



Office of Inspector General | United States Postal Service

Audit Report

Management of Highway Contract Route Contractor Failures at the New Jersey International Network Distribution Center

Report Number 21-075-R21 | March 30, 2021



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Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 30, 2021

MEMORANDUM FOR: SCOTT P. RAYMOND
EXECUTIVE DIRECTOR, EASTERN REGION LOGISTICS

A handwritten signature in black ink, appearing to read "Adam Bieda", is positioned above the "FROM:" field.

FROM: Adam Bieda
Director, Plant Evaluation Team

SUBJECT: Audit Report – Management of Highway Contract Route
Contractor Failures at the New Jersey International Network
Distribution Center (Report Number 21-075-R21)

This report presents the results of our audit of the Management of Highway Contract Route Contractor Failures at the New Jersey International Network Distribution Center.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Jeff Giordano, Operational Manager, or me at 703-248-2100.

Attachment

cc: Postmaster General
Chief Logistics and Processing Operations Officer and Executive Vice President
Vice President, Logistics
Corporate Audit and Response Management

Results

Background

This report presents the results of our self-initiated audit to assess the management of Highway Contract Route (HCR) irregularities due to contractor failure at the New Jersey International (NJI) Network Distribution Center (NDC) (Project Number 21-075). This audit was designed to provide U.S. Postal Service management with timely information on potential operational risks at this Postal Service location.

Late trips occur when various conditions cause a delay in the arrival or departure of transportation beyond the scheduled times. When trucks are late, dock expeditors¹ choose a reason code in the Surface Visibility Web scanner to provide visibility to management and accurately reflect root causes for why a trip is late. Late trip reason codes include late processing, equipment failure, traffic/construction/detour, and contractor failure.

When HCR trucks are late due to contractor failure, a Postal Service Form 5500, Contract Route Irregularity Report, is generated to document that HCR drivers did not comply with the requirements of the HCR contract. A breach of any of the requirements by a contractor, their employee(s), or their representative(s) is an irregularity. HCR irregularities consist of services not provided or provisions omitted by contractors, such as late arrivals or departures, mechanical failure, or vehicles not meeting required contract specifications. A Postal Service Administrative Official (AO)² is required to review the irregularities reported.

If an HCR contractor is at fault for a late trip, the Postal Service can pursue reimbursement for the omitted service as a chargeable irregularity. However, if the late trip is outside of the HCR contractor's control or is due to an isolated event, it is a non-chargeable irregularity, and the Postal Service cannot pursue reimbursement.

The NJI NDC is in the New York Metro Division within the Eastern Region. From January 1 to December 31, 2020, the NJI NDC had the highest number of late trips due to contractor failures in the country with 11,213.

Objective, Scope, and Methodology

Our objective was to assess the management of HCR irregularities due to contractor failure at the NJI NDC.

To accomplish our objective, we analyzed NJI NDC late trip data from January 1 to December 31, 2020, and interviewed NJI NDC plant management. We also requested documentation of meetings with contractors for originating late trips at the NJI NDC during our review period. A portion of the audit scope occurred during the novel coronavirus (COVID-19) pandemic. The Postal Service experienced increased parcel volume and decreased employee availability during this time, which impacted operations nationwide.

We relied on computer-generated data from Surface Visibility Web. Although we did not test the validity of controls over this system, we assessed the accuracy of the data by reviewing existing information, comparing data from other sources, and interviewing Postal Service officials knowledgeable about the data. Therefore, we determined the data were sufficiently reliable for the purposes of this report.

We conducted this audit from January through March 2021, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on March 17, 2021, and included their comments where appropriate.

¹ Expedite the distribution and dispatch of mail and arranges for the proper transfer of mail for incoming and outgoing trips.

² Postmasters or managers of Postal Service facilities who have been designated by the facility head or transportation manager to administer and monitor the performance of HCRs.

Finding #1: Management's Compliance with HCR Irregularity Reporting

From January 1 to December 31, 2020, the NJI NDC had 14,321 late trips, with 11,213 of the late trips being attributed to contractor failures. When late trips are the result of contractor failures, AOs are required to review the HCR irregularities reported, consult with the contractor, and take appropriate corrective action.³ However, the AO stated he was not able to complete reviews due to time constraints caused by ongoing absences of transportation and dock personnel due to the coronavirus pandemic.

The AO did state that he informally consulted with the contractors in some instances but did not take any corrective actions for the irregularities that occurred from January 1 to December 31, 2020. Since the required procedures were not followed, the Postal Service cannot subsequently take corrective action against the contractors for irregularities, including assessing penalties. Timely contractor reviews of irregularities are necessary to assist management in assessing contractor performance and implementing corrective actions when required. As a result of not reviewing irregularities, the Postal Service was unable to determine if it should have been reimbursed for omitted services or if other corrective actions should have been taken.

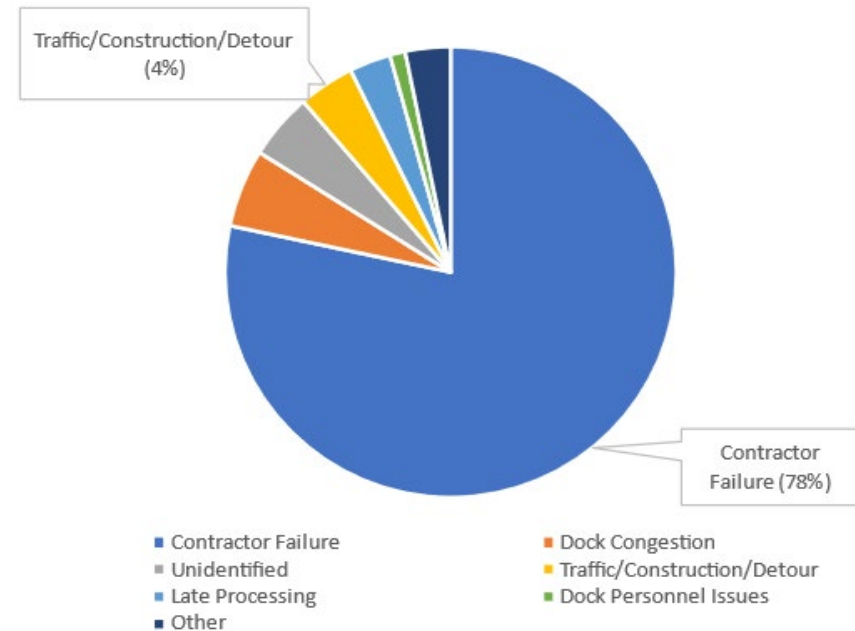
Recommendation #1:

We recommend the **Executive Director, Eastern Region Logistics**, develop a process to verify and monitor Highway Contract Route irregularities to ensure reporting procedures are followed and necessary corrective actions are taken.

Finding #2: Incorrect Late Reason Codes

From January 1 to December 31, 2020, there were 14,321 late trips departing the NJI NDC. Of those trips, 78 percent were recorded as contractor failure, 4 percent were attributed to traffic/construction/detour, and the remaining 18 percent were for other issues (see Figure 1).

Figure 1. Late Trip Reason Codes for January 1 to December 31, 2020



Source: Surface Visibility Web and Postal Service Office of Inspector General (OIG) analysis.

The Transportation and Network Specialist and AO estimated that about 70 percent of the late trips recorded as contractor failures should have been recorded as traffic/construction/detour. However, management could not provide any documentation to verify how many contractor failure records were inaccurate.

NJI NDC management stated the inaccurate records were due to inexperienced and untrained dock expeditors selecting improper reason codes. However, management had not completed a review of the records to determine which were inaccurate. When an HCR trip is late, dock expeditors must select a reason to properly document all inbound or outbound delays.⁴ When improper reason codes are selected, data integrity becomes an issue. Choosing the correct reason for late trips is not only crucial to mail visibility but vital for maintaining

³ *Postal Operations Manual*, paragraph 534.21 Administrative Officials' Actions – Review.

⁴ *Standard Operating Procedure for Delay/Irregularity Reasons*, dated November 13, 2019.

accurate transportation records. Furthermore, improper reason codes hinder management's ability to hold contractors accountable for contract performance.

Regardless of whether the reason codes were inaccurate, the trips were still late. NJI NDC management stated that many of these late trips were caused by a state highway construction project (New Jersey Routes 1 and 9 Pulaski Skyway construction project) that began in 2019 and is expected to continue into 2022. The construction resulted in intermittent lane closures, which caused increased incoming and outgoing traffic congestion and delays (see Figure 2).

Figure 2. New Jersey Routes 1 and 9 Pulaski Skyway Construction Project



Source: North Jersey Transportation Planning Authority and OIG analysis.
Note: The red lines show the New Jersey Routes 1 and 9 construction projects.

The Postal Service can use the electronic Service Change Request⁵ to request a service change for an HCR trip if extended construction on a route is causing issues. However, the Postal Service stated it has not submitted any service change requests due to the construction.

Additionally, management has not taken any action or developed a plan to account for the construction and reduce contractor late trips. As a result, late trips due to contractor failure were, on average, 98 minutes late from January 1 to December 31, 2020. When trucks depart late from a facility, there is an increased risk that the mail will be delayed and reach the ultimate destination/customer late.

Recommendation #2:

We recommend the **Executive Director, Eastern Region Logistics**, develop and deliver supplemental training to verify late reason codes are accurately reported.

Recommendation #3:

We recommend the **Executive Director, Eastern Region Logistics**, develop and implement a plan to address and reduce Highway Contract Route late trips due to the New Jersey Routes 1 and 9 construction project.

Finding #3: Semiannual Reviews

Postal Service policy requires semiannual reviews of each HCR contract⁶ to discuss transportation performance. NJI NDC management stated that while they kept in contact with HCR contractors, they did not conduct formal semiannual reviews from January 1 to December 31, 2020. Additionally, the AO was unsure if reviews were conducted in 2019 and could not provide documentation showing that reviews were completed. Semiannual reviews were not completed in 2020 because the AO was concerned about the novel coronavirus pandemic and social distancing requirements. However, policy allows the use of technology such as WebEx or teleconference to accommodate remote meetings.⁷ Timely contractor reviews are necessary to assist management in assessing contractor performance and implementing corrective actions when required. These

⁵ Postal Service Enterprise Tool for managing and controlling the submittal of requests to change service, schedule, and vehicle requirements as specified in highway contracts.

⁶ *Transportation Operations Management Order* (TOMO-001-20, dated November 8, 2019).

⁷ *Transportation Operations Management Order* (TOMO-001-20, dated November 8, 2019), Mandatory Discussion with Transportation Supplier.

discussions ensure communication with contractors is maintained and they provide safe and timely service.

Recommendation #4:

We recommend the **Executive Director, Eastern Region Logistics**, conduct and document semiannual reviews for each Highway Contract Route contractor in accordance with Postal Service policy.

Management's Comments

Management agreed with the report's findings and recommendations.

Regarding recommendation 1, management stated they will verify and monitor HCR irregularities and corrective actions, review their system semiannually, and document low performing contractors to ensure maintenance of the Postal Service's five-step accountability process for monitoring HCR irregularities. The target implementation date is May 15, 2021.

Regarding recommendation 2, management stated they will provide and document the reissuance of the "Delay Reason Code SV Web" service talk with all administrative officials and expeditors. The target implementation date is April 15, 2021.

Regarding recommendation 3, management stated they agree to evaluate options to determine whether to submit electronic Service Change Requests. Specifically, management stated they would evaluate the impact of adding or subtracting miles on overall cost and the potential for a requested rate change

based on the service change request. Further, management will determine whether paying a deviation on the existing contract would be applicable to minimizing costs. Lastly, management will evaluate arrival and departure times of HCR contractors to determine whether delays will occur in current schedules due to the construction project to avoid additional late trip payments. The target implementation date is June 30, 2021.

Regarding recommendation 4, management stated that all administrative officials responsible for semiannual reviews will complete training by April 15, 2021. Once the training is completed, the required semiannual reviews will be completed within 30 days and subsequently completed on a semiannual basis. Management will also verify and monitor irregularities and corrective actions and document low performing contractors to ensure maintenance of the Postal Service's five-step accountability process for monitoring HCR irregularities. The target implementation date is May 15, 2021.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Management's Comments



March 24, 2021

JOSEPH E. WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Management of Highway Contract Route Contractor Failures at the New Jersey International Network Distribution Center (Project Number 21-075)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) audit of "Management of Highway Contract Route Contractor Failures at the New Jersey International Network Distribution Center".

Management agrees with the findings noted in the audit report.

Management does agree with the recommendations as outlined in the audit per the responses below.

Recommendation #1

We recommend the Executive Director, Eastern Region Logistics, develop a process to verify and monitor Highway Contract Route irregularities to ensure reporting procedures are followed and necessary corrective actions are taken.

Management Response/Action Plan

Management agrees with this recommendation and will use the STAF application to verify and monitor irregularities and corrective actions. Management will document low performing contractors in STAF ensuring the five-step accountability process is being maintained. The New York Metro Director of Logistics will review the STAF application semi-annually. To request closure of this recommendation training documents on the five-step process and proper late trip reason coding will be provided for all administrative officials at the New Jersey INDC. Also screenshots from the STAF application showing the documented corrective actions taken will be provided.

Target Implementation Date

May 15, 2021

Responsible Official

Director, Logistics New York Metro Division

Recommendation #2

We recommend the Executive Director, Eastern Region Logistics, develop and deliver supplemental training to verify late reason codes are accurately reported.

Management Response/Action Plan

Management agrees with this recommendation and will provide and document the reissuance of the "Delay Reason Code SV Web" service talk with all administrative officials and expeditors. To request closure of this recommendation sign in sheets and SUT documentation will be provided.

Target Implementation Date

April 15, 2021

Responsible Official

Director, Logistics New York Metro Division

Recommendation #3

We recommend the Executive Director, Eastern Region Logistics, develop and implement a plan to address and reduce Highway Contract Route late trips due to the New Jersey Routes 1 and 9 construction project.

Management Response/Action Plan

Management agrees to evaluate options to determine whether an eSCR change would be submitted. We will need to evaluate the impact of adding or subtracting miles to overall cost and the potential for a requested rate change based upon the service change request. Also needed is an assessment of whether simply paying a deviation on the existing contract as currently written would be applicable to minimize cost. The time of arrival and departure will also be evaluated to determine whether delays will occur in current schedules due to the construction project, this would be done to avoid additional late trip payments but may not necessarily affect every trip. Due to the number of variables the assessment will take 60 to 90 days. To request closure of this recommendation a copy of the results of the evaluation including a decision on the most efficient and economically affordable alternative, if one is determined, will be provided.

Target Implementation Date

June 30, 2021

Responsible Official

Director, Logistics New York Metro Division

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Recommendation #4

We recommend the Executive Director, Eastern Region Logistics, conduct and document semiannual reviews for each Highway Contract Route contractor in accordance with Postal Service policy.

Management Response/Action Plan

Management agrees with this recommendation and will implement as follows:

HERO Training will be completed by all administrative officials responsible for the semi-annual reviews by April 15, 2021. Once completed, the required reviews for HCRs at the New Jersey INDC will be completed within 30 days – then semi-annually.

Management will use the STAF application to verify and monitor irregularities and corrective actions. Management will document low performing contractors in STAF ensuring the five-step accountability process is being maintained. The New York Metro Director of Logistics will review the STAF application semi-annually. To request closure of this recommendation HERO training documents and copies of the semi-annual reviews completed by May 15th will be provided.

Target Implementation Date

May 15, 2021

Responsible Official

Director, Logistics New York Metro Division

E-SIGNED by Scott P Raymond
on 2021-03-24 11:09:00 CDT

Scott P. Raymond
Senior Director, Region Logistics

cc: Manager, Corporate Audit & Response Management

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