Evaluation of Freight Auction

AUDIT REPORT

Report Number 23-162-R24 | August 6, 2024

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Highlights

Background

The U.S. Postal Service implemented Freight Auction (FA) in October 2021 to solicit bids to transport mail on an "as needed" basis with the flexibility to schedule trips without requiring contractual changes. The FA program supports the Delivering for America vision with the goal to improve financial sustainability and service performance. Implementation of FA provides the Postal Service the opportunity to use the spot freight market to get competitive market pricing on surface trips and improve trailer utilization. The Postal Service spent about $159.5 million and $385.2 million for fiscal years (FY) 2022 and 2023, respectively, for FA trips.

What We Did

Our objective was to assess the effectiveness of FA for Highway Contract Routes. We performed site observations at eight facilities between December 2023 and February 2024, covering the four Postal Service areas. We also reviewed FA trips and payment data for FYs 2022 and 2023.

What We Found

The Postal Service's FA program could have been more effectively planned, standardized, and executed with proper internal controls. Specifically, we found the FA policies and procedures were inconsistently applied across facilities; trip bids and awards lacked effective safeguards; trip payments and the supporting documentation for proof of delivery lacked proper controls; implemented system control requirements were not effective to safeguard against inaccurate supplier payments; supplier performance was not routinely monitored; and the FA contracts were not in compliance with the Service Contract Act requirements. Consequently, we estimated the Postal Service incurred about $199.1 million in questioned costs due to the lack of a proper control environment.

Recommendations and Management's Comments

We made 10 recommendations to reinforce driver screening, dock operations, and trailer utilization; improve the bidding process; address inaccurate supplier payments; supplier performance and compliance; and Service Contract Act compliance. Postal Service management agreed with 9 of the 10 recommendations. Management's comments and our evaluation are at the end of each finding and recommendation. The U.S. Postal Service Office of Inspector General considers management's comments responsive to all recommendations except for recommendation 7, which we will discuss with management during the audit resolution process. For the others, the corrective actions should resolve the issues identified in the report. See Appendix B for management's comments in their entirety.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 6, 2024

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

PETER ROUTSOLIAS
VICE PRESIDENT, TRANSPORTATION STRATEGY

STEPHEN DEARING
VICE PRESIDENT, CHIEF DATA AND ANALYTICS OFFICER

Mary K. Lloyd

FROM: Mary Lloyd
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Evaluation of Freight Auction
(Report Number 23-162)

This report presents the results of our audit of Evaluation of Freight Auction.

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 recommendation can be closed.

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

Attachment

cc: Corporate Audit Response Management
Postmaster General
Secretary of the Board of Governors

Results

Introduction/Objective

This report presents the results of our Evaluation of Freight Auction (Project Number 23-162), which was a self-initiated audit. Our objective was to assess the effectiveness of Freight Auction (FA) for Highway Contract Routes (HCR). See Appendix A for additional information about this audit.

Background

As part of its Delivering for America ten-year strategic plan, published on March 23, 2021, the U.S. Postal Service is transforming and modernizing its logistical systems platform to drive an efficient and reliable transportation network, focusing on improving contract systems, processes and payments, and performance. This new logistics platform, the Integrated Logistics Ecosystem (ILE), supports the Delivering for America vision with the goal to improve financial sustainability and service performance. The Postal Service spent $159.5 million in fiscal year (FY) 2022 and $385.2 million in FY 2023 on FA trips. Combined, these costs represent about 4.3 percent of the total $12.7 billion in highway transportation costs for both years. The FY 2023 costs increased significantly due to more trips using FA.

Freight Auction Within the Integrated Logistics Ecosystem Platform

The ILE consists of three main components: Contract Logistics Enterprise Acquisition Resource (CLEAR),[1] Transportation Management System (TMS),[2] and HCR Visibility.[3] The TMS houses two modules: FA[4] and Freight Payment.[5] The FA and Freight Payment modules are designed to effectively manage "as needed"[6] trips.

When the Postal Service Surface Logistics Group determines it needs an "as needed," flexible trip, it uses the FA module to post a route and solicit bids electronically from all pre-qualified suppliers. Once suppliers electronically submit bids, the Postal Service is notified to review, accept, and award the bids.

> "FA trips will not generate a voucher without a complete POD."

At the completion of FA trips, the Freight Payment module digitally automates supplier payments for standard, static, scheduled routes, cancellations, and other payment adjustments. Additionally, if an adjustment or claim for payment is submitted by the supplier, the Postal Service uses the Miscellaneous Voucher[7] module in TMS, and the Transportation Contract Support System (TCSS)[8] to manually process supplier claims as lump sum payments.

Freight Auction Process

The Postal Service implemented FA in October 2021 to drive an efficient and reliable transportation network, focusing on trip scheduling flexibility, improving contract processes, and reducing costs. According to the Postal Service, implementation of FA provides the opportunity to utilize the spot freight[9] market to get competitive market pricing on surface trips and improve trailer utilization. It allows the Postal Service the ability to schedule trips quickly and adjust as needed without requiring contractual changes.

1 CLEAR is a cloud-based commercial off the shelf system with automated processes for contract solicitation, review, and award.
2 TMS allows the Postal Service to automate processes, build mail loads, optimize routes, and solicit suppliers to achieve cost efficiency, monitor performance, process payments, and enable supplier access to information.
3 HCR Visibility consists of Global Positioning System (GPS) tracking and Surface Visibility (SV) scanning using the FourKites platform.
4 FA module serves to manage trip bids and awards process.
5 The FA trip payments are systematically processed via the Freight Payment module.
6 "As needed" routes are on-demand services that operate infrequently, are generally more expensive than dedicated scheduled services, and involve multiple cost segments.
7 A Freight Payment user may receive a request to create a miscellaneous voucher to perform adjustments, process lump sum payments, or handle exceptional scenarios.
8 The Postal Service uses the TCSS for overall management of transportation contracts. It also uses the eSCR system to request changes in service when needed and process payments as specified in the contracts.
9 Spot freight rate is a current market value that suppliers are willing to accept as payment for providing transportation for mail volumes outside of the Postal Service's dedicated transportation plan.

To use FA, the Postal Service Surface Logistics Group identifies an "as needed" trip, creates a new trip in the TMS application, and initiates a bid auction for the trip. The suppliers must meet a minimum requirement (fleet size, insurance, past performance, financial stability, etc.) to be approved to participate in FA before being awarded the ordering agreement.[10] These suppliers may be an "asset based" company that own their equipment or a broker that subcontracts with other trucking companies for drivers to fulfill the awarded trip. The trip is systematically awarded to the lowest priced offer meeting all requirements of the offered trip (origin, destination, pick-up and delivery times).

Freight Auction Supplier Payment Process

The Postal Service requires FA suppliers to provide a proof of delivery (POD) for each trip to get paid. There are several methods that can be used to support POD including SV scans,[11] FourKites,[12] Electronic Data Interchange (EDI) messaging,[13] and manual uploading through the supplier Logistics Gateway.[14] FA trips will not generate a voucher without a complete POD.

Service Contract Act (SCA) and Wage Determinations

The Postal Service is required to incorporate SCA clauses and the applicable wage determinations for every interstate mail transportation contract value in excess of $2,500, whether negotiated or advertised. Additionally, wage determinations issued for solicitations or negotiations for any contract where the place of performance is unknown will contain minimum monetary wages and fringe benefits for the various geographic localities where the work — identified in the initial solicitation in accordance with 29 C.F.R. Subpart A § 4.3(d) — may be performed. The Postal Service places the responsibility on the suppliers to verify Department of Labor (DOL) requirements and include the cost in the proposed price.

We conducted interviews and performed site observations at eight facilities covering the four Postal Service areas (see Table 3 in Appendix A) and interviewed four suppliers from December 12, 2023, to February 8, 2024. Additionally, we reviewed FA trip and payment data for FYs 2022 and 2023.

Findings Summary

The Postal Service's FA program could have been more effectively planned, standardized, and executed to ensure proper internal controls were in place. While the Postal Service has used FA to improve the flexibility in procuring "as needed" transportation, we identified opportunities to improve the FA transportation program and operations by strengthening: (1) the consistency in the application of policies and procedures in field operations; (2) bid solicitation and awards; (3) FA trip proof of delivery and payment processes; (4) monitoring supplier compliance and performance requirements; and (5) compliance with the Service Contract Act requirements. Furthermore, the Postal Service must establish and maintain internal controls over its newly implemented FA initiative to ensure safety and security of transported mail and uphold the integrity and accuracy of the FA trip bids, payments, and financial reporting.

"While the Postal Service has used FA to improve the flexibility in procuring "as needed" transportation, we identified opportunities to improve the FA transportation program and operations."

10 An ordering agreement is not a contract with the Postal Service, but the structure for future contracts, should specific orders be awarded to the supplier. This agreement will become a firm fixed price contract, upon acceptance, of an order by the supplier to provide service as ordered by the Postal Service at a mutually agreed to price.
11 A system that provides the Postal Service with real-time data and reporting on the movement and delays of HCRs. Additionally, trailer load percentage is calculated and recorded in SV.
12 A platform initiated in June 2023 for trip visibility tracking.
13 Suppliers send EDI messaging to provide trip delivery status updates.
14 A system for suppliers to seamlessly navigate through the Postal Service TMS for all their logistics needs.

Finding #1: Freight Auction Operations

During our site observations we found the FA policies and procedures for driver screening and use of sub-contractors, dock operations, and trailer utilization were inconsistently applied between facilities.

Driver Screening and Use of Subcontractors

The Postal Service did not always perform required FA driver screenings or complete the Postal Service (PS) Form 2081, *Highway Contract Driver Assignment Notification*, which requires drivers to provide a valid commercial driver's license and submit a completed form to legally handle U.S. Mail, in lieu of a driver screening.[15] Specifically, we found the Postal Service did not have assurances related to driver safety and security, nor adequate ability to determine who is handling and transporting mail. For example, seven of the eight facilities we visited did not use PS Form 2081, and instead they used inconsistent methods to collect driver information. During our observations, we found three facilities requested and documented the commercial driver's licenses and recorded the name and phone number of each driver. One facility recorded only the drivers' names and phone numbers. The remaining three facilities did not request or record any driver information. We also spoke to multiple FA drivers who informed us they were new to handling and transporting mail on behalf of the Postal Service. These drivers were assigned by suppliers who were also unfamiliar with Postal Service dock requirements, making it difficult to enforce consistency and compliance. Additionally, we found FA trips are not exclusively used in emergency situations, and at times, they are used for routine trips with the same origin and destination.

> "FA trips are not exclusively used in emergency situations, and at times, they are used for routine trips with the same origin and destination."

Our previously issued report, *Contract Trucking Safety and Compliance*, also identified a lack of visibility into subcontractor use. The report noted that the Postal Service did not always know who was authorized to transport the mail on its behalf. FA brokers were not required to obtain prior written approval or inform the Postal Service of the specific subcontractors being used. Instead, the Postal Service relied on the broker to complete subcontractor authorization and vet the subcontractor, but those results were not required to be reported to the Postal Service. Instead, the onus is on the broker to ensure the subcontractors are compliant with Postal Service policies. Our observations demonstrated the use of subcontractors continues to be an issue, but we are not making a recommendation, as the previous report recommendations remain open as of the issuance of this report.

Dock Operations

Postal Service facilities did not follow the dock operational procedures, as outlined in the Postal Service FA Supplier Manual, which require drivers to have a minimum of 12 ratchet-type shoring straps for each full trail load and a padlock and may be required to assist with loading/unloading to enhance efficiency; wear reflective vests on Postal Service premises or during dock operations; and team drivers are required for trip distances exceeding 500 miles. Additionally, Postal Operations Manual Issue 9, *Sealing Program and Procedures – General Requirements, Section 476.1*, dated November 30, 2023, requires all dispatching offices under the seal program to seal each outbound highway contract vehicle with numbered tin band seals, item 0817A. During our site visit interviews and observations, we noted inconsistencies between facilities applying these requirements as follows:

15 Management Instruction PO-530-2009-4, *Screening Highway Transportation Contractor Personnel*, dated September 2009. Based on the management response to our previously issued report, *Contract Trucking Safety and Compliance*, dated February 24, 2024, FA is to be used exclusively in emergency situations. The PS Form 2081 was updated in March 2022 to support the current usage of FA.

- One of the eight facilities required drivers to stay in a secured location from the dock area until trucks were loaded for departure. Additionally, seven of the eight facilities did not require drivers to assist in loading the mail. When drivers were asked to assist in loading the mail at one facility, they complained and stated they were not aware of this requirement.
- Two of the eight facilities allowed the drivers to seal trailers before departure, and dock personnel did not always ensure the trailer was sealed and locked.
- Three of the eight facilities did not require drivers to lock the trailer with a padlock.
- Seven of the eight facilities were not enforcing the driver safety vest requirements.
- None of the eight facilities we visited consistently verified team driver requirements. For example, one driver at the origin site confirmed that he was a solo driver and picked up the trip on time but arrived about four hours late to the final destination. He said normally he would drive for eight hours and take a sleep break, as required. This late arrival may have been a consequence of the solo driver taking breaks due to the long distance of travel.

Trailer Utilization

During our site observations, we also found trailer utilization percentages were not accurately calculated and reported in SV. We observed 25 FA trailer loads and estimated trailer load percentages and compared them to the SV data. We found eight out of 25 (or 32 percent) trip load percentages were incorrectly calculated and recorded in SV. For example, we observed a trailer was about 55 percent full; however, the trailer utilization was recorded in SV as 100 percent, resulting in an inaccurate trailer utilization calculation (see Figure 1). SV incorrectly calculated utilization based on the number of containers and floorspace, instead of the cubic volume of the trailer.

Figure 1. Inaccurate Trailer Utilization Calculation

Source: OIG photo taken at a site visit in January 2024.

We analyzed SV data for FYs 2022 and 2023 and determined the average trailer utilization was about 73.6 and 79.4 percent, respectively. Based on our observations and analysis, reported trailer utilization in SV may be overstated and does not represent the actual utilization.

These conditions occurred because of a lack of management oversight and communication between headquarters, facilities, suppliers, and drivers related to FA policies and procedures and operations. Specifically:

- Facility personnel did not receive clear guidance regarding the required use of PS Form 2081 in lieu of driver screening.
- FA drivers were not always aware of the Postal Service safety rules, security requirements, and responsibilities related to loading and transporting the mail.
- Management did not ensure dock personnel were following existing guidance on team drivers and locking and sealing trailers.

Additionally, regarding the truck utilization, management stated they were aware of the issue, which is due to the system not accounting for double stacking and cubic feet when trailer utilization is calculated. Postal management has formed working groups to develop tools for the accuracy of utilization. However, they did not state when updates would be completed.

When the prescribed FA policies and procedures are not communicated or consistently applied, it results in ineffective operations and places the Postal Service at risk of injuring employees and others, delaying mail, losing trailers and mail, and increasing transportation costs. Additionally, if SV does not calculate trailer utilization correctly, it results in overstating the trailer utilization percentage and could impact management's business decisions.

Recommendation #1

We recommend the **Vice President, Logistics,** communicate freight auction driver screening requirements to facility personnel and develop a process to ensure compliance.

Recommendation #2

We recommend the **Vice President, Logistics,** communicate the security, trailer loading, and team driver requirements to facility management and suppliers, and develop a process to monitor dock personnel and freight auction drivers to verify they are following the requirements.

Recommendation #3

We recommend the **Vice President, Chief Data and Analytics Officer,** in coordination with **Vice President, Logistics,** develop a plan of action and milestones for revising the trailer utilization-calculated percentages in Surface Visibility to account for stacked containers and cubic feet.

Postal Service Response

Management agreed with finding 1 and recommendations 1, 2, and 3. They plan to re-issue stand-up talks to dock personnel to reiterate FA driver screening and safety requirements. Regarding the trailer utilization calculation, management plans to update Surface Visibility business logic to improve existing utilization calculations. Management provided a target implementation date of March 31, 2025, for recommendations 1 and 2 and July 31, 2025, for recommendation 3.

OIG Evaluation

The OIG considers management's comments responsive to recommendations 1, 2, and 3 and corrective actions should resolve the issues identified.

Finding #2: Freight Auction Bidding

Our analysis of the FA trip data reflected FYs 2022 and 2023 combined average rate per mile (RPM) for the 208,899 paid FA trips was $3.70. The average FA trip RPM was high during the implementation in FY 2022, however, an improvement was noted for FY 2023. The average RPM for FY 2023 was $3.00, compared to the average RPM of $5.83 for FY 2022, an improvement of $2.83 (or 48.6 percent) over FY 2022. Additionally, 197,052 of the 208,899 (or 94.3 percent) FA trips were awarded to the lowest bidder, as required by Postal Service FA guidance,[16] for trips paid in FYs 2022 and 2023. For the remaining 11,847 (or 5.7 percent) trips, we identified that:

- 2,373 trips were not awarded to the lowest bidder.
- 4,633 trips were awarded without bid information.
- 4,841 trips had only one bid, and these awards resulted in higher costs and RPM. For example, one trip was awarded for $35,000, resulting in a $15.69 RPM, which was four times over the average trip RPM of $3.70 and another trip was awarded for $6,999 with an RPM of $357.09 and 96 times over the average trip RPM. The average RPM for awards with only one bid was $9.41, which was almost three times over the average trip RPM of $3.70.

In addition, our review and analysis of the FA trip data for FYs 2022 and 2023 identified the following other exceptions, which indicate room for improvement in the Postal Service's bidding process:

- 16,393 trips were not awarded automatically by the system. Since these bids were not systemically awarded, the Postal Service may not have secured a competitive rate for these trips. The average RPM was $4.33 for these trips, compared to $3.70 for all awarded trips in FYs 2022 and 2023.
- 3,133 trips were awarded that had a different payment amount, mileage and/or RPM, including 444 trips that were awarded that did not have a bid amount.

"When proper safeguards are not in place, the Postal Service risks paying higher trip rates resulting in additional transportation costs."

These issues were caused by insufficient system safeguards during deployment to detect trips with single bids and high RPM. Specifically, system control requirements were not effectively planned and executed allowing system overrides during the bidding process and compromising the integrity of the process. During our audit, management explained that some trips with no bids for dedicated lanes were manually awarded to pre-selected suppliers at rates outside of the FA bid process, similar to the process used during the 2023 peak season. When proper safeguards are not in place, the Postal Service risks paying higher trip rates resulting in additional transportation costs.

Recommendation #4

We recommend the **Vice President, Logistics,** develop a plan to detect atypical bids before award to achieve competitive rates and reduce transportation costs.

Postal Service Response

Management agreed with finding 2 and recommendation 4, stating they have already implemented a process in the system to achieve competitive rates and controls costs while meeting service. Management provided a target implementation date of October 31, 2024.

OIG Evaluation

The OIG considers management's comments responsive to recommendation 4 and corrective actions should resolve the issues identified.

16 *Freight Payment User Guide*, dated February 28, 2022.

Finding #3: Freight Auction Payments

Our review of FA documentation for FYs 2022 and 2023 shows that the FA POD documentation and payment process could be improved to avoid incorrect supplier payments, added costs for recoupment of overpayments, and potential bad debts. We found the Postal Service did not always review and validate POD-supporting documentation and information to determine completion of FA trips and ensure payment accuracy.

Proof of Delivery

We found trips were not always paid with reliable POD support either through automation of visibility data, such as SV scans, GPS in FourKites, or manual submission by suppliers. The Freight Payment User Guide states in part, "for a trip to enter the Freight Payment process, a POD needs to be submitted by a supplier. If a POD has not been submitted, the financial status of the trip would be ineligible, and a voucher would not have been created against the trip." POD scans must be submitted for all trip stops to be eligible for payment.

We determined 69,225 of the 208,899 (or 33 percent) trips paid during FYs 2022 and 2023, totaling about $197.9 million, were not supported with reliable POD source information (see Table 1). Additionally, 4,973 cancelled trips in SV were processed and paid. Specifically, of those 69,225 trips:

- 52,649 trips were processed and paid with a manual submission by suppliers or Postal Service users. Manual transactions are prone to errors and create opportunities for manipulation of POD supporting documentation and fraud, waste, and abuse.
- 13,325 trips were processed and paid with EDI messaging information from suppliers. The EDI auto trip messaging did not require suppliers to report final stop information to receive payment.
- 2,973 trips were processed and paid with no POD, and 278 trips had partial POD information, indicating not all stops were marked as delivered, rendering this type of POD source documentation invalid for full payment.

Table 1. Summary of Unsupported Proof of Delivery Source

Description	Number of Loads	Amount Paid
POD	52,649	$161,151,719.77
EDI	13,325	28,041,709.81
No POD Source	2,973	7,748,864.01
Partial POD	278	984,330.89
Total	**69,225**	**$197,926,624.48**

Source: OIG analysis of Freight Auction Pay Reconciliation and POD data.

> "During FY 2023, the Postal Service made several business rule changes and enhancements for the POD sources and payment process."

During FY 2023, the Postal Service made several business rule changes and enhancements for the POD sources and payment process. Specifically, regarding the manual POD submission, management stated this POD code was accepted in previous years but is no longer valid due to business rule changes during FY 2023, and suppliers no longer have the option of submitting this type of POD in support of trip completion and payment. Regarding EDI, the Postal Service discontinued EDI messaging submissions as valid POD support in February 2023, after they discovered the process was unreliable and created the potential for fraud, waste, and abuse. Consequently, trips not supported by reliable POD sources experienced a reduction of 81.1 points, from 94.1 percent in FY 2022 to 13.0 percent in FY 2023. Although the Postal Service continues to make business rule changes and system enhancements, they did not perform a review to identify and recover inaccurate payments.

The Postal Service also initiated a review of cancelled trips and payment transactions for quarter one of FY 2023 (October to December 2022) consisting of 825 cancelled trips. The review identified overpayments to suppliers, totaling about $253,000. This review was conducted over a two-month period and was manual in nature, labor intensive, and time consuming. Management stated they are in the process of initiating recoupment of these overpayments. Due to the significant resource requirements, management informed us that they were not sure when the remaining transactions would be reviewed to identify overpayments and initiate recoupment.

Inaccurate Trip Payments

We found the Postal Service made trip adjustments resulting in $218,684 of inaccurate payments during FY 2023. These payment transactions were made in both the Freight Payment and Miscellaneous Voucher systems, resulting in the Postal Service paying for the same trips twice. See Table 2 for examples of incorrect payments.

Table 2. Examples of Incorrect Payments

Load ID	Amount Paid in Miscellaneous Voucher System	Amount Paid in Freight Payment System	Incorrect Amount Paid
1	$5,514.14	$5,514.14	$5,514.14
2	400.00[17]	2,599.00	2,599.00
3	6,545.00	6,545.00	6,545.00
4	4,495.00	4,495.00	4,495.00

Source: OIG analysis of Freight Auction Pay Reconciliation and Miscellaneous Voucher data.

Additionally, we reviewed 30 judgmentally selected lump sum transactions equal to or more than $10,000 processed and paid in TCSS and found the following:

- 13 transactions[18] for 39 trips, totaling about $923,541, were processed and paid as lump sum payments in TCSS without proper supporting documentation, including POD, trip date, and trip number in SV.
- Three transactions for three trips were processed as duplicate payments, totaling $30,485. One trip was processed and paid twice in TCSS, and two trips were processed and paid in both TCSS and Freight Payment Module.
- Six transactions consisting of 78 regular HCR extra trips, toll fees, and rate adjustments, totaling $445,008, were incorrectly processed, and paid under FA routes instead of regular HCRs, resulting in overstating and understating of the respective HCR and FA costs in the general ledger.

“Due to the significant resource requirements, management informed us that they were not sure when the remaining transactions would be reviewed to identify overpayments and initiate recoupment.”

Management Instruction PO-530-2017-1[19] states the administrative official must review and confirm that the supporting documentation is reported in the correct month, that it reflects the correct service code, and that it is properly calculated to the amount claimed.

Additionally, Handbook F-1[20] states field units and headquarters units are required to document and report all significant financial reporting matters in a timely manner and be diligent in reflecting all

17 The adjustment was made to pay supplier for a $400 fee for “Truck Ordered Not Used,” but the Postal Service did not recoup the money for the original payment of $2,599.
18 One transaction in the amount of $725,915.69 was paid to a supplier for multiple loads, but management was unable to provide the load numbers and amounts that made up this payment nor any POD-supporting documentation.
19 *Highway Contract Route Exceptional Service Performance Payment Reconciliation*, dated August 31, 2017.
20 *Accounting and Reporting Policy*, dated January 2015: Section 2-4.1.5 Financial Reporting Responsibilities.

transactions in the proper account, amount, and reporting period.

These inaccuracies occurred because system requirements for the FA Payment module were not effectively established and implemented prior to releasing the module in production. As a result, management continues to identify ineffective business rules from the initial Freight Payment module implementation causing payments to be inaccurate. In addition, the suppliers' POD requirements for payments over the past two years have continued to change, and business rule system enhancements are continually being made to improve supplier payment accuracy.

"Management continues to identify ineffective business rules from the initial Freight Payment module implementation causing payments to be inaccurate."

Management stated that in June 2023, they implemented the FourKites module in TMS to allow suppliers to report POD based on GPS information. However, due to lack of payment systems automation, and continuous reliance on multiple systems[21] and manual processes to validate PODs, the Postal Service was not able to ensure the sufficiency of supplier-provided PODs or the accuracy of payments. Further, when adjustments are made, they are processed using multiple payment systems.[22]

Consequently, we were unable to validate the trip deliveries, completion of these trips, and accuracy of these payments. Additionally, improper, or inaccurate payments that should not have been made or were made in the incorrect amounts have been long-standing issues within the Transportation function.[23] Reducing improper payments is essential to safeguarding funds and reaching financial sustainability. We found that these payments represent a material deficiency or weakness in internal controls. As a result, the Postal Service incurred questioned costs of $199.1 million due to insufficient systems requirements during the initial implementation phase and POD supporting documentation requirements, resulting in inaccurate supplier payments.

Recommendation #5

We recommend the **Vice President, Logistics,** review prior freight auction payments made during fiscal years 2022 and 2023 to identify loads without reliable proof of delivery information and recover inaccurate payments and implement a periodic review process going forward.

Recommendation #6

We recommend the **Vice President, Logistics,** initiate recovery of U.S. Postal Service Office of Inspector General-identified overpayments.

Recommendation #7

We recommend the **Vice President, Logistics,** conduct a comprehensive review to identify requirements for streamlining proof of delivery validation, minimize manual payments, improve accuracy, and make system enhancements as necessary.

Postal Service Response

Management agreed with finding 3 and recommendations 5 and 6 but disagreed with recommendation 7 and the monetary impact. Management stated they will conduct a review of the questioned loads to determine any inaccurate payments, take action to recoup funds as necessary, and document a quarterly review of FA payments. They also stated changes

21 PODs are supported in FourKites, SV, Electronic Data Interchange messaging, and supplier uploaded supporting documentation.
22 FA trip payments are processed via Freight Payment and Miscellaneous Voucher modules in TMS and TCSS.
23 These are examples of prior OIG issued audit reports where inaccurate payments were identified: *Scheduled Hours and Payments for Highway Contract Routes* (Report Number 20-295-R21, dated May 5, 2021); *As Needed Highway Contract Routes* (Report Number 21-022-R21,dated July 16, 2021); *Late Trip Payment Process for Highway Contract Routes* (Report Number 22-202-R23, dated, April 25, 2023).

have been made to add system enhancements and achieve competitive rates. This includes a larger supplier pool and cost maximums for the automated process to control costs as well as enhanced business rules for proof of delivery sources. They provided a target implementation date of January 31, 2025, for recommendations 5 and 6.

Regarding monetary impact, management stated they identified $195 million of the financial impacts noted in the report as valid payments through additional sources of POD. Although the Postal Service does not currently rely solely on EDI as a POD source, this technology is an industry standard practice that has been used by logistics companies for many years. After management's initial review, they stated only $2.9 million of monetary impact remains due to an improper POD source.

OIG Evaluation

The OIG considers management's comments responsive for recommendations 5 and 6 and corrective actions should resolve the issues identified. Regarding recommendation 7, we view the disagreement as unresolved and will work with management through the formal audit resolution process. While the Postal Service has been making system enhancements, they did not conduct a comprehensive review to identify control requirements for streamlining POD validation, minimize manual payments, and improve payment accuracy. This would be an ongoing process to strengthen the control environment over the POD and payment processes.

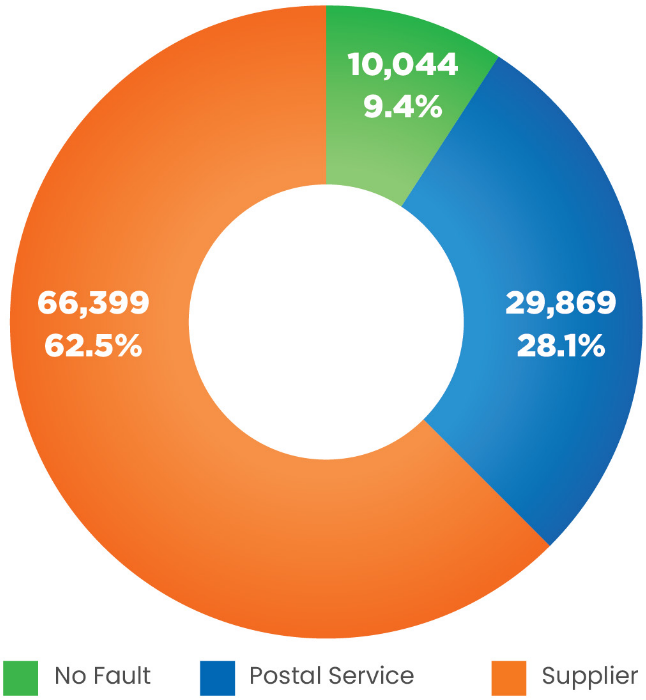
Regarding monetary impact, while management identified additional sources of POD for the questioned payments, the Postal Service processed these payments without validating the POD source information at the time of processing.

Finding #4: Freight Auction Performance

Postal Service management did not ensure suppliers were meeting the performance requirements. We analyzed SV trip scan data for FY 2022 and FY 2023 and determined the following:

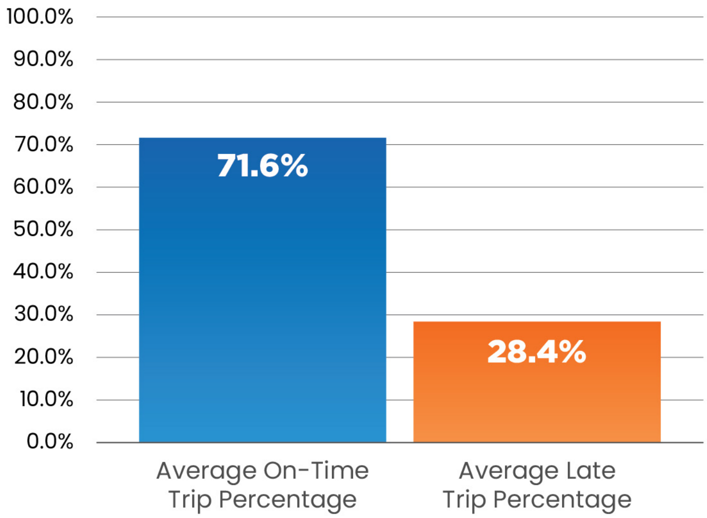
- 106,312 trips out of 215,334 total trips (or about 49.4 percent) departed late (more than 15 minutes).
- 66,399 of the 106,312 departed late trips (or 62.5 percent) were caused by suppliers, 29,869 (or 28.1 percent) were caused by the Postal Service, and 10,044 (or 9.4 percent) were no-fault delays (see Figure 2).
- 12,120 of the 66,399 (or 18.3 percent) were more than four hours late.
- 95 of the 102 suppliers (or 93.1 percent) participating in the FA program did not meet the 93 percent on-time, pick-up performance requirement.[24] The on-time trip performance average was about 71.6 percent (see Figure 3).

Figure 2. Late Trips FYs 2022 and 2023



Source: OIG analysis of SV data.

Figure 3. Average Trip Percentage by Suppliers



Source: OIG analysis of SV data

We also found that 95 suppliers did not meet the "no omits" requirement for scheduled trips.[25] We identified 7,008 of the 21,400 cancelled trips (or about 32.7 percent) were caused by suppliers. However, the Postal Service does not effectively monitor supplier cancelled trips. Transportation Strategy management stated that they informally spot – check monthly reports that are submitted by suppliers. The Postal Service did not provide requested information and supporting documentation related to their reviews and corrective actions, required of poor performing suppliers.

The FA Supplier Manual states that carriers must achieve a minimum of 93 percent on-time pick-up performance and should fulfill all accepted trips without any omits throughout the month or else risk removal from participation in the FA program.

Although the Postal Service created a dashboard to monitor supplier performance and a Freight Survey application for field personnel to report feedback, they did not effectively address supplier performance. Specifically, Transportation Strategy personnel were unaware of the existence of these surveys, nor was any communication initiated with suppliers for the issues reported by facility personnel.

24 On-time pickup is defined as departing the origin facility at the scheduled departure time.
25 Omitted service is when the supplier fails to perform the scheduled trip.

Late departures and omitted trips could result in mail delays and additional administrative costs and may negatively reflect on the Postal Service's brand and customer service.

Recommendation #8

We recommend the **Vice President, Transportation Strategy,** monitor, communicate, and take necessary corrective action for suppliers with poor performance.

Recommendation #9

We recommend the **Vice President, Transportation Strategy,** re-evaluate and adjust supplier performance requirements and enforce supplier compliance.

Postal Service Response

Management agreed with finding 4 and recommendations 8 and 9. Management stated they will reiterate reporting requirements for poor performance to Logistics personnel and evaluate supplier performance requirements. They provided a target implementation date of February 28, 2025, for recommendation 8 and January 31, 2025, for recommendation 9.

OIG Evaluation

The OIG considers management's comments responsive to recommendations 8 and 9 and corrective actions should resolve the issues identified.

Finding #5: Service Contract Act and Wage Determinations

We found that the Postal Service did not comply with the requirements of the SCA and the wage determinations. We reviewed 100 FA supplier contracts that received payments in FYs 2022 and 2023 and found 56 contracts[26] were non-compliant with the SCA requirement. Specifically,

- 48 contracts included the SCA clause but did not include the wage determination requirement.
- Eight contracts[27] contained neither the SCA clause nor the applicable wage determinations.

The Postal Service is required to incorporate the SCA contract clauses and the applicable wage determinations into all its mail transportation contracts.[28]

> "The Postal Service will remain at risk of potential legal and financial implications until it can ascertain these requirements and implement a process to bring its mail transportation contracts into compliance."

This occurred because management requested an exemption from the Department of Labor for interstate mail transportation contracts without incorporating the requirements of the Service Contract Act and wage determination. However, the request for the exemption was denied, and the Postal Service was ordered to take necessary steps to comply within 30 days of the decision.[29] Management stated that they took action to include the SCA clauses and are coordinating with the Department of Labor to determine the requirements for the wage determination.

The Postal Service will remain at risk of potential legal and financial implications until it can ascertain these requirements and implement a process to bring its mail transportation contracts into compliance.[30]

Recommendation #10

We recommend the **Vice President, Transportation Strategy,** follow up with Department of Labor on the wage determination requirement and bring all active freight auction contracts into compliance with both the Service Contract Act and wage determination requirements.

Postal Service Response

Management agreed with finding 5 and recommendation 10. Management stated they will confirm SCA requirements and a link to wage determination requirements are included in all FA ordering agreements. They provided a target implementation date of February 28, 2025.

OIG Evaluation

The OIG considers management's comments responsive to recommendation 10 and corrective actions should resolve the issues identified.

Looking Forward

The FA program plays a key part of the Postal Service's Delivering for America surface transportation network initiative. It was implemented in October 2021, due to the Postal Service's assessment that FA provides opportunities for it to improve transportation flexibility, increase efficiencies, and reduce transportation costs for "as needed" trips. However, the issues we identified related to operations (driver screening, dock operations, trailer utilization), bidding, payments (proof of delivery,

26 Based on our review, 47 out the 56 FA contracts are active as of June 10, 2024.
27 Three of the eight FA contracts are active as of June 10, 2024.
28 DOL has determined that the Postal Service is subject to the SCA, citing the statute's specific exemption for the operation of postal contract stations. See 41 U.S.C. § 6702 (b)(7).
29 The Department of Labor issued its decision on February 22, 2022, in response to the Postal Service request for the SCA exemption.
30 Under Department of Labor regulations, the Postal Service may be liable to the employees engaged in the performance of the contract(s) for any underpayment that occurs because of its failure to include wage determinations. 29 C.F.R. § 4.187(a).

inaccurate payments), and measuring performance threaten to limit the success of the FA program. The Postal Service can optimize savings and efficiencies of the FA program through maximum systems integration by reducing or eliminating manual payments and processes, increasing oversight of supplier performance metrics, and enhancing communication between management, facilities, and suppliers to fully coordinate the movement of FA loads. This will be imperative as the Postal Service works toward its goal of financial stability.

Appendices

Appendix A: Additional Information

Scope and Methodology

Our audit scope included FA trip and payment data for FYs 2022 and 2023.

To accomplish our objective, we:

- Interviewed Postal Service Headquarters officials regarding FA processes and payments.
- Identified, reviewed, and evaluated Postal Service policies, procedures, guidelines, and operational requirements related to FA.
- Obtained and analyzed FYs 2022 and 2023 payment data for FA trips processed under Freight Payment, Miscellaneous Voucher, and TCSS.
- Reviewed FA Transaction Detail data for bidding information and SV scans for FYs 2022 and 2023.
- Performed site selection using a judgmental sample based on number of trips performed by FA suppliers. We conducted site observations at eight facilities covering the four Postal Service operational areas (see Table 3).

Table 3. Site Visit Locations

Area	Facility
Atlantic	Bethpage, NY, Processing and Distribution Center (P&DC)
Atlantic	New Jersey, NJ, Network Distribution Center
Central	Chicago, IL, Metro Surface Hub
Central	Saint Paul, MN, P&DC
Southern	Royal Palm, FL, P&DC
Southern	Southern Area Surface Transfer Center, Dallas, TX
WestPac	Los Angeles, CA, P&DC
WestPac	Salt Lake City, UT, Auxiliary Service Facility

Source: OIG site selection based on FA payment data.

- Performed site visits and observations, including:
  - Interviewed appropriate personnel to understand the end-to-end process for FA and payments to determine how trips are awarded, validated, completed, and paid.
  - Observed FA trips for timeliness and utilization.
  - Reviewed the process for temporary and permanent driver badges and validated whether they were current and updated.
  - Verified drivers had proper security clearances for accessing Postal Service facilities.
- Interviewed selected suppliers to obtain feedback on their experience with the FA program.
- Reviewed and determined if Key Performance Indicators were established for FA and payments and if the goals for each performance indicator were achieved.
- Reviewed a judgmental sample of lump sum payment transactions in TCSS for supporting documentation and payment accuracy.
- Observed and reviewed trailer utilization for FA trips during site visits.
- Reviewed the FA contracts for compliance with the SCA and wage determinations requirements.

We conducted this performance audit from November 2023 through August 2024 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on July 10, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the FA program to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following three components were significant to our audit objective: control activities; information and communication; and monitoring.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to control activities, information and communication, and monitoring that were significant within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of the data by obtaining and reviewing FA trip bids, awards, and payment data. We also reviewed the selected FA lump sum payments in TCSS. Additionally, we reviewed late trips and trailer utilization using SV data. We assessed the reliability of the data by interviewing Postal Service officials, testing selected data fields by applying logical tests to electronic data files, comparing the payment data to bids and SV data, and tracing selected lump sum payment data to the source documents. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

We identified the following prior audit that addresses the FA program.

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
Contract Trucking Safety and Compliance	Our objective was to assess the effectiveness of contract trucking safety controls, compliance, and oversight in response to a congressional request and stakeholder concerns.	23-088-R24	February 27, 2024	$0

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

July 30, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Evaluation of Freight Auction (23-162-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report titled: *Evaluation of Freight Auction*.

Overall, the management team agrees with the findings in this report. We have continuously analyzed the Freight Auction program to implement improvements and enhance business rules that allow USPS to leverage market rates and flexibility while also achieving service with as needed transportation.

Management disagrees with the monetary impacts identified in the report. After initial review, the management team has already identified that $195 Million of the financial impacts identified in the report as valid payments through additional sources of proof of delivery. Although USPS does not currently rely solely on EDI as a proof of delivery source, this technology is an industry standard practice used by logistics companies for many years. After this initial review, $2.9 M of potential financial impacts due to Proof of Delivery source remain.

Following are our comments on each of the ten recommendations:

Recommendation 1: We recommend the Vice President, Logistics, communicate freight auction driver screening requirements to facility personnel and develop a process to ensure compliance.

Management Response/Action Plan:
Management agrees with this recommendation.

Management agrees to re-issue a stand-up talk to Dock Personnel to reiterate the driver screening requirements for Freight Auction Drivers.

Target Implementation Date: 03/31/2025

Responsible Official:
Senior Director, Surface Logistics

Recommendation 2: We recommend the Vice President, Logistics, communicate the security, trailer loading, and team driver requirements to facility management and suppliers, and develop a process to monitor dock personnel and freight auction drivers to verify they are following the requirements.

Management Response/Action Plan:
Management agrees with this recommendation.

Management agrees to provide a stand-up talk to Dock Personnel to reiterate the dock and safety requirements of Freight Auction Drivers while on site at a USPS facility and how to address noncompliance.

Target Implementation Date: 03/31/2025

Responsible Official:
Senior Director, Surface Logistics

Recommendation 3: We recommend the Vice President, Chief Data and Analytics Officer, in coordination with Vice President, Logistics, develop a plan of action and milestones for revising the trailer utilization-calculated percentages in Surface Visibility to account for stacked containers and cubic feet.

Management Response/Action Plan:
Management agrees with this recommendation.

Management agrees with this recommendation. The Chief Data & Analytics Officer will work with the Chief Logistics and Infrastructure Officer to develop and implement improved business logic within the surface visibility analytic platform and integrate with field operations. This effort will improve existing utilization calculations to include double stacking container metrics to depict trailer utilization more accurately where applicable in the network. Implementation is dependent on funding.

Target Implementation Date: 07/31/2025

Responsible Official: Vice President, Chief Data and Analytics Officer

Recommendation 4: We recommend the Vice President, Logistics, develop a plan to detect atypical bids before award to achieve competitive rates and reduce transportation costs.

Management Response/Action Plan:
Management agrees with this recommendation.

Management has already implemented a process in the system to achieve competitive rates and control costs, while meeting service.

Target Implementation Date: 10/31/2024

Responsible Official:
Executive Manager, Surface Logistics Programs

Recommendation 5: We recommend the Vice President, Logistics, review prior freight auction payments made during fiscal years 2022 and 2023 to identify loads without reliable proof of delivery information and recover inaccurate payments and implement a periodic review process going forward.

Management Response/Action Plan:
Management agrees with this recommendation.
Logistics will conduct a review of the loads questioned to determine any inaccurate payments. Inaccurate payments identified by management will be recouped.

A periodic review process of Freight Auction payments will be documented and conducted quarterly.

Target Implementation Date: 01/31/2025

Responsible Official:
Executive Manager, Surface Logistics Programs

Recommendation 6: We recommend the Vice President, Logistics, initiate recovery of U.S. Postal Service Office of Inspector General-identified overpayments.

Management Response/Action Plan:
Management agrees with this recommendation.

Management will review the data to evaluate and recover any potential over payments.

Target Implementation Date: 01/31/2025

Responsible Official:
Executive Manager, Surface Logistics Programs and Director, Surface Transportation

Recommendation 7: We recommend the Vice President, Logistics, conduct a comprehensive review to identify requirements for streamlining proof of delivery validation, minimize manual payments, improve accuracy, and make system enhancements as necessary.

Management Response/Action Plan:
Management disagrees with this recommendation.

Throughout the audit process, the postal management team spent an extensive amount of time providing details to the OIG on changes that have been made to add system enhancements and achieve competitive rates. This includes a larger supplier pool and cost maximums for the automated process to control costs as well as enhanced business rules for proof of delivery sources.

Target Implementation Date: N/A

Responsible Official: N/A

Recommendation 8: We recommend the Vice President, Transportation Strategy, monitor, communicate, and take necessary corrective action for suppliers with poor performance.

Management Response/Action Plan:
Management agrees with this recommendation.

Surface Logistics will reiterate to Logistics personnel section 534 of the Postal Operations Manual (POM) and responsibility for Form 5500. Section 534 of the POM is titled "Irregularities Reporting".

Target Implementation Date: 02/28/2025

Responsible Official:
Director, Surface Transportation

Recommendation 9: We recommend the Vice President, Transportation Strategy, re-evaluate and adjust supplier performance requirements and enforce supplier compliance.

Management Response/Action Plan:
Management agrees with this recommendation.

Management will assess and re-evaluate the performance requirements for Freight Auction suppliers.

Target Implementation Date: 01/31/2025

Responsible Official:
Director, Surface Transportation

Recommendation 10: We recommend the Vice President, Transportation Strategy, follow up with Department of Labor on the wage determination requirement and bring all active freight auction contracts into compliance with both the Service Contract Act and wage determination requirements.

Management Response/Action Plan:
Management agrees with this recommendation.

There is not a need to follow up with the Department of Labor since there have been no changes to the Service Contract Act.

To ensure compliance with the Service Contract Act and wage determination requirements:

- Transportation Strategy will confirm that Clause 9-10: Service Contract Act is incorporated into all Freight Auction ordering agreements.
- Transportation Strategy will add a link or notation to FA events directing the supplier to the Department of Labor WD internet site.

Target Implementation Date: 02/28/2025

Responsible Official:
Director, Surface Transportation

Peter Routsolias

Peter Routsolias
Senior Vice President, Logistics

E-SIGNED by ROBERT CINTRON
on 2024-07-30 21:09:00 EDT

Robert Cintron
Vice President, Logistics

E-SIGNED by Steve.M Dearing
on 2024-07-31 05:09:10 EDT

Stephen Dearing
Vice President, Chief Data and Analytics Officer

cc: Corporate Audit Response Management

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