



May 13, 2005

KEITH STRANGE
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Electronic Data Systems Contract Invoice Approval
Procedures (Report Number CA-AR-05-002)

This report presents the results of our self-initiated audit of Electronic Data Systems (EDS) Contract Invoice Approval Procedures (Project Number 04XG012CA000).

Background

The Postal Service issued a fixed-price delivery order on December 7, 2001, under the EDS Preferred Portfolio Partnering ordering agreement. The purpose of this delivery order was to establish the Help Desk at the Distributed Systems Service Center in Raleigh, North Carolina. The Help Desk subsequently moved to Winchester, Kentucky (September 2002) and Lansing, Michigan (April 2003). It currently operates in these two locations.

The Help Desk provides Postal Service employees nationwide with information technology (IT) support services. The cost of each contact¹ for a desktop problem is [REDACTED]. Help Desk technicians log clients' calls into the Postal Service's Remedy system, an automated trouble-ticket² management system. Help Desk-generated tickets are classified as Tier I, which includes identifying and analyzing the problem, fixing the problem, arranging for on-site support, and working with external vendors when equipment is under warranty and covered by support contracts. On average, EDS billed the Postal Service for approximately [REDACTED] tickets monthly at a cost of [REDACTED].

¹The contract defines a "contact" as a notification to the Help Desk via inbound toll-free telephone call, automated alert, voice mail, facsimile, e-mail, or Web-generated request.

²Trouble-tickets are records of Help Desk contacts. Each ticket includes detailed information, such as the date and time of the ticket creation, the client's name and telephone number, a description of the problem, and the Help Desk technician's name.

³For the period of February 2002 through September 2004.

Objectives, Scope, and Methodology

Our audit objective was to determine whether the Postal Service procedures for reviewing, certifying, and paying EDS invoices were adequate. Additionally, on our behalf, the Defense Contract Audit Agency (DCAA) reviewed EDS's internal control procedures for processing Postal Service invoices and evaluated whether invoices were supported by Help Desk tickets.

To accomplish our audit objective, we reviewed the contract, contract modifications, and applicable criteria in the Postal Service's Purchasing Manual. In addition, we interviewed the contracting officer's representative (COR) and Postal Service personnel from the IT Help Desk and the San Mateo Accounting Service Center. We also interviewed EDS officials.

We performed an analysis of tickets billed from January 1, 2004, through September 30, 2004, to identify instances where it appeared one contact generated multiple tickets. To perform the analysis, we relied on computer-processed data contained in the Remedy system. For the period tested, we matched billed tickets to the data in the Remedy system. We believe that the data was sufficiently reliable to form our conclusions and recommendations.

This audit was conducted from August 2004 through May 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

Results

Postal Service officials could improve procedures for reviewing, certifying, and paying EDS invoices. Specifically, the COR certified invoices for payment without determining if billed tickets were valid and in accordance with the contract. This occurred because the contract did not require EDS to provide detailed documentation of billed tickets with invoices. In addition, Postal Service officials did not ensure that adequate data was captured and maintained to allow a comprehensive analysis of billed tickets. As a result, Postal Service officials did not have adequate assurance that contract payments were made in accordance with the terms and conditions of the contract. Our analysis of billed tickets identified multiple tickets that appeared to be billed outside of the contract terms.

Opportunities to Improve Invoice Processing

The COR certified invoices for payment without determining if billed tickets were valid and in accordance with the contract. Specifically, the COR stated he compared summary data⁴ included with the invoice to prior months' invoices to identify obvious anomalies. However, this review was not sufficient to establish whether tickets were properly billed.

The Purchasing Manual, Chapter 5.2.3.a., January 31, 1997 (updated with Postal Bulletin revisions through November 15, 2001) states that, to be allowed, costs must be consistent with the requirements and terms and conditions of the contract. The contract states that EDS will be reimbursed [REDACTED] for each contact that results in a billable ticket. In addition, the COR designation letter requires the COR to verify invoices and promptly certify them for payment. The letter also requires the COR to review information to evaluate contract payments, including reviewing reports on costs incurred to determine that quality and quantity of materials/services were provided and met contractual requirements. The COR did not perform comprehensive reviews of invoices because the contract did not require EDS to provide detailed documentation of billed tickets with invoices.

In addition, the Remedy system did not capture the contact time, which would aid in analyzing whether tickets were billed in accordance with the contract. For example, contact time is essential in determining if only one billed ticket was generated from each contact. Postal Service officials did not foresee a need for this data when the contract was awarded.

Additionally, EDS did not maintain adequate supporting documentation in accordance with the contract to allow for validation of prior years' billed tickets. Records in the Remedy system are purged after one year and EDS did not maintain complete billed ticket data for prior years. For example, EDS's historical supporting documentation did not include the names and phone numbers of the persons contacting the Help Desk. Retaining this information is critical to verifying that tickets were billed in accordance with the contract. The contract requires that electronic or hard copy records, as appropriate, will be retained for validation for three years after the contract ends. Postal Service officials had not previously requested historical detailed billed ticket data from EDS and were not aware that EDS was not maintaining data in accordance with the contract.

⁴A list of the number of billed tickets by program area and contact type.

Analysis of Billed Ticket Documentation

Our analysis⁵ of the [REDACTED] tickets billed from January through September 2004 identified [REDACTED] that appeared to be billed outside of the contract terms. We could not determine whether all multiple tickets resulted from one contact because, as noted previously, Postal Service officials did not require EDS to keep a record of contact time. We discussed the results of our analysis with Postal Service officials, who agreed that the additional tickets may have been inappropriately billed. They indicated they will use the audit results to negotiate a recovery of cost from EDS. We will report the [REDACTED] in questioned costs in our Semiannual Report to Congress (see Appendix A).

Recommendations

We recommend the vice president, Supply Management, instruct the contracting officer to:

1. Require EDS to submit detailed supporting documentation with invoices.
2. Develop and implement procedures for determining if tickets are valid and billed in accordance with the contract terms and conditions. For example, develop and implement procedures for identifying multiple billed tickets generated from one contact.
3. Coordinate with the manager, Information Technology Corporate Help Desk, to capture contact time and require EDS to enter contact time when creating Help Desk tickets.
4. Require EDS to maintain historical billable ticket data to allow for validation of prior year billed tickets.
5. Use the results of our analysis of potential instances of multiple tickets generated from one contact to negotiate a recovery of questioned cost.

Management's Comments

Management agreed with the recommendations and will consult with the audit team and EDS officials to determine the most appropriate corrective actions to address the recommendations. Management will hold discussions with EDS officials to resolve the questioned costs. Management will complete implementation of the corrective actions by the end of fiscal year 2005. Management's comments, in their entirety, are included in Appendix B of this report.

⁵We obtained billed ticket numbers from EDS and extracted detailed ticket data from the Remedy system. We analyzed the data to identify multiple tickets generated on the same day, for the same client, showing the same problem. We allowed one billable ticket for the instances identified.

Evaluation of Management's Comments

Management's comments are responsive to the recommendations and actions planned should correct the issues identified in the finding.

Other Matter

The DCAA review of the EDS billing system disclosed that EDS had a weakness in their internal control procedures for processing Postal Service contract billings. Specifically, EDS did not follow their stated policies and procedures to review the billing system annually and sample and test invoices periodically. EDS agreed to take corrective action.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Matthew Hartshorn, Acting Director, Supply Management, or me at (703) 248-2300.

/s/ John M. Seeba

John M. Seeba
Deputy Assistant Inspector General for Financial Operations

Attachments

cc: Richard J. Strasser, Jr.
Robert L. Otto
Sam Schmidt
Steven R. Phelps

APPENDIX A. QUESTIONED BILLED TICKETS

Month/Year	Billed Tickets Per Invoice	Questioned Tickets ⁶	Price Per Contact	Questioned Costs
January 2004				
February 2004				
March 2004				
April 2004				
May 2004				
June 2004				
July 2004				
August 2004				
September 2004				
TOTAL				

NOTE

QUESTIONED COSTS – A cost that is unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

⁶Questioned tickets are those that appeared to be billed outside of the contract terms.

APPENDIX B. MANAGEMENT'S COMMENTS



April 27, 2005

JOHN M. SEEBA

THRU: KEITH STRANGE *KS* APR 28 2005

SUBJECT: Draft Audit Report—Electronic Data Systems (EDS) Contract Invoice Approval Procedures
(Report Number CA-AR-05-DRAFT)

We appreciate your office performing a review of EDS invoicing practices in response to the request made by the Postal Service's Information Technology organization. Management agrees with the report's five recommendations, and the following outlines our proposed course of action.

1. Review Office of Inspector General (OIG) documentation supporting the report's findings and recommendations.
2. Meet with the OIG Supply Management evaluators and EDS as necessary to determine best fit solutions to address the report's recommendations.
3. Hold discussions with EDS to resolve questioned costs.
4. Provide documentation to the OIG supporting actions taken in response to this audit.

We anticipate that all actions related to implementation of the report recommendations will be completed by the end of FY 2005. Until discussions are completed, we are not in a position to provide a final disposition regarding the \$980,682 in questioned costs. This report does contain proprietary business information and should not be disclosed pursuant to Exemption 4 of the Freedom of Information Act (FOIA). [REDACTED], is available to discuss the specific sections that should be withheld from public disclosure and can be reached at [REDACTED]. [REDACTED] will monitor implementation of the report recommendations and can be reached at [REDACTED].

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