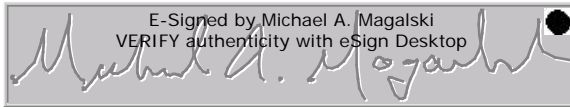




June 6, 2013

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

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



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

SUBJECT: Management Alert – Accenture Federal Services Contracting Practices (Report Number SM-MA-13-005)

This management alert presents potential fraud risks associated with Accenture Federal Services Contracting Practices (Project Number 12YG038CA001) that were compiled from prior U.S. Postal Service Office of Inspector General audits and investigations.

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.

Attachment

cc: Patrick R. Donahoe
Joseph Corbett
Thomas J. Marshall
Corporate Audit and Response Management

Introduction

As a result of a recent U. S. Postal Service Office of Inspector General (OIG) audit on Accenture Federal Services contracts¹, prior OIG investigations, U.S. Department of Justice (DOJ) settlements, and Defense Contract Audit Agency (DCAA) audits, we have identified information the U.S. Postal Service should consider when dealing with this supplier in the future.

Accenture Federal Services, LLC² (Accenture) is a Postal Service supplier who provides information technology (IT), professional, and training services. Accenture is included on the Postal Service's list of top 10 suppliers, with payments of about \$135 million made in fiscal year (FY) 2012. The Postal Service has four active contracts with Accenture and has paid the supplier over \$214 million on these contracts. Accenture is also a supplier in the Postal Service's Enterprise Technology Services (ETS) program.³

In 2007, the DOJ joined in several qui tam lawsuits⁴ alleging that Accenture, LLP, along with other U.S. government suppliers, violated the False Claims Act.⁵ Specifically, the DOJ alleged that several suppliers had solicited or made payments of money and other things of value, known as 'alliance benefits,' to companies with whom they had global 'alliance relationships' or an agreement to work together. The government's complaints asserted that these alliance relationships and the resulting alliance benefits amounted to kickbacks and undisclosed conflict of interest relationships. The DOJ also alleged that suppliers engaged in defective pricing, whereby suppliers provided incomplete or inaccurate information to contracting officers during contract negotiations. The Postal Service received about \$21 million in settlements in connection with these lawsuits.

In 2011, the DOJ settled a related qui tam lawsuit with Accenture, LLP, who agreed to pay the U.S. government \$63.7 million 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. The DOJ did not bring claims on behalf of the Postal Service in the lawsuit because the Postal Service knowingly allowed Accenture to charge handling fees for acquiring third-party hardware and software.

¹ *Accenture Federal Services Contracts* (Report Number SM-MA-13-001, dated December 17, 2012).

² Previously Accenture, LLP.

³ The ETS program was designed to provide technology solutions in three areas: IT Solutions Development Support, Enterprise Wide Business System Development, and virtual development centers.

⁴ A lawsuit brought by an individual on behalf of the U.S. government seeking to expose, and thereby stop, wasting federal funds.

⁵ *United States ex rel. Norman Rille and Neal Roberts v. Accenture LLP, Accenture Ltd., and Proquire LLC*, initially filed September 17, 2004.

Further, DCAA issued reports detailing deficiencies in Accenture's estimating and timekeeping systems. Specifically, in June 2012, the DCAA determined that Accenture's Postal Service cost-estimating system was inadequate, noting eight significant deficiencies.⁶ Also, in a report issued in August 2010, the DCAA identified three weaknesses in Accenture's timekeeping practices.⁷

Suspensions and debarments⁸ are examples of administrative remedies that federal agencies can take to protect against future losses from supplier fraud, waste, abuse, poor performance, and noncompliance with contract provisions or applicable laws. In addition, the Postal Service may terminate existing contracts if a supplier defaults in its performance of a contract without correction or if it is in the best interest of the Postal Service.⁹

Conclusion

Accenture's involvement in several improper contracting practices creates an immediate risk of future fraud and abuse in Postal Service contracts. As a result of prior OIG audits and investigations, DOJ settlements, and the DCAA's findings of inadequacies in the supplier's cost-estimating and timekeeping systems, the supplier has demonstrated an absence of business ethics, a lack of transparency, and insufficient internal controls in its business dealings with the Postal Service. The Postal Service should consider Accenture for suspension or debarment and review existing contracts to determine whether the contracts warrant termination. This action would protect the Postal Service's financial interest from unethical, dishonest, or otherwise irresponsible supplier practices.

U.S. Department of Justice Settlements

The Postal Service received about \$21 million¹⁰ from the DOJ's settlements of several qui tam lawsuits with IT suppliers regarding allegations of defective pricing and kickbacks. The kickback allegations were part of a larger investigation of government technology vendors and consultants (including Accenture) and in 2011 the DOJ settled its lawsuit with Accenture. The supplier agreed to pay \$63.7 million 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. The Postal Service was not included in the \$63.7 million settlement because it allowed Accenture to charge handling fees for purchasing third-party hardware and software on its behalf. In addition, the DOJ did not include alliance

⁶ *Audit of Accenture Federal Services, LLC's Estimating System and Related Internal Controls* (Report Number CA-CAR-12-008, dated June 26, 2012).

⁷ *Accenture Labor Floor Check for FY 2009* (Report Number CA-CAR-10-013, dated September 28, 2010).

⁸ A suspension is an exclusion from contracting and subcontracting for 1 year, unless extended, due to specified reasons or the pendency of a debarment proceeding. A debarment is an exclusion from contracting and subcontracting for a longer period, commensurate with the seriousness of the offense, failure, or inadequacy of performance. The period should generally not exceed 3 years.

⁹ *Supplying Principles and Practices*, clause B-12, Termination for Convenience or Default, dated March 2006.

¹⁰ In this settlement, the Postal Service received about \$20 million from two suppliers for alleged defective pricing and about \$1 million from three other suppliers for alliance benefits. Accenture was not one of the suppliers.

benefits paid to Accenture on Postal Service contracts in its settlement because these payments were minimal.

Specific allegations against Accenture include the supplier selling third-party products to government customers for more than what it paid without providing notification of the markup. Accenture included these markups in its proposals to the Postal Service as material handling fees. Although the Federal Acquisition Regulation (FAR) specifically prohibits payment of fees for materials on certain contracts,¹¹ Postal Service Supplying Principles and Practices are silent on material handling fees and contracting officials agreed to the fees. The OIG investigation identified about \$71,000 in material handling fees. Further allegations included alliance benefit schemes where vendors made payments to Accenture for recommending their products to Accenture's customers. An OIG investigator stated that their investigation identified about \$27,000 in payments pertaining to Postal Service contracts. The payments were equal to .04 percent of the total settlement amount; therefore, the DOJ did not include these amounts in its settlement with Accenture.

The Code of Federal Regulations (CFR) indicates that causes for suspension or debarment include any offense indicating a lack of business integrity or any cause of a serious and compelling nature that suspension or debarment is warranted.¹² Although the DOJ excluded the Postal Service from its settlement, Accenture's actions demonstrate questionable business integrity. The Postal Service should take appropriate action to protect its interest and prevent recurrence.

Accenture's Estimating and Timekeeping System

The DCAA conducted an audit of Accenture's Postal Service cost-estimating system in June 2012 and determined that it was inadequate, with eight significant deficiencies. The DCAA also reviewed Accenture's timekeeping practices in 2010 and reported three weaknesses, including inadequate timekeeping practices, labor reconciliation issues, and a lack of adequate management review of employees' final timesheets.

During the cost-estimating system audit the DCAA noted that Accenture refused to provide historical cost and pricing data on the projects it had completed for the Postal Service when requested. Accenture stated that it did not rely on historic actual costs when estimating task order proposals, therefore, that data was not germane to the scope of the DCAA audit.

The OIG issued a management advisory report in December 2012 to follow up on the DCAA's eight cost-estimating system recommendations and, although Accenture had initiated policy changes to address six of eight recommendations identified in the DCAA report, two recommendations remained outstanding. Accenture's policy updates did not fully address the recommendations to conduct periodic reviews of its cost-estimating system or to develop a monitoring process that compares estimated costs to actual

¹¹ FAR clause 52.232-7, Payments Under Time and Materials and Labor Hour Contracts.

¹² 39 CFR §601.113(e)(1) and (i)(1, 2).

costs. Management stated in its comments on that report that they will work with Accenture to implement corrective action by February 2013 for the remaining two items the DCAA recommended. The supplier recently revised its policy to indicate that it will review its cost-estimating system every 3 years; however, and more importantly, the supplier has not provided evidence that it is comparing its cost estimates to actual costs.

Accurate cost estimates are critical to ensuring that contract costs are reasonable and allowable. If Accenture does not compare estimated costs to actual costs incurred, there are no controls to ensure that the estimate was accurate and the estimating process is a valid predictor of actual costs. The supplier's insufficient controls to ensure transparency of its cost information raise additional concerns.

Other federal agencies are protected by rigorous cost-estimating systems and cost reimbursement requirements defined in the FAR and the Defense Federal Acquisition Regulation Supplement (DFARS).¹³ Accenture uses a separate cost-estimating system for Postal Service contracts than that used for FAR agency contracts. As such, it is likely that the Postal Service is at greater risk of its Accenture proposals being overpriced than the rest of the federal government.

Further, during the DCAA's review of Accenture's timekeeping practices they found that 12 of 52 Accenture employees (23 percent) were either not completing timesheets or completing timesheets before performing work, management did not adequately review employee timesheets, and there were numerous incidents where labor payroll records did not reconcile with employee timesheets.

A good timekeeping system provides for controls to ensure that employees' timesheets are completed and reviewed on a timely basis and reconciled to labor reports to ensure accuracy. Accenture's timekeeping system weaknesses increase the risk of inaccurate timesheets, payroll records, and contract costs.

Recommendations

We recommend the vice president, Supply Management:

1. Consider suspending or debaring Accenture Federal Services, LLC from future Postal Service contracts.
2. Review existing contracts with Accenture Federal Services, LLC to determine whether they should be terminated.

¹³ FAR 15.407-5 and DFARS 215.407-5.

Management's Comments

Management generally agreed with the findings and recommendations. Regarding recommendation 1, management considered the evidence submitted and determined that suspension or debarment of Accenture was not warranted. The Postal Service's debarring official further stated that she based her decision on mitigating factors, combined with the fact that Accenture has stopped their business practices regarding alliance partners; received affirmative responsibility determinations showing that no other federal agency suspended or debarred them; addressed and corrected identified deficiencies in their cost-estimating and timekeeping systems; and assured Postal Service management that they are operating with transparency, integrity, and openness in their business dealings.

Regarding recommendation 2, because of the decision not to suspend or debar Accenture, management concluded that terminating existing contracts is not warranted.

In addition, management stated that Accenture has taken meaningful steps in addressing issues and initiating policy on the concerns and recommendations that were part of the OIG and DCAA reports. Specifically, they provided a presentation asserting they have a business ethics and compliance program, changed its policy to address cost-estimating system deficiencies, and modified their timekeeping software. Also, Accenture's chief executive officer and managing director, General Counsel, provided letters to the Postal Service acknowledging the seriousness of the allegations. See [Appendix A](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Therefore, we are closing the recommendations with the issuance of this report. The OIG will conduct follow-up audits on Accenture's Postal Service contracts and related internal controls, including their timekeeping and costs estimating systems.

Appendix A: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



May 28, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Management Alert – Accenture Federal Services Contracting Practices (Report Number SM-MA-13-DRAFT)

We appreciate the Office of Inspector General (OIG) bringing these items to our attention and thank you for providing the Postal Service with the opportunity to review and comment on this subject management alert. Please see below the Postal Service's response to this report.

OIG Alert Recommendations:

We recommend the Vice President, Supply Management:

1. Consider suspending or debaring Accenture Federal Services, LLC (Accenture) from future Postal Service contracts.

Management Response:

Overview

The OIG requests consideration of suspension or debarment based on a 2011 Department of Justice (DOJ) settlement with Accenture regarding allegations of defective pricing and kickbacks; and the Defense Contracting Audit Agency's (DCAA) findings of inadequacies in the supplier's cost-estimating and timekeeping systems.

The Postal Service's regulations for suspension and debarment are within Title 39, United States (U.S.) Code of Federal Regulations, Section 601.113 (39 C.F.R. § 601.113) and are the basis used in responding to the recommendations under this Management Alert.

In my capacity as Vice President, Supply Management and the Postal Service's Debarring Official, I reviewed and considered the information provided within this alert by the OIG along with the Complaint in Intervention of the U.S., in the U.S. District Court for the Eastern District of Arkansas Western Division filed April 12, 2007; where a civil action against Accenture for treble damages and civil penalties under the False Claims Act and Anti-Kickback Act were alleged. Additionally, I initiated multiple frank discussions with top officials of Accenture about the issues raised and the supplier's transparency when dealing with the Postal Service and its audit organizations in which they cooperated fully. In coordination with Postal Service legal counsel, a review was completed of the documentation below:

- General Services Administration's (GSA), May 11, 2007, Show Cause Letter, issued based upon the unsealed *qui tam* civil Complaint dated April 12, 2007, in U.S. District Court, Eastern District of Arkansas, Little Rock Division, alleging that Accenture used agreements with alliance partners to receive kickbacks, equity compensation, rebates, marketing fees, and steep discounts resulting in higher resale revenue.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-6200
202-268-4040
FAX: 202-268-2755
WWW.USPS.COM

- GSA's, August 28, 2007, Affirmative Responsibility Determination, where based upon consideration of the documentation provided by Accenture in response to the above Show Cause Letter, the Acting Suspension and Debarment Official concluded that no administrative action against Accenture was necessary to protect the Government's interest. The documentation indicated that the details of its Alliance programs were well publicized in press releases and websites providing awareness of its practices; even so, in March 2005 (prior to receiving notice of the *qui tam* lawsuit), Accenture voluntarily instituted a new company-wide policy of non-acceptance of Systems Integration Compensation (i.e., rebates from Alliance Partners). The letter also mentioned that they enhanced their company's extensive compliance program that is headed by Accenture's General Counsel with an Ethical Standards Decision-Making Model that is designed to clarify the right action and the values on which to base decisions.
- DOJ's, September 12, 2011, Letter of Intention, clarifies DOJ's intentions with respect to further action it may take against Accenture regarding matters that are not within the scope of the release set forth in the Settlement Agreement. Based upon the facts known at the time and in reference to the contracts associated with the lawsuit, DOJ did not have any intention to further pursue an investigation or file suit against Accenture under the False Claims Act.
- Department of Defense (DOD), Defense Logistics Agency's (DLA) December 19, 2011, Show Cause Letter, was issued based upon the September 8, 2011 civil settlement agreement that Accenture had entered into with the U.S. that questioned Accenture's present responsibility.
- DLA's, February 23, 2012, Affirmative Responsibility Determination, where DLA determined that it was not necessary to exclude Accenture from Government contracting or take other action to protect the business interests of the Government.
- Accenture's, February 2011, Standards of Federal Business Ethics and Conduct, and related recognition.
- Accenture's, March 28, 2013, letter from the CEO highlighting two key commitments 1) continual operation with complete integrity; and 2) continual focus on cooperation and open communication with the Postal Service, and any investigations or audits.
- Accenture's March 29, 2013, letter from the Managing Director and General Counsel, summarizing the matters discussed at the March 22, 2013 meeting with the Postal Service and explaining its time and expense reporting policies and changes implemented in its cost-estimating system to address the final two DCAA recommendations.

Potential Causes for Suspension or Debarment

The OIG identifies two potential causes for suspension and debarment; the more general categories under subsection (1) or (v), respectively, an offense indicating a lack of business integrity, or (2) or (vi), respectively, a cause so serious that debarment is warranted. 39 C.F.R. § 601.113 (i)(1)-(2) or 39 C.F.R. § 601.113(e)(1)(v)-(vi). The draft Management Alert focuses on two issue areas that could possibly provide the basis for suspending or debarring the company, 1) the DOJ settlement relative to the material handling fees and kickbacks; and 2) DCAA's two audit reports on Accenture's cost-estimating and timekeeping system deficiencies.

DOJ Settlement - Material Handling Fees and Kickbacks

In 2011, Accenture, LLP (Accenture's parent company) settled a *qui tam* lawsuit brought under the False Claims Act (FCA) in 2007, to resolve allegations made by other federal agencies. The

DOJ intervened in the FCA cases and reached the settlement with Accenture and other suppliers to the federal government. The *qui tam* lawsuit alleged that Accenture and the other suppliers used agreements with Alliance Partners to receive kickbacks, equity compensation, rebates, marketing fees, and steep discounts resulting in higher resale revenue.

While the Postal Service received about \$21 million from other suppliers involved in the *qui tam* lawsuit, the Postal Service did not share in Accenture's 2011 FCA settlement for two reasons. First, the Postal Service allowed Accenture to charge material handling fees for acquiring third-party hardware and software. Second, DOJ did not include Accenture's receipt of the Alliance Partners payments associated with Postal Service contracts in the scope of the settlement. Per the OIG's Management Alert, DOJ's decision was based on the fact that the Alliance payments associated with Postal Service contracts amounted to less than .04% of the total \$64 million settlement. The amounts identified by the OIG as material handling fees and kickbacks are relatively low, about \$71,000 and \$27,000 respectively.

In DOJ's, September 12, 2011, Letter of Intention, Accenture was informed that they did not have any intention to further pursue an investigation or file suit against Accenture under the False Claims Act. Additionally, the DOD and the GSA concluded that it was not necessary to debar Accenture for causes associated with the lawsuit, as evidenced by DOD's February 23, 2012 letter and GSA's August 28, 2007 letter.

DCAA Audit Reports - Cost-Estimating and Timekeeping System Deficiencies

DCAA issued two reports, as summarized in the OIG draft Management Alert as well as the Management Advisory Report dated December 17, 2012. These reports regarded the cost-estimating and timekeeping systems used by Accenture in association with Postal Service contracts, concluding that those systems were inadequate. DCAA's review of Accenture's timekeeping practices, in 2010, found that approximately 20% of the employees reviewed were either not completing timesheets or doing so before performing work, that management did not adequately review timesheets, and labor payroll records did not match employee timesheets. DCAA's audit report on Accenture's cost-estimating system, issued in June 2012, detailed eight recommendations. These recommendations included that historical data be used when developing estimates, that procedures and practices for estimating contract changes be documented, and that proposal reviews be documented and maintained with the proposal files.

Accenture has taken meaningful steps in addressing issues and initiating policy around the concerns and recommendations issued within the OIG and DCAA reports. During our meeting and as stated within their letter of March 29, 2013, Accenture explained its time and expense reporting policies and changes implemented in its cost-estimating system to address the final two DCAA recommendations. On April 17, 2013 we were informed that the OIG had assessed the cost-estimating system policy and agreed to close out the recommendation. The closeout letter was received April 23, 2013.

Mitigating Factors

Under 39 C.F.R. § 601.113(f)(1), mitigating factors should be taken into consideration by the VP, Supply Management, as to the seriousness of a supplier's conduct and any continuing business risk.

(i) Established written standards of conduct and published internal control systems

The company asserted, in its March 22, 2013 presentation and the March 29, 2013 letter, that it has a robust business ethics and compliance program, including a Federal Compliance Training Program.

(vii) Remedial Measures

In a meeting with Postal Service officials and the follow-up letter, dated March 29, 2013, Accenture outlined its policy changes to address the cost-estimating system deficiencies and explained its timekeeping policies. For cost-estimating this includes, among other items, tracking actual costs, comparing actual to proposed costs, identifying variances, implementing corrective actions when necessary, performing internal reviews of the cost-estimating system on an annual basis, and documenting management reviews. Regarding timekeeping policies, they modified their timekeeping software to prevent advanced time entry (except in the case of planned absences), and established a floor-check program to periodically test, document and report on employee compliance with Accenture's policies. As of April 17, 2013 Accenture's initiated policy changes fully addressed all of the eight DCAA recommendations relating to their cost-estimating system to the satisfaction of OIG.

(x) Recognition and understanding of the seriousness of the misconduct

Letters from Accenture's President/CEO (March 28, 2013) and Managing Director, General Counsel (March 29, 2013), indicate that Accenture's senior officers recognize and understand the seriousness of the conduct. Additionally, Accenture's USPS Account Leaders met with Postal Service officials to address the issues raised by the OIG, indicating that mid-level management also recognizes and understands the seriousness of the conduct.

Conclusion

As the Postal Service's Debarring Official and in consideration of the evidence submitted before me, I find that suspension or debarment of Accenture is not warranted, nor is it necessary, in order to protect the interests of the Postal Service. The reason for this decision is based upon the mitigating factors, combined with the fact that Accenture has: 1) stopped their business practices regarding Alliance Partners; 2) received, relative to the lawsuit, affirmative responsibility determinations showing that no other Federal agency suspended or debarred them; 3) addressed and corrected identified deficiencies in their cost-estimating and timekeeping systems; and, 4) provided assurances to Postal Service management of operating with transparency, integrity, and openness in their business dealings with us.

Target Implementation Date: Completed as of the date of this response.

Responsible Manager: Vice President, Supply Management

2. Review existing contracts with Accenture to determine whether they should be terminated.

Management Response: Based upon the decision to not suspend or debar Accenture; management has concluded that a review of the existing contracts to determine whether they should be terminated as if they had been suspended or debarred in accordance with 39 C.F.R. 601.113(d)(5) *Treatment of suppliers on Postal Service or General Services Agency lists*, is an unwarranted action.

Target Implementation Date: Completed as of the date of this response.

Responsible Manager: Vice President, Supply Management

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.

Handwritten signature of Susan M. Brownell in cursive script.

cc: Patrick Donahoe
Joseph Corbett
Thomas Marshall
Corporate Audit and Response Management