

# Contractor – Labor Qualifications

## AUDIT REPORT

Report Number 22-160-R23 | March 24, 2023



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# Highlights

## Background

On September 2, 2009, the U.S. Postal Service awarded an Indefinite Delivery, Indefinite Quantity contract to an Information Technology services contractor. The contractor is responsible for assigning qualified personnel to labor categories that have specific qualification requirements. The contract contains individual task orders classified as either fixed price or time and materials. During the audit scope period — fiscal year (FY) 2021 — the total amount invoiced and paid was \$29.1 million.

## What We Did

Our objective was to determine whether costs incurred by the Postal Service, as they relate to contractor employee labor qualifications for paid invoices, conform to contract requirements. For our audit work, we randomly selected and reviewed 92 time and materials invoices from FY 2021. We tested to determine if labor categories upheld contractual terms, employees' experience complied with the proposed labor categories, labor billing rates aligned with contractual terms, and the Postal Service approved excess hours worked.

## What We Found

The Postal Service was improperly charged by the contractor for incurred costs for 23 out of 92 unqualified contractor personnel (resources). Additionally, the contractor did not maintain adequate documentation to support resource qualifications for time and materials task orders and created or revised resumes in response to the audit team's request for resource resumes. Further, the contractor did not always receive written approval from the Postal Service prior to resources working additional hours, which may result in the Postal Service incurring unauthorized additional charges. These issues occurred because the Postal Service did not have a policy in place to verify the contractor supplied qualified resources assigned for time and materials task orders, nor did staff receive training on the proper way to approve additional hours. When unqualified resources are used on task orders, it may reduce the efficiency or quality of work on the contract, and the Postal Service may pay for services that are not necessarily meeting their requirements.

## Recommendations

We recommended the Vice President, Supply Management, update policies to require the periodic review of contractor personnel qualifications to verify that qualified resources are assigned to time and materials contracts; seek reimbursement for services received on task orders with unqualified resources; and update training to include the proper way to approve additional hours, including not using blanket approvals.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

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March 24, 2023

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

A handwritten signature in black ink, reading "Amanda H. Stafford", is centered below the memorandum header.

**FROM:** Amanda H. Stafford  
Deputy Assistant Inspector General (DAIG) for Retail, Marketing &  
Supply Management

**SUBJECT:** Audit Report – Contractor – Labor Qualifications  
(Report Number 22-160-R23)

This report presents the results of our audit of Contractor – Labor Qualifications.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Shirian Holland, Audit Director, Infrastructure and Supply Management, 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 Contractor – Labor Qualifications (Project Number 22-160). Our objective was to determine whether costs incurred by the Postal Service, as they relate to contractor employee labor qualifications for paid invoices, conform to contract requirements. See [Appendix A](#) for additional information about this audit.

## Background

On September 2, 2009, the U.S. Postal Service awarded an Indefinite Delivery, Indefinite Quantity contract to an Information Technology (IT) services contractor. Specifically, the contractor provides digital transformation services and business solutions such as cloud computing, infrastructure, analytics, data, and application services.

The contractor is responsible for assigning qualified personnel to labor categories, which have specific qualification requirements. To capture cost and time information on task orders, the contractor uses the Program Cost Tracking System (PCTS). It allows them to document actual costs that their projects incurred and electronically generate and submit invoices to the Postal Service’s Accounting Service Center.

The contract consists of individual task orders classified as either fixed price or time and materials. The minimum contract purchase amount is \$1 million, and the expected maximum (not guaranteed) is \$750 million. The contract’s period of performance for the base period was from September 2, 2009, through September 30, 2012, with four, two-year performance extensions starting October 1, 2012, through September 30, 2020. However, on September 26, 2022, the Postal Service extended the period of performance to September 30, 2024, and raised the ceiling amount to \$1.54 million. The total amount

invoiced and paid was \$29.1 million during fiscal year (FY) 2021 – from October 1, 2020, through September 30, 2021.

To ensure contractors adhere to contract terms and conditions, the Postal Service employs contracting officers (CO) and contracting officers’ representatives (COR). As outlined in the Postal Service’s Supplying Principles and Practices (SPs and Ps), COs are primarily responsible for informing the CORs of their actual day-to-day duties and responsibilities. CORs are primarily responsible for performing functions that do not require changes in the contract scope of work, specifications, cost, or duration as the duties and limitations are established by the appointing CO.<sup>1</sup>

## Findings Summary

The Postal Service was improperly charged by the contractor for incurred costs as they relate to employee labor qualifications for time and materials task orders. Specifically, resources did not meet the education or experience requirements as stated in the contract for their respective labor categories or were missing required certifications. Additionally,

the contractor was unable to provide documentation to support resource qualifications for time and materials task orders and created or revised resumes. These issues occurred because the Postal Service did not have a policy in place to verify the qualifications of contractor resources. When unqualified resources are used on task orders, it may reduce the efficiency or quality of work on the contract and the Postal Service may pay for services that are not necessarily meeting their requirements.

Further, the Postal Service did not always provide written approval to the contractor prior to resources working additional hours, which may result in the Postal Service incurring unauthorized additional charges.

“The Postal Service was improperly charged by the contractor for incurred costs as they relate to employee labor qualifications for time and materials task orders.”

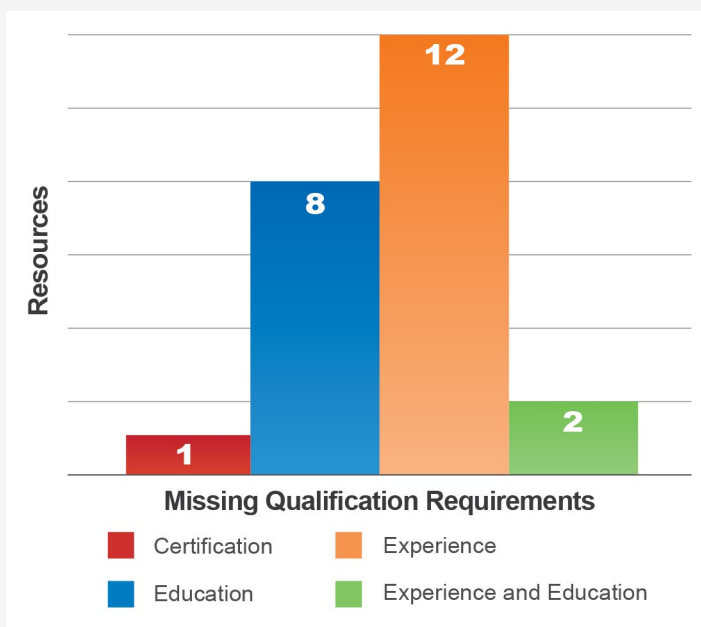
<sup>1</sup> SPs and Ps, Section 3-6.12, dated September 2022.

## Finding #1: Unqualified Resources Working on Task Orders

The Postal Service was improperly charged by the contractor for 23 unqualified resources. Specifically, the resources did not meet the education or experience requirements as stated in the contract for their respective labor categories or were missing required certifications.

After randomly selecting 133 invoices, we reviewed the 92<sup>2</sup> time and materials invoices with 133 resources for FY 2021 and found 28 invoices (30 percent) did not meet contractual requirements. Specifically, we identified 23 unqualified resources that lacked education, experience, and/or certifications as required in the labor category descriptions (see Figure 1).

**Figure 1. Reasons for Unqualified Resources**



Source: U.S. Postal Service Office of Inspector General (OIG) Analysis.

For example, we found one resource’s labor category listed as a Business System Analyst, which required a bachelor’s degree in business, computer science, or a similar field. The resource had over 10 years of relevant experience, but not a bachelor’s degree. The contractor billed another resource as a Subject Matter Expert 2, which required 20 years’ relevant experience. However, per his resume, he did not have any relevant work experience. The contractor

“The Postal Service did not have a policy in place to verify the contractor supplied qualified resources for time and materials task orders.”

billed a third resource as an Infrastructure Project Manager Principal, a position that required a project management professional certificate. This certification was not documented on his resume or separately.

We also found the contractor did not always maintain documentation to support resource qualifications for time and materials task orders. Additionally, we found the contractor’s management either created or revised resumes in response to the audit team’s request.

These issues occurred because the Postal Service did not have a policy in place to verify the contractor supplied qualified resources for time and materials task orders. Specifically, there is no requirement in the SPs and Ps, terms and conditions, or statement of work (SOW) that instruct COs and/or CORs to review contractor personnel qualifications. The CORs only ensure services were rendered and deliverables were received. Per the SOW, the contractor is solely responsible for obtaining, providing, onboarding, maintaining, and retaining properly trained, experienced, and qualified personnel.<sup>3</sup> As a result, Postal Service management did not know the contractor used factors such as skillset and knowledge as part of the qualifications, rather than selecting qualified resources based on labor category descriptions required by the contract.

When unqualified resources are used on task orders, it may reduce efficiency or quality of work on the contract and the Postal Service risks overpaying for services received. For FY 2021, we found the 23 unqualified resources charged \$3.2 million for services provided against task orders. In FY 2020, the same unqualified resources provided services totaling \$2.5 million, for an estimated total of \$5.7 million in questioned costs incurred by the Postal Service due to unqualified resources working on task orders.

<sup>2</sup> The audit team could not review the Fixed Price invoices (41 invoices) because the contractor did not maintain the labor qualification documentation as stipulated in the contract. Management stated that because they received satisfactory performance and the contractor bears the burden of any inefficient resource for the firm fixed component of the contract, the Postal Service did not intend to review resource qualifications.  
<sup>3</sup> Statement of Work, Section 3.2.1 – Staffing.

### Recommendation #1

We recommend the **Vice President, Supply Management**, update policies to require Contracting Officers' Representatives to periodically review contractor personnel qualifications to verify that qualified resources are assigned to time and materials contracts.

### Recommendation #2

We recommend the **Vice President, Supply Management**, seek reimbursement for services received on task orders that were rendered by unqualified resources.

## Finding #2: Excess Hours Worked Without Approval

The contractor did not always receive written approval from the Postal Service, as required, prior to resources working more than 40 hours per week on time and material task orders. We reviewed data extracted from PCTS for all 35 resources that worked additional hours on the four related time and materials task orders for the contract during FY 2021 and found 28 resources (80 percent) who worked 2,017 additional hours without advanced approval (see Table 1).

Table 1. Excess Hours Worked Without Approval

Count of Resources	Rate	Excess Hours <sup>4</sup>	Cost of Excess Hours Not Approved
█	█	219*	█
█	█	377*	█
█	█	895*	█
█	█	107	█
█	█	25	█
█	█	356	█
█	█	38	█
<b>28</b>		<b>2,017</b>	<b>\$176,641</b>

Source: OIG analysis based on data extracted from PCTS.

The contractor provided specific, advanced authorization emails from the CORs for two out of 295 required instances. The CORs provided blanket approval for additional hours via email, for 79 out of

4 The 219, 377, and 895 excess hours were rounded; therefore, there will be a difference when you multiply the rate by the hours.

5 Statement Of Work, Section 3.2.4 (PCTS Time and Deliverable Tracking).

6 The IT Program Manager can also be a COR.

295 instances. For the remaining 214 instances where advance approval for excess hours worked was required, neither the contractor nor CORs were able to provide documentation. The COs confirmed that the blanket approvals are not allowed.

The CORs are required to take training; however, it does not specifically focus on how to approve requested additional hours. As a result, the CORs:

- Provided verbal approvals to contractor personnel for additional hours worked.
- Assumed that approving work hours in PCTS was an allowable approval method.
- Administered blanket approval for additional hours for established resources with no defined time-period or expiration dates.
- Did not maintain documentation of advanced approval authorizing more than 40 work hours per resource.

“No overtime hours are authorized without the advanced approval of the Postal Service IT Program Manager and documentation must be maintained, and a copy provided to the CO and kept in the contract award file.”

According to the contract SOW<sup>5</sup>, no overtime hours are authorized without the advanced approval of the Postal Service IT Program Manager<sup>6</sup> and documentation must be maintained, and a copy provided to the CO and kept in the contract award file. Without the COs, CORs, and Program Managers adhering to the contract requirements for advanced resource additional hours approval, the Postal Service may incur unauthorized additional charges.

In a prior audit, we recommended the Postal Service ensure that COs enforce the requirement to store the additional hour approval documentation in the contract award file.<sup>7</sup> The Postal Service agreed and implemented the changes in February 2022. Therefore, we are not making recommendations regarding this issue.

We estimated that the Postal Service incurred \$176,641 in questioned costs due to contractor personnel working additional hours on task orders without prior approval.

### Recommendation #3

We recommend the **Vice President, Supply Management**, update the Contracting Officers' Representative training to include the proper way to approve additional hours, including not using blanket approvals.

## Management Comments

Management generally agreed with the findings and recommendations, and agreed in part with the monetary impact associated with the recommendations. The target implementation for all three recommendations is November 30, 2023.

Regarding management's partial agreement with the monetary impact, management believed the calculation was overstated, stating that a zero baseline for services provided is the proper assessment. Management noted that the supplier's resources performed under the review and assessment of the COR in supporting the assigned task and therefore, the Postal Service received benefit from the service. However, management noted that the contracting officer would review the level of benefit and seek an appropriate equitable adjustment.

Regarding recommendation 1, management stated that for time and materials contracts, they will require CORs to periodically review assigned supplier personnel qualifications to ensure compliance. Management added that a supplier may seek

a waiver for capable resources not meeting contractual qualifications.

Regarding recommendation 2, management stated they will negotiate with the supplier to seek reimbursement for services received on task orders, rendered by resources not meeting contractual qualification requirements. Management further stated it will review the resource's capabilities and qualifications against contractual requirements and establish reimbursement based on the resource's adjusted value.

Regarding recommendation 3, management stated they will review whether revised approval processes are required for time and material contracts and provide training to the CORs of the audited contracts regarding authorization of additional hours, including not using blanket approvals.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and their planned corrective actions should satisfy the intent of the recommendations.

Regarding the monetary impact, we acknowledge management's statement that they received some benefit from the contractor's resources that were not fully qualified and agree with management's decision for the contracting officer to review the level of benefit and seek an appropriate equitable adjustment. However, the OIG's monetary impact calculation was based on resources whose qualifications did not align with their respective labor category description, which is the criteria that was stated in the contract.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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.

<sup>7</sup> *Controls Over Contract Labor Hours*, (Report Number 21-109-R21, dated September 23, 2021).



# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

We randomly selected 133 invoices and reviewed 92 invoices from the contractor, for FY 2021. For those invoices, we reviewed the resource’s resumes and compared them to the criteria established for the labor category that they charged, to see if they had the listed required education and experience.

We tested the following for each selected time and materials invoice, to determine if the:

- Labor category agreed to contractual terms.
- Employee experience complied with proposed labor category.
- Labor billing rates agreed to contractual terms.
- Excess hours worked were approved by the Postal Service.

We conducted this performance audit from June 2022 through March 2023 in accordance with generally accepted government auditing standards

(GAGAS) 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 1, 2023, and included their comments where appropriate.

We assessed the reliability of the data by reviewing resumes provided by the contractor and reviewing information maintained in PCTS. For the resumes, we reviewed the document properties to determine if they were modified and when it was created. 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>Controls Over Contract Labor Hours</i>	To determine whether the U.S. Postal Service provided advance approval for a supplier to charge overtime hours as required.	21-109-R21	9/23/2021	\$1.5 million

# Appendix B: Management's Comments



March 20, 2023

JOHN CIHOTA  
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response to Draft Audit Report – Contractor – Labor Qualifications  
(Project Number 22-160-DRAFT)

Thank you for the opportunity to provide comments to the Office of Inspector General's (OIG's) draft audit report entitled, "*Contractor – Labor Qualifications (Project Number 22-160-DRAFT)*," dated March 3, 2023. Management has reviewed the report along with its findings, recommendations, and monetary impact. Management generally agrees with the findings and recommendations; however, we agree in part with respect to the monetary impact associated with the recommendations for reasons discussed below. Management is appreciative of the OIG's consideration and implementation of requested changes to the report raised during discussions and meetings with the OIG on this project.

#### **Management Response to Finding #1: Unqualified Resources Working on Task Orders**

The OIG found that the Postal Service was improperly charged by the contractor for 23 unqualified resources who lacked the education or experience requirements as stated in the contract for their respective labor category (LCAT) descriptions or were missing required certifications.

Management agrees that for some LCAT contract definitions, the supplier did not use qualified resources for a limited number of labor categories. These resources were provided within the supplier's proposal and reviewed by the contracting officer's representative (COR) prior to performance of the work. The COR provided oversight and approved incurred hours worked for payment in the Program Cost Tracking System (PCTS). As noted, the report provided examples where a resource had significant years of experience concerning qualification but lacked a degree or certificate requirement. In such cases, the supplier should have sought waivers for capable resources that did not meet contractual qualifications.

#### **Management Response to Finding #2: Excess Hours Worked Without Approval**

The OIG found that during FY 2021, the supplier did not always receive the required advanced written approval from the Postal Service for a resource to work additional hours in excess of 40 hours on time and material task orders.

Management agrees with this finding as to prior approval. Postal programs certainly may require suppliers to work additional hours. The level of effort required to support Postal initiatives is a matter of varying, and often urgent needs requiring a real time response. In many cases observed, the COR verbally approved additional hours and then subsequently confirmed those same hours for payment in PCTS. Management is reviewing whether a modification to the COR approval policy is necessary in order to provide for necessary performance and supplier availability for response.

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### **Monetary Impact**

Management believes that the monetary impact calculated by the OIG is overstated.

Concerning Finding #1, Management disagrees that a zero baseline for services provided is the proper assessment. The supplier's resources performed under the review and assessment of the COR in supporting the assigned task. The Postal Service received benefit from the service. The contracting officer will review the level of benefit and seek an appropriate equitable adjustment.

### **OIG Recommendations**

**Recommendation #1:** We recommend the Vice President, Supply Management, update policies to require Contracting Officers' Representatives to periodically review contractor personnel qualifications to verify that qualified resources are assigned to time and materials contracts.

**Management Response #1:** Management agrees with this recommendation. Procedures for these specific contracts and qualification reviews for time and material contracts will be incorporated to require CORs to periodically review supplier personnel qualifications. Such reviews will require verification that qualified resources are assigned and provide for conforming performance. The supplier may seek a waiver for capable resources not meeting contractual qualifications.

**Target Implementation Date:** November 30, 2023

**Responsible Official:** Senior Director, Technology Infrastructure Portfolio, Supply Management, and Director, Supply Management Infrastructure, Supply Management

**Recommendation #2:** We recommend the Vice President, Supply Management, seek reimbursement for services received on task orders that were rendered by unqualified resources.

**Management Response #2:** Management agrees with this recommendation. Management will enter into negotiations with the supplier to attempt to seek reimbursement for services received on task orders that were rendered by resources not meeting contractual qualification requirements. In seeking recovery, Management will review the resource's capabilities and existing qualifications against contractual requirements and establish reimbursement based on the resources adjusted value.

**Target Implementation Date:** November 30, 2023

**Responsible Official:** Senior Director, Technology Infrastructure Portfolio, Supply Management

**Recommendation #3:** We recommend the Vice President, Supply Management, update the Contracting Officers' Representative training to include the proper way to approve additional hours, including not using blanket approvals.

**Management Response #3: Management agrees with this recommendation. Management will review whether revised approval processes are required for these and other time and material contracts and provide training to the CORs of the audited contracts regarding authorization of additional hours, including not using blanket approvals.**

**Target Implementation Date: November 30, 2023**

**Responsible Official: Senior Director, Technology Infrastructure Portfolio, Supply Management, and Director, Supply Management Infrastructure, Supply Management**

E-SIGNED by MARK GUILFOIL  
on 2023-03-20 16:40:48 CDT

**Mark A. Guilfoil**  
**Vice President, Supply Management**

**cc: Manager, Corporate Audit Response Management**

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