



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Management and Oversight of Highway Contract Routes

Audit Report

Report Number
NL-AR-16-006

September 30, 2016





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The Postal Service has limited management and oversight of HCR contracts. The irregularity reporting process is inconsistent; systems do not provide accurate management data; and lack of controls exist over identification badges and key cards.

Background

The U.S. Postal Service spent about \$2.9 billion for about 8,200 highway contract route (HCR) contracts in fiscal year (FY) 2015. As of June 1, 2016, the number of HCR contracts has increased to over 8,300, with a projected annual cost of about \$3 billion. HCRs are competitive fixed-price contracts the Postal Service uses to hire contractors to transport mail between post offices and other designated stops.

HCR contracts are the largest single group of contracts in the Postal Service and five nationwide Postal Service Transportation Category Management Teams (TCMT) consisting of about 100 employees manage them. There are 18 contracting officers (CO) responsible for awarding, amending, terminating, and altering transportation contract provisions. In addition, about 80 support staff provides administrative support, assist with contract modifications, and work with suppliers and administrative officials (AO) on contracting activities.

COs work with over 2,100 AOs who are responsible for the daily management and oversight of 8,300 HCR contracts at the local level and for informing COs of any HCR contract performance irregularities.

Our objective was to determine if the Postal Service's management and oversight of HCRs is efficient and effective.

What The OIG Found

We determined the Postal Service has limited management and oversight of HCR contracts. First, the manual and decentralized HCR irregularity reporting process results in inconsistent reporting. In addition, the HCR Global Positioning System (GPS) and the Logistics Condition Reporting System (LCRS) does not provide accurate management data. Finally, the lack of control over HCR driver photo identification (ID) badges and key cards results in security and access issues.

This is occurring because the Postal Service needs to improve CO and AO span of control. HCR internal controls appear weak because of the limited time available for COs and AOs to manage. The 18 COs at the TCMTs must manage over 8,300 HCR contracts, or an average of 461 contracts per CO, which is approximately 4 hours a year to directly manage each HCR contract.

Each AO locally manages, on average, about four HCR contracts as an additional duty using on the job training and an outdated policy. An AO is generally a postmaster, facility manager, or a designated employee where the HCR originates. Without proper training and guidance, it can be difficult to provide daily contract management and oversight as an additional duty.



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For example, AOs manually complete the Contract Route Irregularity Reports to document HCR performance irregularities, such as failure to follow contract schedule, safety violations, unsatisfactory vehicle, or omitted service. The forms are kept in a file and copies are forwarded to the responsible CO. AOs subjectively reported these irregularities, with no direct CO supervision; therefore, because there is no centralized method to manage performance irregularities, one cannot determine if AOs are consistently reporting all contract irregularities.

In addition, the HCR GPS data collected and reported in LCRS is inaccurate and the information is not used to monitor HCR performance. The inaccurate data is due to the incompatibility of contractor GPS technology and the LCRS. The Postal Service has a plan to purchase compatible GPS equipment and anticipates the LCRS will be operational by the end of FY 2017. Without proper reporting and monitoring of HCR contract suppliers' performance, the Postal Service risks substandard contract services and delayed mail.

Finally, we identified security and control concerns related to HCR driver ID badges and key cards. For example, an HCR contractor with about 1,500 drivers estimated that about 450 to 525 of the drivers, or 30 to 35 percent, have at least two ID badges.

We also determined that HCR drivers could have more than one key card to access postal facilities even if they do not have multiple photo IDs. We estimated that with about 65,000 drivers nationwide, the Postal Service could have issued about 10,000 second badges or key cards to HCR drivers. This increases the cost to the Postal Service and security risks when HCR drivers do not turn in ID badges and key cards when they leave the job permanently.

Current policy does not address drivers having access to multiple facilities or a process to ensure drivers return ID badges and key cards to the Postal Service. We are not making a recommendation concerning this issue because a previous OIG report still has an open recommendation that covers this issue.

The Postal Service has two ongoing HCR initiatives, Dynamic Routing Optimization (DRO) and Zero Base HCR, to reduce transportation costs. The Postal Service is exploring DRO to achieve reductions in HCR and Postal Vehicle Service mileage and fuel costs. Management is using Zero Base HCR to identify excess trailer capacity and reduce duplicative HCR trips. The initiatives are supposed to be complete in November 2016 and September 2017, respectively. These initiatives could provide more efficient and effective HCR management and oversight.

What The OIG Recommended

We recommended management:

- Review and determine the adequacy of the COs' span of control and the adequacy of the AOs' oversight of HCRs.
- Develop a centralized process, such as an online spreadsheet, for AOs to report and COs to manage HCR irregularities.
- Implement annual formal training for AOs who report HCR irregularities.
- Update Postal Service Handbook PO-501, HCR Administration, to include required annual HCR training for AOs, enforce the national process for AOs to report and COs to manage HCR irregularities, implement an annual policy review process, and ensure the policy is available on the Postal Service's PolicyNet.
- Ensure GPS equipment is compatible with the LCRS so that collected HCR performance information is accurate and can be used to manage these contracts and examine opportunities to expand the use of GPS and other electronic data to manage HCR contracts.



Transmittal Letter




OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 30, 2016

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

ISAAC CRONKHITE
VICE PRESIDENT, ENTERPRISE ANALYTICS

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Management and Oversight of Highway
Contract Routes (Report Number NL-AR-16-006)

This report presents the results of our audit of the Management and Oversight of Highway Contract Routes (Project Number 16XG016NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Daniel S. Battitori, director, Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management
bcc: Chief Postal Inspector

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Findings

The HCR irregularity reporting process for such things as failure to follow contract schedules, safety violations, unsatisfactory vehicles, omitted services, and unsecured vehicles is manual and decentralized.

Introduction

This report presents the results of our audit of the U.S. Postal Service's management of highway contract routes (HCR) (Project Number 16XG016NO000). Our objective was to determine if the Postal Service's management and oversight of HCRs is efficient and effective. See [Appendix A](#) for additional information about this self-initiated audit.

The Postal Service spent about \$2.9 billion for about 8,200 HCR contracts in fiscal year (FY) 2015. As of June 1, 2016, the number of HCR contracts has increased to over 8,300, with a projected annual cost of about \$3 billion. HCRs are competitive fixed-price contracts the Postal Service uses to hire contractors to transport mail between post offices and other designated stops.

HCR contracts are the largest single group of contracts in the Postal Service and five nationwide Postal Service Transportation Category Management Teams (TCMT) consisting of about 100 employees manage them. There are 18 contracting officers (CO) responsible for awarding, amending, terminating, and altering transportation contract provisions. In addition, about 80 support staff members provide administrative support, assist with contract modifications, and work with suppliers and administrative officials (AO) on contracting activities. COs work with over 2,100 AOs who are responsible for the daily management and oversight of 8,300 HCR contracts at the local level and for informing COs of any HCR contract performance irregularities.

Summary

We determined the Postal Service has limited management and oversight of HCR contracts. First, the manual and decentralized HCR irregularity reporting process results in inconsistent reporting. In addition, the HCR global positioning system (GPS) and the Logistics Condition Reporting System (LCRS) do not provide accurate management data. Finally, the lack of control over HCR driver photo identification (ID) badges and key cards results in security and access issues. This is occurring because the Postal Service needs to improve CO and AO span of control, GPS equipment compatibility with LCRS, a reliance on manual processes, and the adequacy of its policies. We estimate more than \$1.6 million in questioned costs and \$1.3 million in funds put to better use due to issues relating to HCR management.

Highway Contract Route Irregularity Reporting

The manual and decentralized HCR irregularity reporting process results in inconsistent reporting. AOs manually complete Postal Service (PS) Form 5500, Contract Route Irregularity Report, to record HCR contractor performance irregularities. Performance irregularities can include such things as failure to follow contract schedules, safety violations, unsatisfactory vehicles, omitted services, and unsecured vehicles. When an irregularity occurs, the AO sends copies of PS Form 5500 to the HCR contractor and a copy is retained in the HCR contractor's file at the local level. AOs maintain the files and are required to forward them to the Area Office Network Operations if continued HCR irregularities occur. The Area Office Network Operations reviews the file for irregularities and decides whether to forward the HCR to the CO.

However, the AOs' decision to report these irregularities is subjective and has no direct CO supervision. As a result, there can be a lack of consistent reporting and one cannot determine if AOs report all contract irregularities. In addition, there is no centralized way for AOs or COs to manage the reported HCR contract performance irregularities, or determine irregularity types without manually looking through each HCR file. AOs individually submit scanned documentation by email or mail to COs for review. This can limit the usefulness of analyzing this data to improve oversight.

***The GPS data collected
and reported in the LCRS is
inaccurate and the information
is not used to monitor HCR
performance.***

In addition, we noted that current HCR policy is outdated¹ and does not include AO training related to HCR contract irregularities or instructions to complete the current PS Form 5500 (which has an effective date of 2008). Employees do not have access to this policy because it is not on the Postal Service's PolicyNet,² as required.³ We interviewed five AOs and learned that they rely on OJT instead of formal training to manage HCRs. The manager, Surface Transportation, said that AOs received general transportation training in FY 2015, but this training was not specific to HCRs.

The use of OJT instead of routine and specific AO training, and outdated and inaccessible guidance can result in inconsistent management of the 8,303 HCR contracts, which increases the risk of inefficiencies and increased cost to the Postal Service. External stakeholders have expressed concerns to the U.S. Postal Service Office of Inspector General (OIG) about the subjectivity of PS Form 5500 reporting.

Global Positioning System Performance Data

GPS data collected and reported in the Logistics Condition Reporting System (LCRS) is inaccurate and the information is not used to monitor HCR performance. The use of GPS technology is to provide the Postal Service with information about estimated times of arrival, near real-time location status, historical information regarding trip line of travel (often called "bread crumbs"), and HCR compliance with contract requirements. The inaccurate data captured in LCRS occurred because management did not ensure contractor GPS equipment was compatible with the Postal Service's LCRS to monitor contractor performance. Based on data reported by LCRS for 868 HCR contracts, we determined that only 48 (or 5.5 percent) met the contractor performance requirement. The manager, Surface Transportation Operations, stated that he is aware of the inaccurate LCRS data reporting and does not currently use the data to monitor contractor performance because of the incompatibility with contractors' GPS. In addition, he stated that they are working on a program to correct this issue.

Specifically, the Postal Service's Surface Transportation group is currently developing a surface transportation fleet management visibility and tracking plan to meet the needs of the market for the next decade. This plan includes the GPS Trailer Visibility Program. This program will require HCR contractors to obtain GPS equipment from a specified vendor to ensure compatibility with postal systems. A series of funding requests are planned for FYs 2016 and 2017 to increase surface transportation visibility. The benefits anticipated are increased usage and efficiencies, service improvements, and reduced surface transportation costs. The plan is to have GPS on all Postal Service-owned fleet and leased trailers by November 2016, and on all HCRs by the end of FY 2017. Based on our review of the planned investment requests, it appears the plan should provide the anticipated benefits, assuming no other issues develop during implementation.

The Postal Service has spent about \$7.6 million since FY 2010 to develop LCRS in order to collect and report HCR GPS data and monitor HCR performance. Without proper reporting and monitoring of HCR contract suppliers' performance, the Postal Service is at risk of substandard contract service and delayed mail. We estimate more than \$1.6 million in questioned costs spent on LCRS since July 2014, and \$1.3 million in funds put to better use for anticipated spending in FY 2017.

¹ Handbook PO-501, *Highway Contract Route Administration*, dated June 1981.

² A postal system used to store policies and procedures to provide employees information they need to do their jobs.

³ *Administrative Support Manual*, published July 1999 updated through December 24, 2015.

We identified security and control concerns related to HCR driver ID badges and key cards.

HCR internal controls appear weak because of the limited time available for COs and AOs to manage.

Facility Access

We identified security and control concerns related to HCR driver ID badges and key cards. We determined that HCR drivers may have multiple badges and key cards to access postal facilities and, when drivers no longer work for the HCR contractor, it is the responsibility of the supplier to retrieve these items from its former employees. For example, one HCR contractor with about 1,500 drivers estimated that about 450 to 525 of them (30 to 35 percent) have at least two ID badges.

We also determined that even if HCR drivers do not have multiple ID badges, they could have more than one key card to access postal facilities. Specifically, we determined that HCR drivers could have more than one key card to access postal facilities, even if they do not have multiple photo IDs. The Postal Service has cleared more than 65,000 HCR drivers in the last 5 years nationwide.⁴ Assuming a 15 percent duplication of badges or key cards, the Postal Service may have issued about 10,000⁵ second badges or key cards to HCR drivers.

This is because current policy⁶ does not address drivers having access to multiple facilities or have an adequate process to ensure drivers return ID badges or key cards to the Postal Service when they leave permanently.

HCR drivers who transport mail or have access to Postal Service operational areas are required to have non-sensitive clearances. Pending clearance by the U.S. Postal Inspection Service, management issues a temporary photo ID badge, PS Form 5139, Non-Postal Service Temporary Employee, for access. Once the employee has an approved clearance, the PS Form 5139 is exchanged for a photo ID badge, PS Form 5140, Non-Postal Service Contract Employee, which allows access to mail and mail processing facilities. The badge is valid for 4 years from the clearance issuance date. In addition, the HCR contractor is responsible for returning the photo ID badge or key card from any drivers who separate and no longer need access to Postal Service facilities.

The Postal Service policy for HCR drivers to have photo ID badges and key cards for access to mail and mail processing facilities is reasonable, but requiring multiple badges or key cards is not an efficient way to provide access to mail and mail processing facilities. This increases the cost to the Postal Service. In addition, without controls in place to ensure that drivers return photo ID badges and key cards when no longer needed, security is ineffective to protect the public, employees, and the mail, which could negatively affect the Postal Service brand. We are not making a recommendation concerning this issue because a previous OIG report (*Badges for Postal Service Contractors*, Report Number HR-AR-15-004, dated March 6, 2015), still has an open recommendation that covers this issue.

Contracting Officer and Administrative Official Span of Control

HCR internal controls appear weak because of the limited time available for COs and AOs to manage. Postal Service management needs to improve CO and AO span of control. The 18 COs at the TCMTs must manage over 15,900 surface transportation contracts. This number includes both 8,303 HCR and 7,629 contract delivery service (CDS) contracts. For the 8,303 HCR contracts, each of the 18 COs at the TCMTs must manage an average of 461 contracts, which is about 4 hours a year to directly manage each HCR contract. COs award, amend, terminate, and alter transportation contract provisions; and have the final authority to approve or deny access to mail or equipment and route recommendations. The 18 COs have different monetary approval levels, ranging from Level I to Level III⁷ (see [Tables 1](#) and [2](#)).

⁴ A prior OIG report titled *Badges for Postal Service Contractors* (Report Number HR-AR-15-004, dated March 6, 2015) indicated the Postal Service and Postal Inspection Service do not track and monitor contractor badges, including those issued to HCR drivers. The 65,000 HCR drivers number is an estimate from the Postal Inspection Service's list of cleared HCR drivers, assuming they all accepted a driver position after clearance approval.

⁵ Estimate represents all HCR drivers including the individual contractor in the example with 1,500 drivers using the 30 percent assumption.

⁶ Management Instruction PO-530-2009-4, *Screening Highway Transportation Contractor Personnel*, updated September 2009.

⁷ Generally, COs are delegated up to \$250,000, \$1,000,000, or \$10,000,000 of contracting authority and up to the maximum limit for orders placed against indefinite delivery contracts and ordering agreements for Level I, II, and III COs, respectively.

Table 1. CO Levels by Location

TCM Team	Level I	Level II	Level III	Total Number of TCM Team COs
Denver, CO	2		1	3
Largo, MD	1	1	1	3
Memphis, TN	4	3	1	8
Seattle, WA	1	1	1	3
Windsor, CT			1	1
Grand Total	8	5	5	18

Source: Postal Service Supply Management Surface Transportation Category Management Center (CMC) as of June 1, 2016.

Table 2. CO Contract Responsibility

TCM Team Locations	Total HCR Contracts	Total CDS Contracts	Total Contracts Combined
Central	1,812	1,388	3,200
Eastern	1,927	1,354	3,281
Northern	1,073	700	1,773
Southern	1,955	1,853	3,808
Western	1,536	2,334	3,870
Grand Total	8,303	7,629	15,932

Source: TCSS data provided by Supply Management Surface Transportation CMC as of June 1, 2016.

The 2,117 AOs help monitor HCRs at the local level, including doing HCR route surveys. AOs monitor and report to COs, as needed, on supplier-related issues such as concerns about contractor performance or unauthorized contractual commitments. The AOs are responsible for informing COs of any HCR contractor performance irregularities. Each AO locally manages, on average, about four HCR contracts using “on-the-job” training and an outdated policy (see [Table 3](#)). Without proper training and guidance, it can be difficult to provide daily contract management and oversight as an additional duty. An AO is generally a postmaster, facility manager, or a designated employee where the highway contract route originates.

The Postal Service is also relying on manual processes instead of technology such as GPS.

Table 3. AOs' TCM Team Locations and Contract Responsibilities

TCM Team	Number of AOs	Number of HCR Contracts	Average Number of HCR Contracts
Central	413	1,812	4.4
Eastern	477	1,927	4.0
Northern	292	1,073	3.7
Southern	457	1,955	4.3
Western	478	1,536	3.2
Grand Total	2,117	8,303	3.9

Source: TCSS data provided by Supply Management Surface Transportation CMC as of June 1, 2016.

Manual Processes

The Postal Service is also relying on manual processes instead of technology such as GPS. For example, the Postal Service issued a management instruction⁸ to require a review of HCR GPS compliance reports to evaluate contractor performance. As part of monthly HCR performance reviews, AOs are supposed to use the LCRS HCR tracking tool to access HCR GPS compliance reports for their HCR contractors. AOs then contact contractors that have poor GPS compliance. AOs are required to complete a PS Form 5500 for any HCR that does not meet the 95 percent compliance requirement.

Dynamic Routing Optimization and Zero Base Highway Contract Routes

The Postal Service has two ongoing initiatives to reduce HCR transportation costs: Dynamic Routing Optimization (DRO) and Zero Base HCR. The Postal Service is exploring DRO to achieve reductions in HCR and Postal Vehicle Service (PVS) mileage and fuel costs. It is performing pilots at three processing and distribution centers (P&DC) to help determine the feasibility of a national rollout. Management is using Zero Base HCR to identify excess trailer capacity and reduce duplicative HCR trips. This is a nationwide initiative and, as of Quarter (Q) 2, FY 2016, the Postal Service has reported a cost savings of about \$16.7 million from the initiative.

These initiatives are allowing the Postal Service to explore methods for reducing HCR and PVS mileage, allowing more flexible routing, optimized use of GPS data, and, ultimately, reduced overall transportation costs. The DRO and Zero Base HCR initiatives are supposed to be implemented by November 2016 and September 2017, respectively. Assuming they are successful, they could provide the Postal Service with more efficient and effective HCR management. Management does not currently know how long it would take to accomplish a nationwide rollout of the DRO.

8 Management Instruction PO-530-2013-1, *Highway Contract Route Global Positioning System*, dated May 3, 2013.

Recommendations

We recommend management review and determine the adequacy of the COs' span of control and the adequacy of the AOs' oversight of HCRs; develop a centralized process for AOs to report and COs to manage HCR irregularities; implement annual formal training for AOs who report HCR irregularities; update Postal Service Handbook PO-501; and ensure GPS equipment is compatible with the LCRS.

We recommend the vice president, Supply Management:

1. Review and determine the adequacy of the contracting officer's span of control.

We recommend the vice president, Network Operations:

2. Review and determine the adequacy of the administrative official's oversight of highway contract routes.
3. Develop a centralized process, such as an online spreadsheet, for administrative officials to report and contracting officers to manage highway contract route irregularities.
4. Implement annual formal training for administrative officials who report highway contract route irregularities.
5. Update Postal Service Handbook PO-501, *Highway Contract Route Administration*, to include required annual highway contract route training for administrative officials, enforce the national process for administrative officials to report and contracting officers to manage highway contract route contractor irregularities, implement an annual policy review process, and ensure the policy is available on the Postal Service's PolicyNet.

We recommend the vice president, Network Operations, in coordination with the vice president, Enterprise Analytics:

6. Ensure global positioning system (GPS) equipment is compatible with the Logistics Condition Reporting System Program so that collected highway contract route (HCR) performance information is accurate and can be used to manage these contracts and examine opportunities to expand the use of GPS and other electronic data to manage HCR contracts.

Management's Comments

Management agreed, in principle, with the findings; however, they believe we overstated the monetary impact with the funds put to better use as we based the calculations on a FY 2017 LCRS contract requisition funding amount. Management agrees with recommendations 1 through 4; disagrees, in part, with recommendation 5; and partially agrees with recommendation 6.

Management believes the recent reorganization of the Supply Management Transportation Portfolio structure addresses the CO span of control issue. Management has agreed to review and determine the adequacy of AO oversight by April 2017, develop a centralized process for AOs to report and COs to manage highway contractor irregularities by October 2017, and implement annual training for AO reporting of HCR irregularities by June 2017.

Despite partial disagreement with recommendation 5, management agrees to review Handbook PO-501 to determine if the outdated documents add value to the Postal Service such that it would be beneficial to update, or they may eliminate this handbook if there is adequate policy coverage in other documents by June 2017. Lastly, for recommendation 6, management is aware of the GPS compatibility issue and is working on a solution. Management will continue to ensure that the new GPS devices will accurately report up through the various systems that will use the data including LCRS by October 2017.

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

Evaluation of Management's Comments

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

Management believes the MI was overstated as the OIG calculated funds put to better use based on a FY 2017 LCRS contract requisition funding amount. However, management did not provide a new monetary impact or support for how they would calculate the impact. We believe our analysis is reasonable and without proper reporting and monitoring of HCR contract suppliers' performance, the Postal Service is at risk of substandard contract service and delayed mail.

The OIG will need additional documentation from management for recommendation 1 to ensure the restructuring will address the CO span of control issue. Although management partially disagreed with recommendation 5, their corrective action should resolve the recommendation.

Regarding recommendation 6, management partially agreed because they were aware of the issue and working on a solution, their corrective action should resolve the recommendation.

Recommendations 1 through 6 require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The 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.

Appendices

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Appendix A: Additional Information

Background

The Postal Service spent about \$2.9 billion for about 8,200 HCR contracts in FY 2015. As of June 1, 2016, the number of HCR contracts has increased to over 8,300, with a projected annual cost of about \$3 billion. HCRs are competitive fixed-price contracts the Postal Service uses to hire contractors to transport mail between post offices and other designated stops.

HCR contracts are the largest single group of contracts in the Postal Service and five nationwide Postal Service TCMTs consisting of about 100 employees manage them. There are 18 COs responsible for awarding, amending, terminating, and altering transportation contract provisions. In addition, about 80 support staff provides administrative support, assist with contract modifications, and work with suppliers and AOs on contracting activities.

COs work with over 2,100 AOs who are responsible for the daily management and oversight of 8,300 HCR contracts at the local level and for informing COs of any HCR contract performance irregularities.

Objective, Scope, and Methodology

Our objective was to determine whether if the Postal Service's management and oversight of HCRs is efficient and effective. The scope for this audit was the HCR management process.

To accomplish our objective, we:

- Reviewed procedures and criteria related to management of HCR contracts.
- Interviewed postal officials from Network Operations and Supply Management to determine what the HCR process is monitored and, if so, how.
- Met with Network Operations and Supply Management personnel to obtain an understanding of the span of control of both COs and AOs when managing HCR contacts.
- Obtained and reviewed PS Forms 5500 from AOs and reviewed them to determine efficiency and effectiveness of contract irregularity reporting.
- Reviewed, compared, and analyzed PS Forms 5500 to determine how AOs document irregularities to monitor HCR performance.
- Identified training AOs receive from the manager, Surface Transportation, to perform HCR contract monitoring.
- Reviewed HCR GPS compliance data to determine if contractors are monitored according to requirements.
- Met with AOs and contractors to understand HCR contractor badge and facility access requirements.

We conducted this performance audit from February through September 2016, in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on September 6, 2016, and included their comments where appropriate.

We did not assess the reliability of any computer-generated data for the purposes of this report. We did assess the reliability of LCRS data in terms of monitoring HCR contractor performance by reviewing existing information about the data and the system that produced them. We also interviewed the manager, Surface Transportation, who is knowledgeable about the data. Based on our analysis and interviews, the LCRS data are not sufficiently reliable for the purposes of monitoring HCR contractor performance.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Highway Contract Routes – Extra Trips in the San Francisco District</i>	NO-AR-16-002	10/6/2015	\$287,436
Report Results: Our report determined the San Francisco District could improve controls over the use and processing of extra trips and avoid about \$90,898 in FY 2016 by eliminating delayed mail. We also determined the Postal Service did not always properly authorize and document extra trips. We also determined the Postal Service made nominal interest payments in Q1, FY 2015, because PS Forms 5397 were not submitted on time, delaying payments to HCR contractors. We recommended the vice president, Pacific Area Operations, curtail extra trips by reducing processing delays, provide training on and monitor compliance with extra trip authorization forms, and ensure forms are submitted on time. Management agreed with the findings and recommendations, but disagreed with the associated monetary impact for FY 2015.			
<i>Highway Contract Routes – Extra Trips in the Greater South Carolina District</i>	NO-AR-15-008	7/22/2015	\$693,420
Report Results: Our report determined the Greater South Carolina District could improve controls over using and processing extra trips. We estimate the district could have avoided 199 extra trips totaling about \$84,307 in FY 2014, and about \$84,307 in FY 2015, by eliminating delays and missent mail. We also determined that employees did not always follow procedures for authorizing and documenting extra trips and identified about 2,800 instances of improper information on the PS Forms 5397 we reviewed. Local officials did not always review or authorize these forms and, in some cases, recorded incorrect miles for the trips. We estimate the Postal Service made some nominal interest payments in FY 2014 because PS Forms 5397 were not submitted timely, delaying payments to HCR contractors. We recommended the vice president, Capital Metro Area, implement controls and enforce procedures to avoid processing delays and missent mail to reduce HCR extra trips, train employees to properly complete extra trip authorization forms and monitor compliance, and ensure employees submit extra trip authorization forms on time. Management agreed in principle with the findings and recommendations but disagreed with the associated number of form discrepancies.			

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Highway Contract Routes – Extra Trips in the Greater Indiana District</i>	NO-AR-15-004	5/7/2015	\$1,537,201
Report Results: Our report determined the Greater Indiana District could improve controls over the use and processing of extra trips. We estimate the district could have avoided 101 extra trips totaling about \$118,000 in FY 2014, and about \$118,000 in FY 2015 by reducing the delays and missent mail. We also determined that employees did not always follow procedures for authorizing and documenting extra trips. Consequently, in FY 2014, the Greater Indiana District incurred \$1,181,651 in costs not properly supported or authorized and could incur \$110,182 in additional costs in FY 2015. Finally, we estimate the Postal Service made some nominal interest payments in FY 2014 because Postal Service Forms 5397 were not always submitted on time, delaying payments to HCR contractors. We recommended management curtail extra trips by reducing processing delays and missent mail, provide training on and monitor compliance with extra trip authorization forms, and ensure the forms are submitted timely. Management agreed in principle with the findings and recommendations but disagreed with the associated monetary impact.			
<i>Highway Contract Routes – Extra Trips – Greensboro District</i>	NO-AR-14-012	9/23/2014	\$591,443
Report Results: Our report determined that the Greensboro District could improve controls over the use and processing of extra trips. We found the district could have avoided 689 of 7,386 extra trips (9.3 percent) used to transport mail due to unnecessary mail processing delays or missent mail. We also determined that employees did not always follow procedures for authorizing and documenting extra trips and that the Postal Service made 34 interest payments because PS Forms 5397 were not submitted on time and employees were not adequately trained and monitored. We recommend management implement controls and enforce procedures to avoid processing delays and missent mail to reduce HCR extra trips, train employees on the proper completion of extra trip authorization forms and monitor compliance, and ensure employees submit extra trip authorization forms on time. Management agreed in part with the findings and agreed with all recommendations but did not agree with the monetary impact.			
<i>Late Payments for Highway Contract Routes - Indianapolis, IN, Processing and Distribution Center</i>	NO-MA-14-003	7/21/2014	\$74,000
Report Results: Our report determined the Indianapolis, IN, P&DC did not promptly process about \$74,000 in exceptional service payments from June 2013 through January 2014, with payments to HCR contractors being, on average, about 3.7 months late. We recommended management ensure management properly trains employees to prepare and promptly submit exceptional services documentation, develop a process to continually monitor locally generated exceptional services expenses, and ensure local compliance with exceptional services payment processes. Management agreed with the findings and recommendations.			
<i>Badges for Postal Service Contractors</i>	HR-AR-15-004	3/6/2015	None
Report Results: Our report determined that Postal Service personnel at eight of 18 judgmentally selected facilities did not always comply with contractor badge requirements and controls were not adequate to ensure the program was effectively managed. Twenty-nine of the 47 facilities (62 percent) did not have procedures. We recommended management revise national policy to ensure responsible personnel develop comprehensive standard operating procedures, provide formal training, and establish an oversight process to strengthen controls of the contractor badge program. Management agreed with the findings and recommendations.			

Appendix B: Management's Comments



September 28, 2016

LORI LAU DILLARD

SUBJECT: Management and Oversight of Highway Contract Routes
(Report Number NL-AR-16-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the recommendations contained in the draft audit report, Management and Oversight of Highway Contract Routes. We have reviewed the report and agree in principle with the findings. However, management believes the monetary impact may be overstated as the audit report calculated funds put to better use based upon a funding amount in a requisition, for anticipated spend in fiscal year 2017 for the Logistics Condition Reporting System (LCRS) contract. Further, while management agrees with most of the recommendations, management partially agrees to some of the recommendations stated in the audit report and will address each separately.

The following is our response to the recommendations contained in the report.

We recommend the Vice President, Supply Management:

Recommendation 1: Review and determine the adequacy of the contracting officer's span of control.

Management Response Recommendation 1: Management agrees with this recommendation. Management addressed this recommendation with the recent reorganization of its Supply Management Transportation Portfolio structure. The work under Surface Transportation will be realigned and organized by commodity, instead of geographically. Three groups within Surface Transportation will manage contracts for specifically designated commodities, regardless of the physical location of the customers. The three groups are Contract Delivery Services in Denver, Colorado; Processing Network Transportation in Memphis, Tennessee; and Local Distribution Transportation in Largo, Maryland. Each of these groups will be managed by a Manager, Transportation Contracts, management pay band position increasing management and oversight of purchasing activities. Purchasing activities have been centralized, additional technical pay band positions (senior contracting officer positions) have been added to the new structure to address previous span of control and workload issues and moving to a commodity based approach facilitates a strategic approach toward obtaining and managing Postal Service surface transportation needs. Management has reviewed and determined that with new organization structure, the contracting officer's span of control is adequate. A copy of the new organization structure is attached.

Target Implementation Date: Management requests that Recommendation 1 be closed out upon the issuance of this audit report.

We recommend the Vice President, Network Operations:

Management Response Recommendation 2: Review and determine the adequacy of the administrative official's oversight of highway contract routes.

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WASHINGTON DC 20260

Management Response Recommendation 2: Management agrees with this recommendation. Management is in the process of reviewing the roles and responsibilities of the administrative official as it relates to oversight of highway contract routes. After review is completed, any necessary modifications will be addressed.

Target Implementation Date: April 2017

Responsible Official: Manager of Surface Transportation, Network Operations

Recommendation 3: Develop a centralized process, such as an online spreadsheet, for administrative officials to report and contracting officers to manage highway contract route irregularities.

Management Response Recommendation 3: Management agrees with this recommendation. We will explore a methodology for a centralized process for administrative officials to report and contracting officers to manage highway contractor irregularities.

Target Implementation Date: October 2017

Responsible Official: Manager of Surface Transportation, Network Operations in coordination with, Manager, Surface Transportation CMC and Manager, SCM Strategies, Supply Management.

Recommendation 4: Implement annual formal training for administrative officials who report highway contract route irregularities.

Management Response Recommendation 4: Management agrees with this recommendation. Management has initiated annual training for all Network Specialists at the Area and local levels during FY16. The new training course was administered during FY16 to most Areas and the final two Areas will be completed by October 2016. Management will continue to implement annual training for administrative officials who report highway contract route irregularities.

Target Implementation Date: June 2017

Responsible Official: Manager of Surface Transportation, Network Operations

Recommendation 5: Update Postal Service Handbook PO-501, *Highway Contract Route Administration*, to include required annual highway contract route training for administrative officials, enforce the national process for administrative officials to report and contracting officers to manage highway contract route contractor irregularities, implement an annual policy review process, and ensure the policy is available on the Postal Service's PolicyNet.

Management Response Recommendation 5: Management disagrees with this recommendation in part. Management agrees to review Postal Service Handbook PO-501, *Highway Contract Route Administration*, and determine if the outdated document adds any value to the Postal Service such that it would be beneficial to update it. Alternatively, we may take steps to eliminate Handbook PO-501 if there is adequate policy coverage in other documents. For example, the processes and policies currently outlined in the Postal Operations Manual contains guidance for administrative officials to report and contracting officers to manage highway contract route contractor irregularities.

Target Implementation Date: June 2017

Responsible Official: Manager of Surface Transportation, Network Operations

We recommend the Vice President, Network Operations, in coordination with the Vice President, Enterprise Analytics:

Recommendation 6: Ensure global positioning system (GPS) equipment is compatible with the Logistics Condition Reporting System Program so that collected highway contract route (HCR) performance information is accurate and can be used to manage these contracts and examine opportunities to expand the use of GPS and other electronic data to manage HCR contracts.

Management Response Recommendation 6: Management partially agrees with this recommendation. We were already aware and working on a solution for the global positioning system (GPS) solution before this audit report. We will continue to ensure that the new GPS devices being procured will accurately report up through the various systems that will use the data, including the Logistics Condition Reporting System (LCRS).

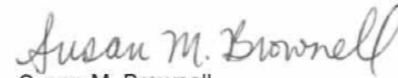
Target Implementation Date: October 2017

Responsible Official: Manager of Surface Transportation Operations, Network Operations in coordination with Manager of IT Portfolio and Visibility Systems.

If you have any questions about this response, please contact Brent Raney at (202) 268-6431 or Lori D. Savage at (202) 268-3655.



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