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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-114874

MARCH 13, 1979

The Honorable John Glenn
Chairman, Subcommittee on Energy,
Nuclear Proliferation and Federal
Services
Committee on Governmental Affairs
United States Senate

SEN 06608

Dear Mr. Chairman:

Your September 23, 1977, letter, requested that we review the U.S. Postal Service's practices for procuring highway transportation services, with emphasis on the

- effects of contracting on postal motor vehicle service employment,
- adequacy of policies and procedures regarding safety and security,
- availability of data to assess performance of each mode of highway service, and the steps taken by the Postal Service to ensure ontime delivery performance by highway contractors, and
- fairness of policies and procedures regarding contractor requests for cost increases.

We worked in the central region at the Transportation Management Office in Columbus, Ohio, and at the Sectional Center Facility in Youngstown, Ohio. Because of the decentralized nature of transportation management, we later expanded our work to include various other postal facilities in the eastern and southern regions to get a more representative sample. A summary of our findings follows, and a more detailed discussion of the information is contained in the enclosure.



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Number of motor vehicle service personnel has decreased slightly

On a nationwide basis the number of motor vehicle service employees and highway contracts have decreased slightly since 1976. At Youngstown, the number of motor vehicle service personnel has also decreased slightly because of a reduced need for transportation services-- not from an increase in highway contract routes.

Safety and security procedures are generally adequate

Postal Service policies and procedures generally appear adequate to ensure the safety and security of the mail. Although the overall security of the mail was not a problem, instances occurred where contractors were not following the prescribed security procedures.

Postal Service ontime performance standards are usually achieved

Contractors were usually meeting Service standards for ontime performance, however, in some cases, Service officials were very tolerant with highway contractors providing substandard performance before instituting disciplinary procedures. Contractors were allowed a significant number of performance irregularities before the Postal Service began disciplinary action that could eventually lead to contract termination.

Service contract cost adjustment policies and procedures generally adequate

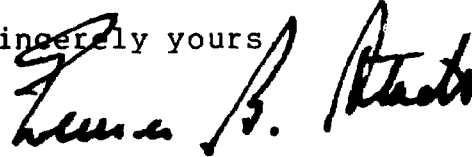
Postal Service policies and procedures seem adequate to provide contractors with compensation for their cost adjustment requests. We found that most contractor cost adjustment requests are approved, but some amounts approved are less than requested.

Adequately compensating small contractors for the rising fuel costs they are experiencing has proven difficult for the Service and has resulted in hardships to some contractors. Recent Postal Service actions could provide a temporary remedy for some of these problems, and the Service is considering other actions.

B-114874

The Postal Service has reviewed this report and concurs with the findings. As agreed with your office, copies of this report will be made available 15 days after the date of this letter unless you publicly release its contents earlier.

Sincerely yours

A handwritten signature in black ink, appearing to read "Thomas B. Heath". The signature is written in a cursive style with a large, prominent initial "T".

Comptroller General
of the United States

Enclosure

HOW HIGHWAY MAIL TRANSPORTATION SERVICES ARE PROVIDED

The Postal Service uses both private contractors and the postal motor vehicle service for transporting mail by highway. Private contractors are generally used for inter-city movement of the mail, and some contractors provide delivery of mail to roadside residential boxes. The postal motor vehicle service is generally used to move mail between postal stations, branches, offices, and airports within or nearby a city. In fiscal year 1977, the Service spent about \$375 million for contractor and about \$151 million for motor vehicle highway transportation services.

When new or renewable transportation services are needed, a decision is made on whether to supply the service in-house or to solicit competitive bids from private contractors. For smaller contracts, constituting the majority, this decision is made locally. For contracts that are (1) over \$45,000 per annum, (2) not more than 350 miles roundtrip, and (3) not more than 8 hours in operating time from terminus to terminus, the American Postal Workers Union must be notified and Postal Service headquarters must approve the decision.

Postal officials stated that cost is the major factor in deciding whether transportation services will be performed by contractors or postal personnel. They said motor vehicle service is generally noncompetitive for the inter-city routes because of the higher salaries paid to Postal Service employees. The intracity routes have remained with the motor vehicle service because Service cost comparisons have shown that local transportation service is equally expensive for both the private contractor and the motor vehicle service.

HIGHWAY CONTRACTING DOES NOT APPEAR TO BE AFFECTING MOTOR VEHICLE SERVICE EMPLOYMENT

The Postal Service does not maintain nationwide statistics on the number of new contracts or conversions to contract routes that may have resulted in excessing or idling motor vehicle service employees since the majority of the contracts are controlled locally. However, no indication existed that employment was affected by highway contracting at the facilities we visited. Postal employment statistics show a slight decrease in the number of motor vehicle service employees nationwide.

Route conversions are minimal

Conversions of motor vehicle service routes to contract routes--one possible means of affecting postal employment--have been minimal nationwide and nonexistent during the past year at the facilities we visited.

About 593 highway contracts nationwide require American Postal Workers Union notification and Service headquarters approval before conversion from in-house to contractor service. As shown below, the number of highway route conversions, including new routes formed from portions of existing routes, approved by headquarters in the last 2-1/2 years has been minimal.

Number and Status of Highway Route Conversions and
Solicitations Subject to Headquarters Approval
January 1976 to October 1978

<u>Status</u>	<u>Number</u>
Motor vehicle service routes converted to contractor service	5
Solicited or nonrenewed routes assumed by the motor vehicle service	11
Motor vehicle service routes approved for conversion to contractor service, delayed by union	5
Award of solicitation, delayed by union	2
Motor vehicle service routes awaiting approval for conversion to contractor service	4

During renewal negotiations, the Postal Service performs cost comparisons for contract routes that come close to meeting the conversion criteria specified in the union agreement. However, motor vehicle service routes are not periodically studied for possible conversion to contractor service. Local postal officials are supposed to be alert for potential savings available through conversion, but periodic cost studies are not required.

Most highway route conversions are controlled locally and, therefore, are not subject to union notification and postal headquarters approval. Nationwide statistics for these smaller conversions are not available. At the offices we visited, however, no route conversions were made during the period July 1, 1977, to June 30, 1978.

Slight decrease in motor vehicle service employee complement

The number of full- and part-time motor vehicle service employees nationwide has decreased from 6,461 in January 1976 to 6,093 in January 1978. Postal officials attributed this decrease to the use of larger vehicles and better management control over vehicle scheduling. At most of the facilities we visited, the motor vehicle service employee complement remained fairly stable as shown below.

Motor Vehicle Service Employee Complement
(January 1976 to June 1978)

<u>Management Sectional Center Facilities:</u>	<u>Jan. 1976</u>	<u>June 1978</u>	<u>Net change</u>
Youngstown, Ohio	21	15	-6
Prince Georges, Md.	26	30	+4
Northern Virginia, Va.	43	46	+3
Dallas, Tex.	120	119	-1
Jacksonville, Fla.	34	34	-
<u>Bulk Mail Centers:</u>			
Washington, D.C. (note a)	-	-	-
Dallas, Tex.	11	13	+2
Jacksonville, Fla.	7	6	-1

a/Motor vehicle service fleet operations began Nov. 1, 1978.

The decrease at Youngstown resulted from the elimination of 70 to 80 motor vehicle service runs because

- railroad delivery of mail ceased,
- airline flights to Youngstown declined,
- the post office annex and the main post office were consolidated into the new post office building, and
- vehicle capacity was increased from 2-1/2 to 5 tons.

As a result of these reductions in motor vehicle service runs, Service personnel drive in the morning and evening but perform nondriving duties, such as sorting mail and parcels in the midday.

POSTAL SERVICE PROCEDURES GENERALLY
ENSURE MAIL SECURITY AND HIGHWAY SAFETY

The Postal Service's policies and procedures generally appear to ensure the security of the mail and highway safety for both contractor and postal transportation services. At some of the facilities visited, we found minor instances where contractors were not following the prescribed security procedures. The Service does not have nationwide information on the number of security violations.

Mail security is not a problem

Our review identified a few instances of minor security violations; however, Postal officials told us that, in general, security of the mail is not a serious problem.

The Service requires private contractors to provide vehicles that are enclosed, waterproof, and equipped with locking devices to protect the mail from loss, damage, and theft. The dock foremen at postal facilities are responsible for checking all highway contractor vehicles when they arrive and depart to ensure that they meet Postal Service security requirements. When security violations are discovered, the contractor is notified, and corrective action is instituted.

Postal officials at three of the facilities we visited could recall no instances in the past 2 years where the lack of security of contractor vehicles resulted in the loss, theft, or damage of the mail. The Service does not maintain nationwide information on loss, theft, or damage of mail attributed to deficiencies in contractor operations. Such information is available on a case-by-case basis at the local level.

Our review of the files identified some instances of minor security violations which involved such things as rear van doors left unlocked, post office keys lost, and mail left outside on the shipping docks overnight.

Postal safety inspections
indicate few problems

Our review of Postal Service safety inspection files on contractor vehicles indicated that the Postal Service was finding few significant problems. However, at some postal facilities in Ohio, no uniform, systematic vehicle safety inspections were being performed. The transportation management office manager told us that he was developing a uniform vehicle inspection system that he hoped to have operational in about 6 months.

Contractors who operate vehicles with a manufacturer's gross vehicle weight of over 10,000 pounds must comply with motor carrier safety regulations and are subject to inspection by the Department of Transportation. Postal personnel inspect all other contractor vehicles annually and, as part of the contract route survey, every 4 years. Dock foremen usually check all contractor vehicles for safety requirements, such as lights, tires, and brakes, when a vehicle arrives or departs. Any vehicle identified by the foreman as unfit for service will be labeled "out of service," and the contractor must make the necessary repairs before the vehicle can be put back in service.

We reviewed safety inspection files at each facility, when available, and found no significant problems in the Postal Service's safety inspection program. Safety records are not kept for larger vehicles at most of the facilities we visited; however, the Washington Bulk Mail Center maintains a computer listing of all out-of-service vans at the facility. This list is monitored by a transportation analyst to identify contractors with problem equipment. We reviewed the list for the period September 7, 1977, to May 22, 1978, and identified three major safety problems as shown below.

Safety Problems with Contractors' Vans at the
Washington Bulk Mail Center

<u>Problem</u>	<u>Number of occurrences</u>
Brakes--locked, worn, none	47
Lights--not operating or missing	53
Tires--flat or missing	107

Department of Transportation inspections
identified unsafe equipment

At the request of Postal headquarters officials, surprise inspections were made by Department of Transportation inspectors at the Dallas and Jacksonville Bulk Mail Centers and resulted in grounding a significant amount of contractor equipment because it was not in compliance with motor carrier safety regulations. When equipment is grounded by the inspectors, it cannot be used again until it has been properly repaired.

The Department of Transportation is responsible for inspecting all contract vehicles with a gross vehicle weight over 10,000 pounds. These inspections can be performed anywhere, and recently have been conducted at several bulk mail centers. We reviewed copies of Department of Transportation inspection reports from early 1976 through mid-1978, including the recent Dallas and Jacksonville Bulk Mail Center inspections. They showed that some contractors were driving unsafe equipment which could result in hazardous situations. Deficiencies identified included such things as worn tires, poor brakes, and inoperative lights and turn signals. At the Jacksonville Bulk Mail Center, Department of Transportation inspectors grounded, as safety hazards, 13 of the 28 pieces of equipment inspected belonging to one contractor.

A Department of Transportation inspector told us that, in general, even though some mail contractors' equipment is unsafe, it is not in any worse condition than many other large vehicles on the highway today.

Service maintains standards for
its own vehicle safety

The Service ensures that the structural and mechanical standards for its vehicles are enforced by regular servicing and annual complete mechanical inspections. Safety and mechanical problems identified by vehicle service personnel are corrected as soon as possible.

The fleet manager is responsible for the upkeep and maintenance of postal vehicles. At one facility, postal vehicles were inspected by a supervisor at the end of the

day to ensure they met safety and security requirements. Service drivers are required to submit reports on vehicle problems to help ensure that they will be repaired as soon as possible.

Postal vehicles are serviced in a cyclical manner, with three types of maintenance being performed--regular maintenance, preventive maintenance, and major overhauls. The Postal Service has a nationwide system of 245 vehicle maintenance facilities to perform the required maintenance of its vehicles.

POSTAL SERVICE ONTIME PERFORMANCE
STANDARDS ARE USUALLY ACHIEVED

At the facilities visited, we found that contractors were usually meeting Service standards for ontime performance. We noted, however, that in some cases, Service officials were very tolerant with highway contractors providing substandard performance before instituting disciplinary procedures. Since contractor performance is monitored locally, we were unable to determine how widespread these actions were.

Postal in-house vehicle service also operates on fixed schedules, however, the Postal Service does not usually maintain records that would enable us to evaluate vehicle service ontime performance. Postal officials at most of the facilities we visited told us they were not experiencing any problems with the motor vehicle service's performance.

Local managers sometimes tolerant in ensuring
ontime performance by contractors

The Postal Service requires contractors to meet established time schedules in performing transportation services. However, we found that in some instances Service officials were tolerant with deficient contractors before instituting disciplinary procedures. One contractor was allowed 259 performance irregularities in a 3-month period before Service officials took disciplinary action.

To help ensure ontime transportation performance, postal transportation officials establish and review time schedules for all highway contract routes by reviewing route lengths, speed limits, and traffic and road conditions. The time

schedules are given to potential contractors so they will be aware of time constraints imposed by the Service to ensure successful delivery of the mail.

The Postal Service allows contractors up to 15 minutes delay before they are designated as late. Contractor performance is monitored by local postal officials to determine if established time schedules are met. Contractors not meeting time schedules are required to appear before the responsible postmaster to state the reasons for poor performance. The administrative postmaster must follow procedures listed in the Postal Contracting Manual in dealing with deficient contractors. To aid in monitoring contractor performance, the southern region set a minimum 98 percent ontime performance goal. The eastern and central regions do not have established minimum ontime performance guides.

We reviewed the ontime performance records of highway contractors for a 4-week period at selected Service facilities in three postal regions and, as shown in the following table, found that overall performance was generally good, with some instances of substandard performance.

Highway Contractor Ontime Performance (FY 1978)

<u>Management</u> <u>Sectional Center:</u>	<u>Period</u> <u>selected</u>	<u>Number</u> <u>of trips</u> <u>during</u> <u>period</u>	<u>Number</u> <u>of late</u> <u>departures</u> <u>and arrivals</u>	<u>Percent</u> <u>of times</u> <u>late</u>
Youngstown, Ohio	9/01 to 9/30	1,009	70	7.0
Prince Georges, Md.	5/01 to 5/31	10,274	145	1.4
Northern Virginia, Va.	6/01 to 6/30	6,816	203	3.0
Dallas, Tex.	5/01 to 5/31	4,928	129	2.6
Jacksonville, Fla.	6/17 to 7/14	3,392	160	4.7
<u>Bulk Mail Center:</u>				
Washington, D.C.	5/01 to 5/31	4,715	392	8.3
Jacksonville, Fla.	6/17 to 7/14	3,741	192	5.1

In many instances the reason for late arrival or departure was not recorded, but those that we were able to identify included delays caused by weather, mechanical problems, drivers, and the Postal Service.

Our review of disciplinary actions against some contractors with poor ontime performance showed that even though a contractor has many violations charged against him, the Postal Service is sometimes very tolerant by allowing the contractor many chances to improve his service. For example, a contractor in the southern region was assessed damages 9 times for \$1,658 during a recent 8-month period. We found only seven terminations of highway contracts for poor performance at the facilities we visited.

Service in-house performance appears adequate

Although the Postal Service requires its in-house motor vehicle service to provide ontime performance, we could not evaluate its performance because postal regulations do not require the arrivals and departures to be logged.

The motor vehicle service has fixed time schedules that should be met to ensure that delivery service standards will be maintained. Postal officials stated, however, that the purpose of the in-house motor vehicle service is to move the mail when it is ready and that they therefore need to be flexible if mail processing delays occur. Thus, maintaining arrival and departure logs to ensure ontime performance by the vehicles is not necessary.

The dispatcher is responsible for ensuring that motor vehicle service employees are meeting their schedules. Any problems with timeliness are reported to the fleet manager for corrective action. However, Service officials at most of the facilities visited could recall no serious problems with Service personnel. At two facilities where records were kept, we were able to determine that approximately 94 and 97 percent of the in-house motor vehicle service trips were on time for a 4-week period in May and June 1978, respectively.

SERVICE POLICIES AND PROCEDURES ON CONTRACT COST ADJUSTMENTS GENERALLY APPEAR ADEQUATE

Overall, Postal Service policies and procedures generally appear adequate to provide contractors compensation for their cost adjustment requests. The Postal Service does not maintain nationwide data on contractor requests for cost adjustments because decisions are made by the local

transportation management offices. At the offices we visited, most cost adjustment requests submitted to the transportation management offices were approved, although some were approved for an amount somewhat less than the contractor requested. We found, however, that relatively few appeals are made to higher level officials of the approved amounts. We did note that procedures governing fuel cost adjustments may be unfair to some small contractors. The Service also recognized this as a problem, has taken some temporary corrective actions, and is considering further actions.

Service has specific policies and procedures governing contractor cost adjustments

The Postal Service has rather specific policies and procedures that regulate the amount of compensation contractors receive for increased operating costs. Cost adjustments during the first year of a new contract are allowed only for increases in operating costs from fuel price increases and changes that could not have been reasonably anticipated when the bid was submitted, such as highway tax increases. Adjustments after the first year are allowed once every seven accounting periods (28 weeks).

The methodology used by the transportation management office for processing cost adjustment requests depends on the annual contract amount and whether the contractor is an owner-operator or employs drivers for the routes. Owner-operators with contracts of any amount are allowed only cost adjustment increases for contractor's wages, fuel, and other operational costs not to exceed the Consumer Price Index change during the period covered by the request. Highway route contracts, for over \$20,000 per annum and performed by the contractor's employees, receive the Consumer Price Index increase for certain items and actual cost increases for others. For these contractors to receive their actual cost increases for the eligible items, such as fuel, employees' wages, and insurance, they must provide supporting documentation with their cost adjustment request. Contracts under \$20,000 per annum and performed by the contractor's employees may use either method. The method chosen by the contractor cannot be changed during the contract period.

Transportation management offices, responsible for processing contractor requests for cost adjustments, are required to follow certain procedures. The offices review contractor requests to determine if they are eligible for Consumer Price Index increases and for the correctness of the documentation supporting actual increases.

The offices have 28 days to process the requests and to make offers to the contractors. If an office feels that processing will take longer than 28 days, it may allow the contractor an interim adjustment until an offer can be made. Once an offer is made, the contractor has the option to either accept the amount offered or refuse the offer and appeal the amount.

Contractors not always receiving full amount requested

We found that generally most cost adjustment requests submitted to the transportation management offices are approved; however, some are approved for an amount less than the contractor requested. On occasion a request will be denied outright by the transportation management office; however, we found that this usually occurs when the contractor's request is prohibited by the regional instruction on highway contract economic adjustments. We reviewed all 49 denials for a 1-year period at the facilities visited and found that most denials resulted from the contractor failing to provide adequate supporting documentation or not waiting the proper time period before submitting the claim.

We also reviewed 262 partially approved cost adjustment requests to determine why the requests were not granted in full. The main reasons for only partial approval were as follows:

- Claims were in excess of the increase in the Consumer Price Index.
- Claims were for an item that was not the result of a changed economic condition beyond the contractor's control.
- Contractors could not or did not document that they actually incurred the increased cost.
- Contractors filed an invalid or improper claim.

Our analysis of the 262 selected cost adjustment requests showed that the amounts allowed by the four facilities to highway contractors during a 12-month period ranged from 35 to 66 percent of the original amount requested, as shown in the following table.

Partial Cost Adjustment Approvals
at Transportation Management Offices
(July 1977 to June 1978)

<u>Facility</u>	<u>Contractor cost adjustment requests</u>			
	<u>Requests reviewed</u>	<u>Amount requested</u>	<u>Amount approved</u>	<u>Percent approved</u>
Columbus, Ohio	50	\$577,426	\$312,141	54
Washington, D.C. (note a)	75	\$317,147	\$210,782	66
Dallas, Tex.	73	\$284,869	\$162,061	57
Jacksonville, Fla.	64	<u>\$336,211</u>	<u>\$116,425</u>	35
Total	<u>262</u>	<u>\$1,515,653</u>	<u>\$801,409</u>	

a/Period reviewed was July 1977 to May 1978.

Contractors file few appeals
of contract adjustments

Although contractors can appeal cost adjustments offered by the transportation management office, relatively few did at the offices we visited.

A contractor can either accept a cost adjustment offered by the transportation management office or appeal it to the same office. If the office adheres to its offer, the contractor can appeal to the next higher level of contracting authority, usually the regional office. If the region overrules the transportation management office, another offer is made. If the region agrees with the transportation management office, the contractor can appeal the regional decision to postal headquarters. The headquarters decision is final.

A transportation management office official said that since the regional cost adjustment instruction gives specific guidance for approving cost adjustments, contractors that appeal transportation management office decisions are questioning the office's interpretation of the cost adjustment instruction. These appeals are usually rejected, but some marginal cases may be sent to the regional office for review. Only eight cases progressed through the entire appeal route at the transportation management offices we reviewed, as shown in the table below.

Contractor Cost Adjustment Appeals
July 1, 1977, to June 30, 1978

<u>Transportation management office</u>	<u>Appeals to region</u>	<u>Appeals to headquarters</u>
Columbus, Ohio	4	1
Washington, D.C.	13	3
Dallas, Tex.	5	1
Jacksonville, Fla.	<u>3</u>	<u>3</u>
Total	<u>25</u>	<u>8</u>

The contractors' appeals were usually in the areas of wages, workmen's compensation, and vehicle insurance. Large contractors dominated the number of appeals made. The small number of appeals indicates that contractors are usually satisfied with their cost adjustment.

Procedures governing fuel adjustments
may be unfair to small contractors

The Service instruction which restricts increases in fuel adjustments for owner-operators to the percentage change in the Consumer Price Index for regular gasoline is causing considerable hardship for owner-operators and numerous appeals to the transportation management office of adjustment allowances for fuel. The eastern region also recognized this as a problem and on July 7, 1978, recommended to Postal Service headquarters that the adjustment procedures be amended so that they will be more equitable.

Service headquarters officials agreed that this was a problem and amended the instruction to permit a one-time adjustment allowing owner-operators to raise their fuel costs

to their actual level, after which they had planned to return to the Consumer Price Index method. However, in January 1979, Postal headquarters officials decided to continue processing fuel allowances of owner-operators in the same manner as those of contractors who employ drivers. This decision was made because the Labor Department had advised the Postal Service that the gasoline indexes published for the months of July and August 1978 were erroneous, and since the release of these inaccurate figures the Labor Department has not published any gasoline indexes at all. If the Service returns to the Consumer Price Index method for owner-operators when gasoline indexes are available, it will result in a double standard whereby eligible contractors receive their documented actual fuel costs, and owner-operators receive fuel adjustments based on Consumer Price Index changes.

The eastern region also pointed out to Service headquarters other fuel cost related problems faced by small contractors.

--The Labor Department's Consumer Price Index uses the cost of regular gasoline as the basis for increases and decreases in the index. Some of the vehicles used by owner-operators require unleaded gasoline, and there is a 6 to 9 cents differential between the actual cost of unleaded gasoline and the index.

--The Labor Department's Consumer Price Index is based on the price of regular gasoline in 23 selected areas. The actual cost of gasoline (regular and unleaded) to owner-operators operating outside of the 23 selected areas far exceeds the price indicated for the selected areas.

A Postal headquarters official told us that the Service is considering revisions to improve the contract cost adjustment instruction. He anticipates that these changes may be completed in April 1979.

SCOPE OF REVIEW

We reviewed and discussed with Postal Service officials the policies and procedures for procuring and administering highway transportation services. We also reviewed Postal

Service files and records concerning transportation services, mail security, vehicle safety, ontime delivery performance, and cost adjustment requests. We observed contractor compliance with policies and procedures outlined in the Postal Contracting Manual and reviewed motor vehicle service operations. We performed our review at the Postal Service headquarters in Washington, D.C., the central, eastern, and southern region headquarters, and the facilities listed below.

Transportation Management Offices

Columbus, Ohio
Dallas, Texas
Jacksonville, Florida
Washington, D.C.

Management Sectional Centers

Youngstown, Ohio
Prince Georges, Maryland
Northern Virginia, Virginia
Dallas, Texas
Jacksonville, Florida

Bulk Mail Centers

Washington, D.C.
Dallas, Texas
Jacksonville, Florida