



July 17, 2008

DAVID M. PATTERSON
MANAGER, OPERATIONS SUPPORT, SOUTHEAST AREA

SUBJECT: Audit Report – Renewal Process for Highway Transportation
Contracts in the Southeast Area
(Report Number CA-AR-08-008)

This report presents the results of our audit of the U.S. Postal Service's renewal process for highway transportation contracts (Project Number 08YG001CA000). Our objective was to determine whether Postal Service officials ensured the best service and value in renewing highway transportation contracts. Specifically, we determined whether Postal Service officials assessed contract requirements to determine their appropriateness; considered past and present supplier performance; and conducted market comparisons to ensure that competition and favorable rates were achieved. Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

We could not determine whether Postal Service officials were obtaining the best service and value in renewing highway transportation contracts. Specifically, officials did not consistently assess whether contract requirements were appropriate. Additionally, officials did not consistently consider contractor performance, and did not adequately document performance consideration in contract files. However, officials did conduct market comparisons to ensure competition and favorable rates were achieved.

We calculated the value of disbursements at risk for this audit to be \$935,000 (5 percent of \$18.7 million¹). These disbursements were at risk because administrative officials (AO) did not consistently assess contract requirements and performance. Based on previous U.S. Postal Service Office of Inspector General (OIG) audits, 5 percent of highway

¹ Disbursements at risk of \$18.7 million is the sum of the point estimate of the value of the noncompliant contracts for the sample universe (\$15.6 million) and the value of the two additional contracts not included in the sample universe (\$3.1 million).

transportation routes could have been eliminated or consolidated if AO had adequately assessed requirements.

Assessment of Requirements

Postal Service officials did not consistently assess whether contract requirements were appropriate. For 49 (68 percent) of the 72 contracts reviewed, AOs² did not perform the required surveys³ and did not maintain documentation to show that they had assessed requirements. In addition, only one of the 23 surveys performed was documented in the contracting officer's (CO) file.

PO-501, *Highway Contract Route (HCR) Administration*, dated June 1981, requires that surveys be performed on all trips of each HCR in the fall of the year before the HCR expires. COs are required to remind AOs each year of the routes to be surveyed. These surveys are used to assist the COs in determining if an HCR should be renewed.

PO-530-88-03, *Conducting Highway Contract Route Surveys*, dated December 1988,⁴ states that the AO must develop and submit to the CO a route survey plan, and the CO must approve the plan before the survey is conducted. Headquarters Supply Management Surface Transportation Portfolio is finalizing a Management Instruction (MI) to replace PO-530-88-03. This MI will require the AO to develop and submit to the CO a route survey plan. However, the Manager, Transportation Networks, must approve the plan before the survey is conducted.

Full surveys for all routes on a contract may not be the most efficient manner for the AO to obtain the needed information to assess requirements. However, the CO needs adequate assurance that the AO has assessed the contract requirements for appropriateness. Therefore, during survey planning, the AO and the Manager, Operations Programs Support, should consider whether full surveys on all routes would be the best means of validating requirements.

Contract requirements were not consistently assessed because the CO did not require the AOs to perform the necessary surveys or provide support for requirements when contracts were considered for renewal. In addition, AOs did not receive clear and consistent instruction on how to communicate contract requirements, and the CO did not provide consistent training for AOs. The new MI will require that the Manager, Transportation Networks, provide training for the individuals designated to conduct surveys for transportation routes.

² An AO is designated by a CO to supervise and administer a supplier's performance of mail transportation.

³ AOs use the surveys to determine whether routes should be modified, continued, or eliminated.

⁴ This manual was in effect during our fieldwork.

As a result, the Postal Service had no assurance that all highway transportation contract requirements were assessed properly to determine whether routes should be added, streamlined, reduced, or eliminated. The Postal Service had \$935,000 of disbursements at risk because requirements were not consistently assessed, as required. Click [here](#) to go to Appendix B for our detailed analysis.

We recommend the Manager, Operations Support, Southeast Area, instruct the District Managers, Southeast Area, to require the Managers, Transportation Network, Southeast Area to:

1. Coordinate with administrative officials to develop route survey plans and ensure that surveys are conducted and sent to the contracting officer and included in the contract file when contract renewal is under consideration.

Management's Comments

Management agreed with our finding and recommendation. Management stated they will, upon the updated MI's release, instruct AOs to develop survey plans. Management did not agree with the amount of disbursements at risk. Management stated they recognize and agree that if full surveys are done on all routes, the Postal Service may realize some cost savings on some routes. However, they maintained that in today's business environment a more cost-effective and acceptable method of assessing needs is based on the recommendation of the AO. Management's comments, in their entirety, are included in [Appendix D](#).

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the actions should resolve the issue identified in the report. In regard to management's disagreement with our disbursements at risk amount, it is pertinent that the AO's assessment of contract requirements is adequate to validate the Postal Service's operational needs. If an AO requests renewal of a contract "as is" without a proper or structured assessment, there is a risk that the contract requirements will not be correct; thus we believe these disbursements are at risk. All 72 of the contracts in our statistical sample included market comparisons and the necessary support to assure adequate rate analysis. However, this does not lead us to conclude that the contract requirements are adequate.

We recommend the Manager, Operations Support, Southeast Area, instruct the District Managers, Southeast Area, to require the Managers, Transportation Network, Southeast Area to:

2. Provide training to all administrative officials to reiterate their duties and to promote the use of the eBuy Service Change Request System to submit renewal forms.

Management's Comments

Management agreed with our recommendation and stated they will begin training AOs on July 29, 2008.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the actions should resolve the issue identified in the report.

Contractor Performance

Postal Service officials did not consistently consider contractor performance during the renewal of contracts and did not include adequate documentation in contract files to show that performance was considered. The CO stated he assumes that contractor performance is adequate unless he receives complaints from AOs. However, the 72 contract files reviewed at the District Network Office (DNO) included no documentation to show that contractor performance was considered. Only two AOs had conducted surveys with documented comments on contractors' performance, and the CO did not maintain the survey forms in the contract files.

Management did not consistently consider contractor performance because the CO did not require the AOs to submit the required reports on contractor performance. Further, AOs and facility personnel did not properly document contractors' late trips. During fiscal year (FY) 2007, highway transportation contractors in the Southeast Area made 148,980 trips that were more than 30 minutes late, but only 22,018 (15 percent) of these trips were documented with Postal Service (PS) Form 5500, Contract Route Irregularity Report. If performance is not considered and documented in the contract renewal files, the Postal Service could be at risk of selecting contractors that perform poorly. Click [here](#) to go to Appendix B for our detailed analysis.

Best Practices

We observed AOs in the Capital Metro Area using a checklist to ensure requirements were reviewed before contract renewal. The checklist included questions on equipment, schedule or route changes, and contractor performance. AOs also certified the checklists with their signatures. The CO at the Capital Metro DNO maintained a copy of the AO's signed checklist in the contract files.

We recommend the Manager, Operations Support, Southeast Area, direct the District Managers, Southeast Area, to:

3. Instruct administrative officials to implement a checklist similar to that used in the Capital Metro Area to ensure requirements and contractors' performance have been appropriately considered, and submit the checklists to the contracting officer for retention in the contract file.

Management's Comments

Management agreed with our recommendation and stated they will send a notification for AOs to begin using the checklist for the 2009 renewal by August 1, 2008.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the actions should resolve the issue identified in the report.

Comparative Market Analysis

The CO conducted a market comparison for the 72 contracts for renewal to ensure competition and favorable rates were achieved. The CO also maintained the necessary support to verify the rate analysis. All of the contracts we reviewed included market comparisons and contained the necessary support to assure adequate analysis of contract rates.

The OIG considers management's comments responsive to the recommendations in the report. The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We will report \$935,000 in disbursements at risk in our *Semiannual Report to Congress*.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Judy Leonhardt, Director, Supply Management or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin, 
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Terry Wilson
Susan Brownell
Dwight Young
Karen Pompanella
Royale Ledbetter
David McClelland
Bobby Mays
Susan Witt
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

HCRs⁵ provide for the transportation of mail between post offices or other designated points where mail is received or dispatched. Regular highway transportation contracts for HCRs provide service between postal facilities, mailers' plants, and similar facilities. These contracts are generally for 4-year terms and have an optional renewal provision. There is no limitation on the number of years a contract can be renewed.

The COs at the nine area DNO⁶ and two DNO branch offices have sole authority to award, amend, terminate, or otherwise alter the provisions of highway transportation contracts. COs are also responsible for monitoring supplier performance to ensure the suppliers provide all the services and equipment required under the terms of the agreements. To monitor supplier performances, the CO appoints an AO to record contract performance on a day-to-day basis. The AO is generally the postmaster or manager of the facility where the HCR originates.

A significant number of highway transportation contracts are renewed each year. In FY 2007, 2,146 of the 8,184 (26 percent) regular highway transportation contracts were renewed. These contract renewals were valued at more than \$308.5 million. The Southeast Area DNO contracts represented 16 percent of the contracts renewed in FY 2007.

Postal Service Supply Management issued a report, *Review of Contracting Activity at the Southeast Area Distribution Networks Transportation Contracts Office*, on March 24, 2006. [REDACTED]

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether Postal Service officials ensured best service and value in renewing highway transportation contracts.

⁵ HCRs also include transportation routes, box delivery, collection service, and other mail services. Box delivery routes are similar to rural delivery service and provide home or business delivery of mail.

⁶ Each DNO coordinates Postal Service transportation operations within a geographic area.

Specifically, we determined whether Postal Service officials assessed contract requirements to determine their appropriateness; considered past and present supplier performance; and conducted market comparisons to ensure competition and favorable rates were achieved.

To accomplish our audit objective, we sampled⁷ highway transportation contracts renewed in FY 2007 within the Southeast Area. We interviewed officials and reviewed contract files at the Southeast Area DNO. In addition, we interviewed the CO and AOs assigned to the contracts in our sample.

We conducted this performance audit from February through July 2008 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.

Headquarters Supply Management Surface Transportation Portfolio personnel provided us with a list of highway transportation contracts that were current as of September 30, 2007. To support our reliance on the data, we performed a limited review of data integrity by reconciling the contract files reviewed to our sample taken from the list. We discussed our observations and conclusions with management officials on May 14, 2008, and included their comments where appropriate.

⁷ The samples included 70 files valued at \$10,802,534, which were statistically selected from a universe of 150 contracts valued at \$24,003,588, and two files valued at \$3,154,500, which were judgmentally selected.

PRIOR AUDIT COVERAGE

We identified two OIG reports issued within the past 5 years related to this subject matter within the Southeast Area.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Highway Network Scheduling – Southeast Area</i>	TD-AR-03-014	9/26/2003	\$11.3 million	<ul style="list-style-type: none"> • The Postal Service could save \$11.3 million by canceling 101 unnecessary trips over a 1- to 3-year period. The trips could be terminated because mail volume was low, and mail could be consolidated on other trips without negatively affecting service. • Management concurred with the intent of the findings and recommendations.
<i>Surface Transportation – Bulk Mail Center Highway Transportation Routes – Southeast Area</i>	NL-AR-05-005	3/18/2005	\$6.6 million	<ul style="list-style-type: none"> • The Postal Service could save \$6.6 million over the term of existing Southeast Area bulk mail highway contracts by canceling, not renewing, or modifying 52 trips. The trips could be eliminated or modified without negatively affecting service. The audit disclosed that mail volume was low and mail could be consolidated on other trips. • Management agreed with the findings and recommendations.

APPENDIX B: DETAILED ANALYSIS

Assessment of Requirements

Postal Service officials did not consistently assess whether contract requirements were appropriate. For 49 (68 percent) of the 72 contracts we reviewed, AOs did not perform the required survey and did not maintain evidence to show that they had assessed requirements. In addition, only one of the 23 surveys was documented in the CO's file.

PO-501 requires that surveys be performed on all trips of each HCR in the fall of the year before the HCR expires. COs are required to remind AOs each year of the routes to be surveyed. These surveys are used to assist the COs in determining whether an HCR should be renewed.

PO-530-88-03 states that the AO must develop and submit to the CO a route survey plan and the CO must approve the plan prior to the survey being conducted. Headquarters Supply Management Surface Transportation Portfolio is finalizing a MI to replace PO-530-88-03. This MI would require the AO to develop and submit to the CO a route survey plan. However, the Manager, Transportation Networks, must approve the plan before the survey is conducted.

Full surveys for all routes on a contract may not be the most efficient manner for AOs to obtain the needed information for assessing requirements. However, the CO needs adequate assurance that the AO has assessed the contract requirements for appropriateness. Therefore, during survey planning, the AO and the Manager, Operations Programs Support, should consider whether full surveys on all routes would be the best means of validating the requirements.

Contract requirements were not consistently assessed because the CO did not require AOs to perform the necessary surveys or provide other support for assessing requirements when contracts were considered for renewal. In addition, AOs did not receive clear and consistent instruction on how to communicate contract requirements to the Southeast Area Office. The CO advised most AOs to conduct surveys only if the CO or supplier requested them or if a change in service occurred.

Further, the CO did not provide consistent training for AOs, and the *AO Handbook for the Southeast Area* had not been updated since 1999. The CO's staff stated that they would update the handbook based on the newly released MI, from Headquarters Supply Management Surface Transportation Portfolio. Some AOs stated their most recent training was several years ago. The CO stated that his staff provided training when an office or a facility made a request, and there was no prescribed schedule for

training. The new MI will require that the Manager, Transportation Networks, provide training for employees designated to conduct surveys for all transportation routes.

In addition, the AOs did not fully utilize the eBuy Service Change Request (SCR) system to submit renewal surveys. The SCR system automates the process of requesting service changes in an HCR and can generate annual surveys. However, AOs did not consistently use the SCR system to complete and send surveys to the CO. Instead, some AOs emailed the CO, stating that the contract was to be renewed as is (with no changes). Surveys must be completed whether the contract is renewed as is or with changes made using the SCR system so that contract requirements are adequately assessed at the appropriate intervals.

As a result, the Postal Service had no assurance that all highway transportation contract requirements were assessed properly to determine whether routes should be added, streamlined, reduced, or eliminated. The Postal Service had \$935,000 of disbursements at risk because support requirements were not consistently assessed, as required. If the control weaknesses continue, funds may be at risk in the future. See [Appendix C](#) for our calculation of disbursements at risk.

Contractor Performance

Postal Service officials did not consistently consider contractor performance during the renewal of contracts and did not adequately document performance consideration in the contracting files. Only two AOs had conducted surveys with documented comments on contractors' performance, and the CO did not maintain the survey forms in the contract files.

The CO stated he assumed that contractor performance was adequate unless he received complaints from AOs. During our review of the contract files, we found no written evidence of disciplinary action against a contractor or support for acceptable performance by a contractor.

The SCR system provides AOs with instructions for renewing HCRs. Specifically, the AO should complete PS Form HC113, Postmaster Evaluation of Supplier, along with the survey. AOs should use PS Form HC113 to evaluate and document the supplier's performance on the route. The evaluation should also include any PS Forms 5500⁸ on file and notes of discussions with the contractor.

Further, AOs and facility personnel did not properly document contractors' late trips. During FY 2007, highway transportation contractors in the

⁸ PS Form 5500, Contract Route Irregularity Report, is used to record contractors' performance.

Southeast Area made 148,980 trips that were more than 30 minutes late, but only 22,018 of these trips were documented with PS Form 5500.

The CO should also receive an efficiency report on each contractor at the end of each accounting period, and should request other performance reports as necessary from the AO.⁹ However, the CO did not solicit any reports from AOs to use in assessing contractor performance. It is essential for the CO to consider the contractor's performance during the renewal of a contract and document it in the contract file. If performance is not considered and documented in the contract renewal files, the Postal Service could be at risk of selecting contractors that perform poorly.

Best Practices

We observed AOs in the Capital Metro Area using a checklist to ensure that requirements were reviewed before contract renewal. The checklist included questions on equipment, schedule or route changes, and contractor performance. AOs also certified the checklists with their signatures. The CO at the Capital Metro Distribution Network Office maintained a copy of the AO's signed checklist in the contract files.

Comparative Market Analysis

The CO conducted a comparative market analysis for the 72 contracts for renewal to ensure that competition and favorable rates were achieved. The CO also maintained the necessary support to verify the rate analysis.

⁹ *Administrative Official Handbook for the Southeast Area*, Section 11, HCR Performance Tracking System.

APPENDIX C: CALCULATION OF DISBURSEMENTS AT RISK

We performed a simple random sample of 70 contracts from a universe of 150 contracts, valued at \$24 million. AOs for 49 of the 70 contracts reviewed did not conduct surveys to assess contract requirements and performance. The point estimate of the value of the noncompliant contracts for the sample universe is \$15.6 million, at a 95 percent confidence level; this value is in the interval between \$11.1 and \$20 million. In addition, the audit team identified two other contracts, not included in the sample universe, with no surveys on file. These contracts have a total value of \$3.15 million. Therefore, the total estimated value of contracts without surveys on file is \$18.7 million.

Based on previous OIG audits, 5 percent¹⁰ of highway transportation routes in the Southeast Area could have been eliminated or consolidated if AOs had adequately assessed requirements. We conservatively calculated the value of disbursements at risk for this audit at \$935,000 – 5 percent of \$18.7 million – which we will report in our *Semiannual Report to Congress*.

Table 1. Contract Samples and Values

	Number of Contracts Sampled	Number of Contracts in Universe	Universe Value
Statistical Sample	70	150	\$24,003,588
Judgmental Sample	2	2	3,154,500
Total	72	152	\$27,158,088

Table 2. Contracts with No Renewal Survey

	Number of Contracts Without Survey	Value of Contracts	Disbursements at Risk
Statistical Sample	47	\$7,267,723	\$15,600,000
Judgmental Sample	2	3,154,500	3,154,500
Total	49	\$10,422,223	\$18,754,500
Total Disbursements at Risk with 5 Percent Applied			\$935,000

¹⁰ We calculated the 5 percent based on the number of routes the OIG recommended for elimination in two prior audit reports: (1) *Bulk Mail Center Highway Transportation Routes - Southeast Area* (Report Number NL-AR-05-005, dated March 18, 2005), and (2) *Highway Network Scheduling - Southeast Area* (Report Number TD-AR-03-014, dated September 26, 2003). (See Prior Audit Coverage.)

APPENDIX D: MANAGEMENT'S COMMENTS

OPERATIONS SUPPORT
SOUTHEAST AREA



July 9, 2008

BRIAN NEWMAN
ACTING DIRECTOR OF AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report-Postal Service Renewal Process for Highway
Transportation Contracts in the Southeast Area

As requested, this is the Southeast Area's response to the findings and recommendations referenced in the Draft Audit Report Renewal Process for Highway Transportation Contracts in the Southeast Area (Report Number CA-AR-08-DRAFT) dated June 16, 2008.

Findings: *That the Postal Service did not consistently assess whether contract requirements were appropriate, nor did they consistently consider contractor performance during contract renewals.*

That the value of disbursements at risk for this audit is \$935,000.00. These disbursements are at risk due to the aforementioned findings.

The Southeast Area does not agree with the amount of at-risk disbursements. We recognize and agree that if full surveys are done on all routes, some cost savings on some routes might be realized. However, in today's business environment, a more cost-effective and acceptable method of assessing needs is based on the recommendation of the Administrative Official (AO). Frequently, requests are made to renew "as is" and these are accepted to continue service "as is".

The report noted that "[A] Eleven (11) of the contracts we reviewed included market comparisons and contained the necessary support to assure adequate analysis of contract rates."

Recommendation: *Coordinate with AOs to develop route survey plans and ensure that surveys are conducted and sent to the Contracting Officer (CO) and included in the contract file when contract renewal is under consideration.*

As indicated in the Assessment of Requirements, PO-501 dated June 1981 and Management Instruction (MI) PO-530-88-03 dated December 1988 reflect instructions to survey each route to be renewed.

Further stated is that an updated MI is forthcoming regarding these requirements. This MI will instruct AOs to develop and submit a route survey plan. Since it is recognized

225 N HUMPHREYS BOULEVARD
MEMPHIS TN 38166-0860
TEL: 901-747-7400
FAX: 901-747-7491

that full surveys of all routes may not be a fiscally responsible decision in today's business environment, these plans will include evaluation from the AOs and the Managers, Operations Programs Support (MOPS), as well as the CO.

The Southeast Area plan, therefore, is to instruct the District Managers to require the Managers, Transportation/Networks (TANS) to ensure the AOs complete the route survey plan. We will implement this once the referenced updated MI is received from Headquarters Supply Management Surface Transportation Portfolio.

Date for completion: Upon receipt of the referenced updated MI.

Recommendation: *Provide training to all AOs to reiterate their duties and to promote the use of the eBuy Service Change Request System (SCRS) to submit renewal forms.*

The SE Area Distribution Networks Office will organize AO training.

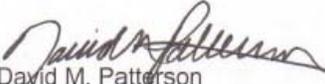
Date for completion: Training to begin on July 29, 2008.

Recommendation: *Instruct AOs to implement a checklist similar to that used in the Capital Metro Area to ensure requirements and contractors' performance have been appropriately considered, and submit the checklists to the CO for retention in the contract file.*

Subsequent to the audit, the CO has obtained the Capital Metro checklist that has been referenced. This checklist will be sent out along with instructions for accurate and timely completion.

Date for completion: Notification of the requirements will be completed by August 1, 2008. Actual checklist usage will begin for the 2009 renewals and be included in the normal notification process beginning in August.

Thank you for the opportunity to comment on the draft report.


David M. Patterson
Manager, Operations Support

cc: Katherine S. Banks, Manager, Corporate Audit and Response Management
Terry J. Wilson, Vice-President, Area Operations
David J. McClelland, Manager, Distribution Networks