



September 30, 2004

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VICE PRESIDENT, SUPPLY MANAGEMENT

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SUBJECT: Audit Report – Preferred Portfolio Partnering Program  
(Report Number CA-AR-04-002)

This report presents the results of our self-initiated audit of the Postal Service's Preferred Portfolio Partnering (PPP) Program (Project Number 04XG003CA000).

Our overall audit objectives were to assess internal controls over the PPP program and determine whether the program was achieving its stated objectives.

Through the PPP program, Postal Service officials identified, developed, and implemented information technology (IT) business solutions for functional areas. Postal Service officials also implemented procedures to ensure the PPP program accomplished its objectives: Postal Service officials established contract performance provisions, performed independent reviews of the statement of work, and developed contract documentation to justify issuance of task orders. In addition, contract files generally contained documentation as required by the PPP Performance Management Plan. However, opportunities exist to enhance program oversight and maximize IT savings. Specifically, since fiscal year 2001, Postal Service officials did not conduct PPP program performance reviews to ensure the program was an effective and efficient tool for obtaining IT business solutions. Additionally, Postal Service officials could not readily determine whether the Postal Service received accurate research and development credit from one of the PPP partners. We made two recommendations to Postal Service management addressing these issues. Management agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General (OIG) considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. The recommendation

should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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

/s/ Colleen A. McAntee

Colleen A. McAntee  
Deputy Assistant Inspector General  
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Attachment

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## EXECUTIVE SUMMARY

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| <b>Introduction</b>                                | This report presents the results of our self-initiated audit of the Postal Service's Preferred Portfolio Partnering (PPP) program. Our overall objectives were to assess internal controls and determine whether the program was achieving its stated objectives.  |
| <b>Results in Brief</b>                            | Through the PPP program, Postal Service officials identified, developed, and implemented information technology (IT) business solutions for functional areas. Postal Service officials also implemented procedures to ensure the PPP program accomplished its stated objectives: Postal Service officials established contract performance provisions, performed independent reviews of the statement of work, and developed contract documentation to justify issuance of task orders as required by the PPP Program Management Plan. However, since fiscal year 2001 Postal Service officials did not conduct program performance reviews to ensure the program continues as an effective and efficient tool for acquiring IT business solutions. Additionally, Postal Service officials could not readily determine whether the Postal Service received the correct amount of research and development (R&D) credit from one PPP partner. |
| <b>Summary of Recommendations</b>                  | We recommended Postal Service management conduct program performance reviews to measure the program's effectiveness and track awarded labor dollars to ensure the R&D credit is accurate.  |
| <b>Summary of Management's Comments</b>            | Management agreed with the findings and recommendations. Management's comments, in their entirety, are included in Appendix B of this report.  |
| <b>Overall Evaluation of Management's Comments</b> | Management's comments are responsive to the recommendations and actions taken or planned should correct the issues identified in the findings.   |

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## INTRODUCTION

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### Background

The Postal Service's Chief Technology Office (formally known as Information Systems) is responsible for providing information technology (IT) services to seven Postal Service portfolios. In fiscal year (FY) 1998, the Postal Service awarded seven ordering agreements to enterprise-wide IT-providers, creating the Preferred Portfolio Partnering (PPP) program. (See Table 1 for Partner Portfolio Assignments). The Postal Service established these long-term professional service ordering agreements to assist in delivering IT solutions and maximize the value obtained from its investments. This initiative is consistent with the Postal Service's April 2002 Transformation Plan strategy to modernize purchasing procedures.

**Table 1: PPP Partner Portfolio Assignments**

| PPP Portfolio        | PPP Partner      |
|----------------------|------------------|
| Finance              | Accenture        |
| Human Resources      | Accenture        |
| IT Infrastructure    | EDS <sup>1</sup> |
| Mail Operations      | Accenture        |
| Marketing            | Accenture        |
| Other Enabling       | CSC <sup>2</sup> |
| Payroll <sup>3</sup> | CSC              |

Between March 1998 and December 2003, the Postal Service awarded 237 task orders totaling over \$570 million through the PPP program. This amount represents 21 percent of the total IT contracts<sup>4</sup> awarded during the same period.

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### Objectives, Scope, and Methodology

Our overall objectives were to assess the internal controls over the PPP program and determine whether the program was achieving its stated objectives. Specifically, we determined whether:

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<sup>1</sup> Electronic Data Systems Corporation.

<sup>2</sup> Computer Sciences Corporation.

<sup>3</sup> The contract for the Payroll portfolio is no longer under the PPP program.

<sup>4</sup> Total dollars awarded for all IT contracts was approximately \$2.8 billion.

- The PPP program achieved IT business solutions for entire functional areas.
- Contract performance provisions were established and enforced.
- A risk existed when the same partner developed and executed the statement of work.
- Contract files contained required documentation to justify the issuance of task orders.
- The Postal Service received the correct research and development (R&D) credit.

To accomplish our objectives, we interviewed program managers, contracting officers, contracting officer's representatives, and business system contract analysts involved with the PPP program. We also consulted with Office of Inspector General experts and legal staff.

In addition, we reviewed applicable criteria in the Postal Service Purchasing Manual and the PPP Program Management and Performance Review plans. Furthermore, we analyzed the Marketing, Mail Operations and IT Infrastructure ordering agreements.

We judgmentally selected and reviewed 18 task orders awarded between September 2000 and July 2003 (see Table 2 for task orders reviewed).

**Table 2: List of Task Orders Reviewed**

| <b>Portfolio</b>                              | <b>Task Order Number</b> | <b>Amount Awarded</b> |
|---|--------------------------|-----------------------|
| Marketing                                     | 1BITTL-03-D-7381         | \$ 238,446            |
|   | 102591-01-D-0941         | \$ 7,939,027          |
|   | 102591-02-D-0831         | \$ 5,766,114          |
| IT Infrastructure                             | 102591-02-D-1915         | \$ 73,305             |
|   | 102591-02-D-0768         | \$17,901,407          |
|   | 102591-02-D-0706         | \$ 790,178            |
| Finance                                       | 102591-02-D-0899         | \$ 6,264,554          |
|   | 1BITTL-03-D-7884         | \$ 824,621            |
|   | 1BITTL-03-D-6436         | \$ 2,185,158          |
| Mail Operations                               | 102591-01-D-2291         | \$61,178,942          |
|   | 1BITTL-03-D-1756         | \$ 1,075,895          |
|   | 1BITTL-03-D-1593         | \$ 2,679,460          |
| Payroll                                       | 102591-02-D-1531         | \$ 750,000            |
|   | 102591-01-D-2200         | \$ 3,063,205          |
|   | 102591-00 -D-2924        | \$ 4,817,032          |
| Human Resources                               | 1BITTL-03-D-1019         | \$ 76,198             |
|   | 102591-02-D-1310         | \$ 1,745,920          |
|   | 102591-02-D-2132         | \$ 2,241,514          |
| <b>Total Awarded for Task Orders Reviewed</b> |                          | <b>\$119,610,976</b>  |

This audit was conducted from December 2003 through September 2004 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. We did not rely on computer-generated data for this audit.

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**Prior Audit Coverage**

We did not identify any prior audits or reviews related to the overall PPP program. However, several audits have been performed on individual projects awarded under the PPP ordering agreements.

## AUDIT RESULTS

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### **Program Assessment**

The PPP program achieved its stated objective of establishing long-term professional service ordering agreements with enterprise-wide IT vendors to provide business solutions to entire functional areas. These partnerships allowed the Postal Service to create an extension of its internal resources, provide broader business knowledge, and improve its response to the portfolio clients' business needs.

Postal Service officials also implemented internal control procedures to ensure the PPP program was an effective and efficient tool for acquiring IT business solutions: Postal Service officials established contract performance provisions to ensure satisfactory partner performance, performed independent reviews of the statement of work to ensure partner proposals met IT clients' business needs, and developed contract documentation to justify the issuance of task orders, as required by the PPP Performance Review Plan.

However, opportunities exist to enhance program oversight and maximize IT savings. Specifically, PPP program officials did not conduct required program performance reviews. Additionally, Postal Service officials could not readily determine whether a PPP partner provided the correct amount of R&D credit.

As a result, Postal Service officials may not have sufficient information to make best-value decisions and may be paying for future R&D efforts that could have been offset by the R&D credit.



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**Opportunity to  
Enhance Program  
Oversight**

Since FY 2001, Postal Service officials did not conduct program reviews as required by the PPP Program Performance Review Plan. Instead, on a monthly basis, Postal Service senior management meets with the Chief Technology Officer to discuss the progress of all IT projects. However, we did not find any documentation that these meetings measure the PPP program's effectiveness. If program performance reviews are not conducted, Postal Service officials cannot ensure the PPP program is an effective and efficient tool for achieving the client's IT business needs.

In February 1999, Postal Service officials developed the Performance Review Plan to monitor the PPP program's effectiveness and efficiency. According to the Performance Review Plan, monitoring Chief Technology Office performance, including PPP partners, and assessing Postal Service IT value are key to the PPP program's success. This plan requires Postal Service officials to periodically assess the value added by the PPP program. In addition, roles and responsibilities were established for conducting the program performance reviews. Monitoring the PPP program includes:

- Deliverable Reviews
- Evaluation Findings Collection Phase
- Program Technical Review
- Program Client Review

Instead of conducting program performance reviews, in FY 2001, the Chief Technology Officer implemented monthly meetings to discuss the status of individual projects within the IT group. In these meetings, senior management reviews information from Program Tracking Reporting System reports that provide financial data and a status of all IT projects. However, these reports do not address the effectiveness of the PPP program as a tool for achieving program goals and ensuring the deliverables are obtained in a cost effective manner.

When performance reviews are not conducted on the PPP program, Postal Service officials cannot adequately assess whether the PPP program is an effective tool to meet IT goals; conform to the investment value; or determine

whether services provided by the PPP partners meet program goals, contractual requirements, and are delivered in a cost effective manner.

For example, one of the PPP partners did not perform as required under the task order terms for the period of December 2002 through March 2003. Specifically, help desk agents were not answering calls efficiently or resolving customer calls in a timely manner, and agents were not appropriately trained to handle customer call issues. Nonetheless, the Postal Service paid the entire billed amount, even though substandard services were rendered during this period. Conducting program reviews could have reduced the risk that the Postal Service paid for substandard work.

In a meeting on July 27, 2004, Postal Service management agreed that the Chief Technology Officer monthly meetings do not assess the effectiveness of the PPP program and that management should take a more active role in conducting the quality reviews of the PPP program

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**Recommendation**

We recommend the Vice President, Chief Technology Officer, direct the IT Value Manager to:

1. Complete performance reviews as required by the Preferred Portfolio Partnering Program Performance Review Plan.

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**Management's  
Comments**

Management agreed with the recommendation and will update the internal PPP Performance Review Implementation Plan to reflect the contractual requirement for performing a more in-depth annual performance review. Also, management plans to complete the first review covering FY 2004 in the first quarter of FY 2005.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive to the recommendation. Management's planned action to perform in-depth annual performance reviews of the PPP program should address the issues identified in the finding.

We did not comment on the internal PPP Performance Review Implementation Plan interval for conducting performance reviews, currently at four to six months. The Postal Service's commitment to update the internal PPP

Performance Review Implementation Plan to conduct in-depth quality reviews on an annual basis meets the intent of the recommendation. Therefore, we agree to the proposed revision.

In addition, we recognize that the Postal Service has conducted monthly performance reviews and that they are cost efficient. However, we maintain that these reviews do not assess the effectiveness of the PPP program itself, and therefore in-depth quality reviews of the PPP program are necessary.

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**Opportunity to  
Maximize Information  
Technology Savings**

The Postal Service could not readily determine whether a PPP partner provided the correct amount of R&D credit. This occurred because Postal Service officials did not separately track awarded labor dollars under each task order. Therefore, the Postal Service may be paying for future R&D efforts that could have been offset by these credits.

In 1998 during contract negotiations, the Postal Service accepted a PPP partner's proposal to establish a fund to subsidize future R&D projects. The fund tracks R&D credits but does not contain actual dollars. These R&D credits are calculated based on a percentage of cumulative labor dollars awarded within a contract year for four of the seven portfolios under the PPP program. Postal Service officials could then apply these credit amounts toward future R&D contracts awarded to the partner. The PPP partner computed the credit and reported the R&D balance to the Postal Service on a bimonthly basis.

Postal Service officials tracked awarded labor dollars until 2001 to verify the accuracy of the R&D fund balance. However, after 2001, they relied on the PPP partner's data to review the R&D fund calculations since awarded labor dollars were no longer separately tracked under each task order.

Despite this data limitation, Postal Service officials, in conjunction with a contractor, performed limited reviews on the R&D fund between 2001 and 2002 to determine whether the PPP partner had accurately calculated the R&D credit. Historically, these limited reviews indicated the PPP partner understated the R&D credits as follows:

- The PPP partner incorrectly calculated the R&D credit on a per portfolio basis instead of applying the percentages to total awarded labor dollars for the entire quarter. This resulted in an understated credit of \$635,917.
- Six task orders were listed in a Postal Service Report but were not included in the partner's R&D funds

report. This resulted in an understated R&D credit of between \$196,151 and \$534,228.<sup>5</sup>

- Calculation errors resulted in an understatement of the R&D fund by \$2,600.

If the R&D fund is monitored using a more in-depth structured process and definitive timeline, the Postal Service could further maximize IT savings.

|  |   |
|--|---|
| <b>Recommendation</b>                      | We recommend the Vice President, Supply Management, direct the IT Category Management Center Manager to: <ol style="list-style-type: none"> <li>2. Establish an appropriate process to monitor awarded labor dollars for all task orders to enable a review of the research and development fund.</li> </ol>  |
| <b>Management's Comments</b>               | Management agreed with the recommendation and implemented a centralized database within the IT Category Management Center for tracking awarded labor dollars under each task order, effective September 1, 2004. Additionally, management plans to review and reconcile the research and development fund bimonthly.  |
| <b>Evaluation of Management's Comments</b> | Management's comments are responsive to the recommendation and actions taken or planned should correct the issues identified in the finding.<br><br>We recognize that Postal Service officials identified, addressed, and reconciled the understated research and development fund credit amounts. The specific examples were included to show that historically the PPP partner's data has not always been accurate. |

<sup>5</sup>Because the calculation is based on a percentage of cumulative labor dollars, the exact amount is dependent upon the contract year and associated labor dollars awarded.

## APPENDIX A. ABBREVIATIONS

|     |                                |
|-----|--------------------------------|
| FY  | Fiscal Year                    |
| IT  | Information Technology         |
| OIG | Office of Inspector General    |
| PPP | Preferred Portfolio Partnering |
| R&D | Research and Development       |

## APPENDIX B. MANAGEMENT'S COMMENTS

ROBERT L. OTTO  
VICE PRESIDENT  
CHIEF TECHNOLOGY OFFICER



September 7, 2004

COLLEEN A. MCANTEE

SUBJECT: Management Response to Draft Audit Report – Preferred Portfolio Partnering Program  
(Report Number CA-AR-04-DRAFT)

We appreciate the opportunity to review and comment on the subject draft audit report. While we are in agreement with the report recommendations as discussed below, there are two issues we would like to highlight. First, the report may leave the reader with the impression that the Postal Service has not conducted Preferred Portfolio Partnering (PPP) program performance reviews since fiscal year 2001. Program reviews still continue on a monthly basis. While not as in-depth as prior to Fiscal Year 2001, the current process is cost efficient and is providing similar results. Second, it is important to note that the understated research and development fund credit amounts were identified, addressed and reconciled by the Postal Service Information Technology program office.

**Recommendation 1: (Significant)**

*We recommend the Vice President, Chief Technology Officer, direct the IT Value Manager to: Complete performance reviews as required by the Preferred Portfolio Partnering Program Performance Review Plan.*

**Management agrees with the recommendation.** While the monthly performance reviews will continue, we will update the internal PPP Performance Review Implementation Plan to reflect the contractual requirement for performing a more in-depth annual performance review. The first review, covering Fiscal Year 2004, will be completed during Postal Quarter I, Fiscal Year 2005. As a result of the on-going reviews, management will consider this recommendation closed, following OIG concurrence.

**Recommendation 2:**

*We recommend the Vice President, Supply Management, direct the IT Category Management Center Manager to: Establish an appropriate process to monitor awarded labor dollars for all task orders to enable a review of the research and development fund.*

**Management agrees with the recommendation.** A centralized database was created within the IT Category Management Center for logging and tracking awarded labor hours against Postal Service task orders. Review and reconciliation will be conducted on a bi-monthly basis. Use of the database began September 1, 2004, therefore management feels that this recommendation is closed.

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We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act (FOIA). Cheryl Hageage will monitor implementation of the recommendation directed to the Chief Technology Officer and can be reached at (202) 268-5751. Marie Martinez will monitor implementation of the report recommendation directed to the Supply Management Vice President and can be reached at (202) 268-4117.



Robert L. Otto

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