



Office of Inspector General | United States Postal Service

Audit Report

COVID-19 Test Kit Distribution

Report Number 22-076-R22 | September 28, 2022



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Highlights

Background

The Biden administration purchased rapid COVID-19 test kits to give to Americans free of charge for home use and partnered with the U.S. Postal Service to package and deliver the kits. Within a short period, the Postal Service established a test kit program, which facilitated ordering, fulfillment, and delivery of kits to 125 million residential addresses. The Postal Service designed and developed a website for customers to order test kits for delivery to their homes.

What We Did

Our objective was to assess the accounting treatment and selected technology support associated with the distribution of the COVID-19 test kits to the public. To accomplish our objective, we reviewed accounting treatment and reporting of costs and the development of the online test kit website.

What We Found

The Postal Service effectively responded to the significant challenge of rapidly distributing COVID-19 test kits to millions of Americans. Within a three-week period, it established operations to receive, process, and distribute test kits; a consumer website for ordering; and processes for tracking cost information for the test kits.

The Postal Service properly accounted for test kit program costs and recognized all revenue in accordance with generally accepted accounting principles and the inter-agency agreement it

signed with the U.S. Department of Health and Human Services (HHS). We discussed issues with management regarding estimates and costs in the required monthly Information Statements sent to the HHS that were not fully captured or supported. They stated that they continued refining the financial processes and will perform a final reconciliation at the end of the interagency agreement.

The ordering website was developed in an expedited time period to handle millions of test kit orders; however, to achieve that goal, management did not follow established policies and procedures for [REDACTED]

Finally, although management completed a risk assessment for [REDACTED], they did not document the risk in an approved risk acceptance letter after 90 days, as required.

Recommendations

We recommend management strengthen final reconciliation processes for all costs and revenue, develop specific policies and procedures applicable to expedited software development for extraordinary circumstances, and regularly perform [REDACTED] to provide assurance there are [REDACTED] when updates are made.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 28, 2022

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND EXECUTIVE
VICE PRESIDENT

PRITHA N. MEHRA
CHIEF INFORMATION OFFICER AND
EXECUTIVE VICE PRESIDENT

A handwritten signature in black ink, reading "Alan MacMullin". The signature is written in a cursive style with a large, stylized "A" and "M".

FROM: Alan MacMullin
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – COVID-19 Test Kit Distribution
(Report Number 22-076-R22)

This report presents the results of our audit of COVID-19 Test Kit Distribution.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

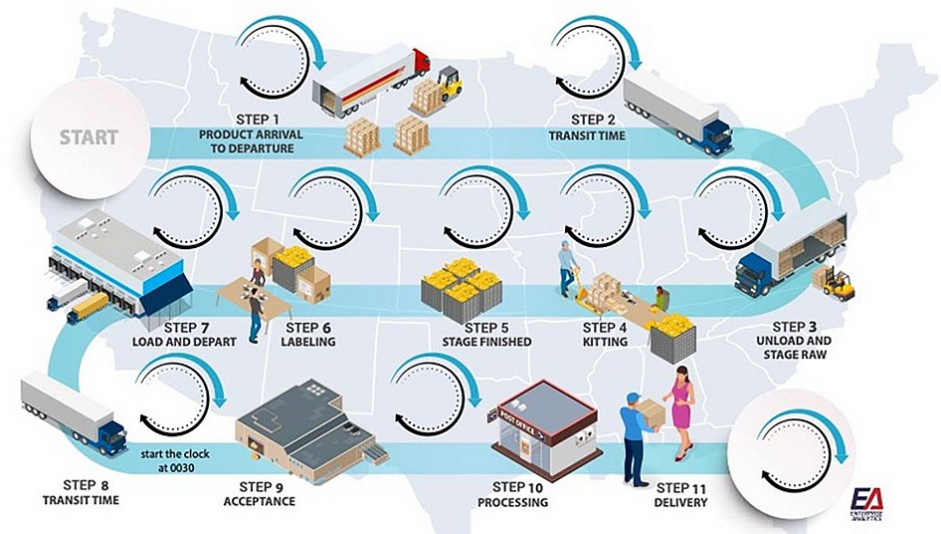
This report presents the results of our self-initiated audit of COVID-19 Test Kit Distribution (Project Number 22-076). Our objective was to assess the accounting treatment and selected technology support associated with distribution of COVID-19 test kits (test kits) to the public. See [Appendix A](#) for additional information about this audit.

Background

The Biden administration purchased rapid test kits to give to Americans free of charge to help ensure they had the kits at home. The administration partnered with the U.S. Postal Service to package and deliver the test kits. In January 2022, the Postal Service signed an interagency agreement (Agreement)¹ with the U.S. Department of Health and Human Services (HHS) and received an advance payment of \$1.035 billion for services related to the storage, transportation, ordering, packing, distribution and delivery processes.

Within a short time, the Postal Service established a test kits program, which facilitated test kit ordering, fulfillment, and delivery to 125 million residential addresses (see Figure 1). In addition, the Postal Service designed and developed a [website](#) for customers to order the test kits.

Figure 1. COVID-19 Test Kit Cycle



Source: U.S. Postal Service.

Beginning Wednesday, January 19, 2022, residential households were able to order one free test kit² online from the website. By May 17, 2022, residential households were eligible to order up to four test kits and, as of July 31, 2022, over 145 million test kits had been ordered and delivered.

Findings Summary

The Postal Service effectively responded to the significant challenge of rapidly distributing COVID-19 test kits to millions of Americans. The Postal Service collaborated with partners³ across the federal government to expeditiously deliver these test kits across America. Within a three-week time period, it established operations to receive, process, and distribute test kits; a consumer website for ordering; and processes to track cost information for the test kits. At its peak, the test kits website accepted 10 million orders an hour and over 54 million orders were taken over the first two days.

¹ Statement of Work for the United States Postal Service and the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Preparedness and Response.

² Each test kit contained four tests.

³ The White House, HHS, and Department of Defense coordinated efforts that included test kit inventory flow management from manufacturers to Postal Service Surface Transportation Centers, and then to the processing facilities to pack, label, and ship.

The Postal Service properly accounted for test kits program costs and recognized all revenue in accordance with generally accepted accounting principles and the Agreement with HHS. Based on our review of Information Statements sent to HHS, we discussed with management some issues with estimates and costs that were not fully captured or supported at the time of submission to HHS. Management corrected some of these items in subsequent statements. Since the Agreement with HHS allowed for reimbursement over several months and accounting practices were established quickly to meet demand, management stated that they continued to refine the financial processes and will also perform a final reconciliation at the end of the service period of the Agreement.

To accomplish its goal of developing a website that could handle millions of test kit orders within an expedited three-week time period, management did not follow established policies and procedures for [REDACTED]. Further, management implemented a [REDACTED]. Finally, although management completed a risk assessment and accepted the risk, they did not document their decision in an approved risk acceptance letter as required. As a result of our audit, management provided a completed risk acceptance letter.

Finding #1: Accounting Treatment and Reporting

The Postal Service properly accounted for test kit program costs⁵ and recognized all revenue⁶ in accordance with generally accepted accounting principles and the Agreement with HHS.

In response to the president's direction, management quickly implemented processes to track and validate costs for completeness and accuracy and to appropriately recognize revenue. Per procedural guidance⁷ based on a prior U.S. Postal Service Office of Inspector General (OIG) recommendation,⁸ they prepared an internal memorandum⁹ that outlined the financial procedures for revenue and each expense category.

In addition, as required, on the 15th of every month, the Postal Service prepared and provided HHS with an Information Statement for reimbursement that included the volume shipment and summary of costs incurred for the preceding month for the distribution of the test kits (see Table 1).

Table 1. Summary of Costs Provided to HHS

Category	January	February	March	April	May
Personel and Related	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Travel	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transportation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Supplies and Services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Equipment Expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Facility Costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Contractors	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Information Technology	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Postages	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: HHS Information Statements.

We reviewed January and February HHS Information Statements, along with the supporting documentation, to verify the reasonableness of the methodology and inputs, and accuracy of the associated cost calculations for each cost category. We found the costs categories in the monthly Information Statements aligned with the Agreement. However, we noted issues with a Facility Costs estimate of

4 [REDACTED]

5 Accounting Standards Codification (ASC) 340, Other Assets and Deferred Costs, addresses the accounting and reporting for deferred costs and prepaid expenses.

6 ASC 606, *Revenue from Contracts with Customers*, provides accounting guidance for all revenue arising from contracts with customers.

7 Management Instruction, *Expenses for an Unanticipated Crisis or Catastrophic Event*, dated December 2021.

8 *Impact of the Pandemic on Postal Service Finances* (Report Number 20-257-R21, dated March 29, 2021).

9 *USPS Fiscal Year 2022 – COVID Test Kits Cost and Statement of Costs Analysis*, dated April 8, 2022.

about [REDACTED]; and Personnel and Related, Transportation, Equipment, and Information Technology costs of about [REDACTED] that were not fully captured or supported at the time of submission to HHS. Management corrected some of these items in subsequent Information Statements.

We discussed these issues with management who stated that, for these statements, they assessed risk and initially focused on labor and transportation costs because they were the largest cost categories. In addition, since the Agreement with HHS allowed for stabilizing the reimbursement process over several months and accounting practices were established quickly to meet demand, management stated that they continued to refine the financial processes throughout the service period of the Agreement to ensure that all costs were accurate and properly supported. Further, each month's Information Statement was prepared on a year-to-date basis, and this allowed for adjustments from prior periods. They stated that they will perform a final reconciliation to determine whether any additional amounts are owed to the Postal Service or need to be refunded to HHS. Proper accounting and accurate reporting ensure continued compliance with the Agreement and enhance the integrity of the Postal Service with its partners.

Recommendation #1

We recommend the **Chief Financial Officer and Executive Vice President** direct the **Vice President, Controller** to strengthen final reconciliation processes for all costs and revenue associated with COVID-19 test kit distribution to ensure accuracy of accounting and reimbursement or payment to the Department of Health and Human Services.

Finding #2: Online Test Kit Website

The Postal Service accomplished its goal in an expedited three-week time period to develop a website that could handle millions of test kit orders. However, to achieve that goal, management did not always follow internal policies and procedures for [REDACTED]

Online Test Kit System Development

During system development, the Postal Service did not follow internal policies and procedures for [REDACTED]. Specifically:

- When development began, management [REDACTED] as required. Management reiterated the continuous development of the system and, as of January 27, 2022, they are [REDACTED].
- The Postal Service performed an [REDACTED] in January 2022 to [REDACTED] environment. In July 2022, after [REDACTED]. In the interim they relied on a [REDACTED]

According to policy,¹³ all software that can be [REDACTED]. In addition, [REDACTED] Postal Service policy¹⁴ also states that after [REDACTED]

10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

These issues occurred due to having an expedited three-week time period for making the system available to the public and the challenges associated with the security and management of a [REDACTED].

When appropriate [REDACTED]

[REDACTED]. Further, when [REDACTED]

Management implemented a [REDACTED]. Although management completed a risk assessment and accepted the risk, they did not document their decision in an approved risk acceptance letter after 90-days, as required.¹⁶

Postal Service policy¹⁷ states that all requests for [REDACTED].¹⁸ Further, when deviations occur, management must obtain an approved risk acceptance letter.¹⁹ When an [REDACTED]

Management stated that a [REDACTED]. As a result of our audit, management provided a completed risk acceptance letter; therefore, we are not making a recommendation on this issue.

¹⁵ [REDACTED]
¹⁶ *Certification and Accreditation Risk Assessment Reference Guide*, dated September 2019.
¹⁷ [REDACTED]
¹⁸ [REDACTED]
¹⁹ Handbook AS-805, Section 1-10.1, Granting an Exception to the Policies, dated June 2021.

Recommendation #2

We recommend the **Chief Information Officer and Executive Vice President** direct the **Vice President, Technology Applications**, to develop specific policies and procedures for tracking and reviewing [REDACTED] during expedited software development for extraordinary circumstances.

Recommendation #3

We recommend the **Chief Information Officer and Executive Vice President** direct the **Vice President, Technology Applications**, to perform regular [REDACTED] of the Online Test Kit system to provide assurance there are [REDACTED] when updates are made.

Management's Comments

Management agreed with the findings and with recommendations 1 and 3. Regarding finding 1, management stated that they discussed with the OIG immaterial matters predominantly identified by management and adjusted in subsequent months' Information Statements; and provided all supporting documentation and clarified costs that were based on estimates and that may be adjusted as part of the final reconciliation process. Regarding finding 2, management acknowledged that current processes may not be suitable for an extremely expedited timeline.

Regarding recommendation 1, management will develop key reconciliation procedures and adhere to those steps in performing the final reconciliation. Management will sufficiently document procedures performed, supporting evidence examined, and conclusions reached. The target implementation date is January 31, 2023.

Regarding recommendation 2, management stated that policy exceptions in exceptional circumstances should be submitted in accordance with existing guidance. In separate correspondence, management agreed that there should be a documented process to address extraordinary situations similar to the

development and implementation of the COVID Test Kits website and will prepare a management instruction directing teams as to when they have to deviate from established TLSC standards. All exceptions will be submitted in accordance with Handbook AS-805, paragraph 1-10, Policy Exception and Review. The target implementation date is February 28, 2023.

Regarding recommendation 3, management will incorporate an application [REDACTED] tool into the [REDACTED] proces. The [REDACTED] for OTK will be put into the Postal Service [REDACTED] to allow it to be [REDACTED] using the Postal Service's standard [REDACTED] tools. The target implementation date is December 31, 2022.

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

Evaluation of Management's Comments

The OIG considers management's comments, including those provided in separate correspondence, responsive to the recommendations and corrective 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 the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of the audit consisted of the costs incurred and reported to HHS by the Postal Service for the distribution of the test kits and the development and maintenance of the test kits website. We excluded the processing of the test kits from our audit.

To accomplish our objective, we:

- Interviewed Postal Service personnel involved with the accounting for the test kits and the development of the test kits website.
- Visited a Postal Service fulfillment center to gain an understanding of the Postal Service's distribution of the test kits to include receiving, kitting, packaging, labeling, and dispatching.
- Reviewed contractual agreements, standard operating procedures, and other guidance related to the distribution of the test kits.
- Reviewed accounting guidance regarding the recognition of revenue for the distribution of the test kits.
- Judgmentally reviewed January and February costs claimed by the Postal Service for reasonableness of the methodology and inputs and accuracy of the associated cost calculations against the supporting documentation.
- Evaluated Postal Service's review of [REDACTED] of the Online Test Kit operating systems and web application to determine if [REDACTED]

- Obtained an understanding of the Technology Solutions Life Cycle and Change Management processes followed for the Online Test Kit system.

We conducted this performance audit from February through September 2022 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 August 26, 2022, and included their comments where appropriate.

Using the Enterprise Data Warehouse database, we reviewed a sample of costs the Postal Service incurred for the test kits program for selected cost categories, including Supplies and Services, Other, and Equipment Expenses. We verified costs incurred to source documents and determined 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 within the last five years.

Appendix B: Management's Comments



September 16, 2022

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: COVID-19 Test Kits Distribution (Project Number 22-076)

Thank you for providing the Postal Service with an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *COVID-19 Test Kits Distribution*.

Finding #1: Accounting Treatment and Reporting:

Management agrees with the OIG's finding that the Postal Service properly accounted for test kit program costs and recognized all revenue in accordance with generally accepted accounting principles and the Agreement with HHS. Management discussed with the OIG immaterial matters predominantly identified by management and adjusted in subsequent months' Information Statements as we continued to refine our financial processes related to the program. Additionally, management provided all supporting documentation to the OIG and clarified costs that were based on estimates and may be adjusted as part of the final reconciliation process.

Recommendation #1:

We recommend the Chief Financial Officer and Executive Vice President direct the Vice President, Controller, to strengthen final reconciliation processes for all costs and revenue associated with COVID-19 test kit distribution to ensure accuracy of accounting and reimbursement or payment to the Department of Health and Human Services.

Management Response/Action Plan:

Management agrees with the recommendation to strengthen the final reconciliation process for all costs and revenues associated with the COVID-19 test kit distribution to ensure accuracy of accounting and reimbursement or payment from/to HHS. Management will develop a set of key reconciliation procedures for each reimbursable cost category and will adhere to those steps in performing the final reconciliation. Management will sufficiently document procedures performed, supporting evidence examined, and conclusions reached.

Target Implementation Date: January 31, 2023

Responsible Official:
Vice President, Controller

Finding #2: Online Test Kit Website

The Postal Service accomplished its goal in an expedited three-week time period to develop a website that could handle millions of test kit orders. However, to achieve that goal, management did not always follow internal policies and procedures for [REDACTED]. Management agrees with the findings and acknowledges that current processes may not be suitable for an extremely expedited timeline.

Recommendation #2:

We recommend the Chief Information Officer and Executive Vice President direct the Vice President, Technology Applications, to develop specific policies and procedures for [REDACTED] during expedited software development for extraordinary circumstances.

Management Response/Action Plan:

Management agrees that exceptions to policy may be required in exceptional circumstances, and they should be submitted in accordance with the guidance in AS-805, paragraph 1-10 "Policy Exception and Review."

Target Implementation Date: N/A

Responsible Official:
Vice President, Technology Applications

Recommendation #3:

We recommend the Chief Information Officer and Executive Vice President direct the Vice President, Technology Applications, to perform regular [REDACTED] of the Online Test Kit system to provide assurance there are [REDACTED] introduced when updates are made.

Management Response/Action Plan:

Management agrees with this recommendation and will incorporate an application [REDACTED] tool into the [REDACTED] process. The [REDACTED] for OTK will be put in the Postal Service [REDACTED] to allow it to be [REDACTED] using the Postal Service standard [REDACTED] tools.

Target Implementation Date: December 31, 2022

Responsible Official:

Vice President, Technology Applications

E-SIGNED by JOSEPH CORBETT
on 2022-09-19 15:13:00 CDT

Joseph Corbett
Chief Financial Officer & Executive Vice President

E-SIGNED by Pritha Mehra
on 2022-09-19 15:04:51 CDT

Pritha Mehra
Chief Information Officer & Executive Vice President

cc: *Manager, Corporate Audit Response Management*

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