



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highway Contract Route Irregularity Reporting – Jacksonville Network Distribution Center

Audit Report

Report Number
NL-AR-17-010

September 7, 2017





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

We determined the Postal Service's irregularity reporting process for Jacksonville NDC HCRs was ineffective.

Background

In fiscal year (FY) 2016, the U.S. Postal Service spent over \$3 billion for about 8,700 highway contract route (HCR) contracts. The Postal Service uses these competitive fixed-price contracts to transport mail between post offices, network distribution centers (NDC), and other designated stops.

A contract irregularity occurs when an HCR contractor does not satisfactorily perform a contracted service. The irregularity is either non-chargeable where the contractor is not at fault or chargeable where the contractor is at fault.

In FYs 2015 and 2016, the Postal Service reported about 958,000 irregularities nationwide (about 360,000 non-chargeable irregularities and over 598,000 chargeable irregularities). The Postal Service received over \$46 million in reimbursements for the chargeable irregularities.

We judgmentally selected the Jacksonville NDC for review because it had the highest reported increase in irregularities (about 162 percent) between FYs 2015 and 2016. The Jacksonville NDC reported about 26,000 irregularities (6,000 were non-chargeable and about 20,000 were chargeable).

Each NDC reports HCR irregularities using the Yard Management System (YMS). The system automatically creates a Postal Service (PS) Form 5500, Contract Route Irregularity

Report, when an NDC irregularity occurs. HCR irregularities commonly include missed, late arriving, and late departing trips. The YMS uses scanning to track HCR vehicles entering the facility yard, docking at the facility, and leaving for another facility.

Once the YMS produces a PS Form 5500, NDC administrative officials (AO) are responsible for determining if the irregularity in question is non-chargeable or chargeable. The AO is also responsible for taking corrective action, calculating and submitting reimbursement requests, and elevating unresolved irregularities to the contracting officer. HCR past performance was supposed to be considered during contract award decisions.

Our objective was to assess the effectiveness of the Postal Service's irregularity reporting process for HCRs at the Jacksonville NDC.

What the OIG Found

We determined the Postal Service's irregularity reporting process for Jacksonville NDC HCRs was ineffective.

The AOs submitted reimbursement requests for only three of the 19,591 YMS chargeable irregularities reported during FYs 2015 and 2016 at the Jacksonville NDC. Supply Management said they could only charge for missed trips.



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We estimated the Postal Service, on average, incurred questioned costs of almost \$200,000 annually for FYs 2015 and 2016 by not submitting reimbursement requests for 19,588 YMS-produced irregularities. If the Jacksonville NDC improves its process for reporting chargeable irregularities, the Postal Service could receive annual reimbursements of almost \$200,000.

In addition, there could be more irregularities than the almost 26,000 reported in FYs 2015 and 2016. When the YMS is not operational, vehicle operations analysts (VOA) are supposed to manually create a PS Form 5500; however, they did not do so and there were no procedures or supervisors on hand to ensure submission by the VOAs. As a result, we could not quantify the magnitude of the undocumented irregularities and the Postal Service may not be receiving reimbursement for all chargeable irregularities. We will address this issue in future audit work.

We also identified 45 Jacksonville NDC HCR contracts costing over \$46.2 million that renewed without the required review of chargeable irregularities. NDC personnel said they destroyed all PS Forms 5500 at the end of each fiscal year because there was inadequate storage space and they were unaware of the one-year retention policy. However, the one-year retention policy does not allow for contract renewal review of chargeable irregularities because the HCR contract terms range from two to four years.

What the OIG Recommended

We recommended management:

- Update PS Handbook PO-501, *Highway Contract Route Administration*, dated June 1981, with instructions for classifying and charging irregularities, and establish manual procedures for submitting a PS Form 5500 when the YMS is not operational.
- Provide annual AO and VOA training for classifying irregularities.
- Amend the Electronic Records Information Management System PS Form 5500 one-year retention schedule to match HCR contract terms.
- Establish a process to ensure there is supervisory oversight of AO and VOA responsibilities for classifying and submitting chargeable irregularities.
- Ensure adequate storage is available to meet current retention requirements for PS Forms 5500.
- Evaluate the electronic retention of PS Forms 5500.

Transmittal Letter



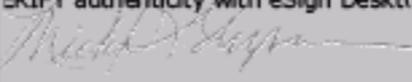
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UNITED STATES POSTAL SERVICE

September 7, 2017

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

ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

SHAUN E. MOSSMAN
VICE PRESIDENT, SOUTHERN AREA

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


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

SUBJECT: Audit Report – Highway Contract Route Irregularity
Reporting – Jacksonville Network Distribution Center
(Report Number NL-AR-17-010)

This report presents the results of our audit of Highway Contract Route Irregularity Reporting at the Jacksonville Network Distribution Center (Project Number 17XG011NL000).

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

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Findings

The AOs submitted reimbursement requests for only three of the 19,591 YMS chargeable irregularities reported during FYs 2015 and 2016 at the Jacksonville NDC.

Introduction

This report presents the results of our audit of the irregularity reporting process for highway contract routes (HCR) at the Jacksonville Network Distribution Center (NDC) (Project Number 17XG011NL000). The objective of this self-initiated audit was to assess the effectiveness of the U.S. Postal Service's irregularity reporting process for HCRs at the Jacksonville NDC. See [Appendix A](#) for additional information about this audit.

In fiscal year (FY) 2016, the Postal Service spent over \$3 billion for about 8,700 HCR contracts. The Postal Service uses these competitive fixed-price contracts to transport mail between post offices, NDCs, and other designated stops.

An HCR contract irregularity occurs when an HCR contractor does not satisfactorily perform a contracted service. The irregularity is either non-chargeable where the contractor is not at fault or chargeable where the contractor is at fault.

In FYs 2015 and 2016, the Postal Service reported about 958,000 irregularities nationwide (about 360,000 non-chargeable irregularities and over 598,000 chargeable irregularities). The Postal Service received over \$46 million in reimbursements for the chargeable irregularities.

We judgmentally selected the Jacksonville NDC for review because it had the highest reported increase in irregularities (about 162 percent) between FYs 2015 and 2016. The Jacksonville NDC reported about 26,000 irregularities (6,000 were non-chargeable and about 20,000 were chargeable). This was the highest increase of reported irregularities in the nation for this period. Each NDC reports HCR irregularities using the Yard Management System (YMS). The system automatically creates a Postal Service (PS) Form 5500, Contract Route Irregularity Report, when an NDC irregularity occurs. HCR irregularities commonly include missed, late arriving, and late departing trips. The YMS uses scanning to track HCR vehicles entering the facility yard, docking at the facility, and leaving for another facility.

Once YMS produces a PS Form 5500, NDC administrative officials (AO) are responsible for determining if the irregularity is non-chargeable or chargeable. The AO is also responsible for taking corrective actions, calculating and submitting reimbursement requests, and elevating unresolved irregularities to the contracting officer. HCR past performance was supposed to be considered during contract award decisions.

Summary

We determined the Postal Service's irregularity reporting process for Jacksonville NDC HCRs was ineffective.

AOs submitted reimbursement requests for only three of the 19,591 YMS chargeable irregularities reported during FYs 2015 and 2016 at the Jacksonville NDC. Supply Management said they could only charge for missed trips. We estimated the value of the chargeable irregularities could be, on average, \$199,514 in incurred questioned costs annually, for a total of \$399,028 in FYs 2015 and 2016, for not submitting reimbursement requests for 19,588 YMS-produced irregularities. If the Jacksonville NDC improved its process for reporting chargeable irregularities, the Postal Service could receive annual reimbursements of \$199,514 in FYs 2017 and 2018 for a total of \$399,028.

In addition, there may be more irregularities than the almost 26,000 reported in FYs 2015 and 2016. When the YMS is not operational, vehicle operations analysts (VOA) are supposed to manually create a PS Form 5500; however, they did not do so

and there were no manual procedures or supervisors on hand to ensure that VOAs submitted irregularities. As a result, we could not quantify the magnitude of the undocumented irregularities and the Postal Service may not be receiving reimbursement for all chargeable irregularities. We will address this issue in future audit work.

We also identified 45 Jacksonville NDC HCR contracts costing over \$46.2 million that renewed without the required review of chargeable irregularities. HCR past performance was supposed to be considered during contract award decisions. NDC personnel said they destroyed all PS Forms 5500 at the end of each fiscal year because there was inadequate storage space and they were unaware of the one-year retention policy. However, the one-year retention policy does not allow for the contract renewal review of all chargeable irregularities because the HCR contract terms range from two to four years.

Chargeable Irregularities

We determined that 19,591 of the 25,743 irregularities reported¹ during FYs 2015 and 2016 at the Jacksonville NDC were chargeable irregularities² but AOs submitted the reimbursement requests for only three of these chargeable irregularities, all for missed HCR trips by the contractor.

They did not submit for other chargeable irregularities, such as unacceptable equipment, mechanical breakdowns, and other contract failures that resulted in the contractor being early or late.³ This occurred because Supply Management did not believe that they could request payment from the HCR contractor for chargeable irregularities other than missed trips. However, based on our review of the *Transportation and Contract Delivery Service Terms and Conditions*; there are potential grounds for requesting payment or compensation for delayed or late trips, not otherwise covered in the contract. For example, Clause B-79, Forfeiture of Compensation, the Postal Service can request payment. Specifically, the clause states, “If the supplier fails to perform a trip, and such failure is due to the fault or negligence of the supplier or of its subcontractors, the supplier will be liable for all damages actually suffered by the Postal Service by reason of such failure.” The OIG concluded that when the contractor arrives or departs at a time other than the schedule time, and it is due to the fault of the contractor, the contractor failed to perform the trip.

Additionally, Surface Transportation Category Management Center (CMC) personnel said that there is no criteria for determining the reimbursement amount for chargeable irregularities other than missed trips.⁴ Although no criteria existed for the other chargeable irregularities, we found that each HCR contract has an approved hourly labor rate for late trips the Postal Service causes.⁵ The YMS automatically computes the number of minutes the HCR contractor was either early or late due to the irregularity. We used these contractual rates to calculate the value of the 19,588 chargeable irregularities that AOs did not submit for reimbursement. See [Table 1](#) for chargeable irregularities not submitted or collected.

Finally, Handbook PO-501 did not address how to classify irregularities. Postal Service Headquarters (HQ) Surface Transportation personnel said that they updated procedures in July 2016 and trained employees in March 2016.⁶

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- 1 The 25,743 reported irregularities represents the number of PS Forms 5500 electronically generated by the YMS. The YMS data feeds into the Enterprise Data Warehouse (EDW).
 - 2 We made our chargeable irregularities determinations using information provided to Postal Service areas during a March 2016 Train the Trainer Transportation Basics session. The training provided examples of irregularities that are considered chargeable. See [Appendix B](#) for examples of chargeable and non-chargeable irregularities.
 - 3 Handbook PO-501, *Highway Contract Administration*, dated June 1981, requires AOs to ensure that HCRs run on schedule because schedules are carefully prepared to complement mail processing and delivery schedules, service standards, and the schedules of intersecting routes at the offices served. Additionally, the March 2016 HQ training included early and late departures or arrivals as examples of chargeable irregularities (see [Appendix B](#)).
 - 4 For missed trips, the CO determined chargeable amounts by multiplying the contractor’s approved rate-per-mile by the number of miles for the missed trip.
 - 5 Late trips caused by the Postal Service are non-chargeable irregularities (see [Appendix B](#)) for which HCR contractors receive payment for every minute resulting from the Postal Service being the cause for the late trip.
 - 6 Train the Trainer Transportation Basics provided to Postal Service areas during March 2016.

Table 1. Chargeable Irregularities

 Fiscal Year	Chargeable Irregularities Not Submitted for Reimbursement				Total Chargeable Irregularity Instances	Value of Chargeable Collections
	Type Code* 1 Contract Failure	Type Code 2 Unacceptable Equipment	Type Code 3 Mechanical Breakdown	Type Code 9 Other		
FY 2015	1,162	22	145	4,295	5,624	\$82,607.19
FY 2016	2,715	12	337	10,900	13,964	316,421.20
Unsubmitted Reimbursement Requests	3,877	34	482	15,195	19,588	\$399,028.39

Source: EDW.

*Type codes 1, 2, and 3 represent the reasons the contractor arrives early or departs late. Type code 9 represents an unknown reason.

We estimated the value of the chargeable irregularities could be, on average, \$199,514 of incurred questioned costs annually, for a total of \$399,028 in FYs 2015 and 2016, because AOs did not submit reimbursement requests for 19,588 YMS-produced irregularities. If the Jacksonville NDC improved the process for reporting chargeable irregularities, the Postal Service could receive annual reimbursements of \$199,514 in FYs 2017 and 2018, for a total of \$399,028.

Missing Reimbursement Opportunities

There could be more irregularities than the almost 26,000 reported in FYs 2015 and 2016. When the YMS is not operational, VOAs are supposed to manually create a PS Form 5500; however, they did not do so and there were no manual procedures or supervisors on hand to ensure that VOAs submitted all irregularities. As a result, we could not quantify the magnitude of the undocumented irregularities and the Postal Service may not be receiving reimbursement for all chargeable irregularities. We will address this issue in future audit work.

Retention of Postal Service Form 5500

We also found that management renewed 45 Jacksonville NDC HCR contracts, costing over \$46.2 million⁷ with the same contractor without the required review of chargeable irregularities. HCR past performance was supposed to be considered during contract award decisions. However, NDC personnel said they destroyed all PS Forms 5500 at the end of each fiscal year because there was inadequate storage space and they were unaware of the one-year retention policy. However, the one-year retention policy does not allow for contract renewal review of all chargeable irregularities because HCR contract terms range from two to four years. We determined that the Postal Service is at risk of losing \$17,282,980 in disbursements to HCR contractors for renewing the 45 contracts without the required review of chargeable irregularities.

⁷ The total contract value was \$58,863,038. We excluded fuel and oil contract costs totaling \$12,654,620 from the total contract values in our computations to avoid potential duplication with other OIG audits (*Highway Contract Route Fuel Price Index Program – Southern Transportation Category Management Team*, Report Number NL-AR-17-002, dated December 9, 2016; and *Highway Contract Route Fuel Price Index Program – Eastern Transportation Category Management Team*, Report Number NL-AR-17-005, dated May 2, 2017), which address those contract costs. The post-adjustment contract value was \$46,208,418.

Recommendations

We recommend management update the HCR administration handbook, train AOs and VOAs, amend the PS Form 5500 one-year retention schedule to contract terms, ensure AO and VOA oversight, ensure adequate storage space for PS Forms 5500, and evaluate the electronic retention of PS Forms 5500.

We recommend the Vice President, Network Operations, in coordination with the Vice President, Supply Management:

1. Update Postal Service Handbook PO-501, *Highway Contract Administration*, dated June 1981, with instructions for classifying and charging irregularities, and establish manual procedures for the submission of Postal Service Form 5500, Contract Route Irregularity Report, for all potential irregularities when the Yard Management System is not operational.

We recommend the Vice President, Network Operations:

2. Provide annual administrative officer and vehicle operations analyst training for classifying irregularities.
3. Amend the Electronic Records Information Management System Postal Service Form 5500, Contract Route Irregularity Report, retention schedule from one-year to match Highway Contract Route contract terms.
4. Evaluate the electronic retention of Postal Form 5500, Contract Route Irregularity Report.

We recommend the Vice President, Southern Area:

5. Establish a process to ensure there is supervisory oversight of administrative officials and vehicle operations analysts for classifying and submitting chargeable irregularities.
6. Ensure adequate storage is available for retaining Postal Service Forms 5500, Contract Route Irregularity Report.

Management's Comments

Management partially agreed with the findings and recommendations but disagreed with the monetary impact.

Management stated that the audit assumes that all chargeable irregularities, including late arrivals and departures, should be compensable in the form of monetary penalties based on contract Clause B-79, Forfeiture of Compensation. Management identified the OIG added an extra sentence to the clause and stated that, as written, the clause only allows compensation for omitted services. Management also stated that since HCR contracts are paid on a daily basis for regular service and at a unit rate for extra service, it is not as easy to ascertain whether the Postal Service has actually been damaged or to determine the appropriate monetary amount when a trip is performed, but late. Additionally, management stated that repeated failure to perform in accordance with the contract could result in default termination. Management disagreed with application of the approved hourly rate for liquidated damages because the rate has not been agreed to and they are skeptical that the Postal Service could prevail if challenged in the dispute process.

Regarding recommendation 1, management disagreed with updating Postal Service Handbook 501 because they believe training is the most effective means of communicating instructions. Management stated they covered training in response to recommendation 2.

Regarding recommendation 2, management agreed and provided train-the-trainer training to all area and local network specialists during FY 2016. Management has also scheduled detailed AO training in Quarter 4, FY 2017. The target implementation date is September 30, 2017.

Regarding recommendation 3, management disagreed because they do not believe four years of retention is feasible or desirable. Management stated that local management should be following up and taking action on recent irregularities and one year of current performance data should be sufficient when determining whether to renew a contract.

Regarding recommendation 4, management agreed to evaluate improving electronic retention of PS Forms 5500. Management will weigh the cost of system development against waiting for implementation of the new Transportation Management System. The target implementation date is December 31, 2017.

Regarding recommendation 5, management agreed and stated that the process is outlined in Handbook PO-501, which they have distributed to Southern Area Transportation managers. The implementation date was August 23, 2017.

Regarding recommendation 6, management agreed and stated that adequate storage space is available for Postal Service Forms 5500 and that they have provided training. The implementation date was August 23, 2017.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 2 and 4, and corrective actions should resolve the issues we identified in the report. The OIG received documentation from the Southern Area supporting implementation of recommendations 5 and 6. The OIG considers management's support responsive to the recommendations and corrective actions should resolve the issues identified in the report. Therefore, we consider recommendations 5 and 6 closed with the issuance of this report.

The OIG considers management's comments unresponsive to recommendations 1 and 3 in the report.

Regarding recommendation 1, while the OIG agrees training can be an effective communication tool, we still believe the Postal Service needs to update Handbook PO-501 to reflect new instructions for identifying and charging irregularities as well as manual procedures to be followed during YMS outages. The OIG concludes that since HCR contracts specify precise routes and times, a late (or early) delivery would not comply with the contract and would be, arguably, a missed delivery. Clause B-79 authorizes forfeiture of payment if the contractor fails to "perform a trip for any reason" and the OIG concludes that this would include a failure to deliver according to the schedule and route. Additionally, the OIG believes that establishing manual procedures for submitting potential irregularities when the YMS is not operational will standardize implementation throughout the Postal Service.

Regarding recommendation 3, the OIG believes that for the Postal Service to comply with their existing policy⁸ for HCR contract renewals, it will need to retain irregularity reports beyond their current one-year retention criteria. Specifically, Postal Service policy requires a survey of HCRs during the fall of the year before contract expiration and the survey is to include a review of irregularity reports. The average HCR contract term is between two and four years. Therefore, discarding irregularity reports after one year would result in the surveyor not being able to review all chargeable irregularities prior to contract renewal, resulting in contract renewal decisions being made based on incomplete information.

⁸ The "Policy" and "Operational Preparations" paragraphs of MI SP-CS-2009-1, *Conducting Highway Contract Route Surveys*, January 15, 2009,

Additionally, we used the Postal Service's HCR rate for late trips caused by the Postal Service to calculate the HCR damages the Postal Service could collect. We agree that management would need to negotiate the rate with HCR suppliers.

Finally, the OIG revised the report to reflect the correct quotation from Clause B-79. An additional sentence was inadvertently included in the quotation.

Recommendations 1, 2, 3, and 4 require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Background

A contract irregularity occurs when an HCR contractor does not satisfactorily perform a contracted service. The irregularity is either non-chargeable where the contractor is not at fault or chargeable where the contractor is at fault. Chargeable irregularities are amounts charged to contractors for omitted services. The Postal Service does not collect for non-chargeable irregularities, as those are outside of the contractor's control. An irregularity is attributable to one of nine reason codes. See [Appendix C](#) for irregularities by Postal Service area and type code.

The Postal Service issued a management Instruction (MI)⁹ requiring a review of irregularities before contract renewals. By properly tracking contractor performance and maintaining accurate and complete documentation, COs have adequate information to either renew contracts or terminate contracts of poorly performing contractors. Additionally, COs appoint and rely on AOs for corrective action and elevating unresolved irregularities. AOs are generally the postmaster or manager at the facility¹⁰ where HCR trucks originate.

Objective, Scope, and Methodology

Our objective was to assess the effectiveness of the Postal Service irregularity reporting process for HCRs at the Jacksonville NDC.

To accomplish our objective we:

- Reviewed Postal Service policies, procedures, and guidelines identifying processes for HCR irregularity identification, reporting, reimbursement requests, and collections for chargeable irregularities.
- Extracted and analyzed FY 2015 and 2016 HCR irregularities and reimbursement requests data in EDW to determine the magnitude of reported irregularities nationwide, and quantify chargeable irregularities.
- Judgmentally selected the Jacksonville NDC for review because the reported irregularities increased by about 162 percent between FYs 2015 and 2016. Specifically, the Jacksonville NDC reported over 7,100 irregularities in FY 2015 and almost 18,600 in FY 2016. The Jacksonville NDC was among the top 10 reporting plants in both fiscal years (see [Table 2](#)).

⁹ MI SP-CS-2009-1, *Conducting Highway Contract Route Surveys*, January 15, 2009.

¹⁰ HCR irregularity data originate at various facilities, including Processing & Distribution Centers (P&DC), Processing & Distribution Facilities (P&DF); NDCs; Surface Transfer Centers (STC); and Business Mail Entry Units (BMEU).

Table 2. FYs 2015 and 2016 - Top 10 Reporting Plants

	FY 2015		FY 2016		% Change
	Plants	Total Reported	Plants	Total Reported	
1	Indianapolis STC	15,302	Chicago Metro NDC/STC	28,055	144%
2	Chicago Metro NDC/STC	11,505	Indianapolis STC	22,146	45%
3	Southwest Area STC	9,505	Jacksonville NDC	18,639	162%
4	Memphis STC	9,401	Springfield NDC	18,404	N/A
5	Bethpage New York P&DC	7,661	Pittsburgh NDC	16,926	N/A
6	Milwaukee P&DC	7,127	Denver NDC	16,159	N/A
7	Jacksonville NDC	7,104	Dallas NDC	12,899	156%
8	New Jersey NDC	6,078	Washington NDC	12,539	N/A
9	Dallas NDC	5,048	Greensboro BMEU	12,036	N/A
10	Denver P&DC	5,040	Des Moines NDC	11,850	N/A

Source: EDW.

Additionally, the Jacksonville NDC is in the Gulf Atlantic District, which the OIG ranked as one of the five most-at-risk districts in our Performance and Results Information System (PARIS) Transportation risk models¹¹ for FY 2016, Quarters 2-4. The Gulf Atlantic District in the Southern Area¹² experienced a 51 percent increase in irregularities.

- Reviewed and analyzed FY 2015 and 2016 Jacksonville NDC contracting data in TCSS for Jacksonville NDC to obtain contract terms, costs, renewal dates, and the number of renewals done without the required review of irregularities.
- Interviewed Postal Service HQ Surface Transportation, Surface Transportation CMC, Southern TCMT, and Southern Area transportation managers to determine the process for identifying, reporting, and collecting reimbursements for HCR chargeable irregularities.
- Conducted a site visit at the Jacksonville NDC to observe operations and analyze the process for identifying, reporting, and collecting reimbursements for HCR chargeable irregularities.
- Selected a statistical sample of FY 2015 and 2016 reported irregularities for review at the Jacksonville NDC. We were ultimately not able to perform the review because the NDC did not retain PS Forms 5500 for FYs 2015 and 2016.

We conducted this performance audit from January through September 2017, 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

¹¹ The quarterly PARIS model measures operational and service risks in transportation operations. The model also includes national trends in selected risk areas and highlights the most at risk districts in nine categories.

¹² The Southern TCMT serviced the Southern Area during FYs 2015 and 2016.

our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on June 15, 2017, and included their comments where appropriate.

We assessed the reliability of EDW and TCSS data by reviewing existing information about the data and interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Examples of Chargeable and Non-Chargeable Irregularities

Table 3. Examples of Chargeable and Non-Chargeable Irregularities

Chargeable Irregularities	Non-Chargeable Irregularities
Safety violations	Bridge out or detours
Late arrival or departures	Late departures caused by the Postal Service
Disorderly conduct	Extreme weather conditions
Dirty, unsightly appearance	Acts of God
Under the influence of drugs and alcohol	Traffic accidents
Vehicle breakdowns	
Vehicle does not meet the required specifications of the contract	
Vehicle appearance does not present a positive image to the Postal Service	
Unauthorized passengers	
Failure to keep mail secured (vehicle locks must be in working order)	
Failure to sign for registered mail or dispatch logs as required	
Failure to follow AO instructions that are within the scope of the contract	
Threats or violence	

Source: Postal Service.

**Appendix C:
Fiscal Year 2015 and 2016
Irregularities**

Table 4. FY 2015 and 2016 Irregularities by Postal Service Area and Type Code

 Postal Service Area & FY	Irregularity Type Codes*										 Grand Totals
	Contract Failure	Unacceptable Equipment	Mechanical Failure	Overload	Adverse Weather	Vehicle Accident	Postal Actions	Trip Cancelled	Other	No Code Assigned	
	1	2	3	4	5	6	7	8	9	--	
Capital Metro											
FY 2015	19,371	218	772	847	285	234	2,104	27	5,542	11,486	40,886
FY 2016	48,030	241	1,372	1,594	1,045	467	4,838	58	9,767	3,173	70,585
Eastern											
FY 2015	28,769	443	1,760	809	1,226	436	2,454	58	4,509	12,995	53,459
FY 2016	54,025	457	1,975	1,279	1,597	670	6,166	103	9,293	2,862	78,427
Great Lakes											
FY 2015	49,054	477	1,640	2,280	2,025	376	2,997	83	11,951	19,524	90,407
FY 2016	82,093	535	1,335	1,652	1,631	293	6,760	126	16,041	6,236	116,702
Northeast											
FY 2015	25,944	425	1,017	1,100	848	175	732	28	4,920	9,811	45,000
FY 2016	52,511	312	1,077	2,233	1,139	396	5,713	118	10,724	3,829	78,052
Pacific											
FY 2015	14,769	142	689	341	221	172	571	22	7,708	9,469	34,104
FY 2016	46,355	227	883	1,963	651	219	1,530	97	21,371	4,737	78,033
Southern											
FY 2015	27,613	438	1,758	370	846	337	2,020	107	9,020	6,762	49,271
FY 2016	41,314	400	2,066	1,540	1,170	745	4,902	223	19,114	2,978	74,452
Western											
FY 2015	28,241	380	2,251	394	2,430	464	3,022	80	9,344	4,168	50,774
FY 2016	53,660	644	2,508	1,013	6,386	746	8,145	116	21,595	2,287	97,100
Grand Totals:											
FY 2015	193,761	2,523	9,887	6,141	7,881	2,194	13,900	405	52,994	74,215	363,901
FY 2016	377,988	2,816	11,216	11,274	13,619	3,536	38,054	841	107,905	26,102	593,351

Source: EDW.

*Type codes 1, 2, and 3 represent the reasons the contractor arrives early or departs late. Type code 9 represents an unknown reason.

Appendix D: Management's Comments



August 28, 2017

LORI LAU DILLARD

SUBJECT: Highway Contract Route Irregularity Reporting – Jacksonville Network Distribution Center (Report Number NL-AR-17-DRAFT)

Thank you for providing the United States Postal Service with an opportunity to review and comment on the subject draft Office of Inspector General ("OIG") audit report "Highway Contract Route Irregularity Reporting – Jacksonville Network Distribution Center." Management agrees with the report's findings and recommendations except where noted below. Management disagrees with the monetary impact in total.

Most of the findings in the audit center on nonchargeable and chargeable performance irregularities. The audit assumes that all chargeable irregularities, such as late arrivals and departures, should be compensable in the form of monetary penalties deducted from the supplier's pay. As pointed out during the exit conference, under our current contracts the only compensable chargeable irregularity is omitted service, where the supplier fails to perform a trip. As a basis for its assumption that other types of performance deficiencies should be compensable, the OIG cites Clause B-79 – *Forfeiture of Compensation (March 2006)* in the Transportation and Contract Delivery Service Terms and Conditions. Clause B-79 states fully:

If the supplier fails to perform a trip for any reason, the supplier shall forfeit the compensation otherwise due for that trip. If the supplier fails to perform a trip, and such failure is due to the fault or negligence of the supplier or of its subcontractors, the supplier shall be liable for all damages actually suffered by the Postal Service by reason of such failure.

The audit mistakenly indicates that this clause also includes a final sentence reading as follows: "When the contractor arrives or departs at a time other than the schedule time, and it is due to the fault of the contractor, the contractor failed to perform the trip." OIG appears to be recommending that the existing language be interpreted as allowing the Postal Service to deem "late" service as "failed" service.

As written, however, Clause B-79 only allows monetary compensation to the Postal Service for omitted service, not for late or otherwise deficient service. This intent is confirmed by the clause's language allowing recovery of damages "actually suffered" as a result of omitted service, but not referencing other grounds for recovering compensation. Because HCR contracts are paid on a daily rate for regular service and a unit rate for extra trips, the contract permits the Postal Service to withhold payment for work not performed by deducting payments for omitted service. When a supplier is merely late in arriving or departing, but otherwise performs the trip required by the contract, it is not as easy to ascertain whether the Postal Service has been actually damaged by the incident or, if it has, the appropriate monetary amount. There are consequences for deficient performance, and repeated failure to perform in accordance with a contract schedule can result in a default termination.

As the OIG notes, an approved hourly rate does exist for Highway Contract Route (HCR) suppliers to receive payment for late trips caused by the Postal Service. That rate is not established to be applied for irregularities caused by the supplier, and the parties have not agreed to apply it as liquidated damages owed to the Postal Service in the event of supplier deficiencies. As there has been no explicit agreement with suppliers that these rates would be used that way, the Postal Service is skeptical that it could prevail if a supplier receiving such a deduction decided to challenge it through the Disputes process.

Management's response to the recommendations included in the draft report may be found below.

We recommend the Vice President, Network Operations, in coordination with the Vice President, Supply Management:

Recommendation 1:

Update Postal Service Handbook PO-501, *Highway Contract Administration*, dated June 1981, with instructions for classifying and charging irregularities, and establish manual procedures for the submission of Postal Service Form 5500, Contract Route Irregularity Report, for all potential irregularities when the Yard Management System is not operational.

Management Response to Recommendation 1:

Management disagrees with Recommendation 1 as the most effective means of communicating instructions. Surface Transportation Operations feels the best method of making sure proper Form 5500 procedures are followed is to make sure employees are trained in how to handle them. A Transportation Basics class was provided to Postal Service Areas and sites during March 2016 – August 2016. Additionally, a more specific and detailed Administrative Official Training course is scheduled to occur during Quarter 4 Fiscal Year (FY) 2017. These training initiatives will provide the foundation required to make effective decisions when classifying and charging irregularities, and ensure proper handling of PS Form 5500. The actions described will be conducted in response to Recommendation 2.

We recommend the Vice President, Network Operations:

Recommendation 2:

Provide annual administrative officer and vehicle operations analyst training for classifying irregularities.

Management Response to Recommendation 2:

Management agrees with Recommendation 2. Surface Transportation Operations provided train-the-trainer training to all Network Specialists at the Area and local level during FY2016. We are committed to improve employee training, specifically the Administrative Official's responsibility to ensure all employees are in compliance with applicable Postal Service policies concerning the handling highway contract route irregularities. This more detailed training will occur in Quarter 4 FY2017.

Target Implementation Date:

September 31, 2017

Responsible Official:

Brent Raney

Recommendation 3:

Amend the Electronic Records Information Management System Postal Service Form 5500, Contract Route Irregularity Report, retention schedule from one-year to match Highway Contract Route contract terms.

Management Response to Recommendation 3:

Management disagrees with Recommendation 3. We do not believe that it is feasible or desirable to maintain and review four years of 5500's. The local site should be following up and taking action on any recent 5500's and one year of current performance data should be sufficient when determining whether or not to renew a contract.

Recommendation 4:

Evaluate the electronic retention of Postal Form 5500, Contract Route Irregularity Report.

Management Response to Recommendation 4:

Management agrees with Recommendation 4. We will evaluate the opportunities to improve the electronic retention period of Form 5500 in the Yard Management System and Surface Visibility systems; however, we will need to weigh the cost of system development and implementation against waiting until our new Transportation Management System is implemented. This new system would automate all the forms currently used in management of transportation.

Target Implementation Date:

December 31, 2017

Responsible Official: Brent Raney

We recommend the Vice President, Southern Area:

Recommendation 5:

Establish a process to ensure there is supervisory oversight of administrative officials and vehicle operations analysts for classifying and submitting chargeable irregularities.

Management Response to Recommendation 5:

Management agrees with this recommendation. A process currently exists for supervisory oversight of Administrative Officials (AO) and Vehicle Operations Analysts (VOA) for classifying and submitting chargeable irregularities. The process is detailed in the **PO-501 Highway Contract Route Administration** and in the **Supplier Performance, HCR Administration, June 1, 1999** issued by **Supply Management**, located on the **Southern Area Networks** webpage. This has been distributed to SA field Transportation Managers (TANS).

Target Implementation Date:

August 23, 2017

Responsible Official:

Alessandra Hammock, Southern Area Network Operations Manager

Recommendation 6:

Ensure adequate storage is available for retaining Postal Service Forms 5500, **Contract Route Irregularity Report**.

Management Response to Recommendation 6:

Adequate storage has been provided and is available for retaining Postal Service Forms 5500, Contract Route Irregularity Report according to Postal policies and regulations. The Jacksonville Transportation Management (AO) has received proper training of retention of PS Form 5500 to comply with the PO-501, **Highway Contract Administration**, and will continue to ensure training currency.

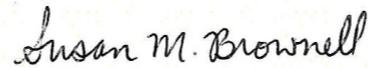
Target Implementation Date:

August 23, 2017

Responsible Official:

Alessandra Hammock, Southern Area Network Operations Manager


for Robert Cintron
Vice President
Network Operations


Susan M. Brownell
Vice President
Supply Management


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Vice President, Area Operations
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cc: Manager, Corporate Audit Response Management



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