



September 22, 2006

WALTER O'TORMEY
VICE PRESIDENT ENGINEERING

SUBJECT: *Technology Acquisition Management Process Guide* – Phases 3 and 4,
Production, Deployment, and Maintenance
(Product Number DA-WP-06-002)

This letter provides the results of our review of the draft *Technology Acquisition Management (TAM) Process Guide* – Phases 3 and 4, Production, Deployment, and Maintenance dated June 2006 (Project Number 06XG035DA000). The U.S. Postal Service Office of Inspector General (OIG) Engineering and Supply Management and Facility directorates performed the review in accordance with the *Value Proposition Agreement*, dated October 6, 2005.

In September 2004, the OIG recommended Postal Service Engineering develop written policies and procedures to better manage acquisitions in a report titled *Technology Acquisition Management* (Report Number DA-AR-04-003, dated September 24, 2004). In response, Engineering initiated efforts to further develop, standardize, and document its internal procedures to address program management activities, such as conditional acceptance criteria. Engineering sought the OIG's assistance in the development efforts, so together we formed a Value Proposition Agreement to develop the *TAM Process Guide*. The objective of the agreement is to promote acquisition practices that maximize benefits for the U.S. Postal Service.

On March 28, 2006, we issued the *Technology Acquisition Management Manual – Phase 1, Proof of Concept* (Product Number DA-WP-06-001), which summarized our review of the Proof of Concept phase. This was followed on June 29, 2006, by the *Technology Acquisition Management Process Guide – Phase 2, Development* (Product Number CA-WP-06-001), which summarized our review of the Development phase.

This is our third and final review of the draft *TAM Process Guide*. During this review, we determined whether the draft guide for Phases 3 and 4, Production, Deployment, and Maintenance, corresponded to acquisition management procedures prescribed by the National Aeronautics and Space Administration (NASA), the Department of Defense (DOD), and the Carnegie-Mellon Institute. In addition, we determined whether the draft guide addressed internal controls prescribed by the Government Accountability Office (GAO) and prior OIG report recommendations. Finally, we met regularly with TAM executives and the process development team to provide feedback on draft versions of the guide.

With some exceptions, the procedures documented in the draft guide were consistent with acquisition management procedures NASA, DOD, and the Carnegie-Mellon Institute prescribed, and addressed internal controls and prior OIG recommendations.

Specific areas for improvement include:

- Establishing an independent reporting structure for Test and Evaluation and Quality Assurance groups.
- Establishing detailed guidelines for conditionally accepting programs that do not meet performance expectations.
- Defining the roles and responsibilities of Contracting Officers' Representatives (CORs) and linking COR training requirements to the corresponding Postal Service Management Instruction.¹

We outline these areas in the appendix and discuss them in more detail below.

Independent Reporting Structure for Test, Evaluation, and Quality Assurance

To help ensure objective evaluations of programs, DOD and NASA mandate that their Test, Evaluation, and Quality (TE&Q) groups remain organizationally independent of acquisition and program management. While the draft guide clearly describes the roles and functions of the TE&Q groups, it does not address reporting structure. The OIG previously addressed the issue of an independent reporting structure in a March 2002 audit² focused on the activities of the Postal Service's TE&Q groups. The audit revealed these groups did not provide an independent assessment of Postal Service programs. Unlike other testing and quality groups from benchmarked organizations, TE&Q did not have any authority over program approval and assessment.

Management has since taken steps to improve the independence of the TE&Q function by developing policies and procedures³ that include test reporting to both the TAM Manager and the Vice President, Engineering. However, organizationally, the TE&Q groups still report to TAM. As a result, TAM can still influence the TE&Q groups' ability to objectively assess programs. By enhancing the reporting structure and updating the TAM guide accordingly, management can minimize the perceived conflict of interest tied to testing equipment performance and program deployments. As such, we suggested separating TE&Q from program activities in our benchmarking presentation to postal management.

¹ Postal Service Management Instruction PM-610-2001-1 *Contracting Officer's Representative Program*.

² *Postal Service Test, Evaluation, and Quality* (Report Number DA-AR-02-004, dated March 27, 2002).

³ *Test, Evaluation, and Quality Policies and Procedures Manual*, July 2002.

Conditional Acceptance Guidance

The draft TAM guide requires the use of conditional acceptance for minor performance issues; however, it gives no further guidance. Prior OIG audits revealed that Postal Service officials conditionally accepted projects when equipment did not fully pass the First Article Test, a key control for ensuring performance before systems are placed into production. In addition, there were inconsistencies in documenting and justifying management decisions in conditionally accepting projects. Without clear standards for conditional acceptance, the Postal Service risks deploying systems prematurely and, consequently, increases the risk of procuring systems that do not achieve the planned financial and functional benefits. Thus, we also suggested developing standard procedures for conditionally accepted projects in our benchmarking presentation to postal management. These procedures should include but not be limited to:



- Documenting and justifying decisions.
- Coordinating with Supply Management on the contractual impact of the conditional acceptance. For example, our benchmarks noted that while the DOD also uses conditional acceptance, they apply it using a policy of not paying more than the value of delivered services or goods.
- Approving exceptions to standard procedures at the appropriate level within the organization.

Contracting Officer Roles, Responsibilities, and Training

The draft guide states that Postal Service program managers will assume the roles and responsibilities of a COR. The COR plays a vital role in assisting the contracting officer in monitoring contract performance to ensure the Postal Service receives its value and maintains a standard of quality that supports the Postal Service. However, the draft manual does not discuss what those roles and responsibilities generally entail or the importance of taking the required COR training and complying with the contracting officer's letter of designation. This section of the TAM should also be linked to the Postal Service Management Instruction PM-610-2001-1, *Contracting Officer's Representative Program*. In our benchmarking presentation to postal management, we suggested that the TAM guide provide additional information identifying the training needs, roles, and the certification process for CORs.

Postal Service Engineering continues to make marked progress in developing the *TAM Process Guide*. As it completes this endeavor, we suggest issuing a Management Instruction or some other form of communication from the Vice President, Engineering, to establish authority before the *TAM Process Guide* is distributed and implemented.

Engineering was responsive to our comments and suggestions during the course of this effort. Management reviewed a discussion draft of this report and provided feedback, which we have taken into account; therefore, no response is necessary. We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2300.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!


Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachment

cc: Aron M. Sanchez
Donald E. Crone
J. Otis Smith
John F. Keegan
Mark Guilfoil
Steven R. Phelps

APPENDIX

ANALYSIS FOR PHASES 3 AND 4, *TECHNOLOGY ACQUISITION MANAGEMENT (TAM) PROCESS GUIDE*

I. Benchmarking With Department of Defense (DOD)		Document Reference	Included in Draft TAM Process Guide Phases 3 and 4	TAM Draft Guide Reference
a.	The independent planning of dedicated Initial Operational Test and Evaluation as required by law shall be the responsibility of the Operational Test Agency.	DOD Instruction 5000.2; 3.7.1.1.; E5.7.4 and 6	No	4.7; 4.8
b.	An independent Defense Contract Management Agency (DCMA) organization carries out Quality Assurance responsibilities.	DOD Directive 5105.64.	No	None
c.	Define Contracting Officer Representative (COR) roles, responsibilities, and training requirements.	COR Handbook, U.S. Army Research, Development, and Engineering Command Acquisition Center.	No	None
II. Benchmarking With National Aeronautics and Space Administration (NASA)		Document Reference	Included in Draft TAM Process Guide Phases 3 and 4	TAM Draft Manual Reference
a.	NASA Quality Assurance Program policy mandates the establishment of an independent quality assurance program.	NASA Policy Directive (NPD) 8730.5 expires on 10/27/2010, 1a.	No	None

APPENDIX (CONTINUED)

III. INTERNAL CONTROL CONSIDERATIONS		Document Reference	Included in Draft TAM Process Guide Phases 3 and 4	TAM Draft Guide Reference
a.	Management needs to divide key duties and responsibilities among different employees to reduce risk of error and fraud.	<i>General Accounting Office Standards for Internal Control in the Federal Government</i> , Page 14.	No	None
b.	Only specified individuals should authorize and execute transactions and events.	<i>General Accounting Office Standards for Internal Control in the Federal Government</i> , Page 14.	No	4.10. See D.1.23
IV. LESSONS LEARNED FROM PAST AUDIT REPORTS		Document Reference	Included in Draft TAM Process Guide Phases 3 and 4	TAM Draft Manual Reference
a.	Reassess the value of conditionally accepting programs that do not meet performance expectations and establish guidelines for approving and documenting these decisions.	Audit Report No. DA-AR-01-006; Title: <i>Singulate, Scan, Induction Unit</i> ; Date: 9/27/2001; Recommendation No. 7.	No	4.8.5
b.	Develop and formally adopt written policies and procedures in accordance with internal controls and best business practices to manage acquisitions, to include developing standard procedures for conditionally accepted projects.	Audit Report No. DA-AR-04-003; Title: <i>Technical Acquisition Management</i> ; Date: 9/24/2004; Recommendation No. 1.	No	4.8.5
c.	Modify the organizational reporting structure of TE&Q to have a direct report to his office as well as the Manager, TAM.	Audit Report No. DA-AR-02-004; Title: <i>Postal Service Test, Evaluation and Quality</i> ; Date: 03/27/2002; Recommendation No. 2.	No	None
d.	Ensure contracting officers issue appointment letters, which clearly define CORs' duties and responsibilities.	Audit Report No. CA-AR-99-003; Title: <i>Responsibilities of CORs</i> ; Date: 9-30-1999; Recommendation No. 11.	No. This recommendation is applicable to Supply Management. However, the TAM should refer to Supply Management requirements regarding COR duties and responsibilities.	4.9
e.	Amend the Defense Federal Acquisition Regulation Supplement to provide departmental guidance on the amounts to be withheld in cases of conditional acceptance of the services.	GAO/NSIAD-98-20; Title: <i>Guidance Is Needed On Payments For Conditionally Accepted Items</i> .	No	4.8.5