

Office of Inspector General | United States Postal Service

Audit Report

Fiscal Year 2020 Board of Governors' Expenditures

Report Number 21-064-R21 | September 22, 2021



Table of Contents

Cover	
Highlights.....	1
Objective	1
Findings.....	1
Recommendation.....	1
Transmittal Letter	2
Results.....	3
Introduction/Objective	3
Background.....	3
Finding Summary	4
Finding #1: Contracting for Board Services	4
Recommendation #1.....	6
Finding #2: Office of the Board Contracting Administration Processes	6
Recommendation #2.....	7
Recommendation #3.....	7
Management’s Comments.....	7
Evaluation of Management’s Comments	8
Appendices	9
Appendix A: Additional Information.....	10
Scope and Methodology.....	10
Prior Audit Coverage.....	11
Appendix B: Management’s Comments.....	12
Contact Information	16

Highlights

Objective

Our objective was to determine whether fiscal year (FY) 2020 expenditures of the U.S. Postal Service Board of Governors (Board) were properly supported, reasonable, and complied with Postal Service and Board policies and procedures.

The Postal Reorganization Act of 1970, as amended, established the Board which is comprised of nine governors appointed by the president of the United States, the postmaster general, and the deputy postmaster general. While the members of the Board changed through the year, as of September 30, 2020, the Board consisted of the chairman, five governors, and the postmaster general.

The Board directs and controls the expenditures of the Postal Service, reviews its practices and policies, and establishes objectives and goals in accordance with Title 39 of the U.S. Code. In FY 2020, the Board incurred over \$1.7 million in travel, meeting, and other expenses, including over \$1.5 million in professional services fees. The expenditures substantially increased over recent years with the appointment of additional governors and the search for a new postmaster general.

Findings

We determined that, except for transactions related to professional services contracts, the Board's expenditures were properly supported, reasonable, and complied with Postal Service and Board policies and procedures. We identified minor issues with documentation, accounting codes, and staff travel reimbursements that were discussed with management during the audit.

However, we identified concerns with the contracting processes that Supply Management and the Office of the Board used to conduct an executive search for postmaster general candidates.

Postal Service management, on behalf of the Board, leveraged an existing contract between the Postal Service Law Department and a contractor beyond the scope of the original statement of work. The contract was not properly modified to cover the additional scope or to add the separate pricing structure that

was used. Finally, processes were not followed to properly evaluate one of the suppliers that was non-competitively selected to assist in the search.

These actions resulted in about \$358,000 paid for services acquired outside established contracting practices in FY 2020. If Supply Management had followed established processes to perform the analyses and document their decisions throughout the purchase, they may have obtained a better balance of price and benefits for the Postal Service as they fulfilled the Board's request.

In addition, the contracting officer's representatives in the Office of the Board did not always effectively execute their contract administration responsibilities. We found seven invoices the contracting officer's representatives certified for payment with charges above the contracted rate or without verifying the charges were prescribed in the pricing schedule. Further, we identified three travel reimbursements that were certified for payment that did not comply with travel policy or contract terms. Finally, we identified an instance in which the contract funding was not effectively monitored, resulting in two late payments and a nominal amount of interest incurred.

Recommendation

We recommended management:

- Develop and provide training and formal communication to all purchasing teams on policies and procedures, including required file documentation, for sensitive requests.
- Implement a process to ensure the Office of the Board's contracting officer's representatives administer all contract-related arrangements and certify invoices in accordance with established supply management policies and contract terms.
- Recover the overpayment identified in this report.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 22, 2021

MEMORANDUM FOR: MARK A. GUILFOIL
VICE PRESIDENT SUPPLY MANAGEMENT

Lorie Nelson

FROM: Lorie Nelson
Acting Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Fiscal Year 2020 Board of Governors’
Expenditures (Report Number 21-064-R21)

This report presents the results of our audit of the U.S. Postal Service Fiscal Year 2020 Board of Governors’ Expenditures.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Luisa Gierbolini, Acting Director, Finance, or me at 703-248-2100.

Attachment

cc: Corporate Audit Response Management
Postmaster General

Results

Introduction/Objective

This report presents the results of our audit of the U.S. Postal Service Fiscal Year (FY) Board of Governors' (Board) expenditures (Project Number 21-064). We conducted this audit to fulfill our obligations under Board policy to perform an annual audit of the Board's expenses.¹ Our objective was to determine whether expenditures by the Board were properly supported, reasonable, and complied with Postal Service and Board policies and procedures.

See [Appendix A](#) for additional information about this audit.

Background

The Postal Reorganization Act of 1970, as amended, established the Board which is comprised of nine governors appointed by the President of the U.S., the postmaster general, and the deputy postmaster general.² At the beginning of FY 2020, the Board consisted of the chairman of the Board, four governors, the postmaster general, and the deputy postmaster general. The membership changed during the year and as of September 30, 2020, the Board consisted of the chairman, five governors, and the postmaster general. The Board directs and controls Postal Service, reviews its practices and policies, and establishes objectives and goals in accordance with Title 39 of the U.S. Code.

“The Postal Reorganization Act of 1970, as amended, established the Board which is comprised of nine governors appointed by the President of the U.S., the postmaster general, and the deputy postmaster general.”

The Board contracted with an independent public accounting (IPA) firm to express opinions on the Postal Service's financial statements and internal controls over financial reporting. As a part of their work, the IPA firm opined that the *United States Postal Service Statement of Expenditures of the Office of the Board of Governors Year Ended September 30, 2020*, presented fairly, in all material respects, the expenditures of the Board.³ The IPA firm maintains overall responsibility for testing and reviewing significant Postal Service accounts, processes, and internal controls; and relies on the work performed by the U.S. Postal Service Office of Inspector General (OIG) for portions of the Board's expenditures. As such, we coordinated our audit work regarding compliance with Board and Postal Service policies with the IPA firm to ensure adequate coverage of the Board's expenditures.

In FY 2020, the Board held 82 meetings⁴ and incurred over \$1.7 million in travel, meeting, and other expenses, including over \$1.5 million in professional services fees.⁵ As shown in [Table 1](#), the expenditures of the Board have substantially increased since FY 2018 with the appointment of additional governors and the search for a new postmaster general. Certain expense categories, such as travel, were lower than anticipated due to precautions taken in response to the coronavirus pandemic in 2020.

“In FY 2020, the Board held 82 meetings and incurred over \$1.7 million in travel, meeting, and other expenses, including over \$1.5 million in professional services fees.”

1 Policies Relating to Governors' Official Expenses, adopted January 7, 2014.

2 Public Law 91-375, enacted August 12, 1970.

3 *Report of Independent Auditors*, dated November 13, 2020.

4 Meetings include full Board of Governors' regular, annual, and special meetings as well as committee meetings, but do not include other official functions such as stamp dedication ceremonies. In addition to a salary, governors receive \$300 a day in meeting fees for not more than 42 meeting days each calendar year.

5 Professional services generally include legal and consulting services.

Table 1. Board of Governors' Expenditures

Expense Category	FY 2020	FY 2019	FY 2018
Governors' and Staff Travel ⁶	\$85,459	\$64,787	\$475
Governors' Meeting Fees	65,400	15,900	2,700
Meeting	34,720	28,464	1,866
Professional and Other Services	1,540,662	73,082	1,825
Supply	8,394	4,617	5,876
Total	\$1,734,635	\$186,850	\$12,742

Source: OIG analysis of Postal Service accounts payable and general ledger records.

Finding Summary

We reviewed 482 of 551 transactions representing \$1.68 million (97 percent) of \$1.73 million in Board expenditures in FY 2020. See [Appendix A](#) for information on the sampling methodology. We determined that, except for 9 transactions related to 2 professional services contracts covering \$359,607, the Board's expenditures were properly supported, reasonable, and complied with Postal Service and Board policies and procedures. We identified minor issues with documentation, accounting codes, and staff travel reimbursements. We discussed these issues with the secretary of the Board and Postal Service Controller in September 2020 and corrective actions were taken prior to the end of FY 2020.

Finding #1: Contracting for Board Services

Postal Service management improperly used an existing contract between the Postal Service Law Department (Legal) and a contractor (Contractor A) to conduct an executive search for postmaster general candidates on behalf of the Board. Specifically:

- a. The Board project was not within the scope of the contract because the Statement of Work (SOW) did not include tasks relating to an executive search. Under the terms and conditions of the contract, the Supply Management contracting officer (CO)⁷ could have revised the SOW.⁸ However, the project was not added to the SOW, and according to Postal Service policy, should have thus been treated as a new or non-competitive purchase.⁹

Postal policy requires that the assigned CO confirm that a project fits within the scope of a particular contract. However, there was no documentation that such a determination was made for this project, and the existing SOW did not include an executive search. Per Postal Service guidance, file documentation should be sufficient for a third party to understand what was done and why it was done.¹⁰

- b. Additionally, Supply Management did not modify the pricing structure of the existing task order¹¹ when the Board's executive search project was added. The task order reflected only a labor hour¹² pricing structure as mutually agreed upon with Contractor A and did not include materials or other costs. However, the Postal Service paid about \$338,000 for firm fixed price¹³ costs and other charges that were not invoiced as labor hour charges. The CO explained that, because the contract allowed for both types of pricing, they could make firm fixed price payments under a labor hour task order. However, the CO did not re-negotiate the pricing structure or modify the task order to

⁶ Although members of the Board, the Postmaster General's and deputy postmaster general's travel expenses are not included in the scope of this audit. As Postal Service officers, their travel is included in the OIG's audit of *Fiscal Year 2020 Selected Financial Activities and Accounting Records* (Project Number 20-152).

⁷ The CO is the individual executing the contract on behalf of the Postal Service and is responsible for identifying all documentation relating to a contract.

⁸ Contract Clause 4-1.

⁹ Postal Service *Supply Principles and Practices* (SP&P), October 2019, Section 5-8.9.

¹⁰ SP&P, Section 3-6.1.

¹¹ A task order is an order issued by a CO to a supplier to provide services under an existing contract.

¹² A labor hour agreement is where the amount paid is computed as the agreed upon hour rate multiplied by the direct labor hours performed.

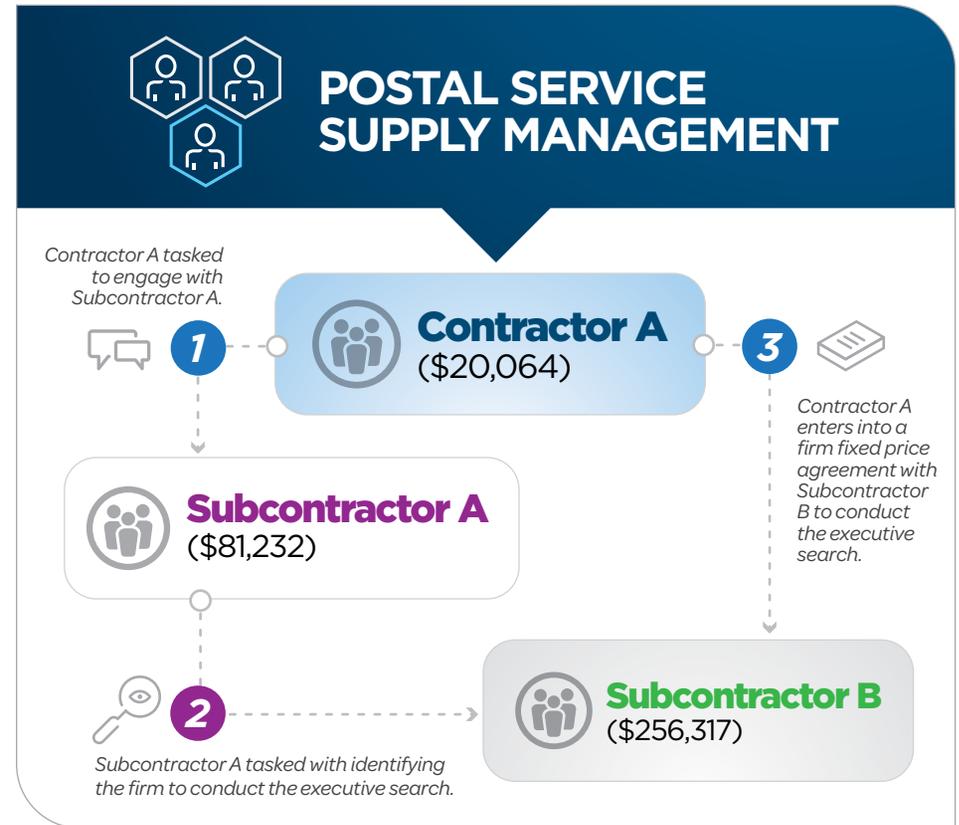
¹³ A firm fixed price agreement is where the amount paid is stipulated in the contract for the services rendered. The supplier is responsible for all costs and resulting profit or loss.

include materials and other costs. Further, the CO did not formally respond to the Board's request for an adjustment to the travel requirements of the contract.

The CO processed the purchase of executive search services as an order under the existing contract. When an order is issued for services that were not fully defined or priced at the time of the contract award, Postal Service policy requires the CO to document a technical evaluation of the supplier's approach, cost analysis, details of the negotiation results, and determination that the order price is fair and reasonable.¹⁴ The CO confirmed the required documentation was not prepared for the Board project.

- c. Contractor A was tasked to engage another supplier to identify a third organization to conduct the executive search for the Board as shown in Figure 1. One of the governors identified the supplier as a source for assisting with the executive search. The Postal Service has processes which allow the requesting organization to present a compelling business interest¹⁵ for the CO's review and evaluation to directly contract with a supplier.¹⁶ These processes were not followed to evaluate this supplier. Had Supply Management followed the process, they may have obtained a better balance of price and benefits for the Postal Service as they fulfilled the Board's request.

Figure 1. Contracting Arrangement for the Board's Executive Search



Source: OIG analysis of contract documentation.

The Board secretary advised that when the former postmaster general privately told the Board of her intent to retire, the governors wanted to respond quickly and have a candidate identified within about four months. The CO indicated that "absolute confidentiality" was a primary concern for the project. By using an outside firm, the CO indicated the Board would be better able to control the flow of information. The CO also stated that Contractor A had knowledge and

¹⁴ SP&P, Section 4-1.4.3.2.

¹⁵ A business interest that is so compelling that purchasing noncompetitively outweighs the benefits of competition. These include the urgency of the requirement, a supplier innovation that furthers Postal Service business objectives, or undue cost or delay would result from a contract award to a new supplier.

¹⁶ SP&P, Section 2-10.3.

experience with Board governance issues and expertise in matters related to the project.

Throughout the purchase of the executive search services, Supply Management did not document key contract decisions including their rationale for deviating from standard contracting procedures. While Board expenditures represent a small percentage of overall Postal Service costs, Supply Management has a fiduciary and business responsibility to facilitate the goals of the Board and to ensure that supply activities advance the interests of the Postal Service in a fair, objective, and business-like manner.

Recommendation #1

We recommend the **Vice President, Supply Management**, develop and provide training and formal communication to all purchasing teams on policies and procedures, including required file documentation, for sensitive requests.

Finding #2: Office of the Board Contracting Administration Processes

The contracting officer's representatives (COR)¹⁷ in the Office of the Board did not always execute their contract administration responsibilities appropriately to ensure proper safeguarding of about \$360,000 in Postal Service funds. Specifically, we determined two CORs certified invoices for payment which included:

- Hourly labor charges above the contracted rate and other charges not included in the pricing schedule. One COR certified the payment of six of seven Contractor A invoices which included hourly rates that were above the contracted rate for the labor provided, resulting in an overpayment of

\$3,011. We consider the overpayment questioned costs.¹⁸ Further, five of seven Contractor A invoices contained charges for services provided by Subcontractors A and B at fixed rates and other costs which were not prescribed in the contract pricing schedule.

- Travel reimbursements that did not comply with contract terms. The COR certified payment for the reimbursement of \$832 for travel expenses on two invoices which did not comply with contract terms. In addition, a second COR certified payment for the reimbursement of one invoice for \$1,994 for a different contractor's travel which did not comply with contract terms.¹⁹ After we brought the issue to his attention, the second COR obtained actual receipts and initiated recovery of \$384. We consider these reimbursements, totaling \$2,826, questioned costs.
- Insufficient funds available for payment. The second COR did not adequately monitor contract funding and certified two invoices for payment when there were no remaining funds. As a result, payments could not be processed and a nominal amount of interest was incurred in compliance with the Prompt Payment Act.²⁰ During our FY 2019 audit of Board expenses,²¹ we identified a similar instance where a COR had not timely processed an invoice and interest charges were incurred. At that time, we discussed the concern with the acting secretary of the Board, and he agreed to take actions to address the issue.

The Postal Service outlines the CORs' responsibilities in the COR appointment letters for each contract, to protect the organization's interests. These responsibilities include verifying each invoice is accurate and in accordance with the contract and pricing.²² In addition, one of the COR's letters includes responsibility for monitoring contract funding and submitting requisitions to notify the CO at least 30 days before additional funds are needed. Both contracts

17 The COR is responsible for the technical aspects of a project, acting as technical liaison with the contractor, and ensuring the work is accomplished according to contract specifications. The CO and COR sign a letter of appointment which outlines the responsibilities, expectations, and limitations of the COR.

18 Questioned costs are unnecessary, unreasonable, or an alleged violation of law, regulation, or contract. They may be either recoverable or unrecoverable.

19 The terms for this strategic communications services contract are specified in Postal Service Form 8203 *Order/Solicitation/Offer/Award* signed October 3, 2018 and Postal Service Handbook F-15, *Travel and Relocation*, September 2015.

20 Postal Service Management Instruction FM-610-213-4, *Compliance with the Prompt Payment Act*, August 30, 2013, requires payment of invoices within 30 days of receipt or the supplier is entitled to payment of interest.

21 *Fiscal Year 2019 Selected Financial Activities and Accounting Records*, Report Number 19BM004-FT000-R20, January 6, 2020.

22 *Contracting Officer's Representative (COR) Letter of Appointment* signed by one COR on March 27, 2017 and *COR Letter of Appointment* signed by another COR on September 26, 2019.

require that approval for travel be in writing and provided prior to travel, and have further specific limitations on reimbursements of travel costs.

Although the number of transactions with issues and the associated dollar values were not significant to the overall financial statements, it is important that Supply Management and the CORs fulfill their responsibilities and ensure that policies are consistently followed as they satisfy Board requests.

Recommendation #2

We recommend the **Vice President, Supply Management**, implement a process to ensure the Office of the Board's contracting officer's representatives administer all contract-related arrangements and certify invoices in accordance with supply management policies and contract terms.

Recommendation #3

We recommend the **Vice President, Supply Management**, direct the contracting officer to recover the \$3,011 overpayment identified in this report.

Management's Comments

Management agreed with recommendation 1, partially agreed with recommendation 2, and disagreed with recommendation 3. Management also disagreed with several aspects of the findings and the monetary impact identified in the report.

Management disagreed that the Postal Service improperly used an existing contract to conduct the executive search, because the contract is a flexible instrument, designed to support Postal Service requirements for legal support and advice within broad practice areas. In addition, practice areas in the SOW are components of the process of recruiting and selecting a postmaster general. Additionally, management believes that the Board was prudent in seeking legal advice and the associated confidentiality that attaches in having the supplier perform the services requested. Management stated that in addition to the supplier's deep knowledge and experience in Board governance issues, the firm identified experience and expertise in executive search matters.

Management also stated that the Postal Service had strategic reasons for implementing a subcontract for the executive search and that the action was not prohibited by the contract or Postal Service policy. However, regarding recommendation 1, management agreed to develop and provide training to purchasing teams on policies and procedures emphasizing that, irrespective of whether the purchase is for a routine or sensitive matter, all required acquisition steps, contract administration actions, and file documentation must be completed and provided in the contract file. The target implementation date is January 2022.

Management acknowledged that the hourly rate for the attorney involved in the executive search was not listed in the contract and that the appropriate practice would have been to modify the contract to include the rate. but did not agree that there was an overpayment to the contractor. Management stated that the COR was aware of and approved the rate prior to the commencement of performance and any administrative error or delay in issuing a modification to the contract to incorporate a new labor category or rate does not mean that the work performed by the supplier prior to the modification was unauthorized or that payments made for work were improper.

Regarding invoice certification and funding, management stated that when certifying an invoice, the COR is confirming that the work performed and rates charged by the supplier are in accordance with the contract, but the COR's certification does not imply that funds are available in the contract to cover the amount due. Therefore, the COR is not required to withhold certification when funds are not available under the contract, and from time to time invoices are submitted that exceed available funds, requiring prompt action by the CO and the COR to allocate additional funds to timely pay for an invoice. Management further stated that this is a matter of routine contract administration and not an indication that the contract has been mismanaged.

Management agreed in part with recommendation 2 and stated they will provide communications and training of targeted COs and CORs, including the Office of the Board's CORs, on the invoice certification process and its relationship to contract funding when administering incrementally funded contracts. Management indicated the emphasis would be placed on closely monitoring available funds and the need to take prompt action to add funding to avoid

or minimize any Prompt Payment Act interest. Management disagreed with implementing an individual process only for the CORs in the Office of the Board since the Postal Service has numerous CORs. The target implementation date is January 2022.

Regarding recommendation 3, management disagreed with the characterization of \$3,011 as an overpayment due to the rate not being listed in the contract, and the recommendation to recover this value. Management stated the hourly rate used was approved by the COR before the work began. Additionally, management said the minor omission in contract administration should not result in demand for a refund when the work was appropriately performed and accepted by the Postal Service. See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

We consider management's comments responsive to the recommendations and the corrective action should resolve the issue identified in the report.

The OIG agrees that the Board was prudent to seek legal advice and confidentiality in the performance of the requested services but continues to believe that the executive candidate search was not within the scope of the Law Department's contract. We maintain that including a search for executive candidates under the practice areas in the SOW is a broad interpretation, and an increase in contract scope. The OIG acknowledges that the Postal Service had strategic reasons for implementing a subcontract for the executive search. However, the CO should have documented that the project fit within the scope of an existing project, revised the existing SOW, or treated the purchase as a noncompetitive purchase. Management's plan to train all purchasing teams on required acquisition steps, contract administration and file documentation should resolve this issue.

Regarding recommendation 2, management's plan to provide communications and training to a broader group of COs and CORs, not just to Board CORs, is a good approach to reduce future occurrences. However, the OIG does note that when certifying invoices, the COR is responsible for certifying that rates are in accordance with the contract. The COR did not have the authority to approve or change contracted rates. The COR letter of appointment specifically stated that under no circumstances was the COR authorized to make changes that would affect the cost of the contracts.

Regarding recommendation 3, we continue to believe management should recover the \$3,011 overpayment. However, the work was performed by the supplier and accepted by the Postal Service. Also, we acknowledge management's discretion, and the amount is not material in relation to the overall contract. Therefore, we will not pursue this issue further. We consider recommendation 3 closed upon issuance of this report.

Recommendations 1 and 2 require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1 and 2 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.

Appendices

Click on the appendix title below to navigate to the section content.

- Appendix A: Additional Information 10
 - Scope and Methodology 10
 - Prior Audit Coverage 11
- Appendix B: Management’s Comments 12

Appendix A: Additional Information

Scope and Methodology

We reviewed 482 of 551 transactions representing \$1.68 million of \$1.73 million in Board expenditures in FY 2020.²³ Table 2 shows the scope of our audit analysis by expense category.

Table 2. Audited Board Expenditures for FY 2020

Expense Category	Transactions Reviewed	Total Transactions	Amount Reviewed	Total Amount
Governors' travel	71	84	\$53,954	\$72,066
Office staff travel	47	56	9,315	13,393
Governors' meeting fees	258	258	65,400	65,400
Professional services contracts	36	47	1,503,291	1,533,291
Other services	6	12	5,155	7,371
Meeting expenses	26	31	32,303	34,720
Supplies	38	63	6,275	8,394
Total	482	551	\$1,675,693	\$1,734,635

Source: OIG analysis of Postal Service accounts payable and general ledger records.

Our review of the Board's expenditures in FY 2020 involved identifying all Board expenses recorded in the Postal Service accounts payable system. For each quarter of the year, we also analyzed Board-related financial transactions to identify any subsequent adjustments made to the Board's expenditures. While we confirmed the governors' monthly salary and meeting fee calculations, we excluded staff payroll, bonuses, and employment benefit expenditures from our analysis. We excluded the travel expenses for the postmaster general and deputy

postmaster general as they are part of the audit of the Postal Service's officers' travel.²⁴ We reviewed 100 percent of the Board expenditures for the period October 2019 through March 2020. For the period April through September 2020, we judgmentally selected a sample of individual expense activity in coordination with the IPA firm.

To assess whether Board expenditures were supported, reasonable, and complied with relevant policies and procedures, we:

- Reviewed applicable policies, criteria, and guidelines relating to Board expenditures.
- Interviewed personnel from the Office of the Board, Travel and Relocation, Finance and Disbursing, and Supply Management Professional and Technical Services.
- Obtained and reviewed Postal Service Forms 1231, *Governors/Officer Expense Report*, and supporting documentation.
- Obtained and reviewed Postal Service Forms 1013, *Transportation Ticketing Authorization, Corporate Travel Account (CTA)*, and supporting documentation.
- Reviewed Citibank® credit card statements for the corporate travel account and individual travelers' accounts to reconcile activity with Postal Service records.
- Reviewed eTravel²⁵ system reports and supporting documentation to assess travel reimbursements to staff members in the Office of the Board.
- Obtained and reviewed the Board secretary's monthly certifications of governors' salary and meeting attendance as well as the corresponding Corporate Accounting memos confirming scheduled payments for compensation paid to the governors.

²³ The Postal Service FY 2020 was from October 1, 2019 through September 30, 2020.

²⁴ Officers' travel is included in the scope of the OIG audit on *Fiscal Year 2020 Selected Financial Activities and Accounting Records* (Report Number 20-152-R20).

²⁵ eTravel is an automated, web-based system that enables Postal Service employees to create, submit, and review expense reports, and obtain reimbursements for actual and authorized transportation, lodging, and other expenses incurred while on official travel.

- Obtained and reviewed invoices and supporting documentation for contract fees to assess professional and other services fees.
- Researched related contract documentation in the Contract Authoring Management System.²⁶
- Obtained and reviewed monthly Purchase Card statements and supporting documentation to assess meeting and supply expenses.
- Reviewed supporting documentation in the eBuy2.0 and eBuyPlus systems²⁷ to assess supply expenses.

We conducted this performance audit from March 2020 through September 2021 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. Our tests of controls were limited to those necessary to achieve our audit objective. Our procedures were not designed to provide assurance on internal controls. Consequently, we do not provide an opinion on such controls. Also, our audit does not provide absolute assurance of the absence of fraud or illegal acts, due to the nature of evidence and characteristics of such activities. We discussed our observations and conclusions with management on June 29, 2021, and included their comments where appropriate.

We assessed the reliability of accounts payable and general ledger data by tracing the transactions to supporting source documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Fiscal Year 2019 Board of Governors' Travel and Other Expenses</i>	Determine whether travel and other expenses of the Office of the Board of Governors, including external professional fees, are properly supported, reasonable, and comply with Postal Service and Board of Governors policies and procedures.	19BM004FT000-R20 (consolidated in the report for <i>Fiscal Year 2019 Selected Financial Activities and Accounting Records</i>)	1/6/2020	None
<i>Fiscal Year 2018 Board of Governors' Travel and Miscellaneous Expenses</i>	Determine whether travel and miscellaneous expenses of the Office of the Board of Governors, including external professional fees, were properly supported, reasonable, and complied with Postal Service and Board of Governors' policies and procedures.	None.	12/03/2018 (closeout memo)	None

²⁶ Contract Authoring and Management is a web-based system to facilitate the solicitation, award and administration of supplies, services, and transportation contracts.

²⁷ eBuy2.0 was an internet-based ordering system that provided catalogs and requisition approval. eBuyPlus replaced the eBuy2.0 system in FY 2020.

Appendix B: Management's Comments

MARK A. GUILFOIL
VP, SUPPLY MANAGEMENT



August 26, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

Subject: Management Response to Draft Audit Report Fiscal Year 2020 Board of Governors' Expenditures (Project Number 21-064 DRAFT)

Thank you for the opportunity to provide comments on this audit report. We have reviewed the Office of Inspector General's (OIG) report and recommendations on Fiscal Year (FY) 2020 Board of Governors' (Board or BOG) Expenditures. Management disagrees with several aspects of the findings, one of the three included recommendations, and the monetary impact identified in the report.

We are pleased that the OIG's FY 2020 review of the BOG's expenditure identified only minor matters and support your conclusion that the Board's expenditures were properly supported, reasonable, and complied with Postal Service and Board policies and procedures.

Findings

Finding 1:

We disagree with the finding that Postal Service management improperly used an existing contract with a law firm to conduct an executive search for Postmaster General (PMG) candidates on behalf of the Board. The OIG's determination that the executive search support engagement "was not within the scope of the contract because the Statement of Work (SOW) did not include specific tasks relating to an executive search" is based on an incorrect conclusion of the law firm's contract type and its SOW.

As important background, the awarded contract is an indefinite delivery/indefinite quantity type contract. It is a flexible instrument, designed to support Postal requirements for legal support and advice within broad practice areas. Pertinent to the PMG search, practice areas in the SOW include providing advice to the BOG in the areas of organic statutory research and corporate law, as well as labor and employment law, including issues relating to executive compensation. Each of these SOW areas are directly relevant and are components of the process of recruiting, selecting, and providing for a PMG.

The Board's selection of a Postmaster General is a statutory function under the Postal Reorganization Act (PRA), 39 U.S.C. 202(c), which is one of the "organic statutes" that the contract refers to. Accordingly, it is a matter that falls squarely into the practice areas covered by the SOW. Any task order that is related to one of the practice areas for which the firm has been engaged is thus appropriately within the "scope" of the contract.

As to acquisition approach, we believe the Board was prudent in seeking legal advice and the associated confidentiality that attaches in having the supplier perform the services that were requested. In addition to the supplier's deep knowledge and experience with Board governance

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issues, the firm also identified experience and expertise in executive search matters. While the OIG suggests that Supply Management should have made a direct noncompetitive award to an executive search firm, as discussed with the OIG, the Postal Service had strategic reasons for implementing a subcontract in this matter. This action was not prohibited by anything in the contract or in Postal Service policy. Further, it is not required to contract directly with suppliers when it is more prudent, efficient, or expeditious to acquire services through subcontracts.

Finding 2:

While the Postal Service acknowledges that the hourly rate for the attorney involved in the executive search was not listed in the contract and that the appropriate contract administration practice would have been to modify the contract to include the rate, the Postal Service does not agree that there was any overpayment to the contractor.

In this circumstance, the contracting officer's representative (COR) was aware of and approved the rate prior to the commencement of performance. Any administrative error or delay in issuing a modification to the contract to incorporate a new attorney's labor category or rate in the contract does not mean that the work performed by the supplier prior to the modification was unauthorized, or that any payments made for such work were improper. We note that the rate questioned by the OIG is lower than that of some other categories under the contract.

Concerning invoice certification and funding, the audit report asserts that the COR should not have certified a supplier's invoice when there were insufficient funds obligated to the contract to cover the invoices. It is the CO and the COR's joint responsibility to ensure that funds are allocated to the contract or task order to ensure that payments can be made in a timely manner. That responsibility is however separate from the certification process.

When certifying an invoice, the COR is confirming that the work performed and the rates charged by the supplier are in accordance with the contract, i.e.: "I certify that the goods or services described have been received and the invoice is correct and proper for payment." The COR's certification does not contain an express or implied confirmation that funds are available in the contract to cover the amount due. Thus, the COR is not required to withhold certification when funds are not available under the contract, and so the COR committed no error by certifying the invoices in question.

As noted in the SOW, the contract was funded incrementally. The incremental funding method is advantageous to the Postal Service as it gives the Postal Service a high level of control over contract commitments. From time to time, invoices are submitted that exceed available funds, requiring prompt action by the CO and the COR to allocate additional funds in order to pay an invoice in a timely manner. This is a matter of routine contract administration that is inherent to the incremental funding process. It is not an indication that the contract has been mismanaged.

While invoice certification and funding are two separate processes, we agree that guidance should be provided to COs and CORs administering incrementally funded contracts to closely monitor available funds on their contracts and to take prompt action to add funding as soon as it appears that a supplier's invoice will exceed available funds. Taking action to avoid or minimize any Prompt Payment Act (PPA) interest liability is in the best interests of the Postal Service.

Finally, the report characterizes payments in the amount of \$3,011 as overpayments due to the actual rate not being listed in the contract schedule and recommends that the contracting officer be directed to recover this value. Recovery of the \$3,011 might be an appropriate action if funds

had been paid based on an unauthorized contractual commitment, but that is not what occurred. In this instance, the hourly rate of the individual who performed the services was approved by the COR before the work was begun, and the law firm had no reason to believe otherwise. The minor omission in contract administration should not result in a demand for a refund from the supplier when the work was appropriately performed and accepted by the Postal Service.

Monetary Impact

The Postal Service takes exception to the monetary impact for the reasons stated above.

OIG Recommendations

We recommend the Vice President, Supply Management:

Recommendation 1:

We recommend the Vice President, Supply Management, develop and provide training and formal communication to all purchasing teams on policies and procedures, including required file documentation, for sensitive requests.

Management Response:

Management agrees with this recommendation. Management will develop and provide training, with formal communications, to purchasing teams on policies and procedures emphasizing that irrespective of whether a purchase is routine or one concerning a sensitive matter to the Postal Service, that all required acquisition steps, contract administration actions, and file documentation must be completed and provided in the contract file.

Target Implementation Date: January 2022

Responsible Officials: Director, Supply Management Infrastructure, Supply Management

Recommendation 2:

We recommend the Vice President, Supply Management, implement a process to ensure the Office of the Board's contracting officer's representatives administer all contract-related arrangements and certify invoices in accordance with supply management policies and contract terms.

Management Response:

Management agrees in part with this recommendation. Management will provide for communications and training of targeted contracting officers and contracting officer's representatives, to include the Office of the Board's CORs, on the invoice certification process and its relationship to contract funding when administering incrementally funded contracts. Emphasis will be placed on closely monitoring available funds, and the need to take prompt action to add funding as soon as it appears that a supplier's invoice will exceed available funds to avoid or minimize any Prompt Payment Act (PPA) interest liability. As the Postal Service has numerous CORs, an individual process only for the Office of the Board's CORs is not anticipated.

Target Implementation Date: January 2022

Responsible Officials: Director, Supply Management Infrastructure, Supply Management

Recommendation 3:

We recommend the Vice President, Supply Management, direct the contracting officer to recover the \$3,011 overpayment identified in this report.

Management Response:

Management disagrees with this recommendation. Management disagrees with this recommendation for the reasons discussed above under our comments for Finding 2.

Target Implementation Date: Not applicable

Responsible Officials: Not applicable

E-SIGNED by MARK GUILFOIL
on 2021-08-26 14:50:15 CDT

Mark A. Guilfoil
Vice President, Supply Management

cc: Corporate Audit Response Management

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