



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**Accenture Federal Services
Contracts**

Management Advisory Report

December 17, 2012

Report Number SM-MA-13-001



HIGHLIGHTS

December 17, 2012

Accenture Federal Services Contracts

Report Number SM-MA-13-001

BACKGROUND:

Accenture Federal Services, LLC (Accenture) is a U.S. Postal Service supplier that provides professional services. The Postal Service paid Accenture over \$112 million in fiscal year 2011. In June 2012, a Defense Contract Audit Agency (DCAA) report found that Accenture's Postal Service cost estimating system was inadequate. In addition, in 2011, the U.S. Department of Justice (DOJ) announced that Accenture, LLP agreed to pay the United States government \$63.7 million to resolve a whistleblower lawsuit alleging false claims. Our objectives were to follow-up on the DCAA audit report recommendations, summarize recent events surrounding settlements with the DOJ, and identify best practices for improving supplier cost estimates.

WHAT THE OIG FOUND:

Accenture initiated policy changes to fully address six of eight DCAA recommendations. However it did not fully address the recommendation to conduct periodic reviews of its estimating system and no corrective actions are underway to address the recommendation to monitor actual costs to estimated costs. In addition, Postal Service contracting officials did not obtain and assess the Information Technology (IT) subject matter experts' technical analyses performed on eight proposals, valued at \$8,204,045 to support that costs were reasonable. IT

management also purchased a cost estimating tool to assist in evaluating supplier estimates but it has not fully implemented the tool, resulting in \$90,000 in questioned costs. Accurate cost estimates are critical to ensuring that contract costs are reasonable and allowable. Further, the Postal Service was not included in the DOJ settlement, because it was aware of and allowed Accenture to charge fees for acquiring third-party hardware and software. Current contract language increases the risk of similar fees being charged on future task orders. Finally, we identified U.S. Department of Defense (DOD) best practices that, if used by the Postal Service, could strengthen its oversight of suppliers' estimating practices.

WHAT THE OIG RECOMMENDED:

We recommended management require Accenture to correct the two remaining DCAA reported deficiencies; revise policy and clauses to define material handling costs and exclude handling fees on time and material contracts; provide instruction on assessing technical analyses; assess the usefulness and feasibility of incorporating DOD best practices into the Postal Service environment; and develop a plan to implement the software cost estimating tool and train employees on using it.


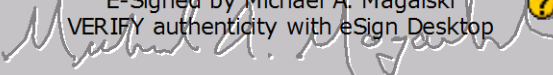
[Link to review the entire report.](#)



December 17, 2012

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

JOHN T. EDGAR
VICE PRESIDENT, INFORMATION TECHNOLOGY

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop 


FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Management Advisory Report — Accenture Federal
Services Contracts (Report Number SM-MA-13-001)

This report presents the results of our review of Accenture Federal Services Contracts (Project Number 12YG038CA000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachments

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Introduction

This report presents the results of our review of Accenture Federal Services contracts (Project Number 12YG038CA000). Our objectives were to follow-up on the Defense Contract Audit Agency's (DCAA) audit report recommendations, summarize recent events surrounding settlements with the U.S. Department of Justice (DOJ), and identify best practices for improving supplier cost estimations. This self-initiated review addresses financial risk. See [Appendix A](#) for additional information about this review.

Accenture Federal Services, LLC (Accenture), a wholly owned subsidiary of Accenture, LLP, is a U.S. Postal Service supplier, providing professional, computing, and application programming services. Accenture ranked on the list of top 10 Postal Service suppliers, with payments of more than \$112 million in fiscal year (FY) 2011. Accenture was a supplier under the Postal Service's Information Technology's (IT) Preferred Portfolio Partnering (PPP) program, which awarded long-term professional service ordering agreements to enterprise-wide IT providers. Accenture is one of four suppliers under the Enterprise Technical Services (ETS) program.¹

In 2009, the U.S. Postal Service Office of Inspector General (OIG) audited the PPP program and determined that the Postal Service had not reviewed Accenture's estimating system controls.² As a result of the audit, the OIG initiated a DCAA audit to review Accenture's estimating system. The DCAA issued its report in June 2012³ and determined that Accenture's estimating system and related policies and procedures were inadequate and identified eight significant deficiencies.

Further, in 2011, the DOJ announced that Accenture, LLP agreed to pay the U.S. government \$63.7 million as settlement to resolve a whistleblower lawsuit. Accenture agreed to resolve allegations that it received kickbacks for its recommendations of hardware and software to the government, fraudulently inflated prices, and rigged bids in connection with federal IT contracts.

Conclusion

Accenture has initiated policy changes to fully address six of the eight DCAA recommendations. The supplier's revised policy did not fully address the recommendation to conduct periodic reviews of its estimating system and no corrective actions are underway to address the recommendation to develop a monitoring process that compares estimated costs to actual costs. In addition, we found that Supply Management personnel did not obtain and assess the IT subject matter expert's technical analyses performed for eight Accenture Global Business System (GBS)

¹ The ETS program was established in August 2009 and includes work previously awarded under the PPP program.

² *Information Technology's Preferred Portfolio Partnering Program*, CA-AR-09-007, September 29, 2009.

³ *Audit of Accenture Federal Services, LLC's Estimating System and Related Internal Controls*, CA-CAR-12-008.

proposal estimates to ensure the analyses were adequate to support that the proposed labor hours and categories were reasonable. Further, IT management spent \$147,500⁴ on a cost estimating tool purchased to enhance the proposal evaluation process but did not implement it or train users. We questioned \$90,000 of the software and database licensing fees because IT management did not fully implement the tool. Accenture and other ETS suppliers are contractually required to use the same tool to develop proposal estimates as of October 2012.

The Postal Service was not included in the DOJ settlement with Accenture that resolved allegations of kickbacks, rigged bids, and fraudulently inflated prices because Postal Service contracting officials were aware of and allowed Accenture to charge fees for acquiring third-party hardware and software on the PPP task orders. The contracting officer (CO) allowed for handling fees of between 3 and 10 percent of material costs, commensurate with the level of expertise and effort required for the purchase. The fee for four proposals reviewed totaled \$45,647 and was below the 3 percent CO-approved threshold. We did not identify language in the current Accenture contract under the ETS program specifying payment for handling fees, but the contract does contain a clause allowing payment for material handling costs on time and material (T&M) task orders.

Our research noted that Federal Acquisition Regulation (FAR) clauses for T&M contracts were updated to specifically state that fee or profit is not allowed on the prime contractor's purchase of materials. Finally, we identified a U.S. Department of Defense (DOD) database containing contractor information and two DOD contract clauses that, if used by the Postal Service, could strengthen its oversight of supplier estimating system practices.

Accenture's Response to Defense Contract Audit Agency Recommendations

Accenture has initiated policy changes to fully address six of eight recommendations identified in the DCAA report. Accenture's policy updates did not fully address the recommendations to conduct periodic reviews of its estimating system, and no corrective actions are underway to address the recommendation to develop a monitoring process that compares estimated costs to actual costs as noted in [Table 1](#).

⁴ This cost includes software and databases licenses, training workshops and a one-time installation fee.

Table 1. Status of DCAA Recommendations

| Recommendation Summary | Recommendation Addressed in Revised Policy |
|--|---|
| 1. Use historical data when developing estimates. | Yes |
| 2. Develop a monitoring process that compares estimated costs to actual costs. | No |
| 3. Require periodic independent reviews be performed on the estimating systems. | Partial. Manual does not include the requirement that Accenture will maintain a log of completed reviews documenting system deficiencies and corrective action. |
| 4. Revise estimating manual to indicate how often training is required and when training needs to be completed for personnel involved in the Postal Service's estimating system. | Yes |
| 5. Document and maintain proposal reviews with the proposal files and indicate who reviewed the proposal and when the review was performed. | Yes |
| 6. Incorporate techniques for price analysis in the estimating policies, procedures, and practices. | Yes |
| 7. Document the procedures and practices for estimating contract changes and deleted work. | Yes |
| 8. Update policies, procedures, and practices to include the process of updating the cost or pricing data at the point of agreement on price. | Yes |

Source: DCAA's *Accenture Federal Services, LLC's Estimating System and Related Internal Controls* audit report and OIG review of Accenture's revised *U.S. Postal Service Cost Estimating Manual*.

The policy updates partially addressed the DCAA's recommendation that management revise the current estimating policies, procedures, and practices to require periodic independent reviews of the estimating system. Accenture's *U.S. Postal Service Cost Estimating Manual* did not indicate the frequency of internal control reviews and did not include the requirement that Accenture will document audit plans and maintain a written log of completed reviews, including system deficiencies and corrective actions. Accenture stated in a follow-up response that it will revise its policy, effective October 31, 2012, to perform periodic reviews on at least a 3-year cycle, document audit plans, and maintain a written log of completed reviews documenting system deficiencies and corrective actions. We have not received documentation to support the proposed policy changes.

Accenture further stated that it did not update its policy to monitor proposal estimates against actual data because historical data are incorporated in the estimates through the commercial estimating tools the Postal Service requires. While the Postal Service

does require Accenture, as a supplier under the ETS program,⁵ to use industry-standard software estimating tools to provide accurate and consistent software, schedule, and pricing estimates, it also required that Accenture track software development performance against the initial estimate, as noted in the ETS program's statement of work. Further, the Government Accountability Office (GAO) indicated that estimating tools that use parametric modeling should be validated using historical data to determine how well it predicts costs.⁶ Accurate cost estimates are critical to ensuring that contract costs are reasonable and allowable. If Accenture does not compare the estimated costs to actual costs incurred, there are no internal controls to ensure that the estimate was valid and the estimating process is a valid predictor of actual costs.

Accenture must correct all system deficiencies noted in the DCAA report to provide the Postal Service assurance that Accenture's estimating system controls are effective. When Accenture has provided evidence that it has fully complied with the DCAA recommendations, we will initiate a follow-up DCAA audit to determine whether Accenture has adequately implemented its corrective actions.

Evaluation Procedures and Practices

Supply Management personnel did not obtain and assess the IT subject matter experts' technical analyses performed on proposed labor costs for eight GBS proposals, valued at \$8,204,045 and submitted under Task Order 1BITSV-12-C-0048 to support that proposed labor categories and hours were reasonable. Supply Management's process is to rely on IT subject matter experts to determine the reasonableness of proposed hours and labor categories; however, the CO awarded work on six task orders based on an email message from the IT subject matter expert indicating the proposal was "approved", relied on an email that implied approval on one proposal, and could not locate the email for another proposal. Contracting officials stated that they accepted these emails under the assumption that IT completed an adequate technical analysis. They did not require the subject matter expert to document and provide the analysis to determine the adequacy of the evaluation conducted. A GBS official stated that they do not determine whether all labor categories or proposed hours are reasonable, but rather perform a high-level comparison of overall proposed costs to past project costs and a review of the proposed management level of effort.

The *Supply Principles and Practices* indicate that COs are responsible for determining and ensuring best value. Best value is defined as the outcome that provides the optimal combination of elements, such as lowest total cost of ownership, technology, innovation and efficiency; assurance of supply; and quality relative to the Postal Service's needs. To determine cost reasonableness, cost analysis involves, as appropriate, performing a technical analysis to evaluate estimated labor costs.⁷ However, if CO do not assess

⁵ The ETS program provides for professional, technical and support services, using multiple vendors.

⁶ *GAO Cost Estimating and Assessment Guide*, GAO-09-3SP, dated March 2009.

⁷ *Supplying Principles and Practices*, dated September 2011, Section 2-34.6, Conduct Cost/Price Analysis.

the technical analysis performed, they cannot ensure the evaluation was adequate and that the proposed labor categories and hours are reasonable or necessary. We identified the value of the eight proposals as unsupported questioned costs because the CO did not obtain adequate documentation to support the reasonableness of the supplier's proposed labor categories and hours. See [Appendix B](#) for additional information.

Further, the Postal Service purchased a cost estimating tool to enhance supplier proposal evaluations and make informed financial and technical decisions, but IT management stated the tool is not being used in the proposal evaluation process. SEER[®] for Software (SEER) is an algorithmic project management software application designed specifically to estimate, plan, and monitor the effort and resources required for software development and maintenance projects. According to the approved non-competitive business justification, the Postal Service mandated its use of a qualified parametric estimating tool⁸ for proposal evaluations via the ETS program. The Postal Service must acquire and install the tool and train employees on its usage to satisfy contractual requirements. IT management has spent a total of \$147,500 on the SEER acquisition, which includes \$60,000 for annual software and database licenses, \$25,500 for training workshops, and a one-time installation fee of \$2,000 in June 2011. IT management spent an additional \$60,000 in June 2012 for annual license renewals; however, as of September 11, 2012, the Postal Service does not have policies and procedures governing the use of SEER and has not trained personnel to use the tool.

IT management indicated in its non-competitive justification request for SEER that it requires a best-in-breed parametric software development resource and cost estimating tool to significantly enhance evaluations and make informed financial and technical decisions. In addition, as part of the ETS contract extensions, the Postal Service required ETS suppliers to use SEER as of October 1, 2012. IT officials indicated they are conducting benchmark analyses on the best ways to use SEER and only recently received budgetary approval for resources to implement the use of SEER. Without adequate policy and appropriate training on the use of SEER, the Postal Service is at risk of not meeting current and future needs for evaluating and measuring software development tasks, resources, and funding. We are reporting \$90,000 of the \$120,000 spent on SEER licenses in FYs 2011 and 2012 as questioned costs because the Postal Service did not fully implement SEER into the proposal evaluation process. See [Appendix B](#) for additional details.

U.S. Department of Justice Settlement

The Postal Service was not included in the DOJ's \$63.7 million settlement with Accenture, LLP to resolve allegations that it received kickbacks for its recommendations of hardware and software to the government, fraudulently inflated prices, and rigged bids in connection with federal IT contracts. A Postal Service OIG investigation determined that a key difference that excluded the Postal Service from the settlement

⁸ Parametric tools are based on historical data collected from hundreds of actual projects that can generate cost, schedule, effort, and risk estimates based on input provided by the tool user.

was that Accenture had disclosed handling fees for acquiring third-party hardware and software for the Postal Service. In addition, the PPP contract files noted a Postal Service CO allowed Accenture to charge handling fees. Specifically, in an August 2000 letter to Anderson Consulting, LLP,⁹ the CO authorized the supplier and the Postal Service to negotiate a reasonable handling fee that the contractor may apply to hardware and software purchases and leases for invoicing to the Postal Service. The letter indicated the fee should range from between 3 and 10 percent, depending on the level of effort and expertise. We reviewed one of the two task orders identified during the OIG investigation that contained material handling fees.¹⁰ Task Order 1BITTL-05-C-3064, valued at \$9,847,695, included material handling fees totaling \$45,647. These fees did not exceed 3 percent of the cost for materials, valued at \$1,553,510, and was approximately .46 percent of the total task order value.

We did not identify language in the current Accenture contract under the ETS program specifying payment for handling fees. However it contained a clause applicable to T&M task orders that allowed for payment of material handling costs to the extent they are excluded from the hourly rate.¹¹ This clause included language similar to a FAR clause dated November 22, 2006, which also allowed for payment of material handling costs.¹² The FAR clause further defined material handling costs as indirect costs including, as appropriate, general and administrative expenses allocated to direct materials in accordance with the contractor's usual accounting practices consistent with the FAR. Further, in February 12, 2007, the FAR-issuing agencies revised the clause to specifically state that the government does not pay profit or fees to the prime contractor for materials. FAR councils¹³ "believed this is consistent with the historical intent of the clause and the concept of a T&M contract, in that the recovery of profit or fee is accomplished as part of the labor hour portion of the T&M contract."

Supply Management officials indicated they were not aware of the FAR revisions, although they are not subject to the FAR. While the Postal Service is not required to adhere to the FAR, the FAR provides vetted procurement policy and procedures used to protect the interests of the federal government. Postal Service T&M contracts also include supplier profit in the hourly rate; therefore, inclusion of similar language in supply management policies and contract clauses is critical to reducing unnecessary fees paid to suppliers and provides additional clarity to Postal Service contracting officials responsible for negotiating and managing T&M contracts.

U.S. Department of Defense Best Practices

We identified best practices used to assist DOD COs in awarding and managing contracts that the Postal Service should consider as additional controls to enhance its oversight of supplier estimating practices.

⁹ On January 1, 2001, the company changed its name to Accenture.

¹⁰ COs could not locate the second file, which was outside of their retention period.

¹¹ Clause 2-38, Payment (Time and Materials and Labor Hour Contracts).

¹² FAR clause 52.232-7, Payments under Time and Materials and Labor Hour Contracts.

¹³ The Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council.

Contract Business Analysis Repository

The Defense Contract Management Agency (DCMA), a component of the DOD, developed a reporting database to centrally capture information about suppliers. The Contract Business Analysis Repository (CBAR) eTool captures supplier information, such as general company information, indirect costs and direct labor rates, financial accountability, and the status of business systems, to include estimating systems.¹⁴ DOD administrative COs are required to populate data into CBAR for major contractors and can include information on smaller contractors. As of September 18, 2012, the DCMA indicated that CBAR contains more than 2,800 contractor records. While CBAR is primarily a tool for DOD COs, it is available for other government agencies' use. The Postal Service could benefit from using CBAR as a resource to determine whether its larger suppliers maintain adequate estimating systems before awarding or renewing contracts.

Business System Clauses

The DOD amended its *Defense Federal Acquisition Regulation Supplement* (DFARS) in February 2012 to improve the effectiveness of its oversight of contractor business systems and ensure that such systems provide timely, reliable information.¹⁵ Specifically, the DOD finalized the cost estimating system requirements and contractor business systems clauses that require certain suppliers to maintain acceptable business systems.¹⁶ The full details of the DOD's *Cost Estimating System Requirements* clause and *Contractor Business Systems* clause are included in [Appendix C](#). While the Postal Service is not subject to the FAR or DFARS, it does not currently have specific policies and procedures or clauses that address supplier estimating systems. In addition, as noted in Accenture's T&M task order proposals, price was based on hourly rates applied to Accenture's estimate of hours. Therefore, the inclusion of similar clauses in Postal Service contracts would provide additional leverage to Postal Service contracting officials to ensure its suppliers maintain effective controls over their estimating system process and reduce the risk of unreasonable or unallowable costs in Postal Service contracts.

Recommendations

We recommend the vice president, Supply Management:

1. Direct the manager of the Technology Infrastructure Portfolio to require Accenture to implement corrective actions to address all Defense Contract Audit Agency deficiencies noted in its estimating system.

¹⁴ Contractor business systems include accounting systems, estimating systems, purchasing systems, earned value management systems, material management and accounting systems, and property management systems.

¹⁵ *Federal Register*, Volume 77, Number 37, dated February 24, 2012.

¹⁶ DFARS Section 252.215-7002, Cost Estimating System Requirements, and DFARS Section 252.242-7005, Contractor Business Systems.

2. Instruct contracting officials that when requesting technical analysis of proposed labor categories and hours, they must obtain, assess, and maintain technical analysis documentation to ensure the analysis conducted is adequate to support whether proposed labor categories and hours are fair and reasonable.
3. Revise the policy and clauses for time and material contract types to include a definition of material handling costs and exclude payment of profit or handling fees on materials.
4. Assess the usefulness of the Contract Business Analysis Repository as a tool to include in the purchasing process and the feasibility of developing estimating system clauses.

We recommend the vice president, Information Technology, in coordination with the vice president, Supply Management:

5. Develop and implement a plan to train users and implement the SEER[®] for Software cost estimating tool into the Enterprise Technical Services proposal evaluation process.

Management's Comments

Management agreed with all of the findings, monetary impact, and recommendations. Regarding recommendation 1, management stated they will continue to work with Accenture to implement corrective actions for the remaining two items the DCAA recommended. The target implementation date is February 2013.

For recommendation 2, management held discussions with Technology Infrastructure Portfolio contracting officials and managers within Information Technology, Business Relationship Management, and Solutions Development & Support on November 26, 2012. They stated they would provide documentation to close out this recommendation prior to final report issuance.

For recommendation 3, management will provide clarification or revise policy and clauses for time and material contracts to ensure that materials and material handling costs are excluded from the application of profit. The target implementation date is March 2013.

For recommendation 4, management indicated they assessed the usefulness of the Contract Business Analysis Repository (CBAR) and the feasibility of developing estimating system clauses. Management stated that because CBAR is in its pilot phase and is not available for civilian use, they are not implementing its use at this time. In addition, management stated that implementing estimating system clauses would increase the administrative burden and the cost of doing business with the Postal Service and determined not to implement the estimating system clauses because the clauses are not consistent with its commercially based purchasing process.

Management considers the actions for this recommendation completed as of December 11, 2012.

For recommendation 5, management stated they will train program managers within the Business Relationship Program Management Organization on the SEER for Software cost estimating tool by June 2013. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report. Regarding recommendation 2, we received documentation to support that management provided instruction to Technology Infrastructure Portfolio contracting officials that they are to obtain the written analysis for use in determining best value when requesting a technical analysis. The technical analysis is to be kept in the contract file. The corrective action sufficiently addresses recommendation 2, therefore, we are closing this recommendation with issuance of this report. Regarding recommendation 4, we want to reiterate that civilian agencies, including the Postal Service, can obtain access to CBAR. Contractors, however, are excluded from obtaining access.

The OIG considers recommendations 1, 3, and 5 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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

Accenture, a Postal Service supplier, provides professional, computing, and application programming services. Accenture ranked within the Postal Service's top 10 suppliers, with payments of more than \$112 million in FY 2011. Accenture was a vendor under the Postal Service's IT PPP program, which awarded long-term professional service ordering agreements to enterprise-wide IT providers.

In 2009, the OIG audited the PPP program and determined the price and cost analyses that Postal Service personnel performed on task orders usually did not result in negotiated price reductions of Accenture's proposals. Additionally, Supply Management personnel did not always follow the recommendations of a third-party contractor to reduce task order amounts or reject them in full. Further, the PPP program pricing process did not conform to best practices for pricing IT service contracts and task orders.

In August 2009, the Postal Service established the ETS program, which included work previously awarded under the PPP program and awarded indefinite delivery-indefinite quantity (IDIQ)¹⁷ contracts to four suppliers: Northrop Grumman, General Dynamics, Electronic Data Systems Corporation, and Accenture, with the goal of competing task orders between the suppliers.

As a result of the audit, the OIG initiated a DCAA audit to review Accenture's estimating system. The DCAA report, issued in June 2012, indicated that Accenture's estimating system was inadequate and identified eight significant deficiencies in the supplier's estimating system and related internal controls. Specifically, Accenture did not:

- Use historical experience for estimating Postal Service proposals.
- Monitor estimates against actual experience.
- Perform periodic internal audits on its Postal Service estimating system.
- Require periodic training for employees in its *U.S. Postal Service Cost Estimating Manual*.
- Always document management reviews of its proposal packages.
- Perform adequate review of subcontractors' cost proposals.

¹⁷ An IDIQ contract provides for an indefinite quantity of specific supplies or services within a stated minimum and maximum quantity to be delivered during the contract period to designated locations when ordered.

- Formally document policies, procedures, and practices for contract changes and deleted work.
- Have policies, procedures, and practices in place to provide for updating cost or pricing data up to the point of agreement on price.

Further, in 2011, the DOJ announced that Accenture LLP agreed to pay the U.S. government \$63.7 million, as settlement, to resolve a whistleblower lawsuit. The lawsuit, filed in the U.S. District Court for the Eastern District of Arkansas, alleged that Accenture submitted or caused to be submitted false IT service claims for payment under numerous contracts with U.S. agencies. Accenture has agreed to resolve allegations that it received kickbacks for its recommendations of hardware and software to the government, fraudulently inflated prices, and rigged bids in connection with federal IT contracts.

As of July 31, 2012, the Postal Service has issued 75 task orders against the Accenture ETS contract, with a total committed value of \$252 million.

Objectives, Scope, and Methodology

Our objectives were to follow-up on DCAA's audit report recommendations, summarize recent events surrounding settlements with the DOJ, and identify best practices to improve supplier cost estimations.

To accomplish our objectives, we:

- Reviewed Postal Service purchasing policies and procedures.
- Reviewed and analyzed Accenture ordering agreements under the previous PPP program awarded in 1998 and current Accenture ETS contracts awarded in August 2009.
- Reviewed Accenture's *U.S. Postal Service Cost Estimating System Manual*.¹⁸
- Analyzed the four price proposals containing material handling fees awarded on Task Order 1BITTL-05-C-3064 and the eight price proposals issued on Task Order 1BITSV-12-C-0048.
- Identified and reviewed documents related to the DCAA audit findings and the DOJ settlement.
- Reviewed *Federal Acquisition Regulation*, DFARS, and GAO guidance on estimating systems.
- Interviewed Postal Service Supply Management and IT personnel, DCAA audit and

¹⁸ Version 2.3, dated August 7, 2012.

DCMA personnel, and OIG investigators.

We conducted this review from June through December 2012 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on November 13, 2012, and included their comments where appropriate. We did not rely on computer-generated data for the purposes of this report.

Prior Audit Coverage

| Report Title | Report Number | Final Report Date | Monetary Impact |
|---|---------------|-------------------|-----------------|
| <i>Audit of Accenture Federal Services, LLC's Estimating System and Related Internal Controls</i> | CA-CAR-12-008 | 06/26/2012 | None |
| <p>Report Results: The DCAA determined that Accenture’s estimating system and related internal controls were inadequate.</p> | | | |
| | | | |
| <i>Accenture Labor Floor Check for FY 2009</i> | CA-CAR-10-013 | 09/28/2010 | None |
| <p>Report Results: The DCAA determined that Accenture employees were not properly completing timesheets and Accenture's management did not perform adequate reviews of employee timesheets. The DCAA also found numerous incidents in which labor distribution payroll records did not reconcile to timesheets.</p> | | | |
| | | | |
| <i>Information Technology's Preferred Portfolio Partnering Program</i> | CA-AR-09-007 | 09/29/2009 | None |
| <p>Report Results: The price and cost analysis Postal Service personnel performed usually did not result in negotiated price reductions of Accenture LLC’s proposals. Additionally, Supply Management personnel did not always follow the recommendations of a third-party contractor to reduce task order amounts or reject them in full. In additions, the PPP program pricing process did not conform to current best practices for pricing IT service contracts and task orders. However, Supply Management personnel had implemented IT service industry best practices by making plans to award multiple indefinite delivery indefinite quantity contracts for IT services. Management agreed with our findings and recommendations.</p> | | | |

Appendix B: Monetary Impacts

| Recommendation | Impact Category | Amount |
|----------------|--|--------------------|
| 2 | Unsupported Questioned Costs ¹⁹ | \$8,204,045 |
| 5 | Unrecoverable Questioned Costs ²⁰ | 90,000 |
| Total | | \$8,294,045 |

The \$8,204,045 represents the total value of the base award and seven cost modifications, issued on GBS Task Order 1BITSV-12-C-0048. The CO did not obtain and assess IT subject matter expert technical analyses performed on the proposed labor costs to determine whether the analyses supported that the costs were reasonable.

We questioned \$90,000 of the \$120,000 spent to purchase SEER software and database licenses. Postal Services management purchased the SEER licenses to enhance the proposal evaluation process, but has not implemented it. The \$90,000 represents the entire \$60,000 spent for the 25 annual SEER software and database licenses that expired in June 2012 and \$30,000 of the \$60,000 spent for the 25 annual SEER software and database license renewals that expire in June 2013. As a conservative estimate, we only questioned 50 percent of the amount spent for current license renewals to allow the IT and Supply Management personnel 6 months to implement SEER.

¹⁹ A weaker claim and a subset of questioned costs. The claim that is made because of missing or incomplete documentation or failure to follow policy or required procedures but that does not necessarily connote any real damage to Postal Service.

²⁰ Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable and is usually a result of historical events.

Appendix C: U.S. Department of Defense Clauses

Clause 252.215-7002 Cost Estimating System Requirements

252.215-7000 Pricing Adjustments.

Page 1 of 3

252.215-7002 Cost Estimating System Requirements.

As prescribed in ~~215.408~~(2), use the following clause:

COST ESTIMATING SYSTEM REQUIREMENTS (FEB 2012)

(a) *Definitions.*

“Acceptable estimating system” means an estimating system that complies with the system criteria in paragraph (d) of this clause, and provides for a system that—

- (1) Is maintained, reliable, and consistently applied;
- (2) Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;
- (3) Is consistent with and integrated with the Contractor’s related management systems; and
- (4) Is subject to applicable financial control systems.

“Estimating system” means the Contractor’s policies, procedures, and practices for budgeting and planning controls, and generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards. Estimating system includes the Contractor’s—

- (1) Organizational structure;
- (2) Established lines of authority, duties, and responsibilities;
- (3) Internal controls and managerial reviews;
- (4) Flow of work, coordination, and communication; and
- (5) Budgeting, planning, estimating methods, techniques, accumulation of historical costs, and other analyses used to generate cost estimates.

“Significant deficiency” means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.

(b) *General.* The Contractor shall establish, maintain, and comply with an acceptable estimating system.

(c) *Applicability.* Paragraphs (d) and (e) of this clause apply if the Contractor is a large business and either—

- (1) In its fiscal year preceding award of this contract, received Department of Defense (DoD) prime contracts or subcontracts, totaling \$50 million or more for which certified cost or pricing data were required; or
- (2) In its fiscal year preceding award of this contract—
 - (i) Received DoD prime contracts or subcontracts totaling \$10 million or more (but less than \$50 million) for which certified cost or pricing data were required; and

Clause 252.242-7005 Contractor Business Systems

252.242-7000 Reserved.

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252.242-7005 Contractor Business Systems.As prescribed in [242.7001](#), use the following clause:**CONTRACTOR BUSINESS SYSTEMS (FEB 2012)**

(a) This clause only applies to covered contracts that are subject to the Cost Accounting Standards under 41 U.S.C. chapter 15, as implemented in regulations found at 48 CFR 9903.201-1 (see the FAR Appendix).

(b) *Definitions.* As used in this clause—

“Acceptable contractor business systems” means contractor business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of “contractor business systems” in this clause.

“Contractor business systems” means—

(1) Accounting system, if this contract includes the clause at [252.242-7006](#), Accounting System Administration;

(2) Earned value management system, if this contract includes the clause at [252.234-7002](#), Earned Value Management System;

(3) Estimating system, if this contract includes the clause at [252.215-7002](#), Cost Estimating System Requirements;

(4) Material management and accounting system, if this contract includes the clause at [252.242-7004](#), Material Management and Accounting System;

(5) Property management system, if this contract includes the clause at [252.245-7003](#), Contractor Property Management System Administration; and

(6) Purchasing system, if this contract includes the clause at [252.244-7001](#), Contractor Purchasing System Administration.

“Significant deficiency,” in the case of a contractor business system, means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.

(c) *General.* The Contractor shall establish and maintain acceptable business systems in accordance with the terms and conditions of this contract.

(d) *Significant deficiencies.* (1) The Contractor shall respond, in writing, within 30 days to an initial determination that there are one or more significant deficiencies in one or more of the Contractor’s business systems.

(2) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the final determination as to whether the Contractor’s business system contains significant deficiencies. If the Contracting Officer determines that the Contractor’s business system contains significant deficiencies, the final determination will include a notice to withhold payments.

(e) *Withholding payments.* (1) If the Contracting Officer issues the final determination with a notice to withhold payments for significant deficiencies in a contractor business system required under this contract, the Contracting Officer will withhold five percent of amounts due from progress payments and performance-based payments, and direct the Contractor, in writing, to withhold five percent from its billings on interim cost vouchers on cost-

Appendix D: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



December 11, 2012

JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Accenture Federal Services Contracts
(Report Number SM-MA-13-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Management agrees with the report's findings and monetary impact. Our position on each recommendation is provided below.

OIG Audit Recommendations:

We recommend the vice president, Supply Management:

1. Direct the manager of the Technology Infrastructure Portfolio to require Accenture to implement corrective actions to address all Defense Contract Audit Agency deficiencies noted in its estimating system.

Management Response: Management agrees and will continue to work with the supplier to achieve implementation of corrective actions for the remaining two items recommended under the Defense Contract Audit Agency report.

Target Implementation Date: February 2013

Responsible Manager: Manager, Technology Infrastructure Portfolio

2. Instruct contracting officials that when requesting technical analysis of proposed labor categories and rates, they must obtain, assess, and maintain technical analysis documentation to ensure the analysis conducted is adequate to support whether proposed labor categories and rates are fair and reasonable.

Management Response: Management agrees with this recommendation. Discussions with Technology Infrastructure Portfolio contracting officials and Managers within Information Technology, Business Relationship Management and Solutions Development & Support organizations were held in November. Follow-up emails were also issued on November 26, to formalize the discussions and commitment to support this recommendation.

Target Implementation Date: Completed on November 26, 2012. Documentation to close this recommendation will be provided to the Office of Inspector General prior to final report issuance.

Responsible Manager: Manager, Technology Infrastructure Portfolio

3. Revise the policy and clauses for time and material contract types to include a definition of material handling costs and exclude payment of profit or handling fees on materials.

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Management Response: Management agrees to review the policy and clauses for time and materials contract types and will provide clarification or revisions as necessary to ensure materials and material handling costs are excluded from the application of profit.

Target Implementation Date: March 2013.

Responsible Manager: Manager, Supply Management Infrastructure

4. Assess the usefulness of the Contract Business Analysis Repository as a tool to include in the purchasing process and the feasibility of developing estimating system clauses.

Management Response: Management agrees and has completed its assessment of the Contract Business Analysis Repository (CBAR) tool and the feasibility of developing estimating system clauses. According to the Lead Program Analyst from the Defense Contract Management Agency's Cost and Pricing Center, CBAR is targeted for Department of Defense use and is in its pilot phase. At this point CBAR is not available for civilian use. Therefore, we have determined that the Postal Service will not be implementing the use of the tool at this time.

Postal Service purchasing policies are centered upon commercially-based best practices. The use of estimating system clauses is applicable under Cost Accounting Standards. Our assessment is that Cost Accounting Standards are not applicable to the Postal Service; and, therefore, estimating system clauses are also not applicable. Adoption of such standards would increase administrative burden and costs of doing business with the Postal Service. Accordingly, we have determined that implementation of estimating system clauses are not consistent with our commercially-based purchasing process.

Target Implementation Date: We consider this recommendation completed as of the date of this response, December 11, 2012.

Responsible Manager: Manager, Supply Management Infrastructure

We recommend the vice president, Information Technology, in coordination with the vice president, Supply Management:

5. Develop and implement a plan to train users and implement the SEER[®] for Software cost estimating tool into the Enterprise Technical Services proposal evaluation process.

Management Response: We agree with the recommendation and will further implement training of the Program Managers within the Business Relationship Management organization on the SEER[®] for Software cost estimating tool. Training on the use of the tool and assessing data output is anticipated to be completed by June 2013.

Target Implementation Date: June 2013

Responsible Manager: Manager, Business Relationship Management, Information Technology.

All addressees on this report are in agreement with the response. This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

Susan M. Brownell

cc: Stephen Masse
Deborah Giannoni-Jackson
Paula Garner
Mark Mittelman
John Byrne
Robert Oates
Robert D'Orso
Susan Witt
Corporate Audit and Response Management