Highway Contract Route Electronic Payment Process

Management Advisory Report

Highlights

The Postal Service paid nearly

$2.15 billion annually for

20,420 contracts between

April 1, 2012, and March 31, 2014,

without verifying that payments

matched the services performed.

Background

Highway Contract Routes (HCRs) transport mail between post offices or other designated points and make up the largest group of transportation contracts in the U.S. Postal Service. Annual (regular) HCR contracts are competitively awarded and generally have fixed prices, with automatic prorated monthly recurring payments. Between April 1, 2012, and March 31, 2014, the Postal Service paid about $4.3 billion for 20,420 HCR contracts excluding voyager card fuel payments.

We conducted this review as a follow-up to our September 30, 2010, audit, *Certification for Electronic Payments* (Report Number CA-AR-10-006). In that audit, we found Postal Service officials did not certify about $4.8 billion in annual HCR payments from April 1, 2008, to March 31, 2010, due to insufficient oversight of the certification and electronic payment process. We recommended management implement procedures to receive invoices for annual HCR services and verify that services were rendered prior to payment. Management did not agree with our recommendation but indicated that by October 2014, they would implement a process to pay HCR suppliers based on actual miles driven.

Our objectives for this review were to evaluate whether the Postal Service has improved oversight of its annual HCR electronic payment process and to identify industry best practices.

What The OIG Found

The Postal Service still needs to improve oversight of its HCR electronic payment process. It will not meet its 2014 goal of implementing a process to pay HCR suppliers for actual miles driven due to delays in piloting a system to track transportation movement. Management encountered issues surrounding the supplier payment process and incorporating operational data and service requirements into the pilot. Also, they have not identified software that will integrate HCR tracking with supplier payments.

Management indicated they have no immediate plans to change the current payment process and, as a result, contracting officers still rely on a "pay and chase" process. This process requires administrative officials to manually submit notifications of payment adjustments for omitted services after payments have been made, which puts the Postal Service at an increased risk of issuing payments for services not rendered.

Without matching planned and actual HCR services performed prior to payment, the Postal Service cannot guarantee the amount paid to suppliers is accurate. The Postal Service paid nearly $2.15 billion annually for 20,420 contracts between April 1, 2012, and March 31, 2014, without verifying that

payments matched the services performed. We did not assess the impact of the $2.15 billion on the Postal Service's financial statements. This amount represents the annual value of the HCR contracts in our review and does not necessarily indicate an actual loss to the Postal Service.

We benchmarked against 10 organizations that have integrated payment systems and identified best practices such as the use of global positioning systems and other software and processes that match actual mileage to accounting system data. These processes could help improve oversight of the HCR payment process.

What The OIG Recommended

We recommended management revise and implement a plan to integrate HCR tracking and payment technology in the Postal Service's HCR payment process and take into account industry best practices when doing so.

Transmittal Letter

September 30, 2014

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS

John E. Cihota ●

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Supply Management

SUBJECT: Management Advisory Report – Highway Contract
Route Electronic Payment Process
(Report Number SM-MA-14-006)

This report presents the results of our review of the U.S. Postal Service's Highway Contract Route Electronic Payment Process (Project Number 14YG011SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Keshia L. Trafton, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service still needs to improve oversight of its HCR electronic payment process. Postal Service Supply Management will not meet its 2014 goal of implementing a process to pay HCR suppliers based on actual miles driven.

Introduction

This report presents the results of our self-initiated review of the U.S. Postal Service's Highway Contract Route (HCR) Electronic Payment Process (Project Number 14YG011SM000). Our objectives for this review were to evaluate whether the Postal Service has improved oversight of its annual HCR electronic payment process and to identify industry best practices. See Appendix A for additional information about this review.

HCRs transport mail between post offices or other designated points and make up the largest single group of transportation service contracts in the Postal Service. Annual HCR contracts are competitively awarded and generally have fixed prices, with automatic prorated monthly recurring payments. Between April 1, 2012, and March 31, 2014, the Postal Service issued $4.3 billion in payments for 20,420 annual HCR contracts.

The U.S. Postal Service Office of Inspector General (OIG) conducted this review to follow up on the *Certification for Electronic Payments* audit.[1] In that audit, we found that Postal Service officials did not certify about $4.8 billion in electronic payments from April 1, 2008, to March 31, 2010, for HCRs because of insufficient oversight of the certification and electronic payment process. We recommended management implement procedures for receiving invoices for annual HCR services and verify that services were rendered prior to payment. Management did not agree with all of the recommendations but, subsequently, indicated that they were developing a strategy to use electronic processes that match HCR payments to actual miles driven.

Conclusion

The Postal Service still needs to improve oversight of its HCR electronic payment process. Postal Service Supply Management will not meet its 2014 goal of implementing a process to pay HCR suppliers based on actual miles driven. The Postal Service experienced delays in piloting a real-time tracking system to record transportation movements, which should have been completed in May 2013. These delays included issues with identifying supplier payment methods and incorporating operational data and service requirements into the pilot. Also, management has not identified software to support integrating HCR tracking with supplier payments.

Management indicated they have no immediate plans to change the current payment process and, as a result, contracting officers (CO) still rely on a "pay and chase" process. This process requires administrative officials (AO) to manually submit notifications of payment adjustments for omitted services after payments have been made, which puts the Postal Service at an increased risk of issuing payments for services not rendered.

If pay is not matched with actual mileage, there is a continued risk that supplier payments are not accurate. The Postal Service paid nearly $2.15 billion annually for 20,420 contracts between April 1, 2012, and March 31, 2014, without verifying that payments matched the services performed. We did not assess the impact of the $2.15 billion on the Postal Service's financial statements. This amount represents the annual value of the HCR contracts in our review and does not necessarily indicate an actual loss to the Postal Service.

We benchmarked the Postal Service against 10 organizations that have integrated payment systems and identified best practices, such as the use of global positioning systems (GPS) and other software and processes that match actual mileage

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1   Report Number CA-AR-10-006, dated September 30, 2010.

to accounting system data. Implementing these capabilities could help improve the Postal Service's oversight of its current HCR payment process.

Postal Service Payment Verification Process

Between April 2012 and March 2014, the Postal Service made $4.3 billion in unsupported automated payments for 20,420 HCR contracts because there is no requirement to verify that payments were accurate based on the suppliers' actual mileage.

The Postal Service still needs to improve its oversight of the payment process for annual HCR contracts. Between April 2012 and March 2014, the Postal Service made $4,274,790,532 in unsupported automated payments for 20,420 HCR contracts because there is no requirement to verify that payments were accurate based on the suppliers' actual mileage. The Postal Service did not meet its goal of completing a web-based pilot to test real-time tracking of transportation movements through the Postal Service network by May 2013. Contingent upon the success and adoption of the pilot, management had planned to integrate the HCR tracking technology into the payment process to pay HCR suppliers based on actual mileage driven.

Management initiated the HCR tracking pilot in August 2014; however, because of the complexities and delays of this initiative, the Postal Service has not identified software needed to integrate the HCR tracking and payment systems. These delays included issues with identifying supplier payment methods and incorporating operational data and service requirements into the pilot. Management indicated they have no immediate plans to change the current payment process and, as a result, COs rely on a "pay and chase" process. This process requires AOs to manually submit notifications of payment adjustments for omitted services after payments have been made, which puts the Postal Service at an increased risk of issuing payments for services not rendered. Without matching planned and actual HCR services performed prior to payment, the Postal Service cannot guarantee the amount paid to suppliers is accurate. For example, COs notified the OIG Office of Investigations (OI) of at least two instances where the Postal Service continued to pay HCR suppliers for over a year for services not rendered. The OI determined that the Postal Service overpaid the two suppliers about $114,160.

Benchmarked Organizations' Electronic Payment Processes and Best Practices

We identified best practices the Postal Service could adopt in the areas of management oversight, technology, and electronic processes as part of its initiatives to track and confirm HCR movement prior to paying suppliers.

The Postal Service can use technology to improve its HCR payment structure and approach. The planned pilot to track HCR movement is a good start; however, to completely automate the electronic payment and verification process, the Postal Service needs to interface the transportation, contract, and payment systems.

We benchmarked the Postal Service's current payment process against 10 organizations, including direct competitors; a foreign post; and retail, food and beverage, and transportation and logistics companies. We identified best practices the Postal Service could adopt in the areas of management oversight, technology, and electronic processes as part of its initiatives to track and confirm HCR movement prior to paying suppliers.

Under the Postal Service's current process, the CO monitors the suppliers' performance to ensure that they fulfill all of the contract requirements. The CO sets up the contracts in the Transportation Contract Support System (TCSS)[2] and appoints an AO to monitor daily contract performance. The Postal Service pays suppliers automatically every month through its Accounts Payable Excellence (APEX)[3] system. Payment adjustments are made on an exception basis. AOs are required to notify COs of performance issues such as suppliers not arriving for their scheduled routes. If a supplier does not fulfill the terms of his or her contract, the AO must complete a Contract Route Irregularity Report[4] and forward it to the CO. The CO reviews the report to

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2   Oracle web-based application used to manage transportation contracts and related activities. TCSS allows COs to solicit awards and administer transportation contracts.
3   A commercial off-the-shelf system that automates contract payments.
4   Postal Service Form 5500, Contract Route Irregularity Report, dated September 2008.

determine the appropriate action to take, such as adjusting payments or routes. The Postal Service continues to pay suppliers monthly while adjustments are pending. Figure 1 illustrates the Postal Service's current HCR process.

Figure 1: Postal Service HCR Process

Hover over boxes for more information.

Source: Postal Service Accounts Payable Cycle memo.

Benchmarked organizations use electronic tracking processes such as scanning or an onboard mechanism to verify actual mileage or work completed. Electronic data submissions go to the accounting department, which verifies them against accounting data to ensure that services were rendered and payment information is accurate before issuing electronic payments. If electronic data submissions differ from accounting data, payments are not released until the responsible supervisor reviews and approves the adjustments. Figure 2 is an illustration of the overall payment process for the benchmarked private sector companies.

Figure 2. Sample Private Sector Process Overview

Source: OIG benchmark results.

> *Benchmarked organizations use electronic tracking processes such as scanning or an onboard mechanism to verify actual mileage or work completed. Electronic data submissions go to the accounting department, which verifies them against accounting data to ensure that services were rendered and payment information is accurate before issuing electronic payments.*

Table 1 summarizes private industry electronic payment processes for the 10 organizations we benchmarked.

Table 1: Benchmarked Organizations' Electronic Payment Processes

Benchmarked Organizations	Electronic Process Snapshot
Company A (Transportation and Logistics)	Equips carrier trucks with a kiosk system that has location tracking capabilities to easily track and report mileage and driver activity. Uses TRANSFLO[5] portal to electronically exchange billing documents and verify delivery completion. Billing department works with Transflo to confirm and verify that payment amounts match deliveries completed and execute weekly payment settlements.
Company B (Parcel)	Uses a national transportation team to oversee all contracted drivers. Tracks contactor performance through a Scan-to-Vehicle technology solution that monitors performance against assigned routes. After verification, the national transportation team distributes money through an automated payment system directly to the contractor's bank account for both national and regional contractors.
Company C (Food and Beverage)	Route mileage and rates are pre-determined using PCMiler[6] and loaded into a routing guide contained in the Oracle Transportation Management[7] ("OTM") platform. Load assignments are electronically issued through the OTM platform where carriers can accept or reject the assignment. Integration of the OTM platform with the electronic data interchange platform and the product supply platform provides the framework for the payment issuance and control process.
Company D (Transportation and Logistics)	Brought all e-payment processes in-house to limit costs and increase owner operator (contracted workers/suppliers) accountability standards. Uses a driver manager[8] program to manage and verify labor and approve payments for all owner operators. Owner operators check-in to TRANSFLO[9] scanners at fueling stations in the field to monitor progress toward assigned route and to communicate productivity to driver managers.
Company E (Parcel)	Pays long-distance contractors per mile based on a rate, route, and timeline stated during contract negotiations. Unlike long-distance contractors, local contractors are paid per package moved and facility visited. Local contractors use a hand-held scanner to keep track of their labor information, which ultimately determines their payment.
Company F (Transportation and Logistics)	Rate calculations vary based on use of the mileage-based or the percentage-based payment structure. An in-house transport management program enables carriers to select their own route schedules based on timing and rate payment. Billing documents are uploaded electronically through TRANSFLO upon delivery to facilitate weekly settlements.

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5   Industry-leading document management and workflow solution that efficiently processes and stores, and quickly retrieves critical business documents such as proof of delivery, bills of lading, packing lists, receipts, employment applications, and accident reports.
6   Mileage tool calculator used to minimize costs while using the safest, most cost-effective routing for vehicles and shipments.
7   A suite of Oracle-based systems used to support all aspects of planning, execution, and freight payment for both shippers and logistics service providers.
8   Supervises the contracted workers (owner operators/suppliers) hired to perform transportation service.
9   TRANSFLO Express® is available now at more than 1,000 truck stops throughout the U.S. and Canada and allows for immediate processing of billing, verification, and payment.

Benchmarked Organizations	Electronic Process Snapshot
Company G (Transportation and Logistics)	Uses a driver manager program to manage and verify labor and approve payments for all owner operators. Driver managers leverage on-board technology to verify that work assigned matches work completed in the field to ensure proper payment information. Upon receiving approval from driver managers, the payroll team distributes payments to owner operators via direct deposit to their bank account or to a company-issued debit card.
Company H (Parcel)	Uses a third-party fleet manager program[10] to manage and verify labor and approve payments for all owner operators. Installed GPS on vehicles to allow third-party fleet managers to track a contractor's performance in the field against the assigned workload/route. Pays contractors per mile rather than per package moved and facility visited.
Company I (Retail)	Uses a freight third-party service team to verify that contractor work in the field matches originally assigned task. Created an internal transportation management system to help track contractor performance on the road and at both the origin and destination locations. Outsources the actual payment process.
Company J (Transportation and Logistics)	Distributes payment to owner operators on a weekly basis via a debit card. The settlement department verifies the owner operator has picked up his or her assigned load at the origin and delivered it to the final destination in the allotted period prior to distributing payments.

Source: OIG analysis of private industry contractor electronic payment processes.

Leveraging data to ensure work is completed and payment amounts are accurate will likely improve the Postal Service's ability to manage HCRs.

Our analysis provides the Postal Service with multiple methods to track, reconcile, and make payments based on services rendered. Leveraging data to ensure work is completed and payment amounts are accurate will likely improve the Postal Service's ability to manage HCRs. The Postal Service will be better equipped to issue payments in line with completed work and increase both internal and supplier accountability.

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10 Monitors trips through a GPS tracking tool that aggregates miles traveled, fuel usage, and vehicle maintenance on one interface, then reconciles the miles traveled to the agreed upon trip and determines the actual pay.

Recommendations

We recommend management revise and implement a plan to integrate HCR tracking and payment technology in the Postal Service's HCR payment process and take into account industry best practices when doing so.

We recommend the vice president, Supply Management, in coordination with the vice president, Network Operations:

1. Revise and implement a plan to integrate Highway Contract Route (HCR) tracking and payment technology to verify HCR services were rendered prior to payment.

2. Explore the use of identified best practices to integrate Highway Contract Route (HCR) tracking and payment technology within the Postal Service HCR payment process to ensure the Postal Service pays suppliers based on services rendered.

Management's Comments

Management did not agree with all the findings, recommendations, and monetary impact. Management stated that changing the current process to manually verify services are performed prior to payment would result in late payments, prompt payment interest charges, and performance problems. Management also stated the Postal Service uses a primarily manual process to monitor supplier performance and to identify adjustments on an exception basis.

They further stated while an ideal control structure includes preventative and detective controls, the Postal Service has detective controls to examine contract set-up, delivery service, payment, and payment adjustments and have adequate assurance that HCR payments and payment adjustments are fairly stated. Consequently, management stated it did not seem reasonable that the entire population of HCR payments is unsupported questioned costs without considering that the Postal Service is contractually obligated to make payments for services rendered and for which a control structure exists to support such payments.

Regarding recommendation 1, management partially agreed and stated they will continue to explore automated tracking and payment technologies that provide assurance that they receive HCR services. Management could not guarantee that verification of services will be made prior to payment, but they will develop and implement a plan to integrate a technology solution, subject to business case approval and the availability of funds. The target completion date is September 30, 2015.

Regarding recommendation 2, management agreed and stated they will consider the best practices identified, and they will conduct additional market research to identify other best practices to integrate HCR service tracking and payment technologies. They also stated they would explore prudent and cost effective opportunities to improve their current process. The target completion date is June 30, 2015.

See Appendix B for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 2 and corrective actions should resolve the issues identified in the report. The OIG considers management's comments to recommendation 1 partially responsive.

The OIG agrees with management that manually verifying HCR services were performed is not practical. We did not recommend that management implement a manual process but that they integrate HCR tracking and payment technology to verify HCR services were rendered prior to payment. Further, we did not question whether the Postal Service's detective controls provide adequate assurance that HCR payments are fairly stated, as noted in management's comments. We did not conduct this audit to determine whether the payments were fairly stated. Fairly stated is a specific term used in financial statements to ensure the information in the statements is not materially misstated. This performance audit was designed to evaluate whether the

Postal Service had improved its oversight of its annual HCR electronic payments to ensure the amounts paid to suppliers were accurate and to reduce the risk of improper payments (for example, issuing payments for services not rendered).

Regarding the monetary impact, management stated it did not seem reasonable that the entire population of HCR payments is unsupported questioned costs without considering that the Postal Service is contractually obligated to make payments for services rendered and for which a control structure exists to support such payments. We are claiming unsupported questioned costs for all HCR payments because management has not improved their processes and continues to issue payments without verifying payments matched the services performed.

As management stated, the Postal Service uses a primarily manual process to monitor supplier performance and to identify adjustments on an exception basis. Management also stated their detective controls provide assurance that HCR payments and payment adjustments are fairly stated. We reviewed these control requirements and determined they do not include testing by the Postal Service as to whether adjustments to HCR electronic payments for services not rendered are properly identified.

Regarding recommendation 1, implementing a plan to integrate a technology solution that provides assurance that HCR services were received should increase the likelihood of identifying services not rendered; however, there is no substitute for the control of verifying that services were provided, as agreed, before payment is made. All 10 companies we benchmarked used technology that validated services prior to issuing payment. The Postal Service should implement similar technology.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These 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

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

HCRs provide for the transport of mail between post offices or other designated points where mail is received or dispatched and make up the largest single group of Postal Service transportation service contracts, with 9,990 contracted routes nationwide as of fiscal year 2013. Annual HCR contracts are generally competitively awarded, normally for a term of 4 years, and renewable by mutual agreement between the supplier and the Postal Service. Between April 1, 2012, and March 31, 2014, the Postal Service paid about $2.15 billion annually for 20,420 HCR contracts, excluding voyager card fuel purchases.

As of May 2014, there were 15 COs overseeing the roughly 9,990 HCR contract routes. The CO is responsible for monitoring a supplier's performance. The CO appoints an AO, who is generally the postmaster or manager of the facility where the HCR originates. AOs are responsible for ensuring suppliers comply with operational requirements and are required to notify COs of performance issues, such as a supplier not fulfilling the terms of the contract. The CO considers circumstances and past records to determine whether the Postal Service should deduct payments when services are not performed.

In our prior audit on *Certification for Electronic Payments* (Report No. CA-AR-10-006, dated September 30, 2010) we found that Postal Service officials did not certify about $4.8 billion in electronic payments for annual rate HCRs because of insufficient oversight of the certification and electronic payment process. We recommended improvements to the Postal Service's oversight process, such as implementing written procedures for receiving invoices for annual HCR services and verifying that services were rendered prior to payment. Management did not agree with all of the recommendations because the Postal Service does not require invoices for annual HCRs.

During discussions to resolve the audit recommendation, Postal Service Supply Management advised that, they planned to use technology to validate HCR services. Specifically, by May 2013, Postal Service officials had planned to test a real-time web-based tracking and reporting system to track and confirm transportation movements through the Postal Service network. If the test proved successful, management intended to integrate this technology with its transportation payment systems to pay highway contractors based on actual mileage driven.

Objectives, Scope, and Methodology

Our objectives were to evaluate whether the Postal Service has improved oversight of its annual HCR electronic payment process and to identify industry best practices.

To accomplish our objectives we:

- Interviewed Postal Service officials in Network Operations and Supply Management Surface Transportation, and at the St. Louis, MO, Accounting Service Center (ASC)[11] to understand the current payment and verification processes for HCRs.

- Obtained a universe of HCR contracts and payments made between April 1, 2012, and March 31, 2014.

- Reviewed Postal Service HCR accounts payable cycle memos and flowcharts to understand the HCR program and payment and service change request processes.

- Benchmarked the Postal Service against 10 organizations, including direct competitors; foreign posts; and retail, food and beverage, and transportation and logistics organizations, on recurring electronic payment processes, best practices, and industry standards.

We conducted this performance review from April through September 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on September 8, 2014 and included their comments where appropriate.

We obtained electronic payment information from APEX. We did not test the controls of this system; however, we reconciled monthly annual rate HCR payments to the TCSS contract data. We found no material differences and determined that the data were sufficiently reliable for the purposes of this report.

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11   The ASC makes payments for service performed after the CO sends them a certified copy of the contract.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
Global Positioning System Technology for Highway Contract Routes	NL-AR-12-009	09/21/2012	$1,678,650

Report Results: The GPS program captured limited data and did not provide useful reports for highway transportation route management. Consequently, the Postal Service was not using the program, which cost at least $1.6 million. Further, the program could be expanded to include additional routes, more reports that are actionable, data analytics, routing and fuel optimization information, and improved integration with existing Postal Service systems for enhanced transportation management. We recommended the Postal Service improve its GPS functionality by updating and reinforcing policies and procedures; improving the monitoring and validation process to ensure supplier compliance; and reviewing and updating standard system reports to facilitate monitoring of supplier compliance and performance. We also recommended adding more HCRs and reporting capabilities and exploring an end-to-end GPS platform with full-range functionality. Management agreed with all of our recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact
Survey of System Users of the Global Positioning System for Highway Contract Routes	NL-MA-12-001	08/14/2012	None

Report Results: This survey found that about 93 percent of authorized users in the field do not use the GPS to track mail, which was the primary intent of the program. Additionally, only about 10 percent of the survey respondents indicated they used HCR tracking data to assess supplier performance. Respondents further indicated that they did not receive adequate training or communication on their defined roles and responsibilities. Several respondents also remarked that the HCR Tracking Module could potentially be a useful tool. But due to difficulty in obtaining accurate and complete data, the module was not used for ongoing monitoring and tracking to ensure compliance. We did not make recommendations because the intent of this survey was to communicate to Postal Service management the insights, comments, and concerns of the system's users.

Report Title	Report Number	Final Report Date	Monetary Impact
Certification Process for Electronic Payments	CA-AR-10-006	09/30/2010	$5,580,067,649

Report Results: We found that the Postal Service made approximately $5.6 billion in electronic payments from April 1, 2008, to March 31, 2010, for various transportation, utility, and telecommunications contracts. These payments included $4.8 billion in annual rate HCR services managed by the Surface Transportation Category Management Center, approximately $666 million in utility services, and approximately $158 million in telecommunication services. Two contractors, Energy United and Profit Line, processed and paid these utility and telecommunication bills on behalf of the Postal Service. We recommended developing a mechanism to monitor receipt and certification of HCR invoices; developing and implementing written procedures for reviewing annual HCR invoices prior to payment; and having contracting officers oversee all HCR payments in APEX. Management did not agree with our recommendation but agreed to develop and implement a plan to validate HCR services.

UNITED STATES
POSTAL SERVICE

September 26, 2014

LORI LAU DILLARD

SUBJECT: Management Response – Highway Contract Route Electronic Payment Process
(Report Number SM-MA-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the recommendations contained in Draft Management Advisory Report – Highway Contract Route (HCR) Electronic Payment Process (Report Number SM-MA-14-DRAFT). Management does not agree with all of the findings, recommendations, or monetary impact associated with the draft report and will address each separately below.

The report indicated that the Postal Service made over $4.2 billion in automated payments from April 1, 2012, to March 31, 2014, for regular HCR contracts without verifying that services were rendered. The report stated that without verifying the accuracy of HCR services prior to payment, the Postal Service cannot guarantee the amount paid to suppliers is accurate. These costs were classified as unsupported questioned costs because there is no requirement to verify that payments were accurate based on the suppliers' actual mileage. Further, the report indicated that these amounts are not necessarily actual losses incurred by the Postal Service.

If we changed our current process to manually verifying that services are performed prior to payment, this most likely would result in late payments, prompt payment interest charges, and performance problems. We believe that with a manual verification process this approach would increase the operational risk of execution.

The Postal Service uses a primarily manual process to monitor supplier performance and to identify exception basis adjustments and has established controls in place to provide adequate assurance that payments and payment adjustments are made in accordance with contracts and are properly supported. While an ideal control structure includes both preventive and detective controls, the Postal Service's detective controls on HCR payments are an acceptable method of providing reasonable assurance of proper payments. The controls examine contract set-up, delivery service, payment, and payment adjustments, and have been considered to provide adequate assurance that HCR payments and payment adjustments are fairly stated.

Consequently, management does not agree with the monetary impact as it is our opinion that it does not appear reasonable to indicate the *entire* population of HCR payments as "unsupported questions costs" due to a recommendation for verification *prior* to payment and lack of linkage to actual mileage without the consideration that the Postal Service is contractually obligated to make payments for services rendered and for which a control structure exists to support such payments.

Recommendation 1: Revise and implement a plan to integrate Highway Contract Route (HCR) tracking and payment technology to verify HCR services were rendered prior to payment.

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Management Response/Action Plan: Management agrees in part. We will continue to explore automating tracking and payment technologies that provide assurance that HCR services were received. At this time, we cannot state with certainty that verification will be made prior to payment. However, we will develop and implement a plan to integrate a technology solution. Implementation of a technology solution will be subject to business case approval and the availability of funds.

Target Completion Date: September 2015

Responsible Official: Manager, Surface Transportation Category Management Center, Supply Management; Manager, Surface Transportation Operations, Network Operations; and Manager, Revenue and Field Accounting

Recommendation 2: Explore the use of identified best practices to integrate HCR tracking and payment technology within the Postal Service HCR payment process to ensure the Postal Service pays suppliers based on services rendered.

Management Response/Action Plan: Management agrees. We will consider the best practices identified, and conduct additional market research to identify best practices to integrate HCR service tracking and payment technologies within our HCR payment process to ensure that the Postal Service pays suppliers based on services rendered. We will explore opportunities for improvements to our current process that are prudent and cost effective, but not at the expense of adding significant additional cost, effort, and risks to the process.

Target Completion Date: June 2015

Responsible Official: Manager, Surface Transportation Category Management Center, Supply Management; Manager, Revenue and Field Accounting; and Manager, Surface Transportation Operations, Network Operations.

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

Susan M. Brownell
Vice President, Supply Management

David E. Williams
Vice President, Network Operations

cc: Corporate Audit and Response Management

Contact us via our Hotline and FOIA forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100