

March 29, 2002

KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

SUBJECT: Management Advisory - Review of Contracts
Associated With Biohazard Threat
(Report Number CQ-MA-02-002)

This is the Office of Inspector General's (OIG) second and final management advisory on its review of expedited contracts the Postal Service issued to deal with the biohazard threat facing the mail, employees, and the public. This review was self-initiated by the OIG (Project Number 02BG007CQ001). Our intent was to protect the interests of the Postal Service by making recommendations as soon as we identified issues. The purpose of the review was to determine whether the Postal Service deviated from standard purchasing procedures in response to the biohazard threat and identify implications of any deviations.

Results in Brief

The review revealed that contracts and delivery orders were awarded using deviated purchasing procedures. The Postal Service used deviated procedures to award the contracts as quickly as possible in response to the biohazard threat. However, some of those deviations exposed the Postal Service to increased financial risk.

The Postal Service issued several contracts and delivery orders between October and November 2001. The first report we issued summarized our review of one contract for irradiation equipment. This report includes our review of ten service contracts and delivery orders totaling \$70.3 million that were awarded during the same timeframe as the irradiation equipment contract. Consequently, the Postal Service did not have sufficient time to implement corrective actions between the time we issued our first report and award of the ten contracts and delivery orders covered in this review. As a result, we identified some of the same issues previously reported. These issues

included deviations from standard indemnification procedures; and contracts and delivery orders that did not include determinations of price reasonableness, damages or remedy provisions, and file documentation to support the rationale for important contract decisions.

We also identified two new issues which included:

- Contract increases totaling approximately \$53.7 million, which lacked supporting documentation of how the reasonableness of the increases was determined.
- A \$598,780 payment to a supplier for work, which we were unable to determine was provided as required, at the Morgan Station, New York Processing and Distribution Center.

To address these issues and further protect the interests of the Postal Service, we made six recommendations to improve purchasing procedures for the contracts reviewed and future expedited contracts. We recommended that contract officials document the basis for important contract decisions, including determinations of price reasonableness; audit costs incurred by suppliers; and improve procedures for certifying invoices. Management agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments, in their entirety, are included in Appendix B of this report.

While we have made recommendations to improve purchasing procedures, Postal Service contracting and environmental officials stated, and we acknowledge, that the Postal Service has instituted controls to assist with monitoring contract work. However, the OIG has not performed an in-depth review of the controls and, as such, has not validated the effectiveness of these controls.

Background

The Postal Service expects to receive \$675 million in emergency funding from Congress in response to the biohazard threat facing the mail, employees, and the public. To deal with this threat, the Postal Service awarded contracts and delivery orders for gloves and masks for mail handlers; irradiation services; testing, sampling, decontamination, and clean-up services; construction

management; and transporting mail to irradiation facilities in Lima, Ohio, and Bridgeport, New Jersey.

Of the ten contracts we reviewed, the Postal Service awarded eight contracts directly to suppliers and used two existing contracts awarded by other agencies. On some of these contracts, the Postal Service issued delivery orders. The two existing contracts awarded by other agencies include a General Services Administration contract with IT Corporation, and a United States Coast Guard contract with Clean Harbors.

The Postal Service awarded the contracts and delivery orders as quickly as possible because it was operating in an emergency environment due to the deaths that occurred. In addition, the Postal Service was receiving direction and guidance from the White House Office of Science and Technology Policy Group. As a result, the Postal Service used expedited contracting procedures in awarding the contracts and delivery orders. The vice president, Purchasing and Materials, authorized contracting officers to make noncompetitive purchases without higher-level approval when necessary, but urged them to use normal processes whenever possible.

We recognize efforts made by Postal Service officials to negotiate contract discounts and institute controls to assist them in monitoring contract work. For example, according to contracting officials:

- Postal Service representatives were on-site to oversee decontamination and cleanup work at the Morgan Station, New York Processing and Distribution Center. The representatives provided assistance with cost control and daily monitoring of supplier performance. In addition, the Postal Service negotiated: adjustments to the supplier's overtime policy; a 10 percent discount on contract labor rates; a 2 percent discount on invoices paid within 10 days of receipt; and other credits. These negotiated items saved the Postal Service approximately \$1.66 million through November 30, 2001.
- The Postal Service has representatives on-site who will review decontamination work performed by suppliers at the Brentwood and Trenton Processing

and Distribution Centers. The representatives will provide work inspections of security, sampling, decontamination, remediation, and health and safety practices and procedures. In addition, the representatives will review supplier invoices and monitor contract work.

Objectives, Scope, and Methodology

The objectives of the review were to determine whether the Postal Service deviated from standard purchasing procedures in response to the biohazard threat and identify implications of any deviations.

We reviewed ten major service contracts and delivery orders totaling \$70.3 million issued in response to the threat, including contracts for irradiation services; decontamination and cleanup; construction management; testing, sampling, and bagging; and transportation.

To accomplish our objectives, we reviewed contract files and purchasing policies and procedures used to issue these contracts and delivery orders. We also interviewed Postal Service contracting officials, management officials, and Postal Service suppliers.

The review was conducted from November 2001 through March 2002 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

The OIG reviewed the letter contract with the Titan Corporation for the purchase of eight electronic beam machines and issued Report Number CQ-MA-02-001, December 28, 2001, on that review. We identified several instances where contract provisions deviated from standard contract language or were omitted from the contract. We recommended that the Postal Service attempt to use standard contract clauses in future expedited contracts for irradiation equipment. Management's comments were responsive to our findings and recommendations.

Previously Reported Contract Deviations Identified

We reviewed ten contracts and delivery orders totaling \$70.3 million that were awarded in response to the threat. These contracts and delivery orders were issued during the same timeframe as the Titan equipment contract we

previously reviewed and reported on. Consequently, the Postal Service did not have sufficient time to implement corrective actions between the time we issued our first report and award of the ten contracts covered in this review. As a result, we identified some of the same issues previously reported, as follows:

- Two contracts totaling \$3.8 million indemnify and hold suppliers harmless for all losses, damages, costs, and expenses, except to the extent they are negligent or commit willful acts. According to senior Postal Service officials, it is not the policy of the Postal Service to include indemnification language in supplies and services contracts. The Postal Service Purchasing Manual addresses indemnification as it relates to construction contracts but is silent as to indemnification for supplies and services contracts. Also, suppliers for these contracts would not provide services related to the biohazard threat without being indemnified.
- Seven contracts and delivery orders totaling \$66.3 million did not include evidence, such as technical analyses, to evaluate the reasonableness of proposed labor hours and material costs. The contracting officer relied on technical representatives from the Environmental Management Policy or Safety Performance Management Offices to determine if proposed prices were reasonable. The contracting officer requested documentation from the representatives to support the price reasonableness but did not receive it. The explanation the technical representatives gave, for not providing the necessary documentation, was that work under these contracts was being driven by the Center for Disease Control and other federal agencies. They also stated they had no experience with this type of biohazard emergency and, therefore, had no way to determine the level of labor hours and materials necessary to accomplish contract work.
- The contract with Titan Scan Technologies for irradiation services did not include provisions for damages or remedies if services were not performed as required. According to senior Postal Service officials, they did not consider including this type of

protection in the contract. However, the Postal Service did include protection in a subsequent contract awarded to Ion Beam Applications for irradiation services. This protection consisted of a credit remedy in the contract to compensate the Postal Service for each hour of downtime experienced in the delivery of irradiation services.

While we understand the need to use expedited contracting practices to award these contracts, the deviations and omissions discussed above expose the Postal Service to increased financial risk. To reduce the risk and further protect Postal Service interests, we believe contracting officers should use normal processes whenever possible. According to senior Postal Service officials, they always start with normal processes and standard clauses; however, there are times when the Postal Service is forced to negotiate with suppliers and deviate from standard contract terms.

Recommendations

We recommend for the contracts reviewed and future expedited contracts, the vice president, Purchasing and Materials, should require contracting officers to:

1. Obtain documentation to support that determinations of price reasonableness for labor hours and materials were made and maintain that documentation in contract files.
2. Include provisions for damages or remedies in contracts, whenever possible, to compensate the Postal Service when services are not performed as required.
3. Document contract files to support important contract decisions.

**Management's
Comments**

Management agreed with our recommendations and will: (1) obtain documentation validating the hours and material expended and billed, (2) include such documentation in the contract files, (3) include provisions for damages or remedies in contracts when it is considered in the best interest of the Postal Service, and (4) document important contract decisions. Within 30 days following receipt of the final OIG report, a Purchasing Policies and Programs electronic newsletter will be sent to purchasing employees, highlighting concerns raised in the report.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendations. The actions taken and planned should address the issues identified in our report. While management on the one hand states that very few of its Purchasing Manual policies were deviated from, it admits on the other hand that it did not follow normal contract administration processes such as, obtaining documentation supporting the reasonableness of labor hour and material usage estimates prior to commencement of work, and documenting contract files to support important contract decisions. We continue to believe that as the immediate threat subsides, management has the opportunity to award contracts using standard contracting clauses and procedures as much as possible, to further protect the interests of the Postal Service.

**Contract Increases
Lacked Supporting
Documentation**

Three of ten contracts reviewed had contract increases after award, totaling approximately \$53.7 million that lacked documentation showing how the reasonableness of the increases was determined. The contracts were increased to provide for additional work. While we are not questioning the scope of work added to the contracts, we are questioning how the Postal Service determined the reasonableness of the \$53.7 million in contract increases.

For example, we reviewed the following three contracts which had significant contract increases without documentation showing how the increases were determined to be fair and reasonable:

- Clean Harbors contract for decontamination and cleaning of the Morgan Station Processing and Distribution Center. The contract increased from \$5 to \$22.8 million.
- IT Corporation contract for testing, sampling, decontamination and cleaning of various Postal Service facilities. The contract increased from \$3.3 to \$30.2 million.
- URS Group, Incorporated, contract for testing, sampling, and bagging. The contract increased from \$525,000 to \$9.5 million.

All three contracts were time-and-materials type contracts. According to Section 2.4.5 of the Postal Service Purchasing Manual, time-and-materials contracts provide for purchasing supplies or services on the basis of direct labor hours at specified fixed hourly rates and material at cost. This type of contract should only be used if no other type of contract will do, because it does not encourage effective control by suppliers. In addition, when the Postal Service increases contracts without determining the reasonableness of the increases, it becomes exposed to increased risk of the supplier overspending or exaggerating expenses related to the contracts.

Section 6.2.2.a of the Postal Service Purchasing Manual states that all actions taken must be documented, and Section 6.2.2.b of the manual states that records must be maintained in an official contract file. In interviews, the contracting officer acknowledged her understanding of this requirement, but stated that, because of the deaths at the Brentwood mail facility, she did not want to be responsible for delaying the process. Therefore, the contracting officer issued the modifications for contract increases as requested by senior Postal Service officials, without receiving documentation supporting the reasonableness of the increases and including the documentation in contract files.

The contracting officer relied on technical representatives from the Environmental Management Policy or Safety Performance Management Offices to determine if proposed prices were reasonable. The contracting officer requested documentation from the representatives to support the price reasonableness and did not receive it. The explanation technical representatives gave for not providing the necessary documentation, was that work under these contracts was being driven by the Center for Disease Control and other federal agencies. They also stated they had no experience with this type of biohazard emergency and, therefore, had no way to determine the level of time and materials necessary to accomplish the work. The technical representatives stated that they increased the contract amounts based upon dollars expended under initial orders. However, we could not find nor were we provided with documentation to show how contract increases were determined to be fair and reasonable.

Recommendations	<p>We recommend the vice president, Purchasing and Materials:</p> <ol style="list-style-type: none">4. Request contract audits of the costs incurred on all time and materials contracts issued in response to the biohazard threat.5. Require contracting officers to obtain documentation showing how they, or their representatives, determined labor hours and material costs for the contract increases were fair and reasonable and maintain the documentation in contract files.
Management's Comments	<p>Management agreed with our recommendations and because of the risks associated with using time and materials contracts, will request the necessary contract audits to protect the financial interests of the Postal Service. In addition, management agreed to obtain and include documentation verifying labor hours and materials billed in contract files. These actions will be completed within 30 days following receipt of the final OIG report.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to our findings and recommendations. The actions taken and planned should address the issues identified in our report.</p>
Payment of Questionable Invoice	<p>The Postal Service contracted with IT Corporation to perform decontamination and cleanup services at the Morgan Station, New York Processing and Distribution Center. However, based upon our review, we determined that the supplier only provided equipment and set up a decontamination area. We found no evidence that the supplier actually performed decontamination and cleanup services as required. As a result, we questioned the validity of a \$598,780 payment to IT Corporation for cleanup services.</p> <p>According to the contracting officer's representative, IT Corporation was not working in a timely manner; therefore, the Postal Service obtained a new supplier to perform decontamination and cleanup services at the Morgan Station facility. The new supplier tore down IT Corporation's decontamination area and constructed a new one before beginning their decontamination and cleanup efforts. The contracting officer's representative believed IT Corporation did not provide the services it was</p>

contracted to perform. IT Corporation invoiced the Postal Service for 9 days of cleanup services totaling \$598,780. The invoice was approved; however, we could not confirm that the supplier actually performed decontamination or cleanup services at the facility. The Postal Service employee in Environmental Management Policy, who approved the invoice for payment, was not on-site and could not certify that the invoiced services were performed.

We discussed the validity of the invoice payment with senior Postal Service officials. The officials informed us, subsequent to our discussion, that the contracting officer verified the services performed by IT Corporation at Morgan Station are part and parcel of preparing a site for decontamination and necessary for the safety of all concerned. In addition, the contracting officer confirmed with the on-site contracting officer's representative the validity of the payment and determined that no reimbursement to the Postal Service is warranted.

Recommendation

We recommend the vice president, Purchasing and Materials:

6. Require contract invoices to be approved by the person responsible for monitoring supplier performance prior to payment, to ensure the Postal Service is not paying for services it has not received, and document the file accordingly.

**Management's
Comments**

Management agreed with our recommendation and stated that although the individual and process for invoice certification may vary from contract to contract, the Postal Service official with first hand knowledge of contractor performance should provide information and documentation to the person responsible for certifying contract invoices.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendations. The actions taken and planned should address the issues identified in our report.

The OIG considers recommendations 1,2,4,5 and 6 significant and, therefore, requires 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 the OIG provides written confirmation that the recommendations 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 Kim H. Stroud, director, Consulting and Quick Response, at (703) 248-2100, or me at (703) 248-2300.

Ronald D. Merryman
Acting Assistant Inspector General
for eBusiness

Attachment

cc: Richard J. Strasser, Jr.
Susan M. Duchek

APPENDIX A

SUMMARY OF CONTRACTS AND DELIVERY ORDERS REVIEWED

Contract Number	Supplier Name	Period of Performance	Description of Services	Contract or Delivery Order Amount	Standard Indemnification	Standard Termination	Standard Payment Terms	Price Reasonableness	Damages and Remedies	Sufficient Warranty
512593-02-F-0308	Titan	10/25/01 – 4/25/02	Irradiation Services	\$1,344,000	No	Yes	Yes	Yes	No	Yes
512593-02-F-0394	IBA	11/7/01 – 2/7/02	Irradiation Services	\$2,475,000	No	Yes	Yes	Yes	Yes	Yes
483083-2-N-0099	IT Corp.	10/23/01 – 10/22/01	Decontamination & Cleanup	\$30,200,000	Yes	Yes	Yes	No	*N/A	N/A
483083-02-N-0108	Clean Harbors	10/31/01 – 10/30/02	Decontamination & Cleanup	\$22,880,000	Yes	Yes	Yes	No	*N/A	N/A
483083-02-N-0146	Berger	10/31/01 – 10/30/02	Construction Management	\$300,000	N/A	Yes	Yes	No	N/A	N/A
483083-02-M-0086	URS Corp.	10/19/01 – 10/18/02	Testing, Sampling, & Bagging	\$9,501,000	Yes	Yes	Yes	No	Yes	N/A
483083-01-Q-0354	Weston	10/24/01 – 10/23/02	Testing & Sampling	\$172,000	Yes	Yes	Yes	No	Yes	N/A
G8893860	FedEx Custom Critical	11/20/00 – 10/31/02	Transportation	\$148,419	Yes	Yes	Yes	N/A	Yes	N/A
483083-02-M-0135	Earth Tech	10/29/01 – 10/28/02	Testing & Sampling	\$1,250,000	Yes	Yes	Yes	No	Yes	N/A
483083-02-M-0081	DPRA	10/19/01 – 12/31/02	Testing & Sampling	\$2,003,200	Yes	Yes	Yes	No	Yes	N/A
Total				\$70,273,619						

N/A – Clauses or provisions may not have been appropriate for this type of service.

*N/A – These procurements represent orders placed against other agency contracts. The Postal Service could not add new clauses or provisions to the existing master contracts.

APPENDIX B. MANAGEMENT'S COMMENTS

KEITH STANGE
Vice President, Procurement and Mail Services



March 26, 2002

DONNA L. EDSALL

SUBJECT: Draft Management Advisory—Review of Contracts Associated with Biohazard Threat
(Report Number CQ-MA-02-DRAFT)

We welcome the opportunity to respond to the subject audit report, and appreciate the cooperation provided by the Office of the Inspector General's (OIG) Consulting and Quick Response team during this review process. The nature of the report's findings and conclusions affirm that even though the Postal Service was handling an unprecedented event in our country's history, we were able to use our existing purchasing policies and processes to respond efficiently and effectively to the crisis.

The OIG is aware that our efforts to react promptly to the anthrax contamination in postal facilities in order to save lives, were under intense scrutiny and pressure for quick reaction from a variety of sources including CDC, NIOSH, EPA, local and state health departments, postal unions, the media, and Homeland Security. Complicating the issue further, as the situation progressed and knowledge was gained, the Postal Service had to act collectively and in concert with multiple governing agencies that were providing at times conflicting guidance to the Postal Service in developing the necessary requirements, specifications and protocols.

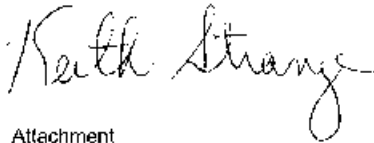
Efforts to gain insight and information are ongoing and our knowledge is constantly improving. The Postal Service is developing an expedited lessons learned and best management practices for biological testing and remediation from our experiences in New York, New Jersey, and Washington, D.C. The Postal Service is also working with the Federal National Response Team to produce a consensus document governing national response to anthrax attacks.

While it is always easier when looking back to see what could have been done or done better, the fact remains that in spite of these unprecedented conditions, the contracts were awarded timely and provided the labor, material and expertise necessary to perform the required sampling, cleanup and bagging of the mail in a safe manner. In addition, we believe that the contracts contain appropriate safeguards, including audit rights, if necessary, to protect the Postal Service's financial interests.

While we concur with the report's recommendations, it is important to note that very few Purchasing Manual policies were deviated from in the award of the contracts and orders covered by this report. For the most part, the reported issues are normally addressed through the contract administration process. Our specific responses are included in the attached.

-2-

This report contains proprietary or other business information that may be exempt from disclosure under the FOIA. If any of the dollar amounts cited in this report will appear in the Inspector General's Semi Annual Report to Congress, please advise in the final report how they will be discussed and categorized. If you have any questions about this response, please contact Marie Martinez at (202) 268-4117.

A handwritten signature in cursive script, reading "Keith Strasser".

Attachment

cc: Richard J. Strasser, Jr. (al w/Attachment)
Patrick R. Donahoe
Thomas G. Day
John R. Gunnels

Attachment
OIG Management Advisory CQ-MA-02-DRAFT
Review of Contracts Associated with Biohazard Threat

PREVIOUSLY REPORTED CONTRACT DEVIATIONS IDENTIFIED

Comments on Findings and Conclusions

- As discussed by the Office of the Inspector General (OIG), findings and recommendations related to Titan equipment contract were addressed in a separate report and response to the OIG. They will not be re-addressed in this response. (OIG report number CQ-MA-02-001, dated 12/28/01.)
- With regards to the two contracts for \$3.8 million, management agrees with the OIG findings.
- The report correctly implies that in order to determine if a contractor's estimated hours and material for required work were reasonable, the contracting officer (CO) would rely on Postal technical representatives, and in this situation, the advice and guidance from assisting agencies was also to be considered. Since there had never been a similar event on which to draw comparisons, it is a reasonable conclusion that advance independent estimates of required labor hour and material usage could not be prepared in any effective manner. The CO will be able to validate the hours and material expended and billed by virtue of the presence of on site postal technical representatives during all contractor activities. Appropriate documentation will be included in the contract file and, as noted by the OIG, has been requested by the CO to verify labor hours and material usage billed.

In addition, at any time or times before final payment under a time-and-materials contract, invoice audits are often requested by contracting officers to validate that the invoices are appropriate. As necessary, contracting officers will request invoice audits to protect the Postal Service. These audits, coupled with the on site monitoring of supplier activities, should minimize or negate the OIG's concern that we have exposed the Postal Service to increased financial risk.

- With regards to the OIG's discussion of the Titan Scan Technologies irradiation services contract, the Postal Service always has the right to dispute payment for services not performed in accordance with contract requirements. We agree that inclusion of special provisions covering damages and/or remedies for nonperformance may be considered by the contracting officer. However, we must carefully assess the risks and costs associated with inclusion in each situation.

Recommendations

We recommend for the contracts reviewed and future expedited contracts, the vice president, Purchasing and Materials, should require contracting officers to:

1. *Obtain documentation to support that determinations of price reasonableness for labor hours and materials were made and maintain that documentation in contract files.*

Management agrees with this recommendation. In line with the discussion above, inclusion of this documentation is a standard purchasing practice. Under normal circumstances, contracting officer's representatives (COR) provide documentation to the contracting officer supporting the reasonableness of labor hour and material usage estimates prior to the commencement of work. However, for the reasons outlined in the OIG report and this response, it was not possible for the COR to do so in this case. Appropriate documentation verifying labor hours and materials will be included in the contract file and as noted by the OIG, has already been requested by the CO. A

Attachment
OIG Management Advisory CQ-MA-02-DRAFT
Review of Contracts Associated with Biohazard Threat

notice will be sent with a copy of the final OIG audit report to those contracting officers responsible for contracts reviewed under this audit effort. With regards to future expedited contract efforts, a Purchasing Policies and Programs electronic newsletter will be sent to purchasing employees, reminding them of this standard practice. This newsletter will be issued within 30 days following receipt of the final report.

2. *Include provisions for damages or remedies in contracts, whenever possible, to compensate the Postal Service when services are not performed as required.*

Management agrees with this recommendation. Provisions for damages or remedies will be included in contracts whenever purchase teams consider these provisions to be in the best interest of the Postal Service. Also, the Postal Service always has the right to dispute or withhold payment for services not performed in accordance with contract requirements. While the inclusion of these special provisions may be considered, the purchase team must carefully assess the associated costs and risks when making their decision. A Purchasing Policies and Programs electronic newsletter will be sent to purchasing employees, highlighting this and other concerns raised in the OIG report. This action will be completed within 30 days following receipt of the final report.

3. *Document contract files to support important contract decisions.*

Management agrees with this recommendation. Under normal contract administration activities, contracting officers should document contract files to support important contract decisions. Again, this emergency situation made it difficult or impossible to document files contemporaneously with all the actions taken. Contracting officers were told to do what was necessary to support Operations in dealing with the emergency and prepare file documentation when time allowed. A notice will be sent with a copy of the final OIG audit report to those contracting officers responsible for contracts reviewed under this audit effort. With regards to future expedited contract efforts, a Purchasing Policies and Programs electronic newsletter will be sent to purchasing employees, highlighting this and other concerns raised in the OIG report. These actions will be completed within 30 days following receipt of the final report.

CONTRACT INCREASES LACKED SUPPORTING DOCUMENTATION

Comments on Findings and Conclusions

- The OIG focus in this section is on contract increases in three of the previously discussed contracts/orders beyond their original award values. The OIG states, "While we are not questioning the scope of work added to the contracts, we are questioning how the Postal Service determined the reasonableness of the \$53.7 million in contract increases." These increases represent funding increases made to ensure money was available to cover the continually expanding scope of work. Under normal circumstances these increases could appear significant. However, that is not the case in this life-threatening situation where we had to assure adverse conditions were immediately addressed. The Postal Service could not afford unnecessary delays associated with processing piece meal requests for additional funds to support these efforts.

As appropriate, contract funding will be decreased in these contracts. For example, the first bullet in this section seems to imply that \$22.8 million was spent with Clean Harbors. The value of this

Attachment
OIG Management Advisory CQ-MA-02-DRAFT
Review of Contracts Associated with Biohazard Threat

contract will be decreased by approximately \$9.8 million upon receipt of notice from the contracting officer's representative (COR) that the work is complete.

The reason for lack of supporting documentation covering reasonableness (labor hours and material prices) of the contract increases was discussed under the previous section. Appropriate verification documentation will be included in the contract file and as noted by the OIG, has been requested by the CO. As necessary, the contracting officer will also request invoice audits to protect the Postal Service. Again, these audits, coupled with on site monitoring of supplier activities, should minimize or negate the OIG's concern that we have exposed the Postal Service to increased financial risk.

- The report also discusses the risks associated with using time and materials type contracts. In a now, dangerous, and constantly changing situation, it is a prudent business practice to use a contract vehicle that provides the flexibility to ensure that any type of labor, equipment and material necessary can be readily obtained. The time and materials contract type affords this needed flexibility to the Postal Service and its suppliers.

Recommendations

We recommend the vice president, Purchasing and Materials:

4. *Request contract audits of the costs incurred on all time and materials contracts issued in response to the biohazard threat.*

Management agrees with this recommendation. Because of the risks associated with using time and materials contracts, contracting officers will request the necessary contract audits to protect the financial interests of the Postal Service. Contract audits should be requested if the contracting officer or purchase teams have any uncertainty over the appropriateness of supplier invoices. A notice will be sent with a copy of the final OIG audit report to those contracting officers responsible for the contracts reviewed under this audit effort. This action will be completed within 30 days following receipt of the final report.

5. *Require contracting officers to obtain documentation showing how they, or their representatives, determined labor hours and material costs for the contract increases were fair and reasonable and maintain the documentation in the contract files.*

Management agrees with this recommendation. Inclusion of this documentation is a standard purchasing practice. Under normal circumstances, contracting officer's representatives (CORs) provide documentation to the contracting officer supporting the reasonableness of labor hour and material usage estimates prior to commencement of work. For the reasons outlined in the OIG report and noted herein, it was not possible for the COR to submit this documentation supporting the contract increases. Appropriate documentation verifying labor hours and materials billed will be included in the contract file and as noted by the OIG, has already been requested by the CO. A notice will be sent with a copy of the final OIG audit report to the contracting officers responsible for the three contracts mentioned in this audit section. This action will be completed within 30 days following receipt of the final report.

Attachment
OIG Management Advisory CQ-MA-02-DRAFT
Review of Contracts Associated with Biohazard Threat

PAYMENT OF QUESTIONABLE INVOICE

Comments on Findings and Conclusions

As discussed in the conclusion of this section, this invoice is no longer considered questionable, and as noted by the OIG, the CO has verified that the services performed by IT Corporation at Morgan Station are part and parcel of preparing a site for decontamination and necessary for the safety of all concerned. In addition, the COR has attested to the validity of the payment and no reimbursement to the Postal Service is warranted.

Recommendation

We recommend the vice president, Purchasing and Materials:

6. *Require contract invoices to be approved by the person responsible for monitoring supplier performance prior to payment, to ensure the Postal Service is not paying for service it has not received, and document the file accordingly.*

Management agrees with this recommendation. The individual and process for invoice certification may vary from contract to contract. The Postal Service official with first hand knowledge of contractor performance should provide information/documentation to the person responsible for certifying contract invoices. Responsibility for invoice certification should always be clearly communicated by the contracting officer. Typically this will be done in the contract or via a COR appointment. To ensure compliance with this recommendation a notice will be sent with a copy of the final OIG audit report to those contracting officers responsible for the contracts reviewed under this audit effort. This action will be completed within 30 days following final report issuance.