



September 25, 2007

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VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Management Advisory – Controls Over eBuy Billings and Payments
(Report Number CA-MA-07-007)

This report presents the results of our self-initiated audit of Controls Over eBuy Billings and Payments for selected supplies (Project Number 07YG058CA000).

Background

On July 16, 2001, the Postal Service, introduced eBuy as an improved way to buy supplies and services. The eBuy system automates the buying process end-to-end from ordering to payment, making the process more efficient. The most recent data available indicated there were 69 active catalogs established in eBuy and more than 88,000 Postal Service employees who regularly make requests, obtain approvals, and receive advanced shipping notices for online purchases of supplies and services. The national contracts managed in the eBuy system maintain large catalogs of individual supplies and services for purchase, each with unique unit and bulk pricing requirements. The eBuy system calculates the appropriate pricing for each order. There is a series of receiving controls and reconciliations purchasers are required to use to ensure the purchase price invoiced is accurate.

Objective, Scope, and Methodology

Our overall objective was to assess controls over billings and payments for eBuy purchases made through selected national contracts. Specifically, we determined if there were effective controls for ensuring billings were correct and payments were accurate for the items purchased.

To accomplish our objective, we interviewed Program Managers, Contracting Officers, and other Postal Service personnel as needed and reviewed applicable *Supplying Principles and Practices* and *Material Logistics Bulletins*. We also analyzed over 9 million eBuy purchase transactions valued at over \$401 million and procured through the OfficeMax contract from August 2001 through June 2007.

To identify potential over-billings to the Postal Service, we (1) calculated the total catalog price at the time of purchase and (2) subtracted the calculated total catalog price from the certified invoiced amount submitted to the San Mateo Accounting Service Center (SMASC). To validate payments made by the SMASC, we matched all invoices the contractor submitted to the payments the SMASC processed through the FOCUS and Accounts Payable Excellence (APEX)¹ systems. We excluded the Javits-Wagner-O'Day Act (JWOD)/AbilityOne² substitutions because the Postal Service is legally mandated to procure certain items from suppliers who are under the JWOD/AbilityOne Program regardless of the additional cost.

Our preliminary review of payments made on all 69 national contracts identified only one contract with the potential for significant over-billings. As such, we limited our audit to the procurement of office supplies made through the Boise/OfficeMax contract awarded in January 2000.

We conducted this audit from June through September 2007 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. Management waived the exit conference and declined the opportunity to comment. We did not audit or comprehensively validate the eBuy, APEX, or FOCUS systems. However, we did calculate the catalog price and compared it to the supplier's certified invoiced amount submitted to the SMASC via the eBuy system and compared the certified invoiced amount from the eBuy system to the amounts paid by the SMASC, as extracted from the FOCUS and APEX payment systems. Our analyses showed the data was sufficiently reliable to meet the objectives of this audit.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General issued one report in recent years related to our audit objective: *eBuy Monthly Reconciliation Procedures* (Report Number CA-AR-07-001, dated February 14, 2007). This report indicated that internal controls over eBuy reconciliations needed improvement. Specifically, of the \$10.8 million eBuy purchases reviewed, \$9.7 million (90 percent) were at risk since no reconciliations had been conducted. Management agreed with all seven findings and recommendations. We followed up on the recommendations and determined management had implemented six of them. One recommendation remains open and is projected to be implemented by the end of fiscal year 2007.

¹ The APEX system replaced the FOCUS system.

² The JWOD/AbilityOne program, established in 1938, requires any entity of the Government to purchase any item categorized as a JWOD item from a qualified nonprofit agency for the blind or the severely handicapped.

Results

Overall, the Postal Service was accurately billed for purchases we reviewed. Our review showed that OfficeMax appropriately billed the Postal Service for all supplies procured through the eBuy system. We identified 22,705 transactions, valued at \$812,994, made from August 2001 through June 2007, that initially appeared to have been over-billed to the Postal Service by a total of \$119,353. Upon further review, we excluded 2,103 transactions, valued at \$66,640, that were considered JWOD/AbilityOne items. We then analyzed the remaining 20,602 transactions, valued at \$746,354, that appeared to have been over-billed to the Postal Service by a total of \$108,329. We found these transactions were not over-billed because either they were the result of a contractually permitted substitution for unavailable items, or there was a change in quantities ordered that was not reflected in the eBuy system.

We briefed management on the results of our review and they had no issues with the findings. We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Judy Leonhardt, Director, Supply Management, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin, 
VERIFY authenticity with ApproveIt

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