



February 27, 2009

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VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Postal Service Oversight of Extra Highway Transportation Contract Trips (Report Number CA-AR-09-003)

This report presents the results of our self-initiated audit of the U.S. Postal Service's oversight of extra highway transportation contract trips (Project Number 08YG026CA000). Our objective was to evaluate how effectively Postal Service officials were monitoring and controlling the costs of extra highway transportation contract trips. This audit addresses risks to Postal Service operations. See [Appendix A](#) for additional information about this audit.

Conclusion

Postal Service officials could improve their monitoring and controlling of costs of extra highway transportation contract trips. We statistically projected at least \$67,384,799¹ of unrecoverable unsupported questioned costs² due to officials not properly authorizing extra highway transportation contract trip costs. We also calculated \$579,171 of unrecoverable unsupported questioned costs and \$69,394 of recoverable questioned costs³ due to overpayment of extra highway transportation contract trip costs.

Monitoring Extra Highway Transportation Contract Trip Costs

Postal Service officials could improve their monitoring of extra highway transportation contract trip costs. Officials paid approximately \$6.4 million for more than 40,000 extra trips that were documented, but not properly authorized, on PS Forms 5397,⁴

¹ We projected these costs at a 95 percent confidence level based on the value of Postal Service (PS) Forms 5397, Contract Route Extra Trip Authorizations, which were not properly signed by Postal Service supervisors, from a universe of \$131 million.

² Unrecoverable unsupported questioned costs are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are also not supported by adequate documentation. We questioned these costs because required procedures were not followed.

³ Recoverable questioned costs are unnecessary, unreasonable, or an alleged violation of laws or regulations. We determined that the Postal Service could recover at least \$69,394 of these costs from the supplier. Management has taken corrective actions to recover the overpayment.

⁴ A PS Form 5397 is issued to the contractor to request extra highway transportation services.

and did not record 401 (42 percent) of the 956 extra highway transportation trips we reviewed in the Transportation Information Management Evaluation System (TIMES-Web).⁵ Employees did not obtain supervisors' signatures to authorize trips because the common practice was to allow craft employees (such as expeditors, clerks, group leaders, and mail handlers)⁶ to sign PS Forms 5397. However, Postal Service policy requires a supervisor to authorize extra trips. This policy provides a necessary internal control — separation of duties. Because officials did not follow the required authorization procedures, the Postal Service incurred at least \$67,384,799 of unrecoverable unsupported questioned costs,⁷ which we will report in our *Semiannual Report to Congress*. See [Appendix C](#) for our calculations of unrecoverable unsupported questioned costs.

Further, some employees did not follow proper procedures to record trips in TIMES-Web, which provides data for management to determine resources and route schedules. This occurred because associate offices did not have access to TIMES-Web. In addition, trip diversions could not be entered into TIMES-Web because the Surface Visibility (SV)⁸ system did not allow modifications to trip schedules. Management stated that SV downtimes prevented the entering of trip data. Because TIMES-Web data was not always entered, management did not have the necessary data to make adequate decisions regarding transportation requirements.

We noted monitoring practices at the Santa Clarita Processing and Distribution Center (P&DC) that are worthy of consideration as best practices throughout the Postal Service. The Transportation Manager at this facility held a cross-functional meeting with the Plant Manager, District Manager, Manager of Postal Operations, and the Postmaster to review and analyze each trip. Because of this practice and other initiatives, the Santa Clarita P&DC reduced its costs for extra trips by \$1.1 million (47 percent) from fiscal year (FY) 2007 to 2008. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, Network Operations, in coordination with the Area Vice Presidents, instruct the Area Managers, Operations Support, to:

1. Reiterate to Postal Service supervisors that they must sign Postal Service Forms 5397, Contract Route Extra Trip Authorization, and prepare and review management reports to track the progress of extra trip costs.
2. Instruct plant managers to periodically test and monitor extra trips to ensure accuracy and full reporting in the Transportation Information Management Evaluation System.

⁵ TIMES-Web allows employees to collect data about the arrival and departure of mail trucks and to communicate that information to other Postal Service processing facilities.

⁶ These are nonsupervisory employees who record the arrival and departure of mail trucks.

⁷ We projected our audit results of \$6.4 million to a universe of \$131 million, based on a 95 percent confidence level that the projection is at least \$67,384,799.

⁸ SV real time data is captured at the handling unit, container, and trailer level by scanning unique identifiers using mail processing equipment and wireless handheld scanners.

3. Reiterate the availability of Surface Visibility training and the importance of scanning trip data and emphasize the benefits of using electronic Postal Service Forms 5397, Contract Route Extra Trip Authorization, in the Surface Visibility system.

Controlling Extra Highway Transportation Contract Trip Costs

Postal Service officials could improve their control over extra highway transportation contract trip costs. Officials could not reconcile a net \$648,565⁹ in extra trip costs recorded on PS Forms 5429. This occurred because employees did not always issue PS Forms 5397 for extra trips or did not maintain proper documentation of payment within the appropriate retention period. In addition, they made computational and recordkeeping errors. This manual process, which does not allow consistent segregation of duties, is more susceptible to overpaying suppliers. However, we noted that several sites utilized electronic software such as Microsoft© Excel to track extra trip costs, which reduced their mileage and rate inaccuracies and improved processing efficiency.

Correct information on PS Forms 5397 is crucial for accurate payment. Therefore, of the \$648,565 in discrepancies, we classified \$579,171 as unrecoverable unsupported questioned costs. We classified the remaining \$69,394 as recoverable questioned costs because of management's ability to identify the supplier to recover the costs. We will report \$579,171 in unrecoverable unsupported question costs and \$69,394 in recoverable questioned costs in our *Semiannual Report to Congress*.

We also noted a separation of duties issue where employees both prepared and certified PS Forms 5429, Certification of Exceptional Contract Service Performed,¹⁰ and then submitted them for payment. It is a common practice for plant management to delegate this duty to a staff member. To ensure a proper separation of duties and reduce the likelihood of duplicate payments, different employees should prepare and certify the PS Forms 5429. During our briefings with plant management on the results of our audit, a majority of managers stated they have begun implementing corrective actions to recover overpayments to the supplier, reiterate the importance of preparing PS Forms 5429 correctly, and separate the duties of preparing and certifying PS Forms 5429. See [Appendix B](#) for our detailed analysis of this topic.

⁹ One hundred eighteen PS Forms 5429 were overstated and 19 were understated by a net \$648,565.

¹⁰ PS Form 5429 is used to certify that the contractor performed the requested extra service and should receive an additional payment.

We recommend the Vice President, Network Operations, in coordination with the Area Vice Presidents, instruct the Area Managers, Operations Support, to:

4. Emphasize the importance of maintaining files for the required retention period and reiterate that Postal Service Forms 5397, Contract Route Extra Trip Authorization, should be issued for extra trips.
5. Implement the use of tracking mechanisms, such as Microsoft© Excel spreadsheets, to reduce mileage inaccuracy and improve processing efficiency.
6. Implement appropriate separation of duties to ensure that the appropriate manager certifies Postal Service Form 5429, Certificate of Exceptional Service Performed.

We will report \$67,963,970 of unrecoverable unsupported questioned costs and \$69,394 of recoverable questioned costs in our *Semiannual Report to Congress*.

Management did not respond to this report by the February 19, 2009, due date. As of February 27, 2009, management had not responded; therefore, we are issuing this report without management's comments.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendations 1, 2, 4 and 6 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.

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

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

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
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Attachment

cc: William Galligan
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Highway contract routes (HCRs)¹¹ provide for the transportation of mail between post offices or other designated points where mail is received or dispatched. Highway transportation contracts for HCRs provide service between Postal Service facilities, mailers' plants, and similar facilities.

An extra trip is an additional trip of service operated on an infrequent basis over the same route or as normally provided under the terms of the contract. Extra highway transportation trips should be scheduled only if necessary to prevent serious delay of preferential mail¹² or if justified due to mail volume. Offices must record extra trips dispatched or received in TIMES-Web. Each highway contract route extra trip must have a PS Form 5397, Contract Route Extra Trip Authorization, completed as certification of payment. The form requires a supervisor's signature as proof of the extra trip authorization. In addition, offices are required to maintain PS Forms 5397 for 1 year.

PS Form 5429, Certification of Exceptional Contract Service Performed, is used to certify that the contractor performed the requested extra service and should receive an additional payment. PS Forms 5397 are used to support PS Form 5429 and help validate that the trip occurred. An administrative official (AO) is appointed by the contracting officer 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. The AO must certify and sign the PS Form 5429 and submit it to the Information Technology and Accounting Service Center for payment. Further, offices are required to maintain PS Forms 5429 for 7 years.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate how effectively Postal Service officials were monitoring and controlling the costs of extra highway transportation contract trips. To accomplish our objective, we statistically sampled 1,400 nationwide¹³ exceptional service payments¹⁴ for 20 facilities, made from June 1, 2006, to May 31, 2008. To test whether extra highway transportation contract trips were recorded in TIMES-Web, we randomly selected one trip from each of the payment batches in the sample for exceptional service provided. In addition, we interviewed officials and reviewed contract files at facilities in the Capital Metro, Eastern, Great Lakes, New York Metro, Northeast, Pacific,

¹¹ HCRs also include box delivery, collection service, and other mail services. We did not include these in our review.

¹² Preferential mail includes Express Mail®, international airmail, First-Class Mail®, Priority Mail, Periodicals®, special delivery, and special handling.

¹³ We excluded payments from the Southeast Area, which were previously reviewed in the audit *Contract Oversight of Highway Transportation Contracts in the Southeast Area* (Report Number CA-AR-08-009, dated August 25, 2008).

¹⁴ Exceptional service payments are for work performed by the contractor that is outside the contract scope.

Southwest, and Western Areas. We reconciled PS Forms 5397 to the appropriate PS Forms 5429 and inspected PS Forms 5397 for proper authorization signatures.

We conducted this performance audit from June 2008 through February 2009 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 officials on January 15, 2009, and included their comments where appropriate. We obtained computer-generated data directly from Postal Service systems.¹⁵ To support our reliance on the data, we performed a limited review of data integrity by reconciling payment certification records reviewed to our samples.

PRIOR AUDIT COVERAGE

We identified one OIG report issued within the past 5 years related to this subject. The audit *Contract Oversight of Highway Transportation Contracts in the Southeast Area* (Report Number CA-AR-08-009, dated August 25, 2008) concluded that the Postal Service could improve monitoring and controlling the costs of canceled segments of highway transportation trips and extra highway transportation trips. The report identified \$9.5 million of monetary impact, and management agreed with the findings and recommendations, but not with the monetary impact.

¹⁵ The Postal Service systems were the TIMES-Web, Accounts Payable, and Transportation Contract Support System.

APPENDIX B: DETAILED ANALYSIS

Monitoring Extra Highway Transportation Contract Trip Costs

Postal Service officials could improve their monitoring of extra highway transportation contract trip costs. Officials paid approximately \$6.4 million for extra trips that were documented, but not properly authorized, on PS Forms 5397. Employees did not obtain supervisors' signatures to authorize 40,255 (84 percent) of the 47,938 trips we reviewed. This occurred because it was common practice for craft employees (such as expeditors, clerks, group leaders and mail handlers)¹⁶ to sign PS Forms 5397 authorizing the extra trips. However, Postal Service policy requires a supervisor to authorize extra trips.

In addition, employees did not record 401 (42 percent) of 956 extra highway transportation trips in TIMES-Web, which provides data for management to determine resources and route schedules. Furthermore, officials did not record arrival and departure data, as required,¹⁷ on 152 (38 percent) of the related 401 PS Forms 5397. This occurred because associate offices did not have access to TIMES-Web and employees did not consistently complete PS Forms 5397. Trip diversions could not be entered into TIMES-Web because the SV system does not allow modifications to trip schedules. In addition, management stated that SV outages prevented the entering of some trip data.

SV automates data entry and reduces paperwork by allowing employees to print various documents such as PS Forms 5397 using the SV scanner. When a facility has implemented SV, it can no longer manually enter data into TIMES-Web. However, when there is a system outage, the SV contingency plan allows a facility to request manual access to TIMES-Web. When SV returns to full operations, the manual access to TIMES-Web is removed.

The Postal Service may be paying for unnecessary trips because the trips were not properly authorized. Because employees did not follow the required procedures for obtaining supervisors' signatures to authorize extra trip costs, the Postal Service incurred \$67,384,799 of unsupported questioned costs. In addition, management did not have the necessary data to make adequate decisions regarding transportation requirements. Further, proper use of SV would help ensure trip data is entered in TIMES-Web as required and would eliminate redundant data entry, saving time and reducing errors.

¹⁶ These are nonsupervisory employees who record the arrival and departure of mail trucks.

¹⁷ Postal Operations Manual 473.9, July 2002.

Best Practices

We observed some potential best practices used at the Santa Clarita P&DC to reduce the amount of extra highway transportation trip costs. Santa Clarita P&DC's extra trip costs were \$1.3 million in FY 2008, \$1.1 million (47 percent) lower than FY 2007 costs of \$2.4 million. Santa Clarita P&DC management went beyond the normal monitoring practices observed at other facilities. The Transportation Manager held a cross-functional meeting with the Plant Manager, District Manager, Manager of Postal Operations, and the Postmaster and reviewed all contracts and schedules. This group evaluated the inbound and outbound volumes of every trip and adjusted routes or eliminated trips. Routine transportation office programs, such as conversion of extra trips to regularly scheduled trips and regular route and time adjustments, also contributed to the decrease in costs.

Controlling Extra Highway Transportation Contract Trip Costs

Postal Service officials could improve their control over extra highway transportation contract trip costs. Specifically, officials could not reconcile \$648,565¹⁸ of expenses recorded on PS Forms 5429 to the appropriate PS Forms 5397.¹⁹ Officials paid \$353,615 for extra trips with 19 PS Forms 5429 where the PS Forms 5397 were not issued. Reconciliations for 79 PS Forms 5429 were off by \$227,364 because of computation or recordkeeping errors, and 30 PS Forms 5429 were missing supporting PS Forms 5397, totaling \$36,891. Further, officials could not locate the PS Forms 5397 for nine PS Forms 5429, valued at \$30,695. See Table 1 for a list of PS Forms 5429 not reconciled.

Table 1: Reconciliation Discrepancies

Discrepancies	Number of PS 5429s	Amount
PS Forms 5397 Not Issued	19	\$353,615
Computation and Recordkeeping Errors	79	227,364
PS Forms 5429 Missing Some PS Forms 5397	30	36,891
PS Forms 5429 Missing All PS Forms 5397	9	30,695
Total PS Forms 5429 with Discrepancies	137	\$648,565

At one facility where PS Forms 5397 were not issued for 15 of the 19 PS Forms 5429, management instructed employees not to issue PS Forms 5397 for one regularly scheduled extra trip. In addition, management overpaid the supplier by \$69,394 for extra trips that did not occur, based on verbal instructions to pay for six trips per week, when the supplier actually made five trips per week. As a result of our audit,

¹⁸ One hundred eighteen PS Forms 5429 were overstated by a total of \$652,251, and 19 PS Forms 5429 were understated by a total of \$3,686.

¹⁹ As a result of the OIG findings, managers at some of the 20 facilities have taken actions to recover overpayments to suppliers.

management has taken corrective actions to recover the overpayment and has issued instructions requiring PS Forms 5397 to be issued for extra trips until the trips are incorporated into the contract.

The other discrepancies occurred because employees did not retain the PS Forms 5397 for the required 1-year retention period and were unable to verify that trips were actually made. In addition, employees overpaid or underpaid costs because employees manually inserted rates on the PS Forms 5429.²⁰ Since this is a manual process susceptible to human errors and there is no consistent segregation of duties, the Postal Service is at risk of overpaying its suppliers.

Complete, accurate information on these forms is crucial for correct payment. Therefore, of the \$648,565 in discrepancies, we classified \$579,171 as unrecoverable unsupported questioned costs. We classified the remaining \$69,394 as recoverable supported questioned costs because of management's ability to identify the supplier to recover costs.

In addition, network transportation specialists both prepared and certified PS Forms 5429 and then submitted them for payment. This occurred because it was a common practice for the Plant Manager or Transportation Manager to delegate these duties to one individual. To ensure a proper separation of duties and reduce the likelihood of duplicate payments, different employees should prepare and certify the PS Forms 5429. During our briefings with plant management on the results of our audit, a majority of managers stated they have begun to implement corrective actions to reiterate the importance of separation of duties when preparing and certifying PS Forms 5429.

Use of Electronic Software

We observed management at several sites using electronic software such as Excel to compile extra trip data, calculate miles and rates, and populate this information onto the PS Forms 5429 for payment submission. This assisted in reducing mileage inaccuracies and improved processing efficiency.

²⁰ The administrative official (AO) of a highway contract route records the mileage allotted for each extra trip on the Form 5397. The AO transfers the data to the Form 5429 for appropriate payment.

APPENDIX C: CALCULATION OF UNSUPPORTED QUESTIONED COSTS

We performed a two-tiered statistical sample that allowed us to extrapolate results from a universe of 114 facilities that had incurred approximately \$131.7 million of costs, as shown on PS Forms 5429, Certificate of Exceptional Contract Services Performed. Our sample consisted of \$37,778,768 in PS Form 5429 costs from 20 facilities. In addition, we selected 1,400 PS Forms 5429,²¹ valued at \$10,534,058, to determine whether payments were properly authorized on supporting PS Forms 5397, Extra Trip Authorizations.

Postal Service officials paid approximately \$6.4 million (out of \$10.5 million) on more than 40,000 PS Forms 5397 that were not properly authorized by a Postal Service supervisor. As a result, we projected at a 95 percent confidence level that at least \$67,384,799 of the \$131,714,110 universe value of PS Forms 5429 was not properly authorized. We classified the \$67,384,799 as unrecoverable unsupported questioned costs because employees did not follow the required procedures for supervisors to sign the authorization forms for extra trip costs.

First Sampling Stage by Facility		
	Included in First Stage Sample	Included in Universe
Number of Facilities	20	114
Value of Extra Trip Payments	\$37,778,768	\$131,714,110

Second Sampling Stage by PS Forms 5429		
	Included in Second Stage Sample	Included in Universe
Number of PS Forms 5429	1,400	7,057
Value of Extra Trip Payments	\$10,534,058	\$37,778,768

²¹ We selected 70 PS Forms 5429 from each of the 20 facilities.