



U.S. GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

**AUDIT REPORT
REPORT NUMBER 14-12**

**Audit of Claim for Payment
(Jacket Number 376-179)
April 22, 2014**

Date

April 22, 2014

To

Managing Director, Customer Services

From

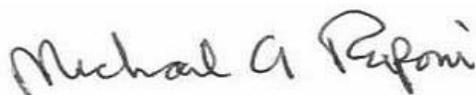
Inspector General

Subject

Audit Report—Audit of Claim for Payment (Jacket Number 376-179)
Report Number 14-12

Enclosed please find the subject final report. Please refer to the “Results in Brief” for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management’s comments responsive to the recommendations. The recommendations are resolved but will remain open pending completion of the planned corrective actions.

We appreciate the courtesies extended to the audit staff during our review. If you have any questions or comments about this report, please do not hesitate to contact Mr. Jeffrey C. Womack, Assistant Inspector General for Audits and Inspections at (202) 512-2009 or me at (202) 512-0039.



MICHAEL A. RAPONI
Inspector General

Enclosure

cc:

Public Printer

Deputy Public Printer

General Counsel

Chief of Staff

Contents

Introduction	1
Results in Brief	2
Background.....	3
Results and Recommendations.....	3
Appendix A – Objectives, Scope, and Methodology	9
Appendix B – Management’s Response	10
Appendix C - Status of Recommendations	11
Appendix D - Report Distribution	12
Major Contributors.....	13

Office of Inspector General

Report Number 14-12

April 22, 2014

Audit of Claim for Payment (Jacket Number 376-179)

Introduction

In response to concerns expressed by Customer Services in November 2013, the Office of Inspector General (OIG) evaluated a claim for payment submitted by R.R. Donnelley & Sons Company (RR Donnelley) on Jacket Number 376-179. (At GPO, jackets are sometimes referred to as work orders and contracts.) Contract specifications required that RR Donnelley provide approximately 3.8 million mailing packages consisting of a survey form, letter, flyer, and an envelope in support of the 2012 economic census survey of business owners and self-employed persons. The contract amount totaled \$561,253. GPO terminated the contract for the convenience of the Government. Subsequently, RR Donnelley submitted a settlement proposal (claim).

For this contract, GPO acted on behalf of the U.S. Census Bureau (Census Bureau) as the contracting officer. Within GPO, Customer Services is responsible for coordinating the printing, binding, and distribution requirements of Federal agencies. RR Donnelley is a Fortune 500 company that provides print and related services.

The objective of our audit was to determine whether the amounts claimed were allowable, reasonable, and allocable under the terms of the contract. To address our objective, we reviewed policies and procedures in place as of November 2013. We reviewed Jacket Number 376-179 in order to identify contract specifications. We interviewed key officials from RR Donnelley and GPO Customer Services responsible for establishing and monitoring the contract process as well as reviewing and approving the contract. We conducted our examination on site at RR Donnelley located in Seymour, Indiana from January 15 through 16, 2014. Our tests included examination and analysis of the proposed settlement costs and related supporting documentation. OIG did not evaluate GPO's compliance with laws and regulations (for example, Printing Procurement Regulations).

We conducted this limited scope audit from November 2013 through March 2014, in accordance with applicable generally accepted government auditing standards. The audit included such procedures and tests of evidence considered necessary under the circumstances. See Appendix A for details of the objective, scope, and methodology.

Results in Brief

In April 2013, GPO terminated Jacket Number 376-179 for the convenience of the Government. In May 2013, RR Donnelley submitted a claim in the amount of \$383,430. The claim was for materials (including items such as paper), labor, settlement expenses (press hold time), settlement with subcontractors, and storage. A review of the claim disclosed \$345,139 of claimed costs were not supported with sufficient documentation and in one instance the expenditure was not authorized. The questioned and unauthorized costs consisted of \$9,255 for ink expenditures, \$221,287 in common material costs, \$8,394 for labor costs, \$86,878 in settlement costs, and \$19,325 for storage costs. We attribute this to contractor oversight.

GPO's contracting officer stated that between June 3 and July 10, 2013, RR Donnelley informally revised its settlement proposal. RR Donnelley provided various documents related to the revised settlement proposal. However, GPO and RR Donnelley could not produce an executed settlement proposal. While we considered adjustments, our review was of the initial claim.

Recommendation

We recommend the Contracting Officer verify the accuracy of the amount of questioned cost, the factual circumstances giving rise to the cost, and the legal basis for disallowing the cost. After considering all relevant facts, render a final decision.

Management's Response

Management concurred with the recommendation. The complete text of management's response is in Appendix B.

Background

GPO's Print Procurement Program competitively acquires products and services from the private sector through various types of procurement vehicles tailored to the specific needs of customers. It buys products and services from more than 2,000 private sector firms in all 50 states every year.

On December 11, 2012, GPO awarded Jacket Number 376-179 to RR Donnelley on behalf of the Census Bureau. The contract was for mailing packages that consisted of a survey form, letter, flyer, and an envelope. The contract amount for 3,860,000 packages totaling \$561,253.

On January 30, 2013, the Census Bureau instructed GPO to suspend the contract requirements and place it on hold until further notice. In the interim, RR Donnelley requested partial payment to cover various costs associated with work it performed. On February 21, 2013, the Census Bureau indicated the possibility of resuming production on April 1, 2013, with completion by May 5, 2013. On April 3, 2013, however, the Census Bureau instructed GPO to terminate the contract for the convenience of the Government and determine the costs for work performed plus any legitimate reimbursable costs (including items such as receipts and invoices for materials) related to the contract.

Results and Recommendation

Overall, OIG questioned and identified unauthorized costs totaling \$345,139 for lack of adequate documentation required in support of the claim. In April 2013, GPO terminated Jacket Number 376-179 for the convenience of the Government. In May 2013, RR Donnelley submitted a settlement proposal in the amount of \$383,430. The table below depicts the details of claim.

Item	Claimed Amount	Unsupported Costs	Unauthorized Costs
Material (See Note 1 Below)	\$230,542	\$221,287	\$9,255
Labor	\$8,394	\$8,394	
Overhead	\$0		
Other Cost	\$0		
General and Administrative Expense	\$0		
Profit	\$0		
Acceptable Finished Products not Covered by Invoice	\$0		
Settlement Expenses	\$86,878	\$86,878	
Settlement with Subcontractor(s)	\$38,291		
Storage	\$19,325	\$19,325	
Other	\$0		
Total (See Note 2 Below)	<u>\$383,430</u>	<u>\$335,883</u>	<u>\$9,255</u>

Note 1: The initial claim included \$230,542 worth of material costs. On July 16, 2013, GPO executed a contract modification in the sum of \$111,400 for payment for paper procured as required under the contract. A purchase order dated June 27, 2013, reflects the RR Donnelley's sale of the paper to a third party for \$114,333. Also, documents show ink costs total \$9,255. We could not obtain any additional information needed to reconcile the material items.

Note 2: Numbers may not total due to rounding.

Contract terminations generally give rise to the incurrence of costs or the need for special treatment of costs that would not have arisen had the contract not been terminated. GPO has several publications and instructions used to guide it through this process.

GPO Publication 305.3, *Printing Procurement Regulation (PPR)*, dated February 2011, states that it was issued to: (i) prescribe uniform policies and procedures for the procurement of printing, binding, related supplies, and related services; and, (ii) provide guidance to Agency Publishing Services personnel in applying those policies and procedures. GPO Instruction 305.9, *Contract Cost Principles and Procedures*, dated May 25, 1999, is incorporated by reference with the same force and effect as if presented in full text.

GPO Instruction 305.9 prescribes principles and procedures to be followed for (a) the pricing of contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed and (b) the determination, negotiation, or allowance of costs when required by a contract clause.

The policy states, in part, a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this Instruction. The contracting officer may disallow all or part of a claimed cost which is inadequately supported.

GPO Publication 310.2, *GPO Contract Terms*, revised June 2001, Section 19 of "Contract Clauses," Subsection 19(3)(l), "Termination for the Convenience of the Government," states:

Unless otherwise provided or by statute, the contractor shall maintain all records and documents relating to the terminated portion for 3 years after final settlement. This includes all books and other evidence bearing on the contractor's costs and expenses. The contractor shall make these records and documents available to the Government, at the contractor's office, at all reasonable times, without any direct charge. If approved by the Contracting Officer, photographs, microphotographs, or other authentic reproductions may be maintained instead of original records and documents.

GPO Settlement Proposal Form 911 states in part:

The undersigned certifies that the above proposed settlement includes only charges allocable to the terminated portion of the contract, the total charges (item 14) and the disposal credits (item 15) are fair and reasonable, that pricing data in support of the proposed settlement are accurate, complete and current as of the date of submission of this settlement proposal, and that this proposal has been prepared with knowledge that it will, or may be, used directly or indirectly as a basis for settlement of a claim(s) against the United States or an agency thereof. The penalty for making false statements to the government is prescribed in 18 U.S.C. 1001.

Material Costs (Ink)

RR Donnelley claimed an unauthorized expense for specialty ink—Black and Cyan Ink. The additional cost totaled \$9,255. The contractor claimed that from previous experience (RR Donnelley performed the same job in 2010), the specialty ink was needed to help the job run properly on their machines and to hold the densities. Even with such pre-existing knowledge, the contractor did not include the cost of specialty ink in its initial bid, nor did the contractor contact the contracting officer and submit a contract modification to request the additional expense as required.

Bid specification states that a plan must include:

1. How and with what equipment the process controls, inspections, and tests will be performed.
2. Where, when, how often, and on how many components in production the process controls, inspections, and tests will be performed.
3. The name and title of the person(s) at the prime contractor and the subcontractor(s) who will perform the process controls, inspections, and tests.

Bid specifications also state for ink quality assurance, the plan must contain methods for assuring that the densitometer values of the ink on the specified paper are within tolerance. One acceptable method requires densitometer values from the ink supplier. Density tests of ink must conform to the requirements of the specification of color match.

GPO may have authorized the additional expense had RR Donnelley performed the required tests and proposed a contract modification. Our audit revealed no supporting documentation was provided to support the need for a specialty ink and supporting documentation to support the amount and cost incurred.

Labor Costs (File Preparation, Proofing, Plate Making, and Press Time)

RR Donnelley claimed expenses totaling \$8,394 for unabsorbed labor costs to produce the contracted product. The costs consist of: (1) \$656 for creative and file

preparation, (2) \$221 for proofing, (3) \$305 for plate making, and (4) \$7,211 for press time associated with press number 3550. The amount may not total due to rounding.

RR Donnelley did not, however, provide sufficient documentation to support direct and indirect labor costs claimed. Wages and salaries claimed should reasonably reflect actual efforts expended to meet the objectives of the contract and must be supported with time sheets, payroll records, and/or cost allocation accounting records or similar documents.

Settlement Costs (Press Hold Time)

The claimed expenses included \$86,878 for press down/idle time. Despite all reasonable efforts by the contractor, costs that cannot be discontinued immediately after the effective date of termination are generally allowable. Initial costs, including starting load, preparatory costs, and idle time as well as subnormal production due to testing and changing production methods are included.

Settlement costs were not consistent and lacked sufficient documentation. For example, RR Donnelley's initial claim in May 2013 reported approximately 14 days of idle time. During our site visit in January 2014, officials for RR Donnelley stated that it typically "double-books jobs to protect their interest and the Government's interest." Also, during the same visit, the contractor provided screenshots of the planned work for the periods claimed. Those documents disclosed approximately 4 days of idle time. On March 13, 2014, the contractor provided various documents claiming approximately 25 days of idle time.

As a result, we could not determine the actual amount of idle time incurred.

Storage Costs

Settlement expenses, including reasonable costs for the storage, transportation, protection, and disposition of property acquired or produced for the contract are generally allowable.

RR Donnelley claimed storage expenses in the amount of \$19,325 for the storage and handling of paper at their Seymour and Crawfordville, Indiana plant locations. Our review disclosed the cost was based on a market cost of storing and handling the paper at a commercial storage facility versus the actual storage cost for material stored at the RR Donnelley facility.

Material Costs (Paper-Common Items)

The contract details paper specifications for the survey forms, flyers, and outgoing envelopes. To cover the cost of material, RR Donnelley claimed \$230,542 in material costs which may include paper and ink costs. Based on the documentation

provided, we could not reconcile the claim amount to the contract modification and payment to Core Paper Company and ink costs.

On July 16, 2013, GPO executed a contract modification for settlement of procured paper costs to include all subcontractor claims in the amount of \$111,400. In addition to the GPO payment and with approval from GPO, RR Donnelley sold the paper to Core Paper Company, Inc. for \$114,333.

GPO Directive 305.9 states that the costs of items reasonably usable on a contractor's other work is allowable unless the contractor submits evidence that the items could not be retained without sustaining a loss. The contracting officer should consider the contractor's plans and orders for current and planned production when determining if items can reasonably be used on other work of the contractor. Contemporaneous purchases of common items by the contractor are to be regarded as evidence that such items are reasonably usable on the contractor's other. Any acceptance of common items as allocable to the terminated portion of the contract should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

While documentation was provided to demonstrate the sale price of the paper, RR Donnelley presented insufficient analysis and evidence to support the paper could not be retained without sustaining a loss.

GPO told us the paper purchase is commonly used. While the sizes may be specific to the job, it is also reasonable that the paper could have been put to use within the RR Donnelley facility. According to RR Donnelley's web site, it is a global provider of integrated communications. The company also reports it works collaboratively with more than 60,000 customers worldwide. Of all the print suppliers that obtained GPO contracts in FY 2013 through July, RR Donnelley was the second largest contractor in terms of contract awards totaling approximately \$17 million.

Recommendation

We recommend the Contracting Officer verify the accuracy of the amount of questioned cost, the factual circumstances giving rise to the cost, and the legal basis for disallowing the cost. After considering all relevant facts, render a final decision.

Management's Response. The Managing Director, GPO Customer Services reported the Contracting Officer will render a final decision after consideration of all relevant facts related to the factual circumstances giving rise to the costs and the legal basis for disallowing any portions of the claimed costs. The complete text of management's response is in Appendix B.

Evaluation of Management's Response. Management's actions are responsive to the recommendation. The recommendation is resolved but will remain open for reporting purposes pending completion of the actions.

Appendix A - Objectives, Scope, and Methodology

We performed the audit from November 2013 through March 2014 at the GPO Central Office in Washington, D.C and on site at RR Donnelley in Seymour. We conducted this limited scope audit from November 2013 through March 2014,

We performed this audit in accordance with generally accepted Government Auditing Standards, modified with the following limitations: the audit included such procedures and tests so as to provide reasonable assurance that sufficient, appropriate evidence was obtained in order to support the conclusions we reached. These procedures included:

- Evaluating whether the audited entity was following sound procurement practices;
- Assessing the extent to which legislative or regulatory requirements are being achieved;
- Assessing the reliability, validity, or relevance of financial information related to the performance of this contract and its settlement within the overall program; and
- Determining whether appropriate value was obtained, based on the cost or amount(s) claimed, or based on the amount of revenue received, for each component involved.

Objectives

The objective of our audit was to determine whether the amounts proposed were allowable, reasonable, and allocable under the terms of the contract.

Scope and Methodology

To address our objective, we reviewed policies and procedures in place as of March 2014. We reviewed Jacket Number 376-179 in order to identify contract specifications. We interviewed key officials from RR Donnelley and GPO Customer Services responsible for establishing and monitoring the contract process; and reviewing and approving the contract. We conducted our examination on-site at RR Donnelley located in Seymour, Indiana from January 15 through 16, 2014. Our tests included the examination and analysis of proposed settlement costs and related supporting documentation. OIG did not evaluate GPO's compliance with laws and regulations (for example, Printing Procurement Regulations). We did not review management controls in place at GPO or RR Donnelley.

We reviewed and considered the following: (1) GPO Instruction 305.9, *Contract Cost Principles and Procedures*, dated May 25, 1999, and (2) GPO Publication 310.2, *Contract Terms*, revised June 2001.

Appendix C - Status of Recommendations

Recommendation	Resolved	Unresolved	Open/ECD*	Closed
1	X		Estimated Completion Date Not Provided	

*Estimated Completion Date.

Appendix D – Final Report Distribution

Public Printer
Deputy Public Printer
General Counsel
Chief of Staff

Major Contributors to the Report

Patricia Mitchell, Auditor
David Schaub, Lead Auditor