



September 21, 2007

THOMAS G. DAY  
SENIOR VICE PRESIDENT, INTELLIGENT MAIL  
AND ADDRESS QUALITY

WALTER O'TORMEY  
VICE PRESIDENT, ENGINEERING

SUSAN BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report - Intelligent Mail Data Acquisition System Deployment Status  
and Vendor Negotiations (Report Number DA-AR-07-006)

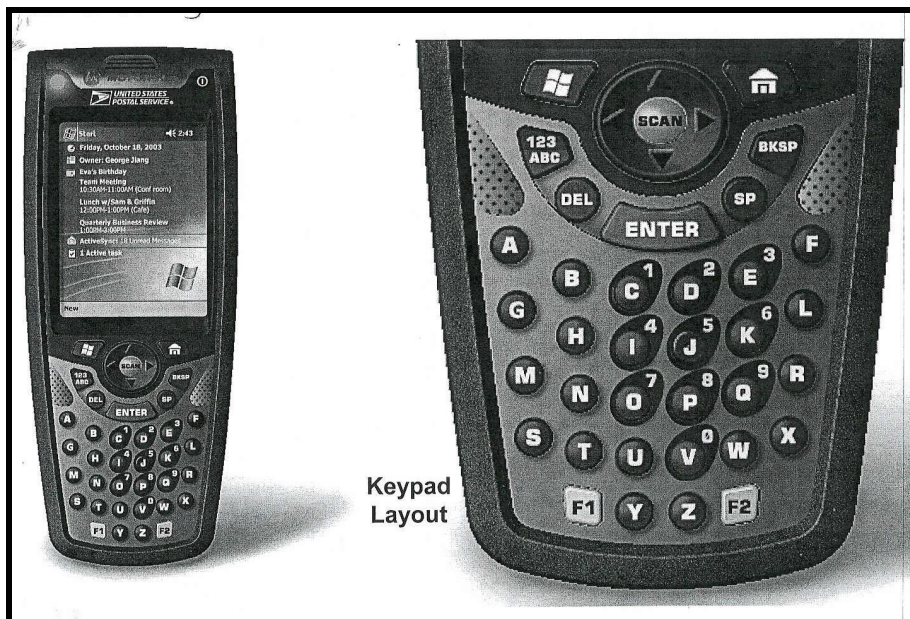
This report presents the results of our audit of the Intelligent Mail Data Acquisition System (IMDAS) deployment status and vendor negotiations (Project Number 06XG039DA000). This is a follow-up to recommendations made in a previous report (*Intelligent Mail Data Acquisition System*, Report Number DA-AR-06-001, dated December 22, 2005). Intelligent Mail™ is a major U. S. Postal Service initiative to capture and share information about each mailpiece during its processing, allowing end-to-end visibility. IMDAS is the cornerstone program designed to transform the mail flow infrastructure.

### **Background**

On November 4, 2004, the Board of Governors approved [REDACTED] for the purchase and deployment of 300,214 Intelligent Mail Devices (IMDs) and related infrastructure to replace the existing handheld mobile data collection devices (MDCDs) in the field. The original devices were at the end of their useful lives and their failure rate had substantially increased over the past few years. The original MDCD supplier was initially obligated to support these devices through August 2005. However, due to deployment delays, the first contract modification extended the service life through February 28, 2006 — nearly a 3-year extension beyond the design life of the units. In addition, some of the infrastructure and ancillary systems that subsequently scanned the delivery-related forms were also at the end of their design lives and needed replacement.

The new IMDs include state-of-the-art technology and have the same general physical and durability characteristics and base functionality as the MDCDs. However, they have enhanced capabilities and new features, including signature capture, two-dimensional barcode reading, and a personal area network.

**Illustration 1. Intelligent Mail Device and Keypad Layout**



The Senior Vice President, Intelligent Mail, and the Vice President, Engineering, share responsibility for IMDAS deployment. Formed in January 2003, the Intelligent Mail and Address Quality group was tasked with identifying and tracking mail, standardizing codes, enhancing supporting infrastructure, and improving address quality. Engineering's Delivery and Retail Systems group is responsible for developing new Postal Service delivery and retail systems solutions, which includes IMDAS. The Vice President, Supply Management, supports the acquisition of IMDAS, in particular, contract administration and vendor negotiations.

### **Objective, Scope, and Methodology**

Our objective was to assess the current deployment status of the IMDAS program and reasonableness of vendor negotiations. Specifically, we assessed additional costs due to program delays and determined whether the Postal Service sought appropriate compensation for the delays.

To accomplish our objective, we interviewed the IMDAS implementation manager; Engineering program management; and supply chain management personnel, including the contracting officer, the procurement specialist, and the manager of the mail

equipment portfolio. We also attended technical review meetings and an executive briefing to determine the status of the IMDAS program. In addition, we reviewed the Decision Analysis Report (DAR), the statement of work (SOW), and the contract correspondence in order to obtain an understanding of the history and negotiated terms for the IMDAS program. Further, we reviewed contracts for any significant areas that existed pertaining to additional expenses and/or penalties caused by the deployment delays.

We conducted this performance audit from September 2006 through September 2007 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 obtained financial data detailing costs of IMDAS contracts from the following Postal Service financial database systems through our Computer Assisted Assessment Techniques (CAATS) group: Contract Authoring and Management System (CAMS); Accounts Payable Accounting and Reporting System (APARS); Strategic National Automated Purchasing System (SNAPS); and Accounts Payable Excellence (APEX) systems. Reviews of prior U.S. Postal Service Office of Inspector General (OIG) reports of financial systems led us to conclude that contract and payment data used was sufficiently reliable to meet the audit objective.<sup>1</sup> We discussed our observations and conclusions with management officials on July 17, 2007, and included their comments where appropriate.

### **Prior Audit Coverage**

The OIG issued a report titled *Intelligent Mail Data Acquisition System* (Report Number DA-AR-06-001, dated December 22, 2005) recommending the Postal Service ensure their recovery plan minimizes delays in the deployment schedule and negotiates consideration with the vendor as appropriate. Management agreed with the recommendation and indicated they would take steps to ensure the Postal Service would receive appropriate compensation for delays in program implementation. Furthermore, management stated the supplier acknowledged that consideration would be necessary in revising the delivery schedule via contract modification.

---

<sup>1</sup> An OIG report (*Fiscal Year 2006 Information Systems General Controls Capping Report*, Report Number IS-AR-07-009 dated February 26, 2007) summarized the results of several Information Systems reviews of financial database systems. The report concluded that, overall, general controls for selected applications, data, and computer infrastructure at the centers for the period under review reasonably assured that computer-processed data were complete, validated for accuracy, and secure; data integrity controls were in place; and business practices complied with Postal Service policies, procedures, and standards.

## Results

At the time of our audit, the IMDAS program was more than 18 months behind schedule for IMD deployment due to hardware and software deficiencies. While negotiations for program losses due to schedule delays were timely, the Postal Service excluded certain relevant losses from the negotiations. In particular, we identified relevant losses of [REDACTED] related to maintaining the legacy system, extending the period for program management services supplied by a separate vendor, and operating optical scanner workstations longer than expected. The Postal Service could have negotiated these losses for additional vendor compensation of [REDACTED] based on a percentage share of the responsibility for schedule delays. Because the Postal Service had an opportunity to negotiate full program losses with the vendor and has since signed a mutual release from schedule delay claims, we will report \$4,550,082 as unrecoverable questioned costs in our *Semiannual Report to Congress*.

During the course of the audit we identified a “lesson learned” concerning delayed deployment of IMDAS resulting from the supplier’s lack of institutional knowledge of the Postal Service. We cover this issue (not directly related to our audit objective) in the Other Matters section of this report.

### **Status of Deployment**

The Postal Service planned for deployment to start in April 2005 with an April 2006 completion date.<sup>2</sup> However, according to the Investment Highlights for Quarter II, 2007, the IMDAS program is behind schedule for IMD deployment by more than 18 months. Deployment was delayed due to hardware and software deficiencies identified in Engineering First Article Tests.<sup>3</sup> Management established a recovery plan and in September 2006, the Postal Service conditionally accepted the IMDAS system and began deployment. Under a revised schedule, the supplier is to complete deployment by October 2007.

---

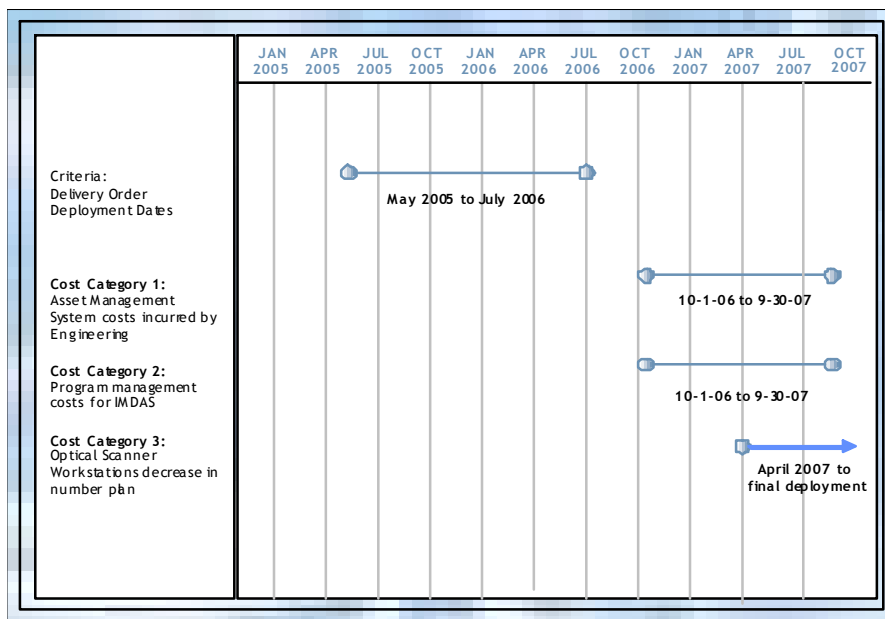
<sup>2</sup> Per the IMDAS DAR.

<sup>3</sup> During Engineering First Article Testing, samples of contracted equipment or software are tested for functionality, quality, and compliance with contract specifications. After first article acceptance, the supplier begins deployment as scheduled to other sites.

## Vendor Negotiations

The Postal Service began negotiations with the vendor for program losses due to IMDAS deployment prior to the start of our audit fieldwork. However, as depicted in Chart 1, analysis of program documentation found three relevant cost categories that were not included in negotiations.

**Chart 1. Timeline for Additional Costs in Comparison to Delivery Order Deployment Dates**



Sources: IMDAS delivery order, associated contracts/contract modifications, and postal management interviews.

Since the dates of deployment stated in the MDCD Replacement Delivery Order contract were May 2005 to July 2006, management should have considered any additional costs incurred thereafter as program losses due to deployment delays. Appendix A details program losses the Postal Service has negotiated with the vendor and assignment of responsibility. Relevant losses incurred after the contracted deployment period and excluded from negotiations are detailed as follows:

- MDCD Legacy System Costs — Asset management costs for MDCDs handled by the Delivery Confirmation Asset Management System (DCAMS)<sup>4</sup> that management scheduled to phase out. Because of delays, management continued to use DCAMS to accommodate the old MDCD units in districts that had not deployed the new devices. The Postal Service scheduled replacement of DCAMS in mid-2006; however, the use of DCAMS is necessary to continue

<sup>4</sup> DCAMS is a web-based tool in Eagan, Minnesota, that handles asset management for over 750,000 devices on the Delivery Confirmation program. DCAMS users use this application to update site inventory, request new equipment for various sites, view reports, and return equipment as route adjustments dictate.

supporting delivery operations until the end of the revised IMD deployment schedule (October 2007). The Postal Service is applying the cost of this system to Engineering's budget due to the lack of remaining funds. The IMDAS program has a resulting, unexpected additional cost of [REDACTED] for supporting DCAMS.

- Program Management Costs — Costs paid to another vendor for additional management services through the end of fiscal year 2007. The Postal Service awarded this contract modification to maintain and organize IMDAS documentation and schedule information. Deployment delays created a need for additional program management past the planned contract deployment dates. The Postal Service incurred additional program management costs of [REDACTED].
- Optical Scanner Workstation (OSW) Costs — The Postal Service should have consolidated OSWs from 229 to 80 units<sup>5</sup> with the implementation of the IMD signature capture function. The DAR stated that OSWs would save labor workhours due to the decrease in scanning operations and number of the OSWs. The delayed deployment of IMDAS caused the continued need for OSWs and lost savings totaling [REDACTED] for 2005 and 2006.

The Postal Service understated program losses used for initial negotiations because there was no formal process in place to guide management in calculating program losses and conducting negotiation strategies. Not having standard processes for negotiating with vendors in consideration of additional costs relating to late delivery is a recurring issue. In 2005 and 2006,<sup>6</sup> the OIG reported issues relating to the adequacy of equitable adjustment process. As a result, the Postal Service responded that it would benchmark its practices and develop guidance.

We conclude that if the Postal Service had included the aforementioned costs in compensation considerations, the total negotiated compensation amount for damages would have increased by approximately [REDACTED].<sup>7</sup> As shown in Appendix B, this would have provided additional compensation of \$4.55 million to the Postal Service using the same responsibility percentages applied to other negotiated amounts. Because the Postal Service had an opportunity to negotiate full program losses initially with the vendor and has since released the vendor from schedule delay claims, we will

---

<sup>5</sup> The OSWs scan, process, verify, and transmit signatures on Postal Service (PS) Forms 3849, Delivery Notification Receipt. The DAR shows plans to retain at least one OSW per district (80) after IMD deployment. Offices without IMDs will still need to send their hard copy PS Forms 3849 to the OSW for manual scanning at the mail forwarding units.

<sup>6</sup> Two OIG audit reports (*Postal Automated Redirection System's (PARS) Contract Incentives*, Report Number CA-AR-05-003 dated August 15, 2005, and *Flat Remote Encoding System (FRES) for Automated Flat Sorting Machine 100*, Report Number DA-AR-06-003 dated February 10, 2006) discussed issues relating to the adequacy of the equitable adjustment process. In the FRES report, we noted management planned to benchmark and improve its internal practices for negotiating considerations for late delivery. In the PARS report, we stated management agreed to address the basis for establishing negotiation objectives and future equitable adjustment settlements.

<sup>7</sup> The final considerations compensation agreement of [REDACTED] was reached on April 26, 2007, between the Postal Service and vendor.

report \$4.55 million as unrecoverable questioned costs in our *Semiannual Report to Congress*.

### **Recommendation**

We recommend the Vice President, Engineering, in coordination with the Vice President, Supply Management:

1. Finalize a formal process to guide key internal stakeholders when suppliers delay delivery of goods and services due the Postal Service.

### **Other Matters**

#### **“Lessons Learned”**

During our review, we noted the IMDAS supplier’s lack of institutional knowledge of the Postal Service hindered their ability to grasp its requirements and adequately meet its needs. As a result, the supplier had difficulty delivering the Postal Service’s operational requests as stated in the SOW, which delayed deployment of the IMDs.

Management stated they offered a “knowledge transfer opportunity” from the previous MDCD vendor, which the IMDAS supplier declined. This opportunity would have proven useful because the IMDAS supplier did not have experience with a Postal Service project of this magnitude and with such an aggressive schedule. The Postal Service has an orientation program for minority vendors and suppliers of smaller programs called the Supplier Mentoring Program; however, no such program exists for larger vendors. The expectation is that large suppliers already have the necessary expertise and organizational components to handle large contracts.

### **Recommendation**

We recommend the Senior Vice President, Intelligent Mail, in coordination with the Vice President, Engineering, and the Vice President, Supply Management:

2. Develop a formal “lessons learned” policy with a standard clause for supplier transfer of project knowledge and information. At a minimum, the lessons learned policy should include an outline of the consequences of program delays, and a listing of resources available to expedite the deployment schedule.

### **Management’s Comments**

Management agreed with recommendations 1 and 2, and has already taken action or is taking steps to implement corrective measures. These actions include developing a standard template of factors contracting officers should consider when negotiating

consideration for late delivery and formulating a standard contract clause for supplier transfer of project knowledge by April 2008.

Management disagreed with the initial presentation of findings and associated unrecoverable questioned costs of \$5.44 million. They stated the final negotiated amount of [REDACTED] negotiated for schedule delays was reasonable and beneficial to the program. Management asserted that the report had errors in the computation of understated program losses due to the timeframe used, consideration of consequential damages not relevant to negotiations, and the inclusion of unrelated expenses. In addition, management stated they did not employ a share of responsibility when negotiating a final settlement of [REDACTED].

### **Evaluation of Management's Comments**

We consider management's responses and actions taken or planned to be responsive to the recommendations. We believe a consistent process for computing program losses when a vendor delivers less than contracted would achieve additional accountability and controls over equipment programs. A documented process that factors in complete and traceable categories of program losses would also reduce the concerns presented in the report.

We revised the monetary benefits in our report to consider additional evidence provided by management after submission of their comments. In particular, management provided evidence that satisfied our concerns relating to additional costs associated with maintaining old data collection devices and for storage of equipment. As such, we updated the report and revised our initial calculation of \$5.44 million of unrecoverable questioned costs to \$4.55 million. The revised amount will be reported as unrecoverable questioned costs in our *Semiannual Report to Congress*. Management's comments in their entirety are included in Appendix C. Management's actions taken or planned should correct the issues identified in the findings.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.



We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Miguel A. Castillo, Director, Engineering, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin,   
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.  
Deputy Assistant Inspector General  
for Support Operations

Attachments

cc: Katherine S. Banks

## APPENDIX A

### NEGOTIATED COMPENSATION AMOUNT

[REDACTED]		:
[REDACTED]		:
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]		:
[REDACTED]	[REDACTED]	\$ [REDACTED] = \$ [REDACTED]
[REDACTED]		:
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]	\$ [REDACTED]

\* [REDACTED]

\*\* [REDACTED]

## APPENDIX B

### CALCULATION OF MONETARY IMPACT

**Redacted**

## APPENDIX C. MANAGEMENT'S COMMENTS



September 12, 2007

DARRELL E. BENJAMIN, JR.  
DEPUTY ASSISTANT INSPECTOR GENERAL  
FOR SUPPORT OPERATIONS

SUBJECT: Intelligent Mail Data Acquisition System Deployment Status and Vendor  
Negotiations (Report Number DA-AR-07-DRAFT, Dated July 30, 2007)

Thank you for the opportunity to review and provide comments on the subject draft audit report. The attachment highlights differing views on some of the audit statements and findings.

In principle, we agree with the two audit recommendations. The response to the first recommendation identifies the corrective actions already undertaken as part of Supply Management's processes. For the second recommendation, the response highlights activities to be considered for future procurements where appropriate. However, we strongly disagree with the audit finding that there are \$5.44 million in unrecoverable questioned costs. We have addressed this finding in our attached response.

All references in the audit report referring to the consideration amounts, contract values, delay impact costs, Decision Analysis Report cost, savings and return on investment figures are to be redacted and exempt from disclosure under FOIA.

If you have any questions or comments on this response, please contact J Otis Smith from Technology Acquisition Management, Engineering, at (703) 260-7851.

A handwritten signature in black ink that appears to read "T G Day".

Thomas G. Day  
Senior Vice President, Intelligent Mail and Address Quality

A handwritten signature in black ink that appears to read "Walter O'Tormey".

Walter O'Tormey  
Vice President, Engineering

A handwritten signature in black ink that appears to read "Susan M. Brownell".

Susan M. Brownell  
Vice President, Supply Management

Attachment

COMMENTS ON OIG REPORT FINDINGS

- 1) **Page 4, Results and Page 10, Appendix B.** We strongly disagree with the finding that there are \$5.44 million in unrecoverable questioned costs for the reasons presented in this attachment. While noting that negotiations for program losses were timely, there is no discussion as concerns the negotiated amount of [REDACTED] of consideration obtained. Further, we note that this settlement amount was discussed with the OIG throughout the negotiation process, and considering the complexity of the program and the issues involved, we believe was a reasonable and beneficial settlement to the benefit of the IMDAS program and the Postal Service.
- 2) **Page 4, Status of Deployment.** The report inaccurately states that the Postal Service contracted for the deployment to start in March 2005 with a February 2006 completion date. The MDCD Replacement Delivery Order was awarded in November 2004 and contracted for the deployment to start in July 2005 with a completion of July 2006. The Request For Proposal (RFP) for IMDAS as released showed planning dates as noted within the OIG's report, but these dates did not become contractually binding on the supplier and were changed at the time of Delivery Order execution.
- 3) **Page 5, "Service Life Extension (SLE) costs".** We disagree with the finding that Program Management SLE costs incurred during the time period of March 2006 through August 2006 should have been considered as an included damage to the Postal Service by Motorola during the negotiations. At the time of award the plan was to continue to provide Program Management SLE coverage because the MDCD supplier was continuing to provide activities, such as the planned OSW support for deployed MDCD systems through August 2006. Accordingly, the Program Management SLE costs of [REDACTED] were planned costs and appropriately excluded from the negotiations.
- 4) **Page 6, MDCD Legacy Systems Costs.** The audit report incorrectly states that the Postal Service had scheduled for the replacement of DCAMS in mid-2005. The DCAMS must remain in place through the end of the IMDAS deployment to support legacy MDCD equipment. Therefore by the original MDCD Replacement Delivery Order contract, DCAMS would have been taken out of service after July 2006 and not Mid-2005 as outlined in your report. Therefore only a negligible portion of the [REDACTED] finding could have been considered.
- 5) **Page 6, Program Management Costs.** The report incorrectly attributes [REDACTED] internal program management costs to the delay. Project Management support costs were planned at the start of the program and will continue through the life of the IMDAS program, even after the initial deployment is completed. These activities are required to support future enhancements, deployment of additional systems to support growth and other related project and logistics support issues. These costs were appropriately omitted from the negotiations with Motorola because they are necessary expenses to the Postal Service and would have been incurred irrespective of the performance schedule.
- 6) **Page 6, Optical Scanning Workstation (OSW) costs.** The audit report incorrectly overstates that [REDACTED] in lost savings should have been considered. These costs are consequential damages and were considered as the Postal Service prepared for negotiations and all consequential damages were communicated to the supplier. The audit report overstates the OSW lost savings by [REDACTED] (47%) because OSW systems were removed from service during the FY 2005 & 2006 timeframe. Despite the delay in the MDCD Replacement deployment activity, we continued to take OSW systems out of service starting in 2004 as a result of CFS consolidations and operational changes. To date we have decreased the number of OSW platforms by 103 systems, from 229 to 126.

- 7) **Page 6 - Storage Costs.** We disagree with the audit finding that ██████ in storage costs were caused by the delay. These costs were unrelated to the delay and appropriately omitted from the negotiations. At the start of the program, the USPS needed to take delivery of equipment from the Postal Furnished Equipment (PFE) supplier in one lump sum, to insure that all PFE (computers, printers, UPSs, and Monitors) was of the same make, model and configuration. To do otherwise may have introduced hardware, software (including the operating system), and firmware version issues, making it difficult to troubleshoot or resolve problems and impacting the field implementation effort. The cost of ██████ paid to Motorola for the storage and handling of the entire quantity of PFE required by the original MDCD Replacement Delivery Order was a one time expense for which the supplier provided for storage at our request and are unrelated to the program delay.
- 8) **Page 9, Appendix A "Delay Assumptions Agreed Upon by Both Parties".** The report incorrectly states that the USPS agreed with the percentages outlined in this appendix. ██████ used the percentage share to reach the consideration amount and justify the amount internally. Throughout the negotiations, the USPS focused on obtaining final consideration and did not agree to a percentage share in responsibility for the delay.

#### RESPONSES TO OIG REPORT RECOMMENDATIONS

*We recommend the Vice President, Engineering in coordination with the Vice President, Supply Management:*

1. *Finalize a formal process to guide key internal stakeholders when suppliers delay delivery of goods and services due the Postal Service.*

**Management Response:** Management agrees with this recommendation. Supply Management is conducting benchmarking with both public and private contracting organizations in the area of supplier delays and the remedies that purchasing organizations may employ. A deliverable from this research is a standard template of factors USPS Contracting Officer should consider in formulating the Postal Service's negotiation position as to consideration for late delivery. This effort is scheduled to be completed by the end of September 2007.

*We recommend the Senior Vice President, Intelligent Mail in coordination with the Vice President, Engineering, and Vice President Supply Management:*

2. *Develop formal lessons learned policy with a standard clause for supplier transfer of project knowledge and information. At a minimum, the lessons learned policy should include an outline of the consequences experienced for program delays, a listing of resources available to expedite the deployment schedule.*

**Management Response:** Management agrees with the recommendation to formalize the knowledge transfer process via a standard provision and clause for suppliers to document key lessons learned and include such in solicitations and contracts where appropriate. Supply Management will conduct benchmarking on the use of clauses both in the federal and private sectors which seek to convey or transfer project knowledge and information. Based upon this research, and in counsel with the Law Department, a new clause could be adopted for this purpose. We will target completion of this effort by April 2008.