



Office of Inspector General | United States Postal Service

Audit Report

Oversight of Highway Contract Routes - Insurance

Report Number SM-AR-19-002 | March 22, 2019

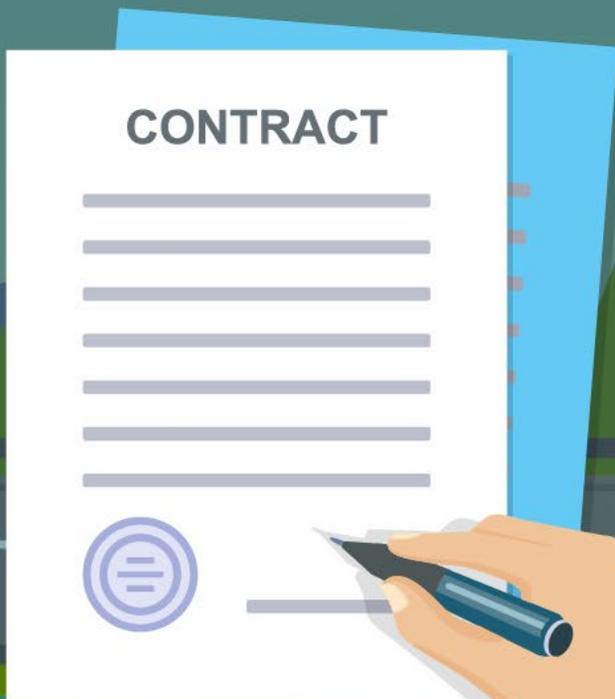


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Highlights

Objective

Our objective was to determine whether U.S. Postal Service Contracting Officers (CO) are properly managing Highway Contract Route (HCR) contracts — specifically liability insurance requirements — in accordance with policies and procedures.

The Postal Service contracts with supplier-operated HCRs to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. Per the Postal Service's Supplying Principles and Practices (SP&P), the supplier must maintain automobile liability insurance with a comprehensive policy that provides bodily injury and property damage liability covering the operation of all automobiles used in contract performance. Evidence of supplier insurance must be maintained in Postal Service's electronic or paper format repositories.

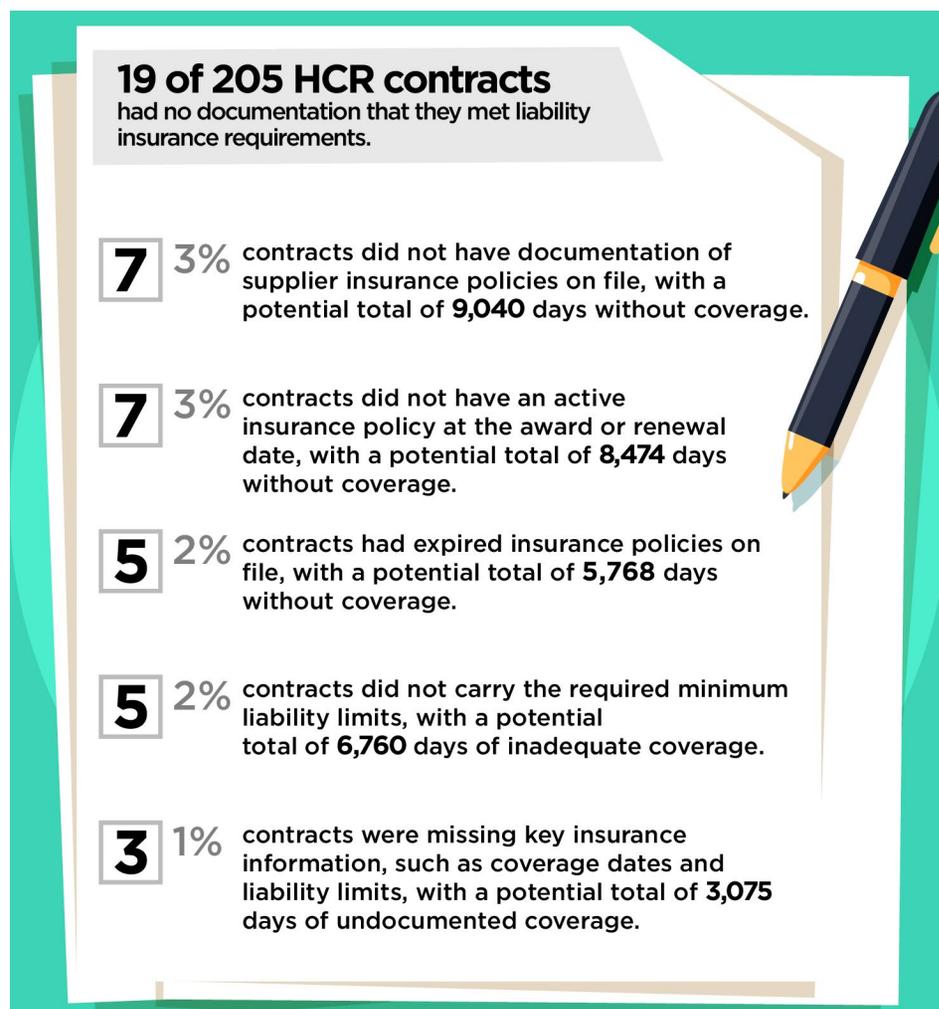
As of March 31, 2018, there were 13,603 active HCR contracts, with a contract spend valued at over \$6.6 billion. We reviewed a statistical sample of 205 contracts, with a contract spend valued at about \$129 million.

What the OIG Found

COs did not consistently manage HCR contracts' liability insurance requirements in accordance with policies and procedures. HCR contract files lacked documentation of meeting liability insurance requirements. Specifically, based on file documentation we reviewed, the Postal Service had no documentation that 19 (9 percent) of the 205 HCR contracts met liability insurance requirements. Exceptions identified were:

- Seven (3 percent) contracts did not have documentation of supplier insurance policies on file, with a potential total of 9,040 days without coverage.
- Seven (3 percent) contracts did not have an active insurance policy at the award or renewal date, with a potential total of 8,474 days without coverage.
- Five (2 percent) contracts had expired insurance policies on file, with a potential total of 5,768 days without coverage.

- Five (2 percent) contracts did not carry the required minimum liability limits, with a potential total of 6,760 days of inadequate coverage.
- Three (1 percent) contracts were missing key insurance information, such as coverage dates and liability limits, with a potential total of 3,075 days of undocumented coverage.



These exceptions occurred because insurance documentation was not being consistently stored in a central location, and COs were unable to locate evidence that insurance requirements were met. As such, we estimated an average of \$307 million of annual unsupported questioned costs due to the lack of required insurance documentation.

In addition, COs did not include mandatory SP&P Clause 7-4, Insurance in the Terms and Conditions in 119 (58 percent) contracts, which requires that suppliers furnish evidence of insurance to include all required terms and provisions. Nor did COs include Clause B-39, Indemnification in 47 (23 percent) of the 205 contracts reviewed, which indemnifies the Postal Service, from responsibility for all claims, losses, damage, actions, expenses, and liability due to omissions of the supplier.

Terms and conditions were not appropriately included in contracts because COs were using an outdated Terms and Conditions template as guidance which did not align with current SP&P guidance.

What the OIG Recommended

We recommended management revise Supply Management policies and procedures to:

- Incorporate HCR contract insurance compliance reviews into the Supply Management and Infrastructure periodic review process.
- Require Clause 7-4, Insurance in the Terms and Conditions of all HCR contracts.
- Require Clause B-39, Indemnification in all HCR contracts.

We also recommended management take the following actions:

- Incorporate the indemnification clause into HCR contract negotiations.
- Reinforce through formal communication, and refresher training, the policy for contracting officers to maintain documentation in the Transportation Contracting Support System.
- Develop a process to ensure outdated templates are archived and filed separately from the current Terms and Conditions template.

Transmittal Letter

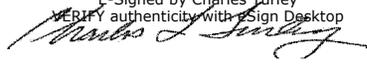


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 22, 2019

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

E-Signed by Charles Turley
VERIFY authenticity with Sign Desktop



FROM: Charles L. Turley
Deputy Assistant Inspector General
for Supply Management & Human Resources

SUBJECT: Audit Report – Oversight of Highway Contract Routes
Insurance (Report Number SM-AR-19-002)

This report presents the results of our audit of the Oversight of Highway Contract Routes – Insurance (Project Number 18SMG019SM000).

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service’s Oversight of Highway Contract Routes (HCR) – Insurance (Project Number 18SMG019SM000). Our objective was to determine whether Postal Service contracting officers (CO) are properly managing HCR contracts — specifically liability insurance requirements — in accordance with policies and procedures.

As of March 31, 2018, the Postal Service had 13,603 active HCR contracts nationwide, with spend amounts totaling over \$6.6 billion (see Table 1). We reviewed a statistical sample of 205 contracts with contract spend amounts totaling about \$129 million for a two-year period from April 1, 2016, through March 31, 2018.

“As of March 31, 2018, the Postal Service had 13,603 active HCR contracts nationwide, with spend amounts totaling over \$6.6 billion.”

Table 1. HCR Contracts as of March 31, 2018

| Postal Service Area | Number of Contracts | Spend Amount ¹ |
|---------------------|---------------------|---------------------------|
| Headquarters | 875 | \$2,436,635,790 |
| Southern | 2,224 | 979,228,359 |
| Western | 4,438 | 920,674,875 |
| Eastern | 1,826 | 663,076,590 |

¹ We obtained contract spend values from the Transportation Contracting Support System (TCSS) from April 1, 2016, through March 31, 2018.

² An Oracle web-based application used to manage transportation contracts and related activities. TCSS allows contracting offices to solicit, award, and administer transportation contracts.

³ A repository used to manage the Postal Service’s corporate data assets.

⁴ Local Distribution Transportation, Contract Delivery Service, and Processing Network Transportation.

⁵ Supplying Principles and Practices (SP&P), Section 7-3.2.3: Automobile Liability Insurance, revised February 28, 2018.

⁶ SP&P Clause 7-4: Insurance (March 2006).

| Postal Service Area | Number of Contracts | Spend Amount ¹ |
|---------------------|---------------------|---------------------------|
| Northeast | 1,472 | 473,267,158 |
| Capital Metro | 975 | 408,020,129 |
| Pacific | 829 | 375,989,295 |
| Great Lakes | 964 | 363,761,346 |
| Total | 13,603 | \$6,620.653.542 |

Source: TCSS² and Enterprise Data Warehouse (EDW).³

Background

The Postal Service uses supplier-operated HCRs to transport mail and equipment between plants, post offices, or other designated points that receive or dispatch mail. The Surface Transportation Category Management Center (STCMC) and Surface Transportation Operations establish policy for HCR contract administration and transportation operations. Operationally, Surface Transportation is divided into three commodities⁴ and three regional offices.

Postal Service policy⁵ requires HCR suppliers to carry automobile liability insurance with a comprehensive policy that covers bodily injury and property damage liability covering the operation of all automobiles used in contract performance. Postal Service policy⁶ prescribes timeframes for submitting evidence of insurance, types of policy coverage, and minimum coverage limits. The policy also outlines requirements for maintaining each insurance policy — insurance must be effective, and evidence of acceptable insurance must be furnished — before beginning performance under the contract. The supplier must notify the Postal Service 30 days in advance of the effective date of any

reduction in or cancellation of an insurance policy. Lastly, evidence of supplier insurance must be maintained in electronic document repositories and file folders in Postal Service’s contracting systems.⁷

Finding #1: Highway Contract Routes Insurance Compliance

COs did not consistently manage HCR contracts’ liability insurance requirements in accordance with policies and procedures. HCR contracts consistently lacked documentation of meeting automobile liability insurance requirements. Postal Service policies and procedures require suppliers to furnish proof of insurance before beginning performance under the contract and to carry automobile liability insurance with prescribed minimum limits.⁸ We identified the Postal Service had

“Postal Service had no documentation that 19 (9 percent) of the 205 contracts met one or more Postal Service automobile liability insurance requirements.”

no documentation that 19 (9 percent) of the 205 contracts met one or more Postal Service automobile liability insurance requirements. Specifically, based on file documentation as shown in Figure 1, we identified the following exceptions:

- Seven (3 percent) contracts did not have documentation of supplier insurance policies on file, with a potential total of 9,040 days without coverage.
- Seven (3 percent) contracts did not have an active insurance policy at the award or renewal date, with a potential total of 8,474 days without coverage.
- Five⁹ (2 percent) contracts had expired insurance policies during the contract performance period, with a potential total of 5,768 days without coverage.

⁷ 2014-05-23 SM COMM – Supply Management Records Storage Process.

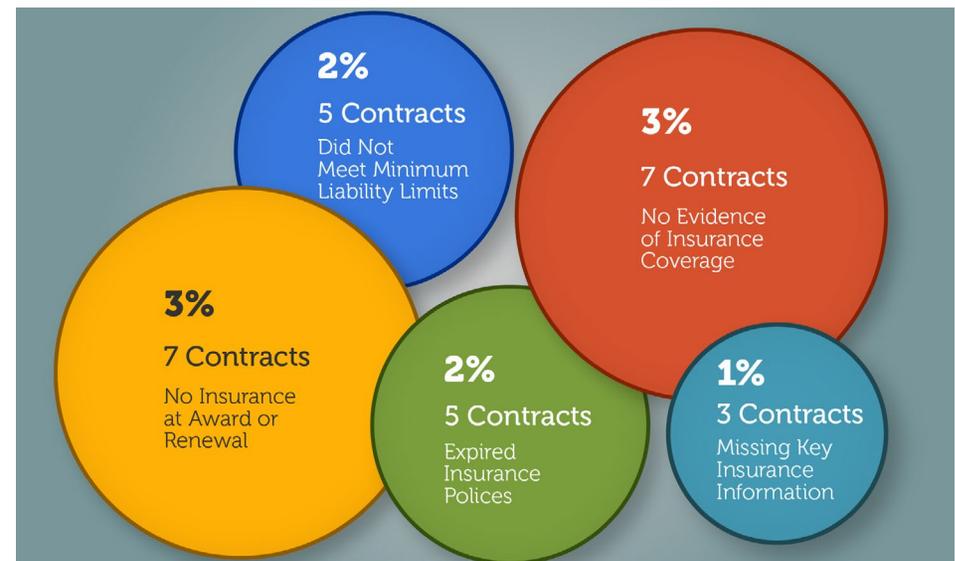
⁸ SP&P Section 7-3.2.2: General Liability Insurance, revised February 28, 2018.

⁹ We identified that four of these contracts did not meet liability insurance requirements to have an active insurance policy at the award or renewal date and one contract did not meet the minimum liability limits.

¹⁰ We identified that these contracts did not meet three liability insurance requirements: 1) expired insurance policies during the contract performance period, 2) no active insurance policy at award or renewal date, and 3) no minimum liability limits.

- Five (2 percent) contracts had insurance documentation that did not carry minimum liability limits, totaling 6,760 days of inadequate coverage.
- Three¹⁰ (1 percent) contracts were missing key insurance information to determine compliance, such as coverage dates or liability limits, with a potential total of 3,075 days of undocumented coverage.

Figure 1. HCR Contract Automobile Liability Insurance Deficiencies



Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

These issues occurred because insurance documentation is not consistently stored in a central location, and was not easily assessable. During the audit, we determined that insurance documentation was archived in a physical storage facility, located on a shared-drive, or maintained in the contracting system. As such, with the volume of HCR contract documents managed, COs were not able to provide all requested supporting documentation to verify compliance with insurance requirements. When COs cannot provide insurance,

documentation demonstrating compliance with liability insurance requirements, the Postal Service is at increased risk of being held liable as a responsible party for actions of the supplier. As the contracts reviewed did not adhere to policy requirements, we estimated \$2,351,088 in unsupported questioned costs, or \$613,621,548 when extrapolated to the universe of HCR contracts, over the two-year period under review.¹¹

Recommendation #1

The **Vice President, Supply Management**, incorporate Highway Contract Route contract insurance compliance reviews into the Supply Management and Infrastructure periodic review process.

Finding #2: Mandatory Insurance Clause

HCR contracts lacked mandatory Clause 7-4: Insurance or adequate contract documentation to validate its inclusion. Clause 7-4 requires suppliers to furnish evidence of insurance and include all terms and provisions required by the Postal Service. In addition, maintenance of insurance coverage as required by Clause 7-4 is a continuing obligation and the lapse or termination of insurance coverage without obtaining replacement coverage is grounds for termination for default. Of the 205 HCR contracts reviewed:

- One hundred nineteen (58 percent) did not include mandatory Clause 7-4 in the Terms and Conditions;

“Of the 205 HCR contracts reviewed: 119 (58 percent) did not include mandatory Clause 7-4 in the Terms and Conditions.”

- Eighty-three (40 percent) did not have Terms and Conditions in their contract files to validate inclusion of the clause; and
- Three did have the mandatory clause in the Terms and Conditions.

Per Postal Service policy,¹² insurance is required for contract performance when transporting valuable Postal Service property and Clause 7-4: Insurance, must be included when a supplier is required to carry insurance. Additionally, Postal Service policy states that all new contracts should be filed in the electronic document repositories and file folders in contracting systems.

There were several causes for why HCR contracts lacked evidence of Clause 7-4:

- A common practice identified was to paraphrase Clause 7-4, language and include it in the contract’s statement of work section. This is not appropriate since all of the clause language was not reflected in the statement of work (SOW). For example, the following clause language was not included in the SOW:
 - Written notice to the Postal Service 30 days in advance of the effective date of any reduction in or cancellation of the insurance policy.
 - Evidence of renewal not later than five days before a policy expires.
 - Continuing insurance coverage. The lapse or termination of insurance coverage without replacement coverage will be ground for termination for default.
- COs may have used a Terms and Conditions template that did not incorporate the mandatory Clause 7-4, for HCR contracts and did not reflect SP&P guidance.

¹¹ A questioned cost because of missing or incomplete documentation, or failure to follow required procedures, but does not necessarily indicate actual loss was incurred by the Postal Service.

¹² SP&P, Sections 7-3.2 and 7-3.2.6: Insurance, revised February 28, 2018.

Poor document management practices led to Terms and Conditions not being in HCR contract files. When mandatory clauses are not included in HCR contracts, contract protections for the Postal Service are reduced and the risk of being held liable as a responsible party for actions of the supplier is increased. It can also lead to suppliers not having a clear understanding of insurance requirements and reduce the ability to hold them accountable.

Recommendation #2

The **Vice President, Supply Management**, require Clause 7-4: Insurance to be included in the Terms and Conditions of all Highway Contract Route contracts.

Recommendation #3

The **Vice President, Supply Management**, reinforce through formal communication and refresher training, the policy for contracting officers to maintain documentation in the Transportation Contracting Support System.

Finding #3: Postal Service Indemnification

The Postal Service did not consistently include Clause B-39: Indemnification, in HCR contracts. Specifically, 47 (23 percent) of the 205 contracts were missing Clause B-39 in the Terms and Conditions.

Clause B-39 indemnifies the Postal Service, its officers, agents, representatives, and employees from responsibility for all claims, losses, damage, actions, expenses, and liability due to omissions of the supplier, any subcontractor, or any employee, agent, or representative of the supplier or any subcontractor.

Clause B-39 is not a mandatory clause in the SP&P for HCR contracts; however, in 2015, the HCR contracts Terms and Conditions template was revised to make the clause mandatory when awarding HCR contracts. The HCR contracts Terms and Conditions template is a contracting tool developed for COs to use for

“47 (23 percent) of the 205 contracts were missing Clause B-39 in the Terms and Conditions.”

creating new HCR contracts. COs for 12 contracts erroneously used the pre-2015 Terms and Conditions template, which did not make inclusion of Clause B-39 mandatory. Award dates for the remaining 35 contracts occurred before the 2015 Terms and Conditions template update.

When Clause B-39: Indemnification, is not included in HCR contracts, contract protections for the Postal Service are reduced and the risk of being held liable as a responsible party for actions of the supplier is increased.

Recommendation #4

The **Vice President, Supply Management**, incorporate inclusion of Clause B-39: Indemnification into negotiation of Highway Contract Route contracts.

Recommendation #5

The **Vice President, Supply Management**, revise Supplying Principles and Practices to require the use of Clause B-39: Indemnification in all Highway Contract Route contracts.

Recommendation #6

The **Vice President, Supply Management**, develop a process to ensure outdated templates are archived and filed separately from the current Terms and Conditions template.

Management's Comments

Management agreed with the report's findings and recommendations; however, disagreed with the monetary impact.

Regarding recommendation 1, management stated that Supply Management will add a check for the inclusion of Clause 7-4 (or applicable SP&P revised insurance clause) and evidence of insurance to the competitive and noncompetitive award and compliance reviews. The target implementation date is July 2019.

Regarding recommendation 2, management stated that Supply Management is reviewing Clause 7-4 for any changes necessary for clause uniformity within both HCR contracts and other commodity purchases. They will revise the HCR Terms

& Conditions template to include Clause 7-4, and make its inclusion mandatory for all HCR contracts. The target implementation date is March 2020.

Regarding recommendation 3, management stated that Supply Management will reiterate through formal communication and refresher training the requirements of SP&P Section 3-6.1 – Contract Maintenance to ensure proper documentation is filed in the TCSS system. The target implementation date is September 2019.

Regarding recommendation 4, management stated that Supply Management will ensure inclusion of Clause B-39 in HCR contract award and renewal negotiations. The target implementation date is March 2020.

Regarding recommendation 5, management stated that Supply Management will revise the SP&P to include a prescription for use and inclusion of Clause B-39 in all HCR contracts. The target implementation date is March 2020.

Regarding recommendation 6, management stated that Supply Management will develop a process to ensure outdated templates are archived and filed separately from current templates. The target implementation date is September 2019.

Regarding the monetary impact, management believes the monetary impact is significantly overstated. They assert the methodology and results used to calculate the monetary impact is not reflective of actual risk or monetary impact to the Postal Service, nor do they believe it is a realistic reflection of any historical experience seen under HCR contracts concerning third-party claims.

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

Evaluation of Management's Comments

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

Regarding the monetary impact, we used a valid statistical methodology in selecting the sample of contracts to review and calculate the associated monetary impact. As such, it was appropriate to extrapolate the unsupported question cost identified over the total universe. As stated in our criteria, unsupported question costs are those that are called into question because of missing or incomplete documentation, or because of failure to follow required procedures. Unsupported question costs does not necessarily indicate actual loss was incurred by the Postal Service. As indicated in the audit, we identified the Postal Service had no documentation to support that 9 percent of the contracts reviewed met liability insurance requirements; therefore, unsupported questioned costs is warranted.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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

Scope and Methodology

Our scope included all Postal Service HCR contracts active as of March 31, 2018.¹³ Based on the data we collected from the EDW on April 12, 2018, there were 13,603 open HCR contracts in the TCSS contracting system with a total spend amount of over \$6.6 billion. Our statistical sample included 205 HCR contracts nationwide valued at about \$129 million.

To accomplish our objective we:

- Obtained universe of HCR contracts and selected a statistical sample for review.
- Interviewed Postal Service personnel to gain an understanding of policies and procedures in place for HCR contracts.
- Reviewed contract clauses pertaining to liability insurance.
- Reviewed HCR suppliers' insurance liability documentation from the TCSS contracting system.

We conducted this performance audit from May 2018 through March 2019, 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on December 7, 2018, and included their comments where appropriate.

We assessed the reliability of EDW data by comparing it to reports extracted from the TCSS contracting system, source documents, and interviews with Supply Management personnel involved in HCR contracts. 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 within the last five years.

¹³ Does not include 141 active contracts reviewed in the *Highway Contract Route Contracting Practices and Conflicts of Interest* report (Report Number NL-AR-18-001, dated October 10, 2017).

Appendix B: Management's Comments



March 8, 2019

RICK POLAND
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Oversight of Highway Contract Routes - Insurance
(Report Number SM-AR-19-DRAFT)

Thank you for providing the United States Postal Service (Postal Service) with an opportunity to review and comment on the subject draft audit report, "Oversight of Highway Contract Routes - Insurance." We appreciate the cooperation and courtesies provided by the OIG in the review of the discussion draft audit report, and the opportunity to provide additional documentation for your consideration. Management agrees with the report's findings. Management also agrees with the recommendations; however, management disagrees with the monetary impact as discussed below.

Management recognizes that the OIG's categorization of the monetary impact claimed within the report is reported as unsupported questioned costs. The OIG's definition for this category of monetary impact is "a questioned cost because of missing or incomplete documentation, or because of failure to follow required procedures, but does not necessarily indicate actual loss was incurred by the Postal Service." The OIG calculated the monetary impact based on taking the entire contract value of 19 instruments (9 percent of the sample of 205 contracts) found to lack proper insurance documentation having actual spend of \$2.4 million, then extrapolated that amount to the universe of 13,603 HCR contracts valued at \$6.6 billion for the period reviewed thereby deriving a total of \$613.6 million in unsupported questioned costs.

This methodology and result is not reflective of actual risk or monetary impact to the Postal Service, nor do we believe it is a realistic reflection of any historical experience seen under HCR contracts concerning third party claims. A review by the Postal Service's Law Department determined that the Postal Service has not been held liable in any lawsuit for third-party injury claims relating to an HCR supplier's contract performance. Alternatively, management has reviewed and calculated the cost of insurance within the 19 instruments identified by the OIG as an aggregate amount of \$62,398. Accordingly, monetary impact within the report is significantly overstated.

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Management's response to the OIG's recommendations are detailed below:

We recommend the vice president, Supply Management:

Recommendation 1: Incorporate Highway Contract Route contract insurance compliance reviews into the Supply Management Infrastructure (SMI) periodic review process.

Management Response to Recommendation 1: Management agrees with this recommendation. Currently, our SMI Compliance Team conducts competitive and noncompetitive award reviews, and contract administration compliance reviews. These reviews include Highway Contract Route contracts. We will add a check for the inclusion of Clause 7-4, Insurance, or applicable SPs and Ps revised insurance clause, and evidence of insurance in our contract compliance review process.

Target Implementation Date: July 2019

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 2: Require Clause 7-4: Insurance to be included in the Terms and Conditions of all Highway Contract Route contracts.

Management Response to Recommendation 2: Management agrees with this recommendation. We are reviewing Clause 7-4 as to any required changes necessary for clause uniformity within both HCR contracts and other commodity purchases. We will revise the HCR Terms & Conditions to include Clause 7-4, and will make it mandatory for use in all HCR contracts.

Target Implementation Date: March 2020.

Responsible Official: Manager, Surface Transportation CMC and Manager, Supply Management Infrastructure.

Recommendation 3: Reinforce through formal communication and refresher training, the policy for contracting officers to maintain documentation in the Transportation Contracting Support System.

Management Response to Recommendation 3: Management agrees with this recommendation. Management will reiterate through formal communication and refresher training Section 3-6.1 – Contract Maintenance of the Supplying Principles and Practices to ensure proper documentation is filed in the TCSS system.

Target Implementation Date: September 2019

- 3 -

Responsible Official: Manager, Surface Transportation CMC

Recommendation 4: Incorporate inclusion of Clause B-39: Indemnification into negotiation of Highway Contract Route contracts.

Management Response to Recommendation 4: Management agrees with this recommendation. We will ensure the inclusion of Clause B-39 in HCR contract award and renewal negotiations.

Target Implementation Date: March 2020

Responsible Official: Manager, Surface Transportation CMC and Manager, Supply Management Infrastructure

Recommendation 5: Revise Supplying Principles and Practices to require the use of Clause B-39: Indemnification in all Highway Contract Route contracts.

Management Response to Recommendation 5: Management agrees with this recommendation. We will revise the Supplying Principles and Practices (SPs and Ps) to include a prescription for the use and inclusion of Clause B-39, Indemnification, in all HCR contracts.

Target Implementation Date: March 2020

Responsible Official: Manager, Supply Management Infrastructure

Recommendation 6: Develop a process to ensure outdated templates are archived and filed separately from the current Terms and Conditions template.

Management Response to Recommendation 6: Management agrees with this recommendation. Management will develop a process to ensure outdated templates are archived and filed separately from current templates.

Target Implementation Date: September 2019

Responsible Official: Manager, Surface Transportation CMC

E-SIGNED by SUSAN BROWNELL
on 2019-03-08 14:08:22 CST



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