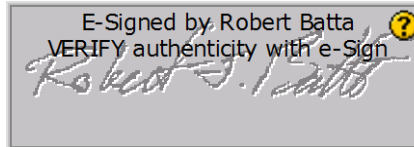




July 21, 2014

**MEMORANDUM FOR:** JACQUELINE KRAGE STRAKO  
VICE PRESIDENT, OPERATIONS, GREAT LAKES AREA



**FROM:** Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:** Management Alert – Late Payments for Highway Contract Routes – Indianapolis, IN, Processing and Distribution Center (Report Number NO-MA-14-003)

This management alert presents the results of our review of Late Payments for Highway Contract Routes at the Indianapolis, IN, Processing and Distribution Center (Project Number 14XG008NO001). This alert responds to concerns Postal Service Network Operations management brought to our attention about contractors who provide exceptional services (changes in normally scheduled transportation operations including extra trips and late leaving trips) and are not being paid timely.

If you have any questions or need additional information, please contact James L. Ballard, director, Network Processing and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

## Introduction

This alert is to bring to your attention the need to immediately reinforce instructions and provide training on processing payments to highway contract route (HCR) contractors for exceptional service (extra service and late leaving trips)<sup>1</sup> performed at the Indianapolis, IN, Processing and Distribution Center (P&DC). Exceptional service is sometimes necessary to move mail due to operational delays or when trailer capacity on existing transportation is exceeded. According to U.S. Postal Service policies, administrative officials authorize and document exceptional services and are required to consolidate records and submit documentation, via Postal Service (PS) Form 5429,<sup>2</sup> to the St. Louis, MO, Accounting Service Center for payment.<sup>3</sup> The Postal Service remits payment to contractors the month after an exceptional service takes place.

Postal Service Network Operations management brought us their concerns about exceptional service payments. Management stated that contractors were alarmed by the frequency and amount of payments the Postal Service owed them and were looking for assistance to resolve these payment issues. We are issuing this alert due to the urgency and time sensitivity associated with paying outstanding exceptional service obligations.

Since 2010, the U.S. Postal Service Office of Inspector General (OIG) has been monitoring a component of exceptional service – extra service surface transportation – as part of its quarterly Surface Transportation Risk Model.<sup>4</sup> Extra service expenses for HCR transportation have increased significantly nationwide, from \$19.3 million in fiscal year (FY) 2012, Quarter (Q) 2, to about \$27.3 million in FY 2014, Q2 (see [Figure 1](#)). This upward trend will likely continue due to ongoing changes in the Postal Service's processing network.

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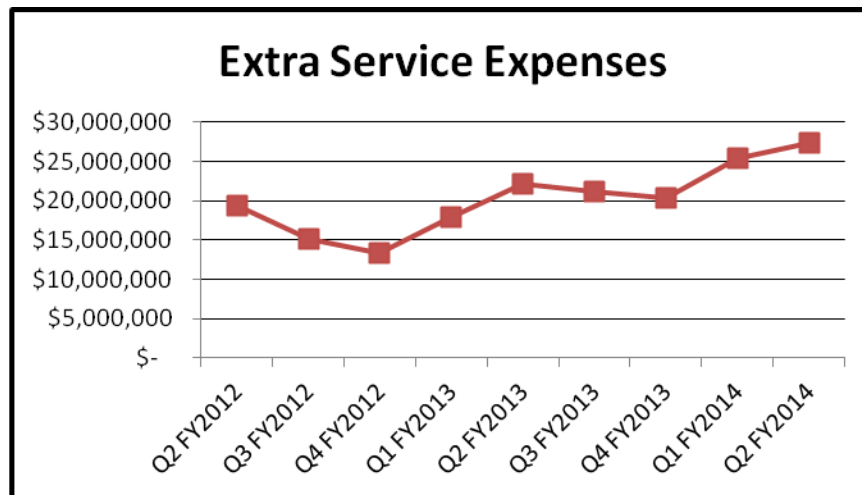
<sup>1</sup> Exceptional services are changes in normally scheduled transportation operations, including extra trips, late leaving trips, diversions, and detours.

<sup>2</sup> PS Form 5429 is used to document exceptional service and initiate payment to contractors for exceptional service as well as provide guidance to local officials on the instructions for performing this function.

<sup>3</sup> *Post Office Manual*, Section 478.32 F

<sup>4</sup> We developed this model to help identify key indicators that can potentially forewarn Postal Service officials of problems within a district's surface transportation operations.

**Figure 1. Surface Risk Model Results – Extra Service Expenses –  
FY 2012, Q2 to FY 2014, Q2**



Source: OIG risk model results.

## Conclusion

We determined the Indianapolis, IN, P&DC did not timely process about \$74,000 in exceptional service payments over the 8-month period from June 2013 through January 2014. We found that payments to HCR contractors were about 3.7 months late, on average (see [Appendix A](#) for our analysis of late exceptional payments).

Postal Service regulations state that proper payment documentation for exceptional services must be submitted within the month after the service took place. The Postal Service is obligated to make prompt payments to its contractors by virtue of 31 U.S.C. 3901,<sup>5</sup> Prompt Payment Act of 1974, as amended in 1988. According to Postal Service policy, "the Postal Service will pay interest on late payments and unearned prompt payment discounts in accordance with the Prompt Payment Act."

Late payments occurred because local Postal Service employees responsible for this function were not adequately trained and plant management was not monitoring their activity. Further, Great Lakes Area officials did not have visibility over the exceptional service process and, therefore, were not monitoring this activity. Area officials have repeatedly expressed concern that they do not have "real time" visibility into this activity, and this places all responsibility for monitoring and compliance with plant officials.

During our review, we determined that Indianapolis P&DC management eventually processed all outstanding claims for exceptional service payments, specifically payments for extra trips and late leaving trips.

<sup>5</sup> Postal Service, *Supply Management Supplying Principles and Practices*, dated August 2009.

## Recommendations

We recommend the vice president, Operations, Great Lakes Area:

1. Ensure management properly trains employees on preparing and timely submitting exceptional services documentation.
2. Develop a process to continually monitor locally generated exceptional services expenses and ensure local compliance with exceptional services payment processes.

## Management's Comments

Management agreed with the finding and recommendations. In response to recommendation 1, Great Lakes Area Network Operations will train all Great Lakes officials on the exceptional services process. Management will give the training at the transportation meeting scheduled for August 2014, and provide annual refresher training.

In response to recommendation 2, Great Lakes Area Network Operations will develop a certification monitoring process by August 1, 2014, requiring each Great Lakes administrative official to sign a monthly certification that all extra trip documentation received within the past 30 days has been processed. The Postal Service will incorporate this certification process into the annual exceptional services process refresher training.

## Evaluation of Management's Comments

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

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

**Appendix A: Indianapolis P&DC Extra Service Payments and  
Late Leaving Trip Payments**

**June 2013 – January 2014**

<b>HCR NUMBER</b>	<b>DATE OF SERVICE PERFORMED</b>	<b>DATE PAYMENT SUBMITTED</b>	<b>TYPE OF SERVICE</b>	<b>AMOUNT POSTAL SERVICE SUBMITTED FOR PAYMENT</b>
478M0	August 2013	March 2014	Late Slips	\$3,241.76
478M0	November 2013	March 2014	Extra Service	\$16.26
478M0	November 2013	January 2014	Extra Service	\$162.97
478M0	November 2013	March 2014	Late Slips	\$6,967.98
478M0	December 2013	March 2014	Extra Trips	\$386.10
478M0	January 2014	March 2014	Late Slips	\$4,757.59
478M0	January 2014	March 2014	Extra Trips	\$7,043.85
478L9	July 2013	December 2013	Extra Trips	\$737.79
478L9	July 2013	December 2013	Late Slips	\$9.36
478L9	August 2013	December 2013	Late Slips	\$32.82
478L9	July 2013	September 2013	Late Slips	\$53.67
475A0	June 2013	January 2014	Extra Trips	\$30.44
475A0	July 2013	December 2013	Extra Trips	\$200.45
475A0	August 2013	January 2014	Extra Trips	\$3,080.19
475A0	August 2013	October 2013	Late Slips	\$27.45
475A0	August 2013	October 2013	Late Slips	\$166.08
475A0	September 2013	December 2013	Late Slips	\$440.05
475A0	September 2013	February 2014	Extra Service	\$17,797.27

HCR NUMBER	DATE OF SERVICE PERFORMED	DATE PAYMENT SUBMITTED	TYPE OF SERVICE	AMOUNT POSTAL SERVICE SUBMITTED FOR PAYMENT
475A0	October 2013	January 2014	Extra Service	\$15,621.39
475A0	November 2013	March 2014	Extra Service	\$1,200.65
475A0	November 2013	January 2014	Extra Service	\$12,188.25
<b>Total</b>				<b>\$74,162.37</b>

JACQUELINE KRAGE STRAKO  
VICE PRESIDENT, OPERATIONS  
GREAT LAKES AREA



July 11, 2014

LORI DILLARD  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Alert – Late Payments for Highway  
Contract Routes  
Indianapolis, IN, Processing and Distribution Center  
(Report Number – NO-MA-14-DRAFT)

The management team at the Greater Indiana District and the Great Lakes Area agree with the recommendations set forth in the OIG management alert regarding Late Payments for Highway Contract Routes, Indianapolis, IN Processing and Distribution Center (Project Number 14XG008NO001). The recommendations stated and agreed upon are recommendation #1, ensure management properly trains employees on preparing and timely submitting exceptional services documentation; and recommendation #2, develop a process to continually monitor locally generated exceptional services expenses and ensure local compliance with exceptional services payment process.

Following are the responses from Great Lakes Area pertaining to the Late Payments for Highway Contract Routes – Indianapolis, IN, Processing and Distribution Center (Report Number NO-MA-14-DRAFT) OIG audit.

**Recommendation #1:**

Ensure management properly trains employees on preparing and timely submitting exceptional services documentation.

**Management Response:** We are in agreement with this recommendation. Great Lakes Area (GLA) Network Operations will provide refresher training to all GLA administrative officials. The training will be delivered at the next monthly transportation managers' meeting scheduled for August 2014. Furthermore, GLA Network Operations will reinforce the payment process training annually to ensure compliance.

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FAX: 630-539-7171

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**Recommendation #2:**

Develop a process to continually monitor locally generated exceptional services expenses and ensure local compliance with exceptional services payment process.

**Management Response:** We are in agreement with this recommendation. Great Lakes Area Network Operations will develop a certification monitoring process by August 1, 2014 for each GLA administrative official to certify monthly that all extra trip documentation received within the last 30 days has been processed. This certification process will be incorporated in the refresher training GLA Network Operations will provide to all GLA administrative officials.

**Target Implementation Date:** Immediately

**Responsible Official:** Area Manager, Network Operations

Please contact the office of the Area Manager, Network Operations, at 630-539-4803, should you have any questions regarding this response.

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

  
Jacqueline Krage Strako