

USPS-LR-J-195

RECEIVED

DEC 12 4 36 PM '01

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**OIG AUDIT REPORTS ON SALES FORCE
AUGMENTATION PROJECT PROVIDED
PURSUANT TO PRESIDING OFFICER'S RULING
NO. R2001-1/16 (PATELUNAS)**

This Category 3 and 4 library reference contains OIG audit reports on the Sales Force Augmentation Project, dated March 30, 1999 and October 31, 2000. These reports are provided in response to and contain redactions in accordance with Presiding Officer's Ruling No. R2001-1/16, issued December 7, 2001.

March 30, 1999

GAIL SONNENBERG
VICE PRESIDENT, TACTICAL MARKETING
AND SALES DEVELOPMENT

HANK CLEFFI
ACTING VICE PRESIDENT, TACTICAL MARKETING
AND SALES DEVELOPMENT

SUBJECT: Review of the Sales Force Augmentation Pilot
Project – Phase II (RG-MA-99-002)

In September 1998, the Tactical Marketing and Sales Development Office requested the assistance of the Office of Inspector General (OIG) to review the Sales Force Augmentation pilot program. This management advisory report represents our second review of the ongoing Sales Force Augmentation pilot, which is geared toward the establishment of 12 major metro sites during Fiscal Year (FY) 1999, with nationwide rollout anticipated in FY 2000. The following sections provide specific information on our observations on the pilot and highlights these observations and suggestions for improvement.

We have summarized your comments after each suggestion in this report and have included your comments as an attachment. Management's comments were generally responsive to the issues and suggestions raised in this report. The Sales Force Augmentation Team has promptly provided information and updates about the actions they have taken and have continued to provide detailed information on actions underway regarding our suggestions. We appreciate the information provided and actions implemented on the report to date and request that you provide the outcome and decisions regarding funding from your planned advisory briefing to the Postmaster General. If a Phase III review is performed, it may look at the reporting procedures in place for Providers and the review procedures for the District Provider Managers.

Results in Brief	The Tactical Marketing and Sales Development staff has continued to make significant progress in the rapidly expanding Sales Force Augmentation program. The concept was designed to be a new method of generating increased revenue and meeting the needs of small-and medium-sized business customers.
Management's Accomplishments	The Sales Force Augmentation Team is continuing to move forward to expand the program. In addition, the team is forming a positive working relationship with the contracted Providers, while maintaining an awareness of resource limitations. The US Postal Service (USPS) management has pilots underway in Atlanta, San Francisco and Los Angeles. They plan to continue rapid expansion of the Sales Force Augmentation program to the nine remaining USPS metro areas, which will be divided contractually under regional umbrellas ¹ . The 12 targeted metro areas consist of 23 USPS districts.
Review Results	<p>We have completed our second review of the Sales Force Augmentation pilot. Our first review of the Sales Force Augmentation pilot was issued in September 1998 and addressed the areas of baselining, account transitioning, staffing, advising USPS management, and implementing the Intranet System. Our second review identified six conditions that warrant the continued review and action of the Sales Force Augmentation management. The conditions are in the areas of:</p> <ul style="list-style-type: none">• Pilot Expansion,• Baseline Determinations,• Provider reporting,• Physical Spot Audits,• Intranet System, and• Delivery Confirmation <p>Our management advisory report provides observations, along with details of our review, and suggestions for improvement to further enhance and strengthen the Sales Force Augmentation program. We have identified 11 suggestions to help Postal Service management ensure</p>

¹ Western Region: San Francisco, Los Angeles, and Denver;
Central Region: Dallas, St. Louis, and Chicago;
Northeast Region: New York, Boston, and Philadelphia;
Southeast Region: Atlanta, Washington, DC, and Miami.

strong internal controls exist as further expansion occurs with the pilot.

The Sales Force Augmentation Team expressed interest that the OIG perform a phase III review, which could encompass a more in-depth review of the Provider's accounting and billing process. This review, if performed, would begin at the end of FY 1999.

Background

In September 1998, the Tactical Marketing and Sales Development group requested the assistance of the OIG for a second review of the Sales Force Augmentation pilot project. The Sales Force Augmentation pilot was initiated in April 1998 in San Francisco and Atlanta. This followed a two-year effort that was performed in the New York Metro Area office, which indicated it had generated \$42 million in net revenue.

After the New York pilot, Tactical Marketing and Sales Development management has revised the projected revenue opportunity from the current Sales Force Augmentation pilot to be approximately \$404 million over three years, with incurred expenditures estimated at \$70 to \$80 million, making this an excellent opportunity to counteract possible revenue shortfalls. The Tactical Marketing and Sales Development management created key positions for this pilot. These positions include: a Sales Force Augmentation Program Manager who oversees the entire project, workload, activities, and reports to USPS management; Team Leaders who oversee the functions for regions and work with the Implementation Coordinators, who work closely with district management to ensure communication; and District Provider Managers who work on a daily basis with the Providers in each region, monitor and review sales, baselining activities, record documentation, and billing, and ensure positive USPS representation.

Sales Force Augmentation is a unique direct-sales marketing strategy that is designed to generate new revenue from small- to medium-sized businesses through the sale of four postal products: priority, express, global priority packaging, and express mail international.

- Priority Mail offers 2 to 3 day service for first-class mail that weighs over 11 ounces (less at the customer's

request) and delivery to most domestic destinations. This is often used to expedite material that is mailable as first-class, periodicals, or standard mail.

- Express Mail and Express Mail International offer guaranteed next day delivery by 12:00 noon and is used for the shipping of any materials to most destinations, with no extra charge for delivery on Saturdays, Sundays or holidays. This express service is also available between the United States and over 200 foreign countries.
- Global Priority Mail offers expedited priority handling in the United States and foreign countries and is available for all items that may be mailed as letters or materials weighing up to 4 pounds.

This pilot was based on an effort that was tested in New York Metro Area, between January 1996 and May 1998. The business segments in the pilot were initially comprised of companies with 49 or fewer employees. However, the new business plan, September 1998, now allows Sales Force Augmentation to target small-and medium-sized businesses with 99 or fewer employees.

In April 1998, the USPS entered into contracts with two Providers. These firms employ sales personnel to sell the above-mentioned USPS products and services. One firm was selected to cover the Atlanta region. Another was selected as the Provider for the San Francisco metro area, which includes pilots in San Jose and Oakland. The project was expanded to Los Angeles in August of 1998, and retained the same Provider.

A new solicitation went out for bid February 2, 1999, to the seven vendors that were pre-qualified in early 1998. This solicitation also allows interested vendors the chance to submit offers, as long as they are pre-qualified by the same date the bid proposals are due. This solicitation covers the four regions outlined in the new Sales Force Augmentation Business Plan. *Provider A and B* are included in the seven pre-qualified vendors.

**Scope, Objectives,
And Methodology**

The scope of our review covered the ongoing Sales Force Augmentation pilot that was developed by the Tactical Marketing and Sales Development Office in the Marketing

Office. Overall our objective was to review the continued development of the Sales Force Augmentation pilot with emphasis on management controls over the general areas of:

- Sales Force Augmentation Intranet System,
- Baseline Determinations, and
- Provider Reporting.

We visited the provider's offices to review supporting records and met with provider staff responsible for the ongoing Sales Force Augmentation pilots in San Francisco, CA and Atlanta, GA. We met with Headquarters and field staff responsible for administering the Sales Force Augmentation pilot. We also followed up on the action taken by Sales Force Augmentation management on the suggestions made in our Phase I Sales Force Augmentation report, issued in September 1998. The current status of the suggestions contained in the Phase I report is shown on page 24, section "Follow-Up on Prior Report".

This review was conducted from October 1998 through January 1999, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our observations and suggestions with appropriate management officials during the course of our review and have included their comments where appropriate.

Because the Sales Force Augmentation pilot is in the developmental stage, we reported the results of our review as observations and are making suggestions to Sales Force Augmentation management to strengthen control processes. The specific objectives of our review are outlined above. We did not review the cost-benefit or overall effectiveness of the Sales Force Augmentation pilot.

Observations and Suggestions

Our second review identified six conditions that warrant the continued review and action of the Sales Force Augmentation management. The conditions are:

- Continued Rapid Expansion of Pilot Requires Management Safeguards,
- Clearer Guidance Needed for Baseline Determinations,

- Support for Provider Billings Needs Improvement,
- Spot Audits Need to be Utilized as a Management Control,
- Sales Force Augmentation Intranet System Not Yet Operational, and
- Coordination of Delivery Confirmation is Vital to Sales Force Augmentation Deployment.

Observation A:
Continued Rapid
Expansion of Pilot
Requires
Management
Safeguards

According to the Tactical Marketing and Sales Development staff, the Sales Force Augmentation pilot continues to generate excitement and interest from other districts and operations, including the International Business Unit, as a vehicle for increasing revenues to the Postal Service. Sales Force Augmentation management advised that they have continued to expand the number of locations participating in the pilot and have received numerous inquiries from other locations nationwide. Although the Sales Force Augmentation Business Plan outlines many potential benefits, Postal Service management needs to immediately implement or improve several key management safeguards in the areas of:

- Spot audits (see Observation D),
- Sales Force Augmentation Intranet System (see Observation E),
- Staffing, and
- Provider reporting (see Observation C).

These safeguards would further ensure a more successful deployment of the pilot and maximize revenues for the Postal Service.

According to USPS Management, the New York pilot proved that the Sales Force Augmentation concept was viable and beneficial but ended because proper resources were not available for its continuation and the use of individual personal service contracts was discontinued. Further, the New York pilot provided a solid foundation for subsequent pilots. The pilot specifically demonstrated the need for full-service Providers to manage specific geographic regions. Additionally, the pilot led to the introduction of the baselining concept and improved methods of inventory control, and displayed the need for a reliable management information system in database form. The work of the sales representatives, in particular, is critical to the success of the Sales Force Augmentation

program. Sales Force Augmentation management discovered that although most sales representatives used by the Providers had accurately reported their activities, *some representatives grossly misstated sales figures.*

Spot audits were supposed to be implemented in the current pilot to prevent this problem. Sales Force Augmentation management has successfully accomplished many Sales Force Augmentation program goals, including the timely achievement of interim milestones for program expansion.

The Sales Force Augmentation Business Plan outlines several significant benefits of the program. These benefits include:

- Increasing revenue to the Postal Service,
- Increasing customer satisfaction by uncovering small- and medium-sized businesses not previously served by USPS,
- Increasing name recognition for expedited services and products, and
- Maximizing the use of Postal Service assets and resources.

Sales Force Augmentation management stated that there is growing interest from Districts and operational managers about the program. Currently, managers in major metropolitan areas including Boston, Detroit, Chicago, Washington, DC, and Miami and locations in Maryland have inquired about establishing a Sales Force Augmentation program. Also, the International Business Unit management has expressed interest in the Sales Force Augmentation program. The Sales Force Augmentation program can help these managers offset anticipated local revenue shortfalls while improving responsiveness to small- and medium-sized business customers.

Since USPS considers Sales Force Augmentation a promising concept, Sales Force Augmentation management is under pressure to continue planned expansion to the nine remaining metropolitan markets. However, the continued expansion of the program is occurring before management controls are fully designed and implemented over several significant operational areas

such as baseline establishment, Provider reporting, program staffing, and the USPS Intranet system.

Suggestion

Sales Force Augmentation management should:

1. Place renewed emphasis on addressing the operational improvements outlined in this report, with the continued expansion of the program. Management should also continue to adhere to the controls identified in the Sales Force Augmentation Strategic Business Plan and the Sales Force Augmentation Process Management System to assure successful implementation.

Management Response

Postal Service management stated they fully agree with the OIG and have taken the following steps during the past 90 days to ensure these operational improvements occur. Sales Force Augmentation management has:

- with the assistance of a contractor, developed "Process Management" maps, using the Postal Service's Customer-Perfect 6.2 criteria designed for new products and services.
- developed a formal training module to train the District Provider Managers. This will ensure all District Provider Managers have similar direction and follow the same operational procedures while managing day-to-day Sales Force Augmentation activity.
- developed a formal "Audit Process" that District Provider Managers will follow. The Sales Force Augmentation management's goal is that this process will provide a consistent approach by the District Provider Managers, regardless of the contracted Provider and the Provider's method of bookkeeping.
- issued a Statement of Work for the formal development and production of a "Sales Force Augmentation Operational Manual/District Provider Manual Guideline Book". Development of this manual will incorporate the Process Management maps, the business plan, and the newly developed audit process in an effort to promote the accuracy and consistency to the Sales Force Augmentation program during expansion.

Evaluation of Management's Response	The planned and implemented actions by the Sales Force Augmentation management satisfied the intent of the OIG suggestion.
Observation B: Clearer Guidance Needed for Baseline Determinations	<p>Providers are not accurately or consistently determining baselines for customer accounts, used in the calculation of Provider payments. This situation occurred because Sales Force Augmentation management has not provided clear guidance for the Providers to establish baselines and is not examining baseline data because of resource limitations. Since the additional sales above the baseline are used to determine actual revenue gained through the Sales Force Augmentation program, the amounts paid to the Providers may not be correctly determined. Further, the accuracy of this key measurement of the financial success of the Sales Force Augmentation pilot is undermined.</p> <p><i>Provider A</i> states that baselines are established on the initial visit and rarely change. <i>Provider B</i>, however, states that it takes an average of two to three months to determine the baseline for customers and their initial baselines may be revised based upon the average usage during the first three months. <i>Provider A</i> also advised that their billing is estimated primarily on several large customers' actual usage, rather than using all customers' actual baselines calculations. Both Providers stated that they recognize and attempt to incorporate seasonal fluctuations when establishing average baselines with new customers.</p> <p>The contract with the Providers states that a baseline will be established "on the initial contact" with each customer and that the USPS has the right to verify the baseline numbers submitted by the Provider. The contract does not require Providers to subsequently revise the baselines unless directed by Sales Force Augmentation management.</p> <p><i>Provider A</i> could be in compliance with the terms of the contract by establishing the baselines based upon the initial visit and not subsequently revising the baseline for known usage. In contrast, <i>Provider B</i> also initially establishes baselines but has revised the baselines for some customers based upon the first 2-3 months' actual usage because prior usage was not always clearly known on the initial contact.</p>

During our review of *Provider A*, we also noted that some customers with substantial existing inventories of Postal products were established with a baseline of zero. However, the contract states that "if a customer is using any of the USPS products on a repetitive basis, the provider shall establish a baseline which equates to the customer's actual monthly usage of that product."

Although a substantial inventory of Postal products were on-hand during the initial visit, which contradicts a zero baseline determination, the District Provider Managers were not always performing an independent verification of these baseline numbers, which could lead to an undetected misstated baseline. We noted that baseline determinations were not being independently verified on a consistent basis by the District Provider Managers. Although one Manager advised that he performs a phone review of a minimum of 10 percent of new customer accounts, which includes the determination of the customer's baseline number, he does not perform on-site reviews. Another Manager stated that he also telephonically reviews the same amount of new accounts, and with the assistance of the Implementation Coordinators, reviews a sample of existing customer accounts, but neither performs on-site reviews to verify this reported information. While telephonic reviews are useful, they are not as reliable as on-site verifications of reported information. Both Managers stated they could not perform on-site reviews because of the level of assigned responsibilities, available resources, and geographic location of the customers.

Provider A also uses several automated spreadsheets to maintain customers and sales representatives information. However, these spreadsheets are not linked. Consequently, the baseline information is manually estimated for the billing process. Since only "summary information" by sales representatives is submitted and baseline information is estimated, Sales Force Augmentation management is unable to verify the reliability of the baseline numbers used for billing.

Sales Force Augmentation management believes that baseline establishment is still a recurring problem. One District Provider Manager also acknowledged that establishing baselines has been a problem and, as before,

there is no exact science to it. He believes that baselines for some customers did not level out for approximately 90 days.

Suggestion	<p>Sales Force Augmentation management should:</p> <ol style="list-style-type: none"> 2. issue specific guidance to the Providers concerning consistent baseline determinations, including how to average seasonal fluctuations.
Management Response	<p>Sales Force Augmentation management stated they have taken corrective action on baselining efforts as a result of this review. In these efforts management:</p> <ul style="list-style-type: none"> • sent electronic notifications to both Providers indicating that baselines must be established as part of the initial visit, and reviewed over a period of 2 to 3 months. At review if the contractor believes baseline numbers are not accurate, the Provider is to notify Sales Force Augmentation management and request in writing authorization to change numbers based on factual evidence to support the request. Along with this action, the District Provider Managers have been instructed that if a baseline change is requested, they are to fully review the Provider's supporting documentation and obtain approval from Sales Force Augmentation management before a baseline change may occur. • informed us they incorporated the policy above in the Baseline section of the new Solicitation Statement of Work. • indicated the baseline entry within the website will have a security restricted access feature which will allow only the Sales Force Augmentation Managers to adjust baselines.
Evaluation of Management's Response	<p>The implemented and planned actions by the Sales Force Augmentation management satisfy the intent of the OIG suggestion.</p>
Suggestion	<p>Sales Force Augmentation management should:</p> <ol style="list-style-type: none"> 3. more closely manage and monitor the processes used by Providers for establishing baselines.

Management Response	Sales Force Augmentation management stated that they are placing a renewed emphasis on these monitoring efforts, such as part of the new District Provider Manager training curriculum. However, the Sales Force Augmentation management suggested that as barcoding and scanning technology are improved for the USPS, new customers will have a verifiable baseline that shows prior usage and barcode scans, but as the OIG has noted, this is only if they are members of delivery confirmation.
Evaluation of Management's Response	We appreciate the USPS management's renewed emphasis on monitoring efforts, however the only verifiable data available will be for those customers who select the Delivery Confirmation services, but not those who don't use the barcoding.
Suggestion	Sales Force Augmentation management should: 4. require Providers to incorporate baseline information in their software programs and ensure baseline numbers are used accurately in their calculations.
Management Response	Sales Force Augmentation management informed us the current solicitation provides the computer code and data dictionary required for electronic financial measurement of the Sales Force Augmentation program to prospective bidders. Management explained that the baseline information data field must be filled in to activate a customer account and failure to do so would "flag" the account and delay potential commissions. Management states that the timeline for this is complete, however, the OIG staff have not reviewed the new automated system at the Provider A location to validate it.
Evaluation of Management's Response	The planned and implemented actions by the Sales Force Augmentation management satisfy the intent of the OIG suggestions.
Suggestion	Sales Force Augmentation management should: 5. determine whether Area Implementation Coordinators or additional staff are needed to monitor and independently verify baseline processes.

VOLUME: Reported Usage - Baseline Amount =
Net Usage(Units in the Mail Stream)

PAYMENT: (Commission Fee %) x (Product Unit Price) x
(Units in the Mail Stream) = Payment to the
Provider

We sampled the supporting information for one accounting period in FY 1999 based upon usage information reported by two sales representatives for *Provider A* and *Provider B*. For *Provider A*, we conducted an on-site review of their billings and supporting information; for *Provider B*, we performed a desk review of billings and supporting information. For *Provider B*, we obtained the bill and supporting information, and our review disclosed that the amount billed was calculated in accordance with the approved Sales Force Augmentation contract guidelines and was adequately documented.

Our review of *Provider A* disclosed several weaknesses in the supporting documentation and the calculation of the Provider's bill relating to accounting period 4 in FY 1999. Documentation supplied by *Provider A* on the Sales Representative and customer account activity was incomplete, not filed, or not readily available for review. Based upon our review and interviews with the District Provider Manager, we selected an additional sample of 30 customer accounts from the first billing period in 1998.

Our review generally disclosed that *Provider A* could not confirm whether these customer accounts were active and still using Postal products; some customer file folders were empty; and some of the files were missing important information, such as approved baseline amounts and inventory sheets. In addition, the Provider could not readily provide automated supporting documentation from their system for these customers. The Provider believed that some of the missing information occurred because some information may have been sent to their Corporate Headquarters, may still be in the possession of the sales representatives, or may be pending filing.

Although we noted that general oversight of Provider's activities was performed by the District Provider Managers, they could further strengthen their process for review. These Managers did not always have access to the automated information available from the Providers. In addition, the District Providers Managers selected and

reviewed baseline activity for a sample of new customer accounts, but did not always select for review baseline activity for previously established customers.

Suggestions	<p>Sales Force Augmentation management needs to:</p> <p>6. obtain from <i>Provider A</i> accurate, reliable, and complete information to support their monthly billings to the Postal Service and disallow payments until adequate supporting information is provided. This information should include at a minimum, customer account information, such as profile sheets (which includes baseline amounts), supply inventory sheets, and other key information that supports the payment request.</p>
Management Response	<p>The Sales Force Augmentation management informed <i>Provider A</i> of potential contractual violations concerning their inconsistent record keeping and past performance as a result of this review. Since the on-site visit by the OIG, <i>Provider A</i> has implemented their own electronic database system which will capture required fields of information. <i>Provider A</i> has also issued palm-pilot hardware systems to sales representatives to enable them to immediately gather data from customers during visits. Previously gathered information is being input into this system and <i>Provider A</i> has been informed that failure to keep records consistent and uniformly accessible to USPS management will be enforced. <i>Provider A</i> has assured Sales Force Augmentation management they will perfect their electronic system before they are awarded or move into new territories.</p>
Evaluation of Management's Response	<p>The planned and implemented actions by the Sales Force Augmentation management satisfy the intent of the OIG suggestion.</p>
Suggestion	<p>Sales Force Augmentation management needs to:</p> <p>7. provide guidance to the District Provider Managers on methods for performing their reviews of customer accounts, selecting a sample of both new and previous accounts for review, and examining the supporting information for the Providers' billings.</p>

Management Response	Sales Force Augmentation management stated that formal training has been developed for the District Provider Managers, along with processes that will be incorporated into an Operational Manual that is to be designed. Management plans to continue to improve procedure <i>guidelines and education for the Sales Force</i> Augmentation staff and to tighten the management controls.
Evaluation of Management's Response	The planned and implemented actions by the Sales Force Augmentation management satisfy the intent of the OIG suggestions.
Observation D: Spot Audits Need To Be Utilized As A Management Control	<p>Sales Force Augmentation management has not performed random spot audits of customers' supply inventory. The New York Metro Area Sales Force Augmentation pilot of 1996, demonstrated that Providers and USPS should perform regular inventory counts, which are used to calculate Provider reimbursements. Provider sales representatives are performing regular inventory counts to report customer's supplies usage. However, the Sales Force Augmentation District Provider Managers explained that they were not conducting these on-site spot audits, because they have neither the time nor resources and were unsure as to whether they were to perform these reviews. As a result, the absence of this management control weakens the Postal Service's ability to independently confirm the accuracy of Provider payments.</p> <p>The first Sales Force Augmentation pilot was a two-year effort that was performed in the New York Metro Area. One of the areas for improvement in the pilot was the reimbursement paid to individual sales contractors, which was overstated in some cases, because customers' inventory levels were not independently verified. This occurrence could be resolved by performing a spot audit.</p> <p>To perform a spot audit, District Provider Managers would:</p> <ul style="list-style-type: none">• select a random sample of customers,• review the USPS supply orders and usage trends for those customers,• obtain most recent inventory sheet, from Provider sales representative (which shows usage),• perform an actual count of the inventory of priority, express, and global express Postal products, and

- reconcile physical inventory count against that which has been reported as used at the customer location.

As a result of the New York pilot, the Sales Force Augmentation Management Team determined that spot audits would be performed by the District Provider Managers in future Sales Force Augmentation pilots. Since USPS cannot yet verify that these Postal products are actually going through the mail stream, spot audits of customers' inventory levels are crucial to Postal management to provide reasonable assurance that Provider reimbursements are not overstated.

During our on-site work in San Francisco and Atlanta, we found that these spot audits have not been performed by the District Provider Managers. The District Provider Managers stated they do not have the time or resources necessary to perform these on-site reviews and were unsure as to whether they were to perform these spot audits. One District Provider Manager stated that with over 20 sales representatives covering three areas, he would be unable to perform these reviews.

The District Provider Managers are performing telephone reviews with a sample of customers. These reviews include confirmation of baseline numbers and supply information, as reported by the Provider sales representatives. District Provider Managers advised that these reviews found some differences in baseline information that needed correction by the Providers. Telephone reviews can be useful but the information is obtained from the customer and is not an independent validation of the accuracy and reliability of customer information. An independent on-site validation is vital for the confirmation of Provider billings to the Postal Service.

Suggestion

Sales Force Augmentation management should:

8. ensure that random spot audits of customers' supplies inventory are performed on-site by Postal Service Sales Force Augmentation staff. These audits may be performed by the District Provider Managers, Area Implementation Coordinators, or other available staff.

Management Response	Sales Force Augmentation management explained that the spot audits were inadvertently omitted from the previous audit guidelines provided to District Provider Managers. They have incorporated a requirement in the new District Provider Manager Guideline Book that these spot audits will be performed at a minimum of 10 percent of the total customer base locations. USPS management will be able to achieve this by the verification of consistent audit results provided by the contractor compared to the actual inventories taken during the on-site visit.
Evaluation of Management's Response	The implemented actions by the Sales Force Augmentation management satisfy the intent of the OIG suggestion.
Observation E: Sales Force Augmentation Intranet System Not Yet Operational	<p>Another critical component of the Sales Force Augmentation management control is the automated Sales Force Augmentation Intranet system. When operational, this system will provide Sales Force Augmentation management with the ability to monitor and access baselines, product usage, customer activities, inventory counts, and billing information. This system was originally planned for development and implementation by October 1998, but has been delayed at least until March 1999.</p> <p>Sales Force Augmentation management has made substantial progress in the development of the individual provider and customer profile data screens. However, because of continued delays in the Postal Service's Intranet system development, Sales Force Augmentation management does not have the detailed information they need to effectively manage and review the program and must continue to rely solely on the Provider's internal controls. Therefore, baseline information is subject to unauthorized or inadvertent changes, without prompt detection or approval by the Sales Force Augmentation management.</p> <p>Sales Force Augmentation management has been developing an Intranet system since mid-1998. As a result of the New York pilot, management recognized that the program generated an extensive amount of paperwork. Therefore, a reliable and accurate automated reporting system was needed to provide on-line access to real-time information on customer and Provider activity. Management needs to have the capability to monitor daily</p>

customer account information, such as baseline numbers, inventory levels, activity trends, and other operational areas. To facilitate timely reporting, the system would be designed to furnish the Sales Force Augmentation management team and Providers with automated reporting throughout billing cycles and as needed.

To date, the Sales Force Augmentation team has made substantial progress in developing the Intranet system. Management reported that they are nearly finished with the web page, which includes specific Provider and Sales Representative reporting information, and designed the system data screens that include more than 30 fields of customer information. These pages also have been designed with restricted access to ensure the security and integrity of program information. However, delays have now occurred in development of the interface between the USPS system and the Providers systems. Sales Force Augmentation management stated that compatibility issues and the location of the host site contributed to the delays encountered.

In addition, available funding for the continued development of the Intranet system had been exhausted. Sales Force Augmentation management utilized available funds to hire a contractor for the design and creation of the data screens and web site. According to the Sales Force Augmentation Manager, the cost of the interface between the Providers' software programs and the Postal Service's Intranet system has recently been estimated by one contractor at between \$250,000 to \$1 million. Sales Force Augmentation has requested additional funding for the finalization of the Intranet system.

One of the primary uses of the Intranet system is to manage baseline information. Baseline numbers are established for each customer to show their prior actual use of Postal products. The baseline represents the number above which usage is attributed to Sales Force Augmentation and on which reimbursement to the Provider is calculated. In the absence of the Postal Service's Intranet System, the Providers must maintain and utilize their own software systems to report baseline information to Sales Force Augmentation management. Therefore, baseline information is subject to unauthorized or

inadvertent changes, without prompt detection or approval by the Sales Force Augmentation management.

Suggestion	<p>Sales Force Augmentation management should:</p> <ol style="list-style-type: none"> 9. continue to emphasize the prompt development and deployment of the Intranet system. If adequate developmental funding is not readily available, the Sales Force Augmentation team should meet with the Chief Marketing Officer to acquire these necessary funds.
Management Response	<p>Management informed us that they realize the importance of the Intranet System in order to ensure the program's integrity and that steps have been taken to ensure completion. These steps are as follows and Sales Force Augmentation management expects completion dates will be within the next 60 to 90 days.</p> <ul style="list-style-type: none"> ▶ Three contract employees are currently dedicated resources for the Sales Force Augmentation Website program. ▶ A requisition, pending in the Purchasing Office, to modify an existing contract with the International Business Unit could modify an existing Website application and potentially host the program needed for Sales Force Augmentation. ▶ Programming efforts are now centered on site maintenance, hosting, beta testing, and data transfer.
Evaluation of Management's Response	<p>Actions underway by the Sales Force Augmentation management satisfy the intent of the OIG suggestions.</p>
Observation F: Coordination of Delivery Confirmation is Vital to the Deployment of the Sales Force Augmentation Program	<p>Greater communication needs to occur between the Sales Force Augmentation management and Managers of the Delivery Confirmation Program as Delivery Confirmation is implemented to ensure that:</p> <ul style="list-style-type: none"> • automated Delivery Confirmation software is acquired and distributed to Sales Force Augmentation customers, and

- funds are made available for the Sales Force Augmentation program to offset the additional software costs to the customers.

The Delivery Confirmation System is a vital tool for the USPS that tracks Postal products going through the mail stream, while capturing revenue, product, and usage information. This system, scheduled for March 1999 deployment, is also a critical supporting component of the Sales Force Augmentation program, because it is the only available means for Sales Force Augmentation management to confirm actual customer usage of Postal products and the true effectiveness of the pilot.

During our review, we met with the Delivery Confirmation Program Manager who stated that Delivery Confirmation would provide an excellent means of fraud prevention, allowing Postal Service customers to feel more secure when using the USPS. The Manager was generally familiar with the Sales Force Augmentation program, however, her goal was to ensure timely implementation of Delivery Confirmation for all Postal Service customers.

Delivery Confirmation will be a special service, offered to Postal Service customers, scheduled for availability March 14, 1999. The electronic customers (retail users) will pay a lower rate for this service versus the non-electronic customers (general public), who will pay an additional 35 cents per piece. Some retail users may be excluded from this additional charge, and actually given a 25 cents discount per priority mail piece, if they use the *Post Office Online* system or purchase and use one of the six different software programs available for electronic mailings.

The Sales Force Augmentation team originally planned to rely heavily on the inventory tracking and paper trail for revenue tracking until the Delivery Confirmation system was available. Sales Force Augmentation management advised that they are unable to identify any other economic and feasible alternatives, such as postage meters, that would effectively track usage information.

The Sales Force Augmentation team now recognizes that Delivery Confirmation may not be utilized by all pilot program participants. The Delivery Confirmation service will not automatically be provided to all customers and if

they elect to use it, there will be an additional cost to customers for this service. Small- and medium-sized business customers in the Sales Force Augmentation pilot may participate by either paying the extra shipping costs or purchasing automated software. By purchasing the automated software, customers receive discounts for using this feature. However, for those small business customers that decide not to use Delivery Confirmation, the Sales Force Augmentation management still will not have a means of measuring actual usage by customers and verifying the effectiveness of the program.

Suggestion	<p>The Sales Force Augmentation management needs to:</p> <p>10. meet with the Project Manager of the Delivery Confirmation Program and clearly communicate the critical nature of this system to the pilot to ensure that the automated software is available.</p>
Management Response	<p>The Sales Force Augmentation management stated they will pursue a meeting with the Delivery Confirmation management in conjunction with the pursuit of new contractors. Management stated they believe it reasonable that 50 to 75 percent of their customers would elect to use Delivery Confirmation services if an economic manifest system can be provided and they look forward to examples of this in proposals for the February solicitation.</p> <p>Management also stated they believe the use of this measurement tool will occur during the remainder of Fiscal Year 1999 and anticipate it will be in place in the event the OIG performs a Phase III review.</p>
Evaluation of Management's Response	<p>The OIG would appreciate being advised of the outcome efforts to modify the existing contract or to modify the existing Website applications and to complete programming efforts. We agree with the Sales Force Augmentation management's planned actions.</p>
Suggestion	<p>The Sales Force Augmentation management needs to:</p> <p>11. explore providing financial incentives to customers that would maximize distribution to Sales Force Augmentation customers in order to measure actual product usage and encourage wide-spread acceptance of the software.</p>

Management Response	Sales Force Augmentation management informed us they believe it may be feasible for the contractors to subsidize or offset the cost to their customer base, but do not believe it would be proper for USPS to subsidize the cost. Sales Force Augmentation management have suggested it in the solicitation of February 2, 1999, and stated they will continue to pursue these financial incentives after a contract(s) are awarded.
Evaluation of Management's Response	Efforts underway by the Sales Force Augmentation management satisfy the intent of the OIG suggestion.

**Follow-Up On Prior
Report**
(At The Time Of This
Review)

Issue #1: Management Controls should be further refined, specifically relating to baselining, transitioning of accounts, and recording revenues and expenditures.

Status: Completed

Sales Force Augmentation management eliminated emergency inventory stocks, which improved the recording of revenues and expenditures. Management has also developed a policy, in the new solicitation dated February 2, 1999, for transitioning accounts to Account Representatives.

Status: Not Yet Completed.

Management continues to need improvement with the establishment of baselines, as detailed in the suggestions in this report.

Issue #2 Additional Staffing needs to be assigned to properly manage the program and effectively serve the customers.

Status: Not Yet Completed.

Sales Force Augmentation management has added additional staff, but spot audits are not performed, and baseline determinations and changes are not being reviewed. This occurred because of the amount of time devoted to their oversight responsibilities and the extensive duties already being performed by the District Provider Managers.

Issue #3 Advise the Board of Governors of the developmental plans for the Sales Force Augmentation project.

Status: Completed.

Sales Force Augmentation management has briefed the Board of Governors on the Sales Force Augmentation project, has received

additional funding for the pilot, and has also briefed the Strategic Management Committee on the ongoing status of the pilot.

Issue #4 Intranet System for the reporting of provider reporting of sales data and for overall project monitoring has been delayed.

Status: Not Yet Completed.

Although Sales Force Augmentation management reported the system would be in place no later than November 1998, the system is not yet operational and no firm revised date has been established for its implementation.

We appreciate the cooperation and courtesies provided by your staff during our review. If you have any questions, please contact Wayne Goleski, Director, Revenue Generation, or me at (703) 248-2300.

//Signed//

Sylvia L. Owens
Assistant Inspector General
for Revenue Cost Containment

cc: John R. Gunnels
Alan B. Kiel

Major Contributors: [REDACTED]

TACTICAL MARKETING AND SALES DEVELOPMENT



March 15, 1999

SYLVIA L. OWENS
ASSISTANT INSPECTOR GENERAL
FOR REVENUE/COST CONTAINMENT

SUBJECT: Response to Draft Management Advisory Report – Review of Sales Force
Augmentation (SFA) Pilot – Phase II (RG-MA-99Draft)

Attached you will find a revised copy of the draft report. We have made modifications to the text to clarify program information. These modifications should be considered in your final management advisory report. Additionally, we have responded to all of the suggestions, indicating corrective actions that have been established or are under consideration.

We appreciate the Office of Inspector General's support and involvement with the initiative. The reviews ensure the integrity and success of the program. We would like to continue by requesting the OIG conduct a Phase III Audit.

Should you have any questions regarding the revisions or program enhancements given in this report, please feel free to contact the SFA Program Director, William Sherman, at (703) 526-2670.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Cleffi", with a long horizontal flourish extending to the right.

Henry C. Cleffi
Acting Vice President

Attachments

2111 WILSON BOULEVARD SUITE 1100
ARLINGTON VA 22201-3001
703-526-2653
FAX: 703-526-2667

Review of the Sales Force Augmentation Pilot Project-Phase II

RG-MA-XXX

OIG Observation - Continued Rapid Expansion of Pilot Requires Management Safeguards**OIG Suggestion - Sales Force Augmentation Management should:**

1. Place renewed emphasis on addressing the operational improvements outlined in this report with the continued expansion of the program. Management should also continue to adhere to the controls identified in the Sales Force Augmentation Strategic Business Plan and the Sales Force Augmentation Process Management System to assure successful implementation.

SFA Response to Suggestion #1:

USPS/TMSD fully agrees with the OIG and has taken several steps in the past 90 days to ensure this occurs. These steps have included the following:

- 1.) *With the assistance of Six-Sigma Qualtec, SFA has developed Process Management Flow Charts, using the Malcolm Baldrige Customer-Perfect criteria. This endeavor has formalized process flows, touch points, and interactivity between all functional groups involved in SFA. (Timeline – completed)*
- 2.) *SFA has developed a formal training module to train district Provider Managers (DPM's). This will ensure all DPM's have similar direction, and follow identical operational procedures in managing the day-to-day SFA activities. All existing DPM's have received this training. All new DPM's (in new sites) will attend this 4-day program prior to beginning their DPM responsibilities. (Timeline – completed)*
- 3.) *SFA has developed a formal "Audit Process" for DPM's to follow. This will provide a consistent approach (nationally) to the audit function, regardless of which provider is hired under the new contract. We advise, however, based on formal contractual obligations, the audit process may be subject to revision. (Timeline – completed)*

SFA has issued an RFP/SOW for the formal development and production of an "SFA Operational Manual/DPM Guideline Book". Using the Process Management maps, the business plan, and the newly developed audit process, a manual will be printed to promote accuracy and consistency to the SFA program as we expand to new sites. (Timeline – by the beginning of FY-00.)

OIG Observation - Clearer Guidance Needed for Baseline Determinations

OIG Suggestions -Sales Force Augmentation management should:

- 2. Issue specific guidance to the Providers concerning consistent baseline determination, including how to average seasonal fluctuations.**

SFA Response to Suggestion #2:

In light of the OIG on-site visits conducted during late November and early December 1998, corrective action has been taken with respect to baselining efforts. This includes the following activities:

- 1.) Electronic notification was forwarded to both contractors indicating that baselines must be established as part of the initial visit. Additionally, if after a period of time (i.e., 2-3 months) the contractor feels the original baseline is not accurate, they must notify the USPS and petition (in writing) authorization to change the baseline based on factual evidence they must provide. The DPM's have been instructed if such a request occurs, they must fully investigate the supporting documentation and obtain approval from SFA Management before a baseline change can occur. Both providers have been advised that failure to adhere to this new policy could result in commission payment delays and/or a full-scale audit of the provider's baselining activities. (Timeline – completed)*
- 2.) The policy noted above has also been incorporated into the new SFA Solicitation #102590-99-A-0072, Section B.8.2.1 Baseline, within the "Statement of Work" (Timeline – completed)*
- 3.) The SFA IS Team Leader has indicated the baseline entry within the SFA Website will have a security access with only the authorized SFA Managers being able to adjust contractor baselines once the profile has been entered. (Timeline – concurrent with launch of SFA Website).*

- 3) **More closely manage and monitor the processes used by Providers for establishing baselines.**

SFA Response to Suggestion #3:

As part of the new DPM Training curriculum and the development of the Operations Manual, renewed emphasis has been placed upon the baselining issue and both new and existing baselines will be subject to review during each and every audit. We will continue to explore ways and options that might ensure improvements in this area. Also, keep in mind that in future years, as barcoding and scanning technology improve, new customers will have verifiable baselines based on prior usage and barcode scans if they previously used delivery confirmation and/or ordered supplies through DDD (i.e. authorized EPS packaging fulfillment vendor). This will give the SFA management team another vehicle in which to verify baseline. (Timeline – ongoing)

- 4) **Require Providers to incorporate baseline information in their software programs and ensure baseline numbers are used accurately in their calculations, and**

SFA Response to Suggestion #4:

Solicitation #102590-99-A-0072, Section B, Attachment F, provides both the computer code and data dictionary required for electronic measurement of the SFA program to all prospective bidders. Baseline information is a data field, which must be filled in order for a profiled customer to become active. Failure to do so would flag the account, delaying any potential commissions due. (Timeline – complete)

- 5) **Determine whether Area Implementation Coordinators or additional staff is needed to monitor and independently verify baseline processes.**

SFA Response to Suggestion #5:

SFA Management is currently looking at ways to increase the capacity to perform audit functions, including baseline verification. We are currently investigating the following mechanisms:

- 1.) Use of limited/night duty employees to assist with telephone audits*
- 2.) Use of independent temporary service employees (i.e., Kelly Services, Manpower, etc.) to conduct phone interviews.*
- 3.) A formal staffing package has been submitted to the VP, TMSD for consideration, review, and recommendation to COO Clarence Lewis.*

This process will also create additional time for DPM's and implementation coordinators to conduct on-site audits of customers as suggested by the OIG. (Timeline – no later than the start of FY-00)

1

OIG Observation - Support for Provider Billings Needs Improvement

OIG Suggestions - Sales Force Augmentation management needs to:

- 6) Obtain from Provider A, accurate, reliable, and complete information to support their monthly billings to the Postal Service and disallow payments until adequate supporting information is provided. This information should include at a minimum, customer account information, such as profile sheets (which includes baseline amounts), supply inventory sheets, and other key information that supports the payment request.

SFA Response to Suggestion #6:

Provider A has been advised of potential contractual violations surrounding their inconsistent record keeping and past performance. Since the on-site audit of Provider A, they have implemented their own electronic database system (using "Self Audit Software") which specifically captures the required fields of information. All sales representatives have been issued palm-pilot hardware for customer visits and data gathering. Previously gathered information is being input into this system to ensure system-wide integrity. Provider A has been warned that failure to keep all records consistent and uniformly accessible to the USPS will be enforced and could result in commission delays or adjustments. Provider A has assured us they will perfect this electronic application (in compliance with the USPS specification contained in the current solicitation) before they are awarded or move into any new territories. We anticipate this will allow for accessibility of all pertinent audit information for all future billings with Provider A, and will ensure their compatibility with our USPS SFA Website upon completion. (Timeline –complete)

- 7) Provide guidance to the District Provider Managers on methods for performing their reviews of customer accounts, selecting a sample of both new and previous accounts for review, and examining the supporting information for the Providers' billings.

SFA Response to Suggestion #7:

As described in suggestion #1, SFA has embarked upon a course of tighter management controls to ensure the accuracy, consistency, and integrity of the audit process. Formal Training has been developed and processes will be incorporated into an Operational Manual. This will continue to be an area in which we strive for continual improvement through proper procedural guidelines and education of our SFA staff. (Timeline – ongoing)

OIG Observation -Spot Audits Need To Be Utilized As A Management Control

OIG Suggestion -Sales Force Augmentation management should:

- 8) Ensure that random spot audits of customers' supplies inventory are performed on-site by Postal Service Sales Force Augmentation staff. These audits may be performed by the District Provider Managers, Area Implementation Coordinators, or other available staff.

SFA Response to Suggestion #8:

Spot audits had been inadvertently omitted from previous audit guidelines provided to DPM's. The revised DPM guideline does include the requirement that the field audit a minimum of 10% of the total customer base scheduled for monthly audited during a billing cycle. Example – if 100 customers are randomly pulled to be audited in April, a minimum of 10 will receive on-site, personal visits by the DPM or Implementation Coordinator for that area. Verification will include consistency of audit results provided by the contractor compared to actual inventories taken during the on-site visit. USPS management will be able to achieve this by using individuals other than the DPM's to make calls (described in suggestion #5), and through the appointment of additional DPM's for individual districts (rather than by metro). We will also seek the assistance of a statistician in order to ensure our sampling sizes are statistically valid. (Timeline – in conjunction with new contract award.)

OIG Observation -Sales Force Augmentation Intranet System Not Yet Operational

OIG Suggestion - Sales Force Augmentation management should:

9. Continue to emphasize the prompt development and deployment of the Intranet system. If adequate developmental funding is not readily available, the Sales Force Augmentation team should meet with the Chief Marketing Officer to acquire these necessary funds.

SFA Response to Suggestion #9:

Development of the SFA Website remains a high priority of SFA Management. We fully realize that an electronic database and audit procedure is necessary to maintain the program's integrity. Steps have been taken to ensure completion of the SFA Website. Activities include:

- 1.) A total of three contract employees from PRC (through a separate TMSD contract) are involved as dedicated resources for the SFA Website program at this time.
- 2.) A requisition is pending to modify an existing contract (with TCC), currently under contract with the IBU, to modify an existing Website application, which could potentially, host the program.

- 3.) Programming for the Website is essentially complete. Efforts are now centered on site maintenance, hosting, beta testing, and data transfer. (Timeline -complete all of these steps within the next 60-90 days.)

OIG Observation - Coordination of Delivery Confirmation is vital to the Development of the Sales Force Augmentation Program

OIG Suggestion - The Sales Force Augmentation management needs to:

10. Meet with the Project Manager of the Delivery Confirmation Program and clearly communicate the nature of this system to the pilot to ensure that the automated software is available.

SFA Response to Suggestion #10:

TMSD fully agrees with the OIG on its assessment of delivery confirmation's importance to our program. We have asked (within the confines of the current RFP) for Provider supported mechanisms to promote the use of delivery confirmation. TMSD will pursue a meeting with Delivery Confirmation Management in conjunction with the successful bidders (i.e. SFA contractors) to ensure system and program-wide integration. While it is unrealistic to expect 100% of the SFA customers will use delivery confirmation, it is reasonable to project that 50 – 75% would entertain its use if an economic electronic manifest system can be provided. We expect to see examples of this in the contractor proposals.

SFA currently conducts Quarterly Delivery Confirmation Tests in the Metros as a support measurement system to the inventory control methodology. As Delivery Confirmation rolls out and is more accessible to our customers, we will further enhance the measurement system's dependency upon this tool. We feel this can be accomplished during the remainder of FY-99, and could be ready for the OIG to review by the time they are prepared to conduct their Phase III audit. (Timeline – end of FY-99.)

11. Explore providing financial incentives to customers that would maximize distribution to Sales Force Augmentation customers in order to measure actual product usage and encourage widespread acceptance of the software.

SFA Response to Suggestion #11:

It would not be proper for the USPS to subsidize the cost of electronic delivery confirmation manifest software to only its SFA customer base. If, however, the contractors will subsidize or offset cost to their customer base, then it would be a practical solution. This is what we have suggested within the current SFA solicitation. We will continue to pursue this after the award of the new SFA contracts. (Timeline – in conjunction with new contract award.)

FOLLOW-UP ON PRIOR REPORT:

Issue #1) Management Controls should be further refined specifically relating to baselining. Transitioning of accounts, and recording revenues and expenditures.

Status: Completed. Sales Force Augmentation management eliminated emergency inventory stocks which improved the recording of revenue and expenditures. Management has also developed a policy, in the new solicitation dated February 2, 1999, for transitioning accounts to Account Representatives. Not Yet Completed: Management continues to need improvement with the establishment of baselines, as detailed in the suggestions in this report.

SFA Response to Follow-up Issue #1:
See answers to suggestions 1 – 8 above.

Issue #2) Additional staffing needs to be assigned to properly manage the program and effectively serve the customers.

Status: Not Yet Completed. Sales Force Augmentation management has added additional staff, but spot audits are not performed, and baselining determinations and changes are not being reviewed. This occurred because of the amount of time devoted to their oversight responsibilities and the extensive duties already being performed by the District Provider Managers.

SFA Response to Follow-up Issue #2:
See answers to suggestions 1 – 8.

Issue #3) Advise the Board of Governors of the developmental plan for the Sales Force Augmentation project.

Status: Completed. Sales Force Augmentation management has briefed the Board of Governors on the Sales Force Augmentation project, has received additional funding for the pilot, and has also briefed the Strategic Management Committee on the ongoing status of the pilot.

Issue #4) Intranet System for the reporting of provider reporting of sales data and for overall project monitoring has been delayed.

Status: Not Completed. Although Sales Force Augmentation management reported the system would be in place no later than November 1998, the system is not yet operational and no firm revised date has been established for its implementation.

SFA Response to Follow-up Issue #4:
See answer to suggestion 9.

The following revisions are provided to the OIG as a suggested means of strengthening the validity of statements made within the context of the draft report - Review of Sales Force Augmentation Pilot Project – Phase II (RG-MA-99Draft)

Page 1, Paragraph 1 –

SFA has not begun "nationwide rollout", rather, "FY-98 and early FY-99 were dedicated to three pilot sites with emphasis on continued learning about outsource sales models and identifying procedural modifications necessary to improve upon the program. Phase II, implemented during FY-99, has been geared toward the establishment of 12 major metro sites."

The goal in this phase is to improve upon all systems and provide the factual data necessary to conduct a "Nationwide Rollout". We do not anticipate this sort of rollout (to the remainder of the 85 USPS districts) until the twelve metros are established and generating consistent sales data to support further program growth, the Business Management Committee is briefed and in concurrence, and the BOG is advised. The earliest this might occur is early FY-2000.

Page 1, Results in Brief, Paragraph 2 –

Rather than stating "The Sales Force Augmentation team is continuing to work under pressure..." We suggest, "SFA has cautiously moved forward, under strict program time lines, cognizant of organizational staffing requirements."

Page 2, Background Section, Paragraph 2, revise to read:

"...to be approximately \$404 million over three years, with incurred expenditures estimated at \$70 to \$80 million, making this an excellent opportunity to counteract possible revenue shortfalls."

"The Tactical Marketing and Sales Development management created key provisional positions". (Instead of "team members")

Page 3, bullets listing 3 SFA services needs to include a fourth service-

- Express Mail International Service (EMS) - This is the fastest, expedited international service available through the USPS. EMS is available to over 180 foreign countries. Both letters and parcels (over 4 lbs. are acceptable to most participating countries). EMS includes automatic insurance (for theft, damage, or rifling) for up to \$500. EMS shipments receive the highest priority expedited handling in both the USA and the destination country.

Page 3, three paragraphs up from bottom of page, add to last sentence:

...excluding any "USPS Managed Accounts" that might exist in this audience.

Page 3, two paragraphs up from the bottom of the page:
"...was selected as the Provider for the San Francisco Metro (which includes the San Francisco, Oakland, and San Jose districts)."

Page 4, last paragraph, last sentence under "Scope and Objectives":

This last statement causes a great deal of concern for TMSD, based on feedback from its appearance in the first OIG report as well. By stating this report "should not construe an endorsement" of the program, it "implies" the OIG does not endorse the SFA program. This has caused concerns for many managers who have read the initial report. We would appreciate if this statement could be removed from the final report.

Page 5, "Details" section, first paragraph, change to read:
According to USPS management, the New York pilot proved that the Sales Force Augmentation concept was viable and beneficial. The program was terminated based on TMSD's decision to test a new business model (i.e. "Full-Service Provider Model) in place of the individual service contracts used in New York. Senior Management in the New York Metro Area was reluctant to incorporate this change and did not want to participate in the "Full-Service Provider Model Test".

Page 6, bottom paragraph, B. Observation:

"This situation occurred because Sales Force Augmentation management has not provided clear guidance for the Provider's to establish baseline's...." This suggests SFA has erred in determining baseline processes.

Please reference the original RFP/SOW regarding Provider Selection Criteria in the original SFA RFP/SOW Solicitation (1/23/98). The intent of selecting two providers was suggested in order to observe two "different approaches" to conducting SFA in order to continue the learning necessary to refine baselining as a practice, and glean best processes from two industry leaders instead of one. This has been accomplished, and successfully translated into a baseline process as presented in the second iteration of RFP/SOW (section B.4.2.1 – Baselining)

Page 15, paragraph one:

"According to the Sales Force Augmentation Manager, the cost of the interface between the Providers' software programs and the Postal Service's Intranet system has recently been estimated by one contractor at between \$250,000 to \$1 million. Sales Force Augmentation has requested additional funding for the finalization of the Intranet system."

Note - Reports that funding to support this effort has been exhausted are not accurate. Additionally the interface estimates of \$250,000 to \$100,000 are also inaccurate. We would suggest these estimated costs be excluded from the final report. Please reference response to question 9 of the OIG report.

Page 16, two paragraphs under "Details", should read:

"Delivery Confirmation will be a special service offered to Postal Service customers scheduled for availability March 14, 1999. Customers capable of providing the USPS with an electronic manifest in an acceptable format (i.e. business users) will receive the service free of charge, versus the non-electronic customers (i.e. general public/walk-in retail traffic) who will pay an additional 35 cents per piece for the service enhancement."

October 31, 2000

GAIL G. SONNENBERG
SENIOR VICE PRESIDENT, SALES

SUBJECT: Audit Report - Management Controls Over the Sales Force Augmentation
Program (Report Number MK-AR-00-002(R))

This report presents the results of our follow-up audit of the Sales Force Augmentation Program (Project Number 00RA026RG000). The purpose of this audit was to determine whether the program was achieving its objectives to determine whether the program objective of increasing revenue was being achieved.

The audit revealed that since 1998 the Postal Service had paid \$5.2 million in commissions to contract sales representatives based on revenue reports that were not fully verified. This occurred because program controls were not in place to ensure the validity of increased revenues reported. Postal Service had been working with contractors to establish internal controls; however, none of the controls had been effective to date. The actions taken and proposed are responsive to the recommendations in the report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have questions or need additional information, please contact Larry Chisley, director, Marketing, at (703) 248-2352 or me at (703) 248-2300.

Debra S. Ritt
Assistant Inspector General
for Business Operations

Attachment

cc: Clarence E. Lewis, Jr.
Henry C. Cleffi
Sherl Streeter
Teresa C. Moe
John R. Gunnels

**Management Controls Over the
Sales Force Augmentation Program****MK-AR-00-002(R)****TABLE OF CONTENTS**

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	2
Prior Audit Coverage	3
Part II	
Audit Results	4
Accuracy of Baseline Estimates	4
Recommendation	5
Management's Comments	5
Evaluation of Management's Comments	5
Validation of Products Mailed by Customers	6
Recommendation	9
Management's Comments	9
Evaluation of Management's Comments	9
Internal Controls	10
Recommendation	10
Management's Comments	10
Evaluation of Management's Comments	11
Appendix A. Statistical Sampling and Projections for Audit of Sales Force Augmentation Program	12
Appendix B. Follow up Prior Suggestions	14
Appendix C. Management's Comments	16

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of management controls over the Sales Force Augmentation program. Specifically, we determined whether the program was achieving its objective of increasing revenues from Postal Service expedited mail products.

This is our third review of the Sales Force Augmentation program. Previous reviews were requested by program officials and were collaborative efforts between our staffs. Even though several improvements have been made to the program's management controls since our first review, additional improvements are still needed.

Results In Brief

We could not verify reported revenue to determine whether the program objective of increasing revenue was being achieved. This occurred because revenues were self-reported by contractor sales representatives, and the baseline data used to determine increased revenue from businesses could not be validated. The Postal Service also lacked sufficient controls to validate the number of packages mailed after businesses enrolled in the program. As a result, \$30.5 million in increased revenues reported by contractor sales representatives since November 1998 could not be verified. Thus, there was no assurance that the \$5.2 million in commissions the Postal Service paid to the contractor, based on revenues between fiscal year 1998 and the first quarter fiscal year 2000, were justified.

**Summary of
Recommendations**

We recommend the senior vice president, Sales, recover commissions based on disallowed revenues identified; develop controls to ensure baseline data cannot be changed by the contractor; and limit the expansion of the program until internal controls are established to ensure that increased revenue reported by contractor sales representatives can be verified.

**Summary of
Management's
Comments**

Management agreed with our recommendations. In addition, management provided updated information on the status of corrective actions on suggestions made in our prior report.

We summarized these responses in the report and included the full text of the comments in Appendix C.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

**Overall Evaluation of
Management's
Comments**

Management comments were responsive to our recommendations and the actions taken, or planned should correct the issues identified in this report.

Management Controls Over the
Sales Force Augmentation Program

MK-AR-00-002(R)

INTRODUCTION

Background

The Sales Force Augmentation program is a direct-sales marketing strategy designed to generate new revenue from small and medium-sized businesses through the sale of Postal Service expedited mail products, such as Priority Mail, Express Mail, Global Priority Mail, and Express Mail International. To achieve this objective, Postal Service awarded a contract with a sales force company to visit prospective businesses and enroll them into the program. Sales representatives completed a business profile sheet on each business, including a baseline of how much expedited mail the business had been processing through the Postal Service prior to joining the program.

After establishing the baseline, sales representatives revisited businesses periodically as appropriate to determine the amount of expedited products used since their last visit. This information was recorded in the contractor's database and used to develop a commission report showing the number of expedited products used by businesses and the increased revenue to the Postal Service. The contractor provided the commission reports to Postal Service program officials on a monthly basis. Program officials used this information to initiate a process to verify the accuracy of the revenue included in the report.

Postal Service program officials were required to verify the commission reports through telephone calls, business visits, and bar-coded label test. In addition, program officials used Postal Service corporate account information for meter and Express Mail to test the validity of revenue reported.

Finally, to improve the controls over the revenue verification process, Postal Service program officials were developing a web-based reporting system and the contractor was developing a software application.

Between January 1996 and May 1998, Postal Service officials piloted the program in the New York Metro area. Business segments in the pilot initially comprised companies with 49 or fewer employees. At the end of the pilot, the business plan for the Sales Force Augmentation program projected revenues of approximately and estimated expenditures of \$20 to \$25 million.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

In March 1998, Postal Service officials conducted another pilot in the Atlanta, Georgia; and the San Francisco, California; Metro areas. The San Francisco pilot, which included San Jose and Oakland, was expanded to Los Angeles in July 1998. In October 1998, program managers revised the projected revenue to _____ and estimated expenditures to \$154 million for fiscal year (FYs) 1999 through 2001.

In December 1999, the Sales Force Augmentation pilot was established as a program and the Postal Service awarded a \$28 million contract to sell Postal Service expedited products. The three-year contract, with two options of two years each, has been servicing the Atlanta, San Francisco, and Los Angeles Metro areas. The contract was expanded to include nine other metro markets – New York; Boston, Massachusetts; Philadelphia, Pennsylvania; Washington, DC; Miami, Florida; Chicago, Illinois; St. Louis, Missouri; Dallas, Texas; and Denver, Colorado. Projected revenue gains for the 12 metro areas were _____ and _____ for FYs 2000, 2001, and 2002, respectively.

**Objective, Scope, and
Methodology**

Our audit objective was to determine whether the Sales Force Augmentation program achieved its objectives of increasing revenue and assessing customer satisfaction. Because the Postal Service had contracted with a company to perform a customer satisfaction survey, we limited our scope to the review of revenues claimed by the contractor.

To address our objective, we interviewed key Postal Service and contractor personnel. We reviewed program policies, procedures, and the business plan to ensure compliance. Also, we reviewed invoices and payment certifications for FY 1999 and FY 2000,¹ to validate payments. In addition, we reviewed the verification process used to make payments to the contractor. Finally, we statistically selected 509 (18 percent) of 2,470 businesses accounts for February 2000 to evaluate the adequacy of the revenue verification process. A description of the sampling process we used is included in Appendix A.

¹ FY 2000-Quarter 1.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

During the audit, we followed up on the status of corrective actions suggested in our March 30, 1999 management advisory report, Review of the Sales Force Augmentation Pilot Project – Phase II, RG-MA-99-002.

This audit was conducted from December 1999 through September 2000, in accordance with generally accepted government auditing standards and included such tests of internal controls, as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

In March 1999, we issued a report identifying six conditions that warranted continued review and action by Sales Force Augmentation program managers. We reported that:

- Continued rapid expansion of pilot required management safeguards.
- Clearer guidance was needed for baseline determination.
- Support for contractor billings needed improvement.
- Spot audits were needed as a management control.
- The Intranet system for the Sales Force Augmentation program was not yet operational.
- Coordination of delivery confirmation was vital to Sales Force Augmentation deployment.
- As a result of our observations, we provided 11 suggestions to the program office to improve management controls. The status of corrective actions taken by Postal Service management on these suggestions is discussed in Appendix B.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

AUDIT RESULTS**Accuracy of Baseline
Estimates**

Program officials could not determine whether baseline estimates used to determine increases in revenue were accurate for businesses entering the program. This occurred because the program office lacks an accurate system to determine the number of expedited products mailed through the Postal Service prior to businesses enrolling in the program. As a result, \$5.2 million in commissions paid to the contractor based on reported revenue may not have been fully justified.

Our review disclosed that 38 of 83 new businesses reviewed needed their baselines adjusted upwards. For example, during February 2000, the smallest adjustment to baseline was for 3 pieces and the largest adjustment was for 136 pieces. Even though, program officials adjusted these baselines, there was no way to determine whether adjusted baselines accurately reflected business expedited product use prior to enrolling in the program.

Telephone calls were the primary method used to verify baseline information. To verify the baseline, program officials telephoned businesses and asked them to identify the amount of expedited products they mailed prior to joining the program and whether baseline estimates gathered by the contractor sales representatives were accurate.

Each month the contractor provided program officials with a list of new businesses enrolled in the program. Program officials called each business to verify the baseline established by contract sales representatives and submitted any discrepancies identified to the contractor for input into a database. The baseline verification process was required and performed only when the business first enrolled in the program.

Once the baseline verification process was completed, program officials concentrated on verifying increased revenue reported from the business. Several program officials said once the baseline had been established, there was no need to reassess it. Following this approach, the contractor, who maintains the database of business information, could make changes to the baselines without

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Postal Service program officials detecting any changes. Even though program officials telephoned businesses to verify baselines, there was no assurance the baselines were accurate. However, controls should be implemented to ensure that baseline data is not changed after it has been established by program officials.

Recommendation

We recommend the senior vice president, Sales:

1. Develop controls to ensure that the contractor cannot change baseline data.

**Management's
Comments**

Management indicated that with the implementation of SMARTS/SFA system in October 2000, the contractor will be unable to change baseline information.

**Evaluation of
Management's
Comments**

Management's comments were responsive to our recommendation.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

**Validation of
Products Mailed by
Customers**

The process used to determine whether expedited products entered the Postal Service mail stream was inadequate. To validate products mailed, program officials telephoned and visited businesses, reviewed meter and Express Mail accounts, and tested bar coded packages. However, none of these processes verified that expedited products were mailed using the Postal Service. As a result, \$30.5 million in revenue reported by the contractor since November 1998 could not be validated.

Telephone Inquiries

In conducting telephone inquiries to verify revenue, program officials selected a minimum of 40 percent of the revenues claimed on the commission report by each sales representative or a minimum of three businesses per sales representative, whichever was greater. To verify increased revenue, Postal Service program officials telephoned businesses and asked whether expedited mail reported by the contractor sales representatives was accurate.

Also, program officials identified the difference between expedited mail products on hand and the number of expedited products issued to businesses. The contractor and program officials used this information to identify increases in revenue. If a discrepancy existed between the business estimate and the amount reported by the contractor, program officials engaged in a dialogue with the business to determine if the difference should be deducted from revenue claimed by the contractor. However, this process also did not provide assurance that products no longer in a business' inventory were actually mailed through the Postal Service.

In reviewing products reported by sales representatives, we determined that 309 of the 509² accounts included in our sample had discrepancies. Program officials had already reviewed 220 of the 509 business accounts we selected for review and determined that about 46 percent of the 220 accounts had discrepancies. In total, program officials disqualified about \$258,000 of \$1.9 million in revenue for the 466 accounts they reviewed during February 2000. Discrepancies included differences between what sales

² Five hundred and nine accounts were statistically selected to determine whether revenue claimed could be verified.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

representatives reported and businesses reported during telephone inquiries.

We verified the remaining 289 of 509 business accounts by conducting telephone interviews. Our review noted the following problems associated with the telephone inquiries:

- 22 accounts had mathematical errors in the calculation of packages mailed.
- 2 businesses had closed, but sales representatives claimed \$1,405 for 212 pieces.
- 4 businesses were still waiting for shipment of the postal product inventory.
- 5 businesses did not know who their sales representatives were.
- 11 incorrect phone numbers or points of contact were listed in the business profile to verify number of packages mailed.
- 12 businesses were too busy to respond to our questions.
- 4 businesses were not using postal products, but the contractor claimed revenue.

Overall, phone inquiries showed only three of the 289 sampled businesses could confirm they mailed the same number of products reported by the sales representatives. In addition, the review showed that revenue reported for 208 business accounts were overstated by as much as \$104,000. As a result, approximately \$104,000 of the revenue claimed by the contractor was not valid. Based on our statistical sample we projected that the program would have disallowed about \$514,000 in revenue reported by the sales representatives for February 2000 if the Postal Service had reviewed all transactions using revenue verification procedures.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Business Visits	<p>Program guidance required Postal Service officials to visit at least eight businesses per month to verify expedited mail usage reported by sales representatives. These visits were to ensure that Postal Service expedited mail services met customer expectations and sales representatives addressed businesses needs.</p>
------------------------	--

Although this process gave program officials the opportunity to interact with the customer and identified the amount of expedited supplies on hand at each business, it did not provide assurance that expedited mail was sent through the Postal Service. In addition, program officials were unable to provide documentation indicating program officials visited businesses during February 2000 because guidance did not require program officials to document the visits or the results of their visits.

Bar-Coded Label	<p>Program guidance also required quarterly delivery confirmation tests. These tests were another attempt to determine how many pieces of expedited mail were used by businesses. However, we identified several weaknesses that affected the reliability of test results.</p> <p>For example, the contractor was involved in the selection of businesses for the test. Sales representatives contacted businesses to determine whether they were willing to participate in the test. If a business chose not to participate, another business was selected. In addition, the sales representatives, who affixed the labels to the product selected, delivered test labels used to the businesses. Therefore, there was no way to determine whether the businesses or the sales representatives mailed the packages.</p>
------------------------	--

Meter & Express Mail Corporate Accounts	<p>Program officials stated that in addition to the required procedures described in the program guide, Postal Service officials had the option to use businesses' meter and Express Mail corporate accounts to determine their use of postal expedited products.</p>
--	---

We concluded there were weaknesses with this optional verification process. First, only 110 of 509 businesses reviewed listed meter accounts and only 21 of 509 businesses listed express mail corporate accounts in their profiles. In addition, even if a business had a meter

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

and Express Mail corporate account, these accounts did not show the number of pieces mailed or the type of mailing products used by the business. Thus, there was no way to determine the number of expedited products mailed through the Postal Service. Furthermore, two program officials responsible for reviewing expedited mail usage for over 100 businesses did not use Postal Service's permit system to verify expedited mail usage because they did not know how to access the data.

Therefore, this process did not provide reasonable assurance that postage paid by the customers was specifically for expedited products mailed through the Postal Service.

Recommendation	We recommend the senior vice president, Sales: 2. Recover commissions based on unsupported revenue identified.
Management's Comments	Management indicated that revenue discrepancies identified by the Office of Inspector General will be verified and revenue discrepancies will be deducted from future commissions, as appropriate.
Evaluation of Management's Comments	Management's comments were responsive to our recommendation.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Internal Controls

To improve controls over the revenue verification process Postal Service program officials developed a web-based reporting system to collect and store sales data reported by the contractor. However, the system was not implemented, because test results from January 2000 through July 2000 showed that data transmitted to the program office from the contractor contained multiple errors. Contractor data files did not contain all of the required data fields, and completed data fields were inaccurate and unreliable. Data reliability issues were still unresolved as of August 2000. For this reason, it is essential that data transmitted by the contractor be validated as part of the program office web-based reporting system.

In addition, the contractor was developing a software application to track business packages because the program office could not identify whether packages entered the Postal Service mail stream. The contractor's software application will track packages using the Postal Service's Delivery Confirmation program. Delivery confirmation data for the business accounts would also be maintained in the contractor's database and downloaded each night into the program office web-based reporting system. Therefore, the contractor's software application should be used in conjunction with the program office web-based reporting system. As of August 2000 the application was still under development. Program officials stated the contractor planned to cover expenses associated with development of the application and retain ownership of it, which could adversely affect the Postal Service's ability to negotiate future contracts.

Recommendation

We recommend the senior vice president, Sales:

3. Limit the expansion of the program until the web-based reporting system is fully operational and able to track mailing activities.

**Management's
Comments**

Management suspended the expansion of the Sales Force Augmentation program until the implementation of the SMART/SFA system and the completion of a mailing tracking system.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

**Evaluations of
Management's
Comments**

Management's comments were responsive to our
recommendation.

APPENDIX A.

STATISTICAL SAMPLING AND PROJECTIONS FOR AUDIT OF SALES FORCE AUGMENTATION PROGRAM

Purpose of the Sampling

One of the objectives of the audit was to assess the accuracy of the self-reporting of pieces used in the existing Sales Force Augmentation program. We were also interested in comparing the magnitude of the program official-audited disqualifications to the amount projected from a statistically-chosen sample. In support of these objectives, the audit team employed a two-stage sample design that allows statistical projection of both error quantities and disqualified amounts for accounts in February 2000.

Definition of the Audit Universe

The audit universe consisted of 2,470 accounts in nine locations for the month of February 2000. Express Mail, Priority Mail, and Global Priority Mail usage were included. The contractor's commission report for February 2000 was the source of the universe data.

Sample Design and Modifications

The audit used a two-stage sample design. Six of nine locations were randomly selected for review, and a total of 509 accounts were chosen for review at those six locations. The accounts at the sample locations were divided into three strata, based on the reported dollar amount of the account in the audit timeframe. This design was expected to provide a two-sided 95 percent confidence interval with a 20 percent precision, based on a preliminary sample of program official-audited accounts with a coefficient of variation (standard deviation-to-mean ratio) of approximately 2.4. For attribute analysis, an account mail type with disqualified amounts, whether over or under the audited amount, is considered to be an error. The program official-disqualified amounts and the projected disqualifiable amounts, based on the sample, use only those amounts that are considered overcharges.

Statistical Projections of the Sample Data

All results are projected to the universe of 2,470 accounts for February 2000.

The sample data were analyzed using the formulas for estimation of a population proportion and a population total for a two-stage sample with stratification at the second stage, as described in chapters 5 (stratification) and 9 (two-stage) in Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1990.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Proportion of accounts in error:

For all three mail types, the existence of an error is determined by comparing the contractor-reported quantity to the audited quantity. If zero pieces of expedited mail are claimed and the audit supports the claim of zero pieces of expedited mail, then the account is not considered to be in error for that mail type.

The number of accounts in error cannot be added across the three mail types because an account may have an error in any one or two or all three types.

Express Mail: based on projection of the sample results, we are 95 percent confident that between 871 and 1,459 accounts (35 percent to 59 percent) have errors in the reported quantities of Express Mail. The unbiased point estimate is 1,165 accounts, or 47 percent of the accounts in the universe of 2,470 accounts.

Priority Mail: based on projection of the sample results, we are 95 percent confident that between 1,165 and 1,669 accounts (47 percent to 67 percent) have errors in the reported quantities of Priority Mail. The unbiased point estimate is 1,417 accounts, or 57 percent of the accounts in the universe of 2,470 accounts.

Global Priority Mail: based on projection of the sample results, we are 95 percent confident that between 169 and 279 accounts (7 percent to 11 percent) have errors in the reported quantities of global mail. The unbiased point estimate is 224 accounts, or 9 percent of the accounts in the universe of 2,470 accounts. We note that low number of pieces of global mail by the account-holders results in many instances in which zero pieces is considered correct, leading to a low projected number of errors. While a similar situation exists for the other two mail types, the effect is most pronounced for global mail.

Projection of disqualified amounts:

Based on projection of the sample results, we are 95 percent confident that the disqualified amount should be between \$393,000 and \$635,600. The unbiased point estimate is \$514,371. The program's methodology identified a total of \$257,861 to be disqualified for the audit period. Therefore, a conservative estimate is that an additional \$135,000 is subject to disqualification within that period, and the additional amount could just as likely be up to another \$377,000.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

APPENDIX B. FOLLOW UP TO PRIOR SUGGESTIONS

In March 1999, we issued a report identifying six conditions affecting the Sales Force Augmentation program that warranted continued review and corrective actions. As a result, we provided 11 suggestions to the program office to improve management controls. The status of 6 of the 11 suggestions that were open at the beginning of the audit and corrective actions taken by Postal Service management on these suggestions are discussed below.

Suggestion Number 1

Management should continue to adhere to controls identified in the Sales Force Augmentation Strategic Plan and Process Management System to ensure successful implementation.

Status: Completed

Management has developed a process management system using *CustomerPerfect* 6.2 and a formal training module to train program officials to establish new controls.

Suggestion Number 4

Require contractors to incorporate baseline information in their software programs and ensure baseline numbers are used accurately in calculations.

Status: Partially Completed

In February 2000, the contractor incorporated baseline information in their software program. With the implementation of SMART/SFA in AP 02 FY 01, the contractor or USPS employees could not change established baselines unless the Contracting Officer Representatives authorized such changes.

Suggestion Number 7

Provide guidance to program officials on methods for performing their reviews of customer accounts, selecting a sample of both new and previous accounts for review, and examining the supporting information for contractor billings.

Status: Completed

Management incorporated a new process to select and review customer accounts to ensure that contractor data is accurate, reliable, and complete, which was incorporated into the program's manual.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Suggestion Number 8

Ensure random spot audits of customer supply inventories are performed on-site by program officials.

Status: Completed

Management has updated the program manual requiring officials to perform on-site spot audits.

Suggestion Number 9

Continue to emphasize the prompt development and deployment of the Intranet system.

Status: Not Completed

Suggestion Number 11

Explore providing financial incentives to customers that would maximize distribution to Sales Force Augmentation customers in order to measure actual products used and encourage widespread acceptance of the software.

Status: Partially Completed

Management met with the Delivery Confirmation division regarding the use of the delivery confirmation feature. Both divisions agreed the feature could be used under electronic manifesting. Program officials have worked closely with the contractor to offer delivery confirmation at no cost to the program customer, and implementation of this feature is under development.

Management Controls Over the
Sales Force Augmentation Program

MK-AR-00-002(R)

APPENDIX C. MANAGEMENT'S COMMENTS

GAIL G. SONNENBERG
SAC, NEW YORK
SAC



September 28, 2000

DEBRA S. RITT

SUBJECT: Transmittal of Draft Audit Report - Management Controls over the Sales Force
Augmentation Program (MK-AR-00-DRAFT)

This is in reference to the Office of the Inspector General (OIG) Draft Audit Report dated August 24 regarding the Sales Force Augmentation Program.

In FY 1998, Tactical Marketing and Sales Development requested the assistance of the OIG in reviewing the Sales Force Augmentation pilot (SFA), specifically concerning revenue verification, management controls, and customer satisfaction. Our intent was to deploy a quality revenue generation program that protected postal revenues while expanding our reach to a broader market base. Since that time, two audits have been conducted and Sales has worked closely with the IG to identify and correct program discrepancies. We have made adjustments and implemented recommendations made by the OIG.

With the active involvement of the IG, we have improved the program's management controls, revenue verification, and baseline procedures. In fact, the OIG's own prior written evaluations stated that "the planned and implemented actions by SFA management satisfy the intent of the OIG suggestions."

The current audit report recommends that Sales recover \$104,000 of the \$5.2 million paid in commissions since November 1998. All revenue discrepancies identified by the OIG will be verified for possible adjustment due to overpayment. The audit reflects the daily processes the SFA Program already follows. We review all revenue submitted by the contractor and disallow any that is questionable. Although the OIG audited a small portion of the customer base (about 200), we have audited almost 12,000 customers.

The audit further recommends controls to ensure baseline data cannot be changed by the contractor. With the October 2000 implementation of SMARTS/SFA (postal web based reports and audit system), once a baseline has been established the contractor will be unable to change the baseline. Finally, the audit recommends limiting the expansion of the SFA Program until additional internal controls are established. The expansion of the program was suspended in AP 07, FY 2000, pending implementation of additional management controls.

Attached you will find the Sales organization's response to the recommendations contained in the OIG audit report. Direct any questions you may have regarding the management responses to Sheri Streeter, manager, Account Support, at (703) 526-4343.


Gail Sonnenberg

Attachment
2111 WILSON BOULEVARD SUITE 1100
ARLINGTON, VA 22201-3001
703-526-2650
Fax: 703-526-2095

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

EXECUTIVE SUMMARY**Summary of OIG Recommendations:**

"We recommend the senior vice president, Sales, recover commissions based on disallowed revenues identified; develop controls to ensure baseline data cannot be changed by the contractor; and limit the expansion of the program until internal controls are established to ensure that increased revenue reported by contractor sales representatives can be verified."

Summary of Management's Comments:

All revenue discrepancies identified by the OIG will be verified for possible adjustment due to overpayment. The report recommends that Sales recover \$104,000 of the \$5.2 million paid in commissions since November 1998. All accounts are being re-verified and revenue discrepancies will be deducted from future commissions, as appropriate. Currently, we have audited approximately 12,000 customers.

SFA conducts 100 percent customer baseline audits of all new customers to validate or establish accurate customer baselines. The contractor cannot make any changes to an established baseline. With the October 2000 implementation of SMARTS/SFA (postal web based reports and audit system) once a baseline has been established the contractor will be unable to change the baseline. The baseline can then only be changed by the SMARTS/SFA systems administrator who must have a signed approval form from the Contracting Officer Representative (COR).

SFA expansion has been on hold since FY 00 AP 07.

AUDIT RESULTS**Recommendation:**

1. Develop controls to ensure that the contractor cannot change baseline data.

Response:

The contractor cannot change postal baseline numbers. With the October 2000 implementation of SMARTS/SFA (postal web based reports and audit system) once a baseline has been established the contractor will be unable to change the baseline. The baseline can then only be changed by the SMARTS/SFA systems administrator who must have a signed approval form from the Contracting Officer Representative (COR). The SMARTS/SFA system administrator is the only person with the access level to make baseline adjustments. Therefore, if the contractor makes any changes in their system once the data is downloaded to SMARTS/SFA the system will not accept the change and will utilize the baseline in our system. SMARTS/SFA will be fully implemented in the field no later than AP 02 FY 01.

Recommendation:

2. Recover commissions based on unsupported revenue identified.

Response:

The current audit report recommends that Sales recover \$104,000 of the \$5.2 million paid in commissions since November 1998. All revenue discrepancies identified by the OIG will be verified for possible adjustment due to overpayment. The audit reflects the daily processes the SFA Program already follows. We review all revenue submitted by the contractor and disallow any that is questionable. Although the OIG audited a small portion of the customer base (about 200), we have audited almost 12,000 customers.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

Recommendation

3. Limit the expansion of the program until web-based reporting system is fully operational and able to track mailing activities.

Response

Expansion of SFA has been suspended since AP 07 FY00, awaiting implementation of SMARTS/SFA and the completion of a mailing tracking system. SMARTS/SFA is currently in the testing phase and should be fully operational by AP 02 FY 01.

The contractor is currently BETA testing a USPS-approved Delivery Confirmation tracking system on Priority Mail with their customers.

APPENDIX B. FOLLOW UP PRIOR SUGGESTIONS**Condition #2**

2. Require contractors to incorporate baseline information in their software programs and ensure baseline numbers are used accurately in calculations. Status: Partially Completed

Response:

In February, the contractor had incorporated baseline information in their software program. However, the contracted sales representative had the ability to change the numbers. Changes to the baseline number could result in inaccurate calculations on commissions. Currently no contracted field employee can adjust baseline numbers. Although, the contractor can still make adjustments to the baseline numbers in their own systems, it can only be done at their Headquarters in Atlanta. With implementation of SMARTS/SFA in AP 02 FY01 this will become a moot issue. SMARTS/SFA performs all audit calculations once a baseline has been verified and established by the USPS. The contractor or USPS employees cannot change established baselines unless the Contracting Officer Representative (COR) sends written documentation to the SMARTS/SFA systems administrator authorizing the adjustment. The SMARTS/SFA system administrator is the only person with the access level to make baseline adjustments. Therefore, if any changes are made, the system will not accept the change and will utilize the baseline in SMARTS/SFA system.

Condition #5

7. Continue to emphasize the prompt development and deployment of the intranet system. Status: Not Completed

Response:

SFA is currently conducting test audits with SMARTS/SFA in the 27 sites where SFA is implemented. Historical file are being transferred from the contractor through September 15. Daily downloads are conducted and the system will be fully functional by AP 02 FY01.

**Management Controls Over the
Sales Force Augmentation Program**

MK-AR-00-002(R)

GAIL G. SONNENBERG
Special Vice President
Sales



DEBRA S. RITT

SUBJECT: Draft Audit Report - Management Controls over the Sales Force Augmentation Program (MK-AR-00)

This responds to your August 24 request for our views on the portions of the draft report that contain proprietary or other business information that may be exempt from disclosure under FOIA.

We are especially concerned for the report's value to our competitors. The contract with TIC Enterprises is a public document and United Parcel Service is aware of it. See USPS-LR-1-202 in Postal Rate Commission Docket No. R2000-1. The contract document identifies each of the 12 geographical markets targeted for SFA efforts. Separately for each such market, it sets out an independently derived projection of the total number of prospects and the aggregate revenue potential for those prospects. Because the audit in its present form quantifies the actual size of those markets as they have been developed by TIC Enterprises to date, a competitor is thus informed of the potential that its efforts might achieve, were it to target the markets with similar sales resources. In addition, the Postal Service has incurred expense, and applied its own resources to discover the actual potential that these markets hold. Publication of the audit report in its present form would give that information to competitors without the burden of similar expense and resources, providing still additional competitive advantage to them. No business practice known would support giving such sensitive information to competitors.

Accordingly, based on Exemption 4, and 39 USC 410 (c)(2), we request that all quantified actual results be redacted from the report if requested under FOIA or published on the e-FOIA web. This includes the number of accounts developed via SFA efforts, the dollar value of the revenues generated, the dollar value of the commissions paid, and by derivation, the sample data for accounts, revenues and commissions paid. Because none of the report's recommendations includes any such quantification, the specific recommendations would be unaffected by this action and our progress in implementing them can be observed.

A handwritten signature in dark ink, appearing to read "Gail Sonnenberg".

Gail Sonnenberg

cc: Mr. Lewis

2111 WALKER BLDG. SUITE 500
ARLINGTON, VA 22201-2001
FOIA-2000-0050
Fax 703-526-2006