

November 4, 1999

ALLEN R. KANE
CHIEF MARKETING OFFICER AND
SENIOR VICE PRESIDENT

SUBJECT: Point of Service ONE - Vendor Solution
(Report Number DA-LA-00-001)

In 1996, the Postal Service awarded the Point of Service ONE contract to two vendors to design, develop, deploy, and maintain the Postal Service's new Point of Service ONE system. This decision was made to limit the Postal Service's risk in developing and deploying the Point of Service ONE system and increase competition. Recently, the Point of Service ONE Vice President Oversight Committee decided that the risk of going to one vendor was low and offset by the potential cost savings over the life of the program. The Point of Service ONE Program Office developed a business assessment process and cost model to evaluate the two vendors.

On September 30, 1999, we submitted a letter identifying several issues concerning the decision to move to one Point of Service ONE vendor. On October 8, 1999, we met with the Point of Service ONE Vice President Oversight Committee to discuss our concerns. On October 14, 1999, we received your request to:

- Validate the benefits as developed by the Program Office and
- Review the selection framework for the option process.

This report is in response to your request.

Scope and Methodology

To accomplish your request, we reviewed the selection framework documentation provided by the Point of Service ONE Program Office, the transition methodology to one vendor, and the model used to compare Point of Service ONE costs using one vendor versus two vendors. Our review included documents received as of November 3, 1999. In addition, we interviewed Postal Service officials and Point of Service ONE consultants.

We performed this review in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. In the interest of providing you with our assessment in time to assist with your decision process, we did not solicit written comments on this report. However, if you wish to offer comments on the report please do so by November 19, 1999.

OIG Assessment

On the basis of our review, we believe that the cost model should yield a generally reasonable projection of the financial impact from transitioning to one Point of Service ONE vendor. However, we were unable to validate the overall benefits from such a transition because of the lack of supporting documentation for some cost estimates and assumptions. We also noted the following concerns:

- The transition cost could not be validated due to the number of estimates in the model. The Point of Service ONE Program Office included a 10 percent contingency amount in their model but this may not be sufficient to cover unanticipated costs.
- We believe there is a risk of litigation by the losing vendor. However, the probability or amount of financial loss accruing from such litigation can not be fairly estimated.

We also identified no material weaknesses with the Point of Service ONE selection framework. However, a detailed assessment of the framework and results could not be completed using the available data within the requested

timeframe. We identified some areas of concern that could increase the level of risk for Postal Service. These areas were:

- The subjectivity of the sub-categories in the Partnership critical capability,
- The need for additional critical capability sub-categories with an emphasis on financial accountability and customer support, and
- The exclusion of both vendors' ability to accomplish software development projects, as measured by the Capability Maturity Model, as evaluation criteria. The Point of Service ONE Program Office stated other sub-factors and actual performance would be the evaluation criteria for software.

We also identified an additional risk from our review of the transition plan:

- The compatibility of both vendors' hardware and software has not been fully proven. Full core functionality has not been tested for either vendor. The Point of Service ONE Program Office informed us that neither vendor was tasked to retrofit their software on the alternate vendors' hardware. However, both vendors assured them their software could be modified to support alternate hardware platforms.

We limited our review to the model and selection framework. Accordingly, nothing in this report should be construed as an endorsement for selecting either vendor for the next phase of the Point of Service ONE project.

While a cost model and selection framework may be in place, the potential for collective impact from the risks identified above, is still a source of concern. As our letter of September 30, 1999 indicated, officials must have adequate information to make a decision that is in the best interest of the Postal Service. We encourage you to carefully weigh the potential risks against projected benefits prior to selecting one vendor.

We appreciate the cooperation and courtesies provided by your staff during this time-sensitive review, and we will continue to monitor the progress of the Point of Service ONE program in the future. If you have any questions or need additional information, please contact [REDACTED]. [REDACTED], [REDACTED], at [REDACTED], or myself at (703) 248-2300.

Richard F. Chambers
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for Performance

cc: Patricia M. Gibert
John R. Gunnels