REDACTED] (b) (6)

A handwritten signature in cursive script that reads "Juanda J. Barclay".

Juanda J. Barclay, C.P.M., A.P.P.
Manager,
Purchasing Policies and Programs

Attachment

cc: Keith Strange (all with Attachment)
Rudolph Urrschoid
Robert Fraga

[REDACTED] (b) (6)

John Cunnels

ATS200
Status of Recommendations from Office of Inspector General
Open Recommendations

All Reports Issued During Current OIG Semiannual Period for

Report Title	Status	Recommendation/ Suggestion	Management Response	Comments / Status	Implementation Date
Responsibilities of Contracting Officer's Representatives Report #: CA-AR-99-003 Issued Date:09/30/1999 Addressed To: VP, Purchasing and Materials VP, Facilities	Open	Recommendation 9: VP, Facilities and VP, Purchasing and Materials - Make a determination on whether COR training as defined by Management Instruction AS-710- 95-13 applies to Facilities project managers who are assigned as CORs.	Agree	No further response required by Facilities.	May 2001
			Agree	Management Instruction AS-710-95-13 was revised and is currently in the clearance process, expect issuance within the next 60 to 90 days.	
			Agree	Management Instruction AS-710-95-13 does apply to all CORs. Major Facilities Purchasing and Purchasing Policies and Programs personnel will review the Management Instruction and existing training requirements for possible modification to address any unique design and construction COR training requirements.	September 2000
			Agree	Determination was made that - Yes - the Management Instruction does apply to all CORs. Existing training requirements will be updated and revised so that applicable COR training requirements are addressed and publicized.	September 2000
			Agree	Management considers this recommendation CLOSED. New MI is cleared, applies to Facilities CORs, will be numbered PM-610-2001-X (X to be determined), and will be posted on the Intranet on/before April 2001.	April 2001

ATS200

Status of Recommendations from Office of Inspector General

Open Recommendations

All Reports Issued During Current OIG Semiannual Period for

Report Title	Status	Recommendation / Suggestion	Management Response	Comments / Status	Implementation Date
Responsibilities of Contracting Officer's Representatives (Continued)	Open	Recommendation 10: VP, Facilities and VP, Purchasing and Materials - Provide COR training to employees before they are assigned COR duties.	Agree	No further response required by Facilities.	On Going
			Agree	Management Instruction AS-710-95-13 is being revised, expect issuance by end of calendar year. Training policy is being reviewed.	
			Agree	USPS instructors will be required to emphasize the proper way to administer the contracts addressed in this report.	September 2000
			Agree	(1) Facilitated COR training requirements are included within the Facilities Contract Administration Pricing and Claims Course #34290-00, and Major Facilities Purchasing (MFP) will recommend that applicable Facilities personnel attend this course. (2) In March 2000 the COR Training Pamphlet was updated and placed at the P&M website. It was also publicized via Purchasing Policies and Programs (PPP) electronic newsletter to contracting officers. (3) MFP and PPP will review Management Instruction AS-710-95-13 and existing training policy to update and revise so that COR training requirements are addressed and publicized. Instructors have been requested to include these audit findings in our Facilities Contract Administration Pricing and Claims Course #34290-00. Training requirements were included in the revised MI. Management Instruction AS-710-95-13 was revised and is currently in the clearance process, expect issuance within the next 60 to 90 days.	September 2000

Status of Recommendations from Office of Inspector General
Open Recommendations

ATS200

All Reports Issued During Current OIG Semiannual Period for

Report Title	Status	Recommendation/ Suggestion	Management Response	Comments / Status	Implementation Date
Responsibilities of Contracting Officer's Representatives (Continued)			Agree	Management considers this recommendation CLOSED. MI is cleared, requires COR Training, will be numbered PM-610-2001-X (X to be determined), and will be posted on the intranet on/before April 2001.	April 2001

ATS200

Status of Recommendations from Office of Inspector General
Open Recommendations

All Reports Issued During Current OIG Semiannual Period for

Report Title	Status	Recommendation/ Suggestion	Management Response	Comments / Status	Implementation Date
Responsibilities of Contracting Officer's Representatives (Continued)	Open	Recommendation 13: VP, Facilities and VP, Purchasing and Materials - Ensure that adequate separation of duties exists between the contracting officer and COR on USPS Facilities contracts.	Agree	No further response required by Facilities.	September 2000
			Agree	The Vice President, Facilities stated that he believes the issue needs further discussion with Purchasing and Materials management. He advised that the issue will be studied and suggestions for improvement will be provided to appropriate management officials.	
			Agree	MFP and PPP will sponsor a cross functional team to review existing policies and practices and submit suggestions for improvements to the appropriate management.	September 2000
			Agree	Improvements have been discussed and incorporated in the revised COR Management Instruction currently in the clearance process. To ensure that CORs are fully aware of their responsibilities and the limitations of their authority, CORs must be trained and appointed in writing. The COR appointment letter defines adequate separation of duties. Expect publication in next 60 to 90 days.	

ATS200

Status of Recommendations from Office of Inspector General

Open Recommendations

All Reports Issued During Current OIG Semiannual Period for

Report Title	Status	Recommendation / Suggestion	Management Response	Comments / Status	Implementation Date
Responsibilities of Contracting Officer's Representatives (Continued)			Agree	Management considers this recommendation CLOSED. MI is cleared, requires separation of duties between CO and COR, will be numbered PM-610-2001-X (X to be determined), and will be posted on the Intranet on/before April 2001. Further, MI covers COR designation termination notifications. On 1/11/2000, memo to the PMG from COO and CFO, provided guidance necessary to ensure adequate separation of duties between the CO and COR on Facilities contracts.	April 2000

Responsibilities of Contracting
Officer Representatives

CA-AR-01-002

Date: 3/15/2001



March 15, 2001

BILLY SAULS

THURMAN STRANGE

KS MAR 15 2001


SUBJECT: DODTALU Report on the Responsibilities of Contracting Officer Representatives
(Such Report Number CA-AR-01-002)

Thank you for the opportunity to respond to the subject draft audit report. Recommendations have
addressed to the Vice President, Purchasing and Materials and I request that you provide an
update on the corrective actions submitted in response to your September 30, 1999 audit report.
covering responsibility of contracting officer representatives (COR). On March 10, by separate
memo return, you were advised that all necessary steps to implement recommendations in this
report are now completed. Thus this action will effectively close recommendation nine of this
report.

Other recommendations in your report, in order to avoid the repetition of mistakes, we plan to
include you in our report under our Funding Review for Excellence Program (FREEM) in the
Facilities Service Office (FSO) managers. We will request that these managers further coordinate
the report to Administrative Services Office (ASO) managers within their area of responsibility.

You may also be interested to know that we are in the process of developing and deploying a
JRSB Internet accessible COR web based training program. This low cost alternative to class
room training will help ensure that all designated CORs have immediate access to required
training. Deployment should be completed by September 30, 2001.

If you have any questions regarding this response, please contact [redacted] of my staff at (b) (6)


Amanda J. Barclay, CPM, APR
Manager
Architects, Police and Fire

cc: Alcott H. Jirscheit
Robert Frazee
John B. Gurdie

(b) (6)

10/10/01 1:00:00
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99-414-2211-11

RUDY UMSCHIED
VICE PRESIDENT, FACILITIES



BILLY SAULS

SUBJECT: Responsibilities of Contracting Officers' Representatives
Report Number CA-AR-01-DRAFT

We appreciate the opportunity to respond to the subject draft report. While we agree with several of the recommendations regarding specific projects, we have a major disagreement with the recommendations regarding project scope. Therefore, we will address that issue first.

Contract Administration and Modifications

- 3. Reemphasize to the contracting officer representative involved in the contract the importance of not issuing modifications for work outside the scope of the original contract.**

The audit incorrectly indicates that "according to the Real Estate, (sic) Design and Construction Handbook, Procedure 270.70, modifications should be made only to correct design deficiencies and unforeseen conditions." This is not correct. First, Procedure 270.70, in the sentences before and after the statement referred to above, also allows local management requests to be considered. While the Design and Construction Handbook was replaced with Handbook P-2, Design and Construction Purchasing Policies in March 1999, this new handbook, in Section 6.5, also allows modifications for unforeseen conditions and local management requested changes. Unforeseen conditions provide the contracting officer/contracting officer representative with latitude to determine whether the necessary change is within the general scope of the contract.

It is difficult to draw hard lines around the "scope" of a contract. In the specific instance cited, which was a security master plan for the Atlanta District, it is likely that landscaping material, traffic analysis, and road widening meet the definition of unforeseen conditions and/or local management requests. Since the security project involved installing gates at several driveway locations, the Georgia Department of Transportation required the addition of acceleration and deceleration lanes—thus the road widening. Places where security devices were installed also could have required landscaping.

The Postal Service's policy regarding the general scope of the contract is well established, and provides the needed flexibility to address tangential issues that arise during construction in order to assure the success of the project. To have to seek competitive proposals on each change order would be counterproductive, could lead to disputes as to ultimate responsibility when multiple contractors have worked on a particular job, and leads to additional administrative costs. The contracting officer must decide what is in the best interests of the Postal Service. Therefore, while we feel the instances cited were within the general scope of the contract, the contracting officer representative will be encouraged to consult with his managers on borderline situations.

- 1. Establish policies that include specific instructions/checklist detailing procedures for transferring projects between offices.**

We concur with your recommendation. Standard procedures will be established by Headquarters Facilities and distributed to the field offices. Anticipated completion is October 1, 2001.

- 2 -

2. **Provide specific training to the contracting officer representative involved in the contract on the proper transfer of project and files from other offices and what action to take when a project is transferred without proper files.**

The contracting officer representative will receive the recommended training. This training will be provided by the Atlanta Facilities Service Office Manager, Design and Construction.

4. **Direct the contracting officer on this contract to close out the contract and use proper procedures for completing any other contractual requirements.**

According to the contracting officer, this project was closed out on February 14, 2000.

Notices to Proceed and Finalize Contract Prices and Terms

We have had difficulty tracking down the specific project discussed in your report. We do however, agree with your position on the need to promptly negotiate equitable adjustments resulting from contract changes. This issue will be stressed at our national Design and Construction Managers meeting scheduled for April 25, 2001. Regarding your recommendation:

5. **Ensure the contracting officer involved in this contract is negotiating equitable adjustments resulting from change orders and finalizing contract prices and terms as prescribed by the Purchasing Manual.**

We concur with your recommendation and will pursue action upon confirmation from your office on the appropriate contracting officer to be notified.

Work Orders and Invoice Certification

The findings in this section apparently stemmed from an audit, which occurred in November 1999. The project discussed involved contracting for concrete pads for neighborhood delivery and collection box units (NDCBUs)/cluster boxes. The District Administrative Services Manager utilized a local manager, Maintenance as a contracting officer representative. Apparently the manager, Maintenance did not understand the limits of his authority and did not follow proper contracting procedures. Both the OIG and the contracting officer have issued corrective directions to the manger, Maintenance.

The vice president, Facilities should ensure that the contracting officer involved in this contract:

6. **Issues written orders for all work under this contract.**
7. **Does not approve monthly progress payments with adequate supporting documentation.**
8. **Does not recommend full payment of invoices for work that is deficient or incomplete.**

We concur with all three of the recommendations. The District Administrative Services Manager will be notified in writing of these items within 30 days from issuance of your final report and will further explain to the manager, Maintenance the limits of his authority.



FACILITIES PROGRAM SUPPORT

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March 30, 2001

BILLY SAULS

SUBJECT: Responsibilities of Contracting Officers' Representatives
Report Number CA-AR-01-DRAFT

Pursuant to Rudy Umscheid's response of March 30, 2001 to the subject draft report, please be advised that stated actions for Recommendations 2, 3, and 5 will be completed within 60 days from issuance of your final report.


Michael L. Goodwin
Manager, HQ Design & Construction

Cc: Rudy Umscheid, Diane Van Loozen