



Office of Inspector General | United States Postal Service

Audit Report

Contract Closeout Process

Report Number 19-026-R20 | April 22, 2020



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Highlights

Background

Our objective was to assess the effectiveness of Supply Management's controls over the contract closeout process. Our fieldwork was completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID-19) on March 13, 2020. The results of this audit do not reflect any process changes that may have occurred as a result of the pandemic.

In fiscal year (FY) 2019, the U.S. Postal Service had a managed spend of about \$13 billion for goods and services obtained through about 43,000 Supply Management contracts in the Contract Authoring Management System (CAMS), the electronic Facilities Management System (eFMS), and the Transportation Contract Support System (TCSS).

CAMS contains vehicle, customer product, information technology, facility, and transportation contracts; whereas eFMS only contains facility construction, repairs, and alteration contracts; and TCSS only contains surface transportation contracts.

At the end of a contract life cycle, Supply Management is required to close out the contract by concluding or resolving all contractual requirements. Contracting officers (CO) are responsible for ensuring that all contract closeout activities are performed. Supply Management is comprised of five purchasing portfolios and 13 Category Management Centers (CMC) that focus on specific market and commodity sectors.

In FYs 2018 and 2019, Supply Management closed out 6,393 contracts, totaling about \$5 billion in spend. We reviewed a statistical sample of 201 closed contracts in CAMS and a judgmental sample of 10 closed contracts each from eFMS and TCSS. We also reviewed all 69 expired (beyond the period of performance) contracts that were not closed out as of September 30, 2019.

Findings

Although Supply Management established controls over the contract closeout process to include implementing a closeout checklist, applying reports and monitoring tools, and developing performance goals, there are opportunities to ensure these controls operate as designed to reduce contract risk.

Supply Management did not consistently adhere to policies and procedures to ensure that COs uniformly closed contracts in accordance with Postal Service policy. Specifically, our review of 201 closed contracts in CAMS identified that:

- Eighty-nine contracts (44 percent) did not have evidence of receipt or confirmation of goods or services;
- Thirty contracts (15 percent) did not have evidence of final payment or payment of all invoices; and
- COs did not consistently use the CAMS closeout checklist.

We did not note any exceptions on the eFMS and TCSS contracts reviewed.

These issues occurred because:

- The Supplying Principles & Practices allow for varied interpretation about the closeout process and what documents must be uploaded into the contract file;
- Supply Management personnel stated that other methods are used in lieu of the checklist to properly close contracts;
- Closeout procedures were unknown or not common practice among the CMCs or COs;
- Automated controls in CAMS do not require that closeout procedures are completed for each contract; and
- There are no compliance reviews for closed contracts to ensure that proper closeout procedures were followed.

Further, we observed that CAMS administrators have the ability to close out contracts in CAMS without ensuring that proper closeout procedures have been followed. As long as the period of performance has passed, administrators can close any contract selected.

This could potentially lead to contracts being closed prematurely without ensuring that appropriate closeout activities have occurred, final payment has been made, or sufficient supporting documentation has been added to the contract files.

Additionally, Supply Management did not always close contracts in a timely manner to ensure contractual obligations were satisfied. Supply Management's FY 2019 performance goal is to close contracts within 365 days past the period of performance. However, in our sample of 201 contracts from CAMS, we identified 13 closed contracts, totaling about \$13 million, that were open over 365 days past the period of performance without a justification. These contracts ranged from 405 days to 1,616 days past the period of performance.

We also reviewed 69 expired contracts not closed out within 365 days of the period of performance end date out of a universe of about 9,000 active CAMS contracts in FY 2019. Twenty-six of the 69 contracts, totaling about \$201 million, exceeded the period of performance without a justification.

These contracts were not closed timely due to competing priorities, insufficient staffing, and lack of CO oversight. There are also no automatic system reminders

for expiring or expired contracts in CAMS to ensure that COs perform timely closeouts.

When contracts are not closed out properly, the Postal Service could be at risk of not completing all contractual requirements to ensure the supplier and the Postal Service have fulfilled their obligations. This could leave the Postal Service liable for future risk, including adverse actions years later by the supplier under the contract. Closing contracts properly also ensures that excess funds are identified and de-committed for use in other programs.

During the audit, to comply with proper contract closeout policies and procedures, management implemented corrective actions by re-opening eight closed contracts and adding related documentation to the contract files.

Recommendations

We recommended the Vice President, Supply Management:

- Reinforce contract closeout policy to the CMCs, COs, and system administrators through formal communications and refresher training on the closeout process.
- Include closed contracts in Supply Management's compliance review process that would consist of ensuring completion of all required closeout steps.
- Reinforce the use of CAMS alerts through formal communication and refresher training to support the closeout process.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 22, 2020

MEMORANDUM FOR: MARK A. GUILFOIL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Jason Yovich
E-Verify Authenticity with Sign Desktop

FROM: Jason Yovich
Deputy Assistant Inspector General for Supply
Management & Human Resources

SUBJECT: Audit Report – Contract Closeout Process
(Report Number 19-026-R20)

This report presents the results of our audit of the Contract Closeout Process.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the contract closeout process. Our objective was to assess the effectiveness of Supply Management's controls over the contract closeout process (Project Number 19-026).

Our fieldwork was completed before the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID-19) on March 13, 2020. The results of this audit do not reflect any process changes that may have occurred as a result of the pandemic.

Supply Management is comprised of five purchasing portfolios¹ and 13 Category Management Centers² (CMC) that execute contracts in the Contract Authoring Management System³ (CAMS), the electronic Facilities Management System⁴ (eFMS), and the Transportation Contract Support System⁵ (TCSS). CAMS contains vehicle, customer product, information technology, facility, and transportation contracts; eFMS contains facility construction, repairs, and alteration contracts; and TCSS contains surface transportation contracts. In fiscal years (FY) 2018 and 2019, Supply Management closed a total of 6,329 contracts in CAMS, 30 in eFMS, and 34 in TCSS.

Background

In FY 2019, the Postal Service had a managed spend of about \$13 billion for goods and services obtained through about 43,000 Supply Management contracts in CAMS, eFMS, and TCSS. At the end of a contract life cycle, Supply Management is required to close out the contract by concluding or

“At the end of a contract life cycle, Supply Management is required to close out the contract by concluding or resolving all contractual requirements.”

resolving all contractual requirements. Contract closeout is the administrative procedure at the end of the business agreement with the supplier and includes the archiving of documents in the contract file. A closeout occurs after the supplier has successfully completed contract performance and has been compensated or when the contract is terminated for default or convenience.

Contracting officers (CO) are responsible for ensuring that all contract closeout activities are performed. This process involves tasks such as verifying that all goods or services were received, final payment was made to the supplier, and excess funds were de-committed. Contract closeout is important because it enables the Postal Service to protect its interest against litigation and releases excess funds tied to the contract by de-commitment. It is generally the last opportunity to ensure the Postal Service received what it contracted for and to detect and recover erroneous payments. Contracts that have not fulfilled all closeout requirements may pose a financial or contractual risk to the Postal Service.

In FYs 2018 and 2019, Supply Management closed out 6,393 contracts in CAMS, eFMS, and TCSS, which totaled about \$5 billion in spend (see Table 1).

Table 1: Closed Contracts

System	FY 2018	FY 2019	Total	Total Spend (in millions)
CAMS	3,701	2,628	6,329	\$5,000
eFMS	6	24	30	18
TCSS	18	16	34	7
Total	3,725	2,668	6,393	\$5,025

Source: CAMS, eFMS, TCSS, and the Enterprise Data Warehouse (EDW).⁶

¹ Each portfolio manages a unique area of the Postal Service.

² CMCs focus on specific market and commodity sectors.

³ The Supply Management contracting system used for contract management.

⁴ The Supply Management contracting system used for all facility contracts.

⁵ Oracle web-based application used to manage transportation contracts and related activities.

⁶ Information repository system to support management reporting for the Postal Service.

To improve contract closeout timeliness and accuracy, Supply Management developed an annual performance goal to have all contracts closed within 12 months of the contract end date, with the exception of special circumstances (e.g., claims, disputes, and warranties). At the end of FY 2019, 69 contracts/orders were over 365 days past the period of performance end date.

Finding #1: Contract Closeout Management

Contract Closeout Compliance

Although Supply Management established controls over the contract closeout process to include implementing a closeout checklist, applying reports and monitoring tools, and developing performance goals, there are opportunities to ensure these controls operate as designed to reduce contract risk.

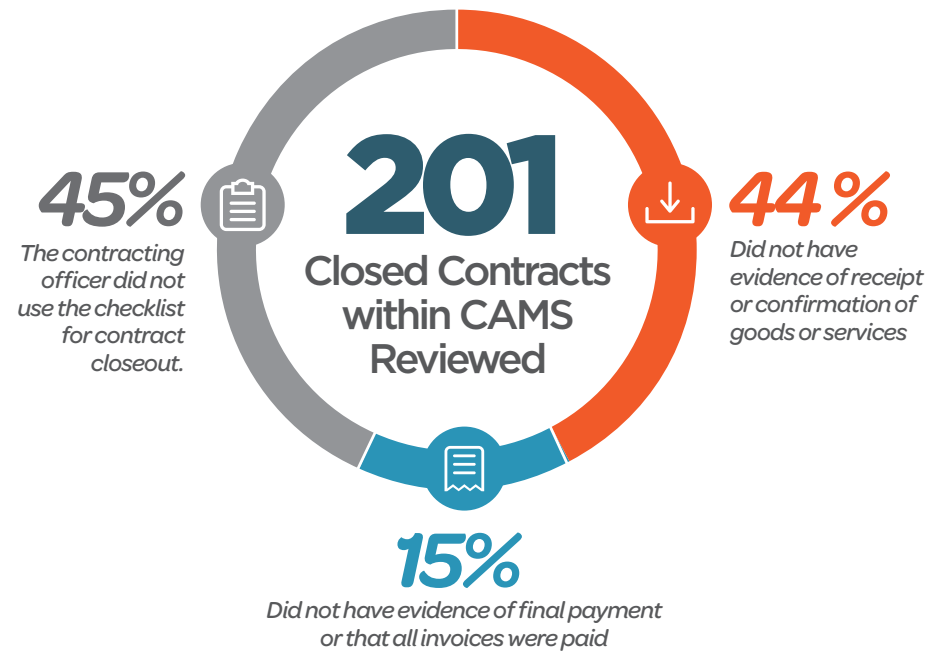
We reviewed a statistical sample of 201 closed contracts in CAMS and a judgmental sample of 10 closed contracts each from eFMS and TCSS. This sample of 221 contracts totaled about \$98 million in spend. Based on our analysis, Supply Management did not consistently adhere to policies and procedures to ensure COs uniformly closed contracts in accordance with Postal Service policy.⁷

Specifically, our review of 201 closed contracts within CAMS identified:

- Eighty-nine contracts (44 percent) did not have evidence of receipt or confirmation of goods or services; and
- Thirty contracts (15 percent) did not have evidence of final payment or that all invoices were paid.

Additionally, we identified 91 contracts (45 percent) in which the CO did not use the checklist for contract closeout. Utilization of the checklist could have helped to mitigate exceptions identified with contract closures.

We also reviewed ten closed contracts each from eFMS and TCSS and did not note any exceptions.



These issues occurred because:

- The SP&P allow for varied interpretation about the closeout process and what documents must be uploaded into the contract file;
- Supply Management personnel stated that other methods⁸ are being used in lieu of the CAMS checklist to properly close contracts;
- Closeout procedures were unknown or not common practice among the CMCs or COs;
- Automated controls in CAMS do not require that closeout procedures are completed for each contract. There are no management reviews or oversight required to ensure COs are completing required closeout steps; and

⁷ Supplying Principles & Practices (SP&P) Sections 5-14, Close Out Contract.

⁸ CMCs use PowerPoint presentations and external checklists for their contract closures.

- There are no compliance reviews for closed contracts to ensure that proper closeout procedures were followed.

Per SP&P Section 5-14, contract files must contain sufficient documentation to permit an outside party to review and understand the process that resulted in contract award, modification, and expiration. A contract is considered performed and fully completed when all products and services have been received conforming to contract specifications, final payment has been made, all invoices are paid, and actual expenditures matched the planned budget. According to CAMS user guidance, in addition to ensuring awards are closed in accordance with the SP&P, users must complete the closeout checklist in CAMS for each award.

Supply Management also conducts competitive and noncompetitive compliance reviews which serve as an internal control designed to measure COs adherence to specific policies and procedures. Although Supply Management has a compliance review process in place, reviews are not conducted for closed contracts.

“When contracts are not closed out properly, the Postal Service could be at risk of not completing all contractual requirements to ensure the supplier and the Postal Service have fulfilled their obligations.”

When contracts are not closed out properly, the Postal Service could be at risk of not completing all contractual requirements to ensure the supplier and the Postal Service have fulfilled their obligations. This could leave the Postal Service liable for future risk, including adverse actions years later by the supplier under

the contract. Closing contracts properly also ensures that excess funds are identified and de-committed for use in other programs.

During the audit, to comply with proper contract closeout policies and procedures, management implemented corrective actions by re-opening eight closed contracts and adding related documentation to the contract files. Postal Service management stated they would enhance contract oversight, make necessary corrections, and provide training going forward.

System Administrators’ Access

As part of our audit, we observed that CAMS administrators have the ability to close out contracts in CAMS without ensuring that proper closeout procedures have been followed. As long as the period of performance has passed, administrators can close any contract selected.

This could potentially lead to contracts being closed prematurely without ensuring that appropriate closeout activities have occurred, final payment has been made, or sufficient supporting documentation has been added to the contract files.

When administrators close out contracts without consulting with COs, there is a risk that contracts could be closed improperly or prematurely.

Recommendation #1

We recommend the **Vice President, Supply Management**, reinforce contract closeout policy to the Category Management Centers, contracting officers, and system administrators through formal communications and refresher training on the closeout process.

Recommendation #2

We recommend the **Vice President, Supply Management**, include closed contracts in Supply Management’s compliance review process that would consist of ensuring completion of all required closeout steps.

Finding #2: Timeliness of Closing Out Contracts

Supply Management did not always close contracts timely to ensure contractual obligations were satisfied. Supply Management's FY 2019 performance goal is to improve contract closeout timeliness and accuracy by ensuring all contracts are closed out within 12 months of the contract end date, except in exceptional circumstances.⁹

In our sample of 201 contracts from CAMS, we identified 13 closed contracts, totaling about \$13 million, that were open over 365 days past the period of performance without a justification. These contracts ranged from 405 days to 1,616 days past the period of performance.

We also reviewed 69 expired contracts not closed out within 365 days of the period of performance end date out of a universe of about 9,000 active CAMS contracts in FY 2019. Twenty-six of the 69 contracts, totaling about \$201 million, exceeded the period of performance without a justification.

“These contracts were not closed timely due to competing priorities, insufficient staffing, and lack of CO oversight.”

These contracts were not closed timely due to competing priorities, insufficient staffing, and lack of CO oversight. Additionally, there are no automatic system reminders for expiring or expired contracts in CAMS to ensure that COs perform timely closeouts. COs must manually schedule notification alerts in CAMS to ensure that they are reminded to close contracts timely.

When contracts are not closed timely, the Postal Service could be at risk of not completing all contractual requirements to

ensure the supplier and the Postal Service have fulfilled their obligations. This could leave the Postal Service liable for future risk, including adverse actions years later by the supplier under the contract. Closing contracts timely also ensures that excess funds are identified and de-committed for use in other

programs. Additionally, insufficient closeout processes in CAMS may leave contracts open after the period of performance has ended.

Recommendation #3

We recommend the **Vice President, Supply Management**, reinforce the use of the Contract Authoring Management System alerts through formal communications and refresher training to support the closeout process.

Management's Comments

Management generally agreed with all findings and recommendations in this report.

Regarding recommendation 1, management stated that contract closeout policy will be reiterated to the CMCs, COs, and system administrators through an SM Communication Policy Tip and refresher training. Management plans to implement this action by December 2020.

Regarding recommendation 2, management stated the report mentions that COs did not consistently use the CAMS closeout checklist. The checklist was created as a tool to assist specialists during the closeout process and using it is not a required policy or procedure. Management noted that other methods can be used in lieu of the checklist to properly close contracts. The report recognized that “[Category Management Centers] use PowerPoint presentations and external checklists for their contract closures”. However, according to CAMS user guidance, users must complete the closeout checklist in CAMS for each award. Notwithstanding this fact, management stated that they will ensure closed contracts are included in a compliance review which would consist of ensuring completion of all required closeout steps according to the SP&P as applicable. Management plans to implement this action by December 2020.

Regarding recommendation 3, management stated they will communicate the use of system alerts through CAMS and provide refresher training to CMC personnel, COs, and system administrators. Management plans to implement this action by January 2021.

See [Appendix B](#) for management's comments in their entirety.

⁹ Exceptional circumstances include claims, disputes, and warranties.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and their planned actions should resolve the issues identified in the report.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed.

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit included Supply Management contract awards closed in CAMS, eFMS, and TCSS in FYs 2018 and 2019; and expired, non-closed out contracts as of September 30, 2019.

To accomplish our objective, we:

- Interviewed Postal Service policy personnel and systems experts to gain an understanding of the closeout process and system features.
- Obtained and analyzed a sample of closed contracts in CAMS, eFMS, and TCSS to ensure there has been compliance with policies and procedures. This includes ensuring that all invoices and final payments have been paid; confirming that goods and services have been received, inspected, and accepted; ensuring that excess funds have been de-committed; and assessing supplier performance.
- Obtained and analyzed expired, non-closed out contracts in CAMS, eFMS, and TCSS.
- Reviewed the contract closeout process in each contracting system to identify any gaps or deficiencies.
- Determined whether COs received sufficient training on the closeout process.

To gain a true representation of contracts in all three systems, the team obtained a statistical sample of closed contracts in CAMS and judgmentally selected contracts from both eFMS and TCSS. The team obtained a sample of 201 of the 6,329 contracts in CAMS and then judgmentally selected 10 contracts from both eFMS and TCSS for a total sample of 221. We tested whether:

- All policies and procedures were followed during the closeout process.

- Contract files contained correct supporting documentation.
- Contracts were closed and funds de-committed in accordance with Postal Service policy.

Additionally, we analyzed expired, non-closed out contracts as of September 30, 2019 and determined why they remained open.

We conducted this performance audit from September 2019 through April 2020 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on March 12, 2020 and included their comments where appropriate.

We assessed the reliability of CAMS, eFMS, and TCSS data by validating the information with systems experts and through EDW reports. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit in the last five years.

Appendix B: Management's Comments

KAREN A. POMPANELLA
ACTING VICE PRESIDENT, SUPPLY MANAGEMENT



April 9, 2020

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Contract Closeout Process (Project Number 19-026)

Thank you for providing the United States Postal Service (Postal Service) with an opportunity to review and comment on the subject draft audit report, "Contract Closeout Process" dated March 18, 2020. Management agrees in general with the report's findings and recommendations.

Regarding the report's findings, we would like to share with you a few observations. As stated in the Supplying Principles and Practices (SPs and Ps), contract closeout is the administrative procedure associated with the end of the business agreement with the supplier and the archiving of documents in the contract file. It occurs after the supplier has successfully completed contract performance and has been accordingly compensated or when the contract is terminated for default or convenience. The primary purpose of contract closeout is to ensure that the supplier has complied with all contractual requirements and that the client's needs have been met and fulfilled.

The OIG acknowledged in its findings that there were no exceptions with eFMS and TCSS contracts reviewed; however, the closeout process was not always completed timely for CAMS contracts. Updating the contract file with the necessary documentation and closing the contract timely is a part of contract administration which takes place subsequent to contract award. While the SPs and Ps state that contract files must be closed out and archived by the contracting officer at the end of the project, this guidance does not designate a time frame as to when all actions should be performed.

Additionally, the report mentions that contracting officers did not consistently use the CAMS closeout checklist. Utilizing the checklist in CAMS is not a required policy or procedure. The checklist was created as a tool to assist specialists during the closeout process. Other methods can be used in lieu of the checklist to properly close contracts. Your report recognizes this in footnote 10 on page 3 of the report stating that, "CMCs use PowerPoint presentations and external checklists for their contract closures."

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Further, you observed that CAMS administrators have the ability to closeout contracts in CAMS without ensuring that proper closeout procedures have been followed. You stated that this could potentially lead to contracts being closed prematurely without ensuring that appropriate closeout activities have occurred, final payment has been made, or sufficient supporting documentation has been added to the contract files. However, you did not document any instances occurring. The CAMS administrators have the ability to closeout contracts as a means to correct technical issues within the CAMS system. They only close contracts when instructed by management, a contracting officer, or a designated specialist if the system is preventing the user from completing the process due to a technical issue.

We appreciate the OIG conducting the audit of our contract closeout process. We have made significant progress in ensuring that contracting officials complete the appropriate steps in the closeout process and will continue to reinforce policy and conduct the necessary training to all officials.

OIG Recommendations:

We recommend the Vice President, Supply Management:

Recommendation 1: Reinforce contract closeout policy to the Category Management Centers, contracting officers, and system administrators through formal communications and refresher training on the closeout process.

Management Response/Action Plan: Management agrees with this recommendation. Contract closeout policy will be reiterated to the Category Management Centers, contracting officers, and system administrators through an SM Communication Policy Tip and refresher training.

Target Implementation Date: December 2020

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 2: Include closed contracts in Supply Management's compliance review process that would consist of ensuring completion of all required closeout steps.

Management Response/Action Plan: Management agrees with this recommendation. We will ensure closed contracts are included in a compliance review which would consist of ensuring completion of all required closeout steps according to the Supplying Principles and Practices as applicable.

- 3 -

Target Implementation Date: December 2020

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 3: Reinforce the use of the Contract Authoring Management System alerts through formal communications and refresher training to support the closeout process.

Management Response/Action Plan: Management agrees with this recommendation. We will communicate the use of system alerts through the Contract Authoring Management System and provide refresher training to the Category Management Centers, contracting officers, and system administrators.

Target Implementation Date: January 2021

Responsible Official: Manager, SCM Strategies

E-SIGNED by Karen A Pompanella
on 2020-04-09 14:36:48 CDT

cc: Manager, Corporate Audit Response Management



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