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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

RELEASED

APRIL 11, 1979

B-114874

The Honorable James Wright Jr.
House of Representatives
The Honorable Sam B. Hall, Jr.
House of Representatives

tilt on form # 115

Your letter dated May 16, 1978, requested that we review complaints that the U.S. Postal Service may be putting improper pressure on mail contractors and forcing them to carry mail at a loss.

As you suggested, we contacted some of the mail contractors to determine the nature of their complaints. We found that most of the contractors' complaints fell into three problem categories:

A. --Financial administration of the contract, including the initial solicitation of bids and the contract cost adjustment system.

--Contract performance monitoring by the Postal Service, including disciplinary actions taken against contractors.

--Problems with the Department of Transportation and the Department of Labor.

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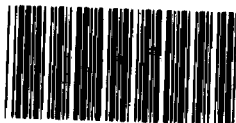
Postal Service officials said that when contract problems do arise, they try to resolve them according to the Contract General Provisions and in a manner as fair as possible to both parties. Our review indicated that this is generally true. In the opinion of several transportation management officials we interviewed, some large contractors are experiencing problems because:

--They lack sufficient management skill to operate a large business.

--They overextend themselves and their equipment by obtaining too many routes.

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Letter Report



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--They do not completely understand the contract cost adjustment policies and procedures.

The following sections summarize our findings regarding the three problem categories brought to our attention by the contractors. A more detailed discussion is presented in the enclosure.

SERVICE'S CONTRACT ROUTE SOLICITATION
AND COMPENSATION POLICIES AND
PROCEDURES GENERALLY ADEQUATE

Postal Service policies and procedures seem to provide contractors with fair compensation for their routes. Some contractors alleged inaccuracies in Postal Service contract solicitations for bids on a route. While we found a few instances of errors in contract solicitations, most of the solicitations we reviewed were correct.

A few contractors complained that the Service's contract cost adjustment system did not provide them with adequate compensation. We found that most cost adjustment requests are approved, but some amounts approved were less than the contractors requested.

However, We noted that contractors made relatively few appeals of the contract cost adjustments that were approved. Also, few contractors were defaulting on their contracts because they were financially unable to provide the service required by the contract.

CONTRACT PERFORMANCE MONITORING
APPEARS EQUITABLE

At the facilities visited, contractors generally met Service standards for ontime performance. With deficient contractors, however, Service officials were sometimes very tolerant before instituting disciplinary procedures. Although the Postal Service can terminate contracts for unsatisfactory service, at the facilities visited, only seven contracts were terminated between July 1977 and June 1978.

The southern region established a formal performance tracking system to alert transportation management officials to contractor problems before poor performance can impair Postal Service delivery commitments. Although we feel such a system is good, a few contractors felt that the high efficiency standards were unfair.

SOME CONTRACTORS EXPERIENCE PROBLEMS WITH
OTHER FEDERAL AGENCIES

Although some contractors complained about problems with the Postal Service, they also experienced serious problems with other Federal agencies--notably the Department of Transportation and the Department of Labor.

Surprise inspections by Department of Transportation inspectors at the Dallas and Jacksonville Bulk Mail Centers resulted in grounding significant amounts of contractor equipment because it was not in compliance with motor carrier safety regulations. Grounded equipment cannot be used again until it is properly repaired.

Department of Labor investigations of mail contractors have disclosed some contractor pay violations. Under the terms of the standard Postal Service highway transportation contract, the contractor is required to pay, as a minimum, the Department of Labor's area wage determination. If a contractor fails to pay the proper wages and the Department of Labor becomes aware of the situation, it will investigate the contractor, determine the amount of back compensation due the employees, and file a claim against the contractor.

Additionally, the Postal Service has identified about 30 to 40 contractors with about 66 contracts using team drivers that could face severe economic consequences if the Postal Service is unsuccessful in persuading the Department of Labor to revise its current interpretation of the regulations pertaining to compensable and noncompensable driver time on long-haul trips.

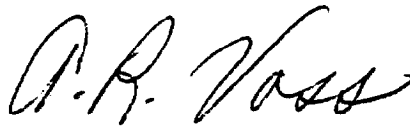
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We performed work in Texas at the Dallas Transportation Management Office, the Dallas Bulk Mail Center, and the

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Dallas Management Sectional Center. Because of the decentralized nature of transportation management, we also included other postal facilities in the southern, eastern and central regions.

The Postal Service has reviewed this report and concurs with the findings. As agreed with your offices, copies of this report will be made available 14 days after the date of this letter unless you publicly release its contents earlier.



Allen R. Voss
Director

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 generally provide intercity movement of the mail, and some contractors deliver mail to roadside residential boxes. The postal motor vehicle service generally moves 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 services and \$151 million for motor vehicle highway transportation services.

When the Postal Service needs new or renewable transportation services, it decides 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 (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.

POSTAL CONTRACT ROUTE SOLICITATIONS
AND COMPENSATION POLICIES AND
PROCEDURES GENERALLY ADEQUATE

Overall, Postal Service policies and procedures seem to provide contractors with fair compensation for their routes. Some contractors alleged inaccuracies in Postal Service contract solicitations for bids on a route. While we found a few instances of errors in contract solicitations, most of the solicitations we reviewed were correct.

A few contractors complained that the Services' contract cost adjustment system did not provide them with adequate compensation. Most cost adjustment requests are approved, but some amounts approved were less than the contractors requested. Procedures governing fuel cost adjustments appeared somewhat unfair to some small contractors.

Recent Postal Service actions could provide a temporary remedy for some of these problems and the Service is considering making further revisions to their cost adjustment instructions.

The contractors made relatively few appeals of the cost adjustments that were approved. Also, few contractors were defaulting because they were unable to provide the service required by the contract.

Postal route solicitations usually accurate

A few contractors alleged inaccuracies in Postal Service contract solicitations. These complaints usually concerned understated route mileage or equipment requirements as specified in the solicitations. Although we found some cases where the Postal Service had made errors in the contract solicitation, most of the solicitations we reviewed were correct.

Postal contract route solicitations contain the information necessary to enable a contractor to accurately compute his bid, such as route schedules and times, distances, and equipment requirements. Before the Service issues a contract solicitation, postal transportation officials establish time schedules by reviewing route lengths, speed limits, and traffic and road conditions. The Service includes these schedules in the solicitation package so that contractors can make allowances for Service time and mileage constraints to ensure successful mail delivery.

A few contractors complained about understated route mileage and equipment requirements in Postal contract solicitations. A sample of contract solicitations at three of the transportation management offices showed that the solicitations were generally accurate; however, some of the solicitations put out for bid several years ago may have contained inaccurate mileage figures because Postal officials, in some cases, did not drive the routes to get the actual mileage during the Arab oil embargo and ensuing energy crisis. Some route lengths were originally based on mileage listed in the Household Movers Guide. Currently, postal officials are required to ride routes which have stops or origin and destination offices and have a one-way distance of less than 200 miles. However,

if the contracting officer questions the service or schedule of any route, he may require the route to be ridden.

Although total route mileage is clearly specified in the solicitation package, the exact route to be followed is usually left to the contractor's discretion. This provides the contractor with a little flexibility to determine how best to run the route and still meet his business and maintenance requirements.

Also included as part of the contract solicitation package is the minimum number of motive power units (tractors) required to operate the contract schedule. A few contractors complained that the specified number was inadequate to allow them to perform maintenance on their vehicles. However, the solicitations clearly caution potential contractors that the specific number of motive units is a minimum and that the contractor is required to furnish replacement equipment above the minimum when a unit is withdrawn from service for maintenance or repairs or when, because of mechanical failure or weather conditions, late operation does not permit a normal turnaround of tractors. Additionally, the solicitation points out that tractors required for extra trips--additional trips on an infrequent basis over the same route or part of that route--are not included in the stated minimum.

The minimum number of tractors stated in the solicitation is simply a physical limit. For example, a 4-hour daily trip operating on a turnaround between two points requires a minimum of one tractor, while two trips operating at the same time obviously require at least two tractors. That minimum specifies number only and does not specify the make or model of the equipment; whether it is new or used; the minimum or maximum mileage it must operate daily, monthly, or annually; the amount of maintenance it will require, or when, where, and who will perform routine and periodic maintenance. In short, it does not make or dictate any contractors' private management decisions.

Additionally, postal headquarters officials recognized that format inconsistencies in route solicitations caused problems for contractors and resulted in protests. Consequently, in January 1978, a standard format for

solicitations was designed and instituted by headquarters. This format should help eliminate some contractor confusion.

Service policies and procedures governing contractor cost adjustments seem fair

Some contractors interviewed claimed that the Service's contract cost adjustment system was inadequate in compensating them for rapid cost escalation. We found, however, that Service policies and procedures governing contractor cost adjustments seem fair.

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

The transportation management office's methodology 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, regardless of the amount, are allowed cost adjustment increases only 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 contract routes over \$20,000 per annum and performed by the contractor's employees receive the Consumer Price Index increase for some items and actual cost increases for others. To receive actual cost increases for eligible items, such as fuel, employees' wages, and insurance, contractors must provide supporting documentation with their cost adjustment request. Contract routes under \$20,000 per annum and performed by the contractor's employees may use either method; however, the method chosen by the contractor cannot be changed during the contract period.

Transportation management offices, which are 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 if documentation supporting actual increases is correct.

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 accept the amount offered or to refuse the offer and appeal the amount.

Contractors do not always receive
full amount requested

Most cost adjustment requests submitted to the transportation management offices are approved; however, some are approved for an amount less than the contractor requested. Our analysis of 262 selected cost adjustment requests at four facilities showed that the amounts allowed to highway contractors during a 12-month period ranged from 35 percent 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>Requests reviewed</u>	<u>Amount requested</u>	<u>Amount approved</u>	<u>Percent approved</u>
Dallas	73	\$284,869	\$162,061	57
Columbus	50	\$577,426	\$312,141	54
Washington (note a)	75	\$317,147	\$210,782	66
Jacksonville	<u>64</u>	<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.

The main reasons for only partial approval of cost adjustment requests were as follows:

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

Some contractors interviewed claimed that the Consumer Price Index adjustments they received were inadequate to compensate for rapid cost escalation, particularly on parts and equipment. Although this may be the case, the Service grants large contractors actual cost increases for many other items, such as fuel, employee's wages, and insurance. In addition, Postal regulations permit cost adjustments to exceed the Consumer Price Index increase for equipment replacement costs in unusual or unique situations. With properly prepared bids and good management practices, it appears that contractors should not have serious problems with rising costs.

Occasionally, a request will be denied outright by the transportation management office, but this occurs only when the contractor's request is prohibited by the regional instruction on highway contract economic adjustments. At the facilities visited, we reviewed all 49 denials for a 1-year period and found that most denials resulted from the contractor's either failing to provide adequate supporting documentation or not waiting for the proper time period before submitting the claim.

Contractors file few appeals of contract adjustments

Relatively few contractors appealed cost adjustments offered by the transportation management office. If an offer is appealed and the office adheres to its original 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, which makes the final decision.

A transportation management office official said that since the regional cost adjustment instruction gives specific guidance for approving cost adjustments, most contractors' appeals question the office's interpretation of the cost adjustment instruction. These appeals are usually invalid, but marginal cases may be sent to the regional office for review.

At the transportation management offices visited, only eight cases progressed the entire appeal process as shown in the following table.

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>
Dallas, Tex	5	1
Columbus, Ohio	4	1
Washington, D.C.	13	3
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 made the most appeals. The small number of appeals indicates that contractors are usually satisfied with their cost adjustment.

Few contractors default
on their contracts

The adequacy of contract cost adjustments is also reflected by the small number of contractors who default because they are financially unable to provide the services required by the contract. At the facilities visited, only

10 contractors, representing 32 routes, defaulted on their contracts during the period July 1, 1977, to June 30, 1978, as shown in the following table.

Contract Defaults

<u>Transportation management office</u>	<u>Number of routes</u>	<u>Routes defaulted</u>	<u>Number of contractors</u>
Dallas, Tex.	628	10	3
Jacksonville, Fla.	203	16	1
Columbus, Ohio	380	5	5
Washington, D.C.	<u>508</u>	<u>1</u>	<u>1</u>
	<u>1,719</u>	<u>32</u>	<u>10</u>

Procedures governing fuel adjustments
may be unfair to small contractors

The Postal Service instruction which restricts increases in fuel adjustments for owner-operators to the percentage change in the Consumer Price Index for regular gasoline caused considerable hardship for some small contractors (under \$20,000). Contractors therefore made numerous appeals of fuel-adjustment allowances to the transportation management office. The eastern region recognized this problem and on July 7, 1978, recommended to Postal Service headquarters that the adjustment procedures be amended to be more equitable.

Recognizing the problem, Service headquarters permitted a one-time adjustment by allowing owner-operators to raise fuel costs to their actual level. Service officials intended 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 a 6- to 9-cent differential exists 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 the 23 selected areas far exceeds the price indicated for the area.

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

CONTRACT PERFORMANCE MONITORING
APPEARS EQUITABLE

At the facilities visited, contractors generally met Service standards for ontime performance. With deficient contractors, however, in some instances Service officials were sometimes very tolerant before instituting disciplinary procedures. Although the Postal Service can terminate contracts for unsatisfactory service, only seven contracts were terminated at the facilities visited.

The southern region established a formal performance tracking system to alert transportation management officials

to contractor problems before poor performance can impair Postal Service delivery commitments. Although we feel such a monitoring system is good, a few contractors felt that the high efficiency requirements were unfair.

Contractors performance generally good

Contractor ontime performance was generally good at the facilities visited in three postal regions. The Postal Service allows contractors up to 15 minutes delay before they are designated as late. Local postal officials monitor contractor performance to determine if established time schedules are met.

As shown in the following table, contractor performance records for a 4-week period include only a few 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 of</u> <u>late</u> <u>departures</u> <u>and arrivals</u>	<u>Percent</u> <u>of times</u> <u>late</u>
Dallas, Tex.	5/01-5/31	4,928	129	2.6
Youngstown, Ohio	9/01-9/30	1,009	70	7.0
Prince Georges, Md.	5/01-5/31	10,274	145	1.4
Northern Virginia, Va.	6/01-6/30	6,816	203	3.0
Jacksonville, Fla.	6/18-7/14	3,392	160	4.7
<u>Bulk Mail Center</u>				
Washington, D.C.	5/01-5/31	4,715	392	8.3
Jacksonville, Fla.	6/17-7/14	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 bad weather, mechanical problems, drivers, and the Postal Service.

Contractors given several opportunities to improve performance

Although some contractors complained that the Service is strict in enforcing ontime performance, we found the

Postal Service is sometimes very tolerant of contractors' performance irregularities and allow them several chances to improve. One contractor was allowed 259 performance irregularities in a 3-month period before Service officials took disciplinary action.

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.

One form of disciplining contractors is by assessing damages. Service officials stressed, however, that the purpose of assessing damages is to encourage improved service, and the decision to assess must consider the contractor's financial position.

Damage assessments noted in southern region contract files were for relatively minor amounts levied after serious and continued unsatisfactory service where promised corrective steps were not taken by the contractor. For example, one contractor was assessed damages 9 times totaling only \$1,658 during a recent 8-month period. In the southern region, damage assessments for fiscal year 1978 totaled only about \$52,200 against 136 of the 2,836 southern region highway contract routes valued at over \$93 million.

If a contractor's service does not improve after a letter of warning, counseling, and assessment of damages, the Postal Service can terminate contracts for unsatisfactory performance. Termination is used only when all other practical means of enforcing contract performance fail or when irregularities threaten the public interest. At the facilities visited, only seven contracts were terminated for poor performance from July 1977 to June 1978, as shown below.

Terminated Contracts
For Unsatisfactory Performance
July 1977 to June 1978

<u>Transportation Management Office</u>	<u>Number of contracts</u>	
	<u>Administered</u>	<u>Terminated for unsatisfactory performance</u>
Dallas, Tex.	628	0
Jacksonville, Fla.	203	0
Washington, D.C.	508	3
Columbus, Ohio	<u>380</u>	<u>4</u>
Total	<u>1,719</u>	<u>7</u>

If Postal officials deviate from the procedures required by the Postal Contracting Manual in dealing with contractors, their actions can be overruled by the Board of Contract Appeals. We believe the levels of supervision and review of postal employees combined with the avenues of appeal and redress available to contractors provide adequate assurance that contractors are properly protected.

Southern region has a performance
monitoring system

The southern region, unlike the eastern and central regions, has a formal system for monitoring contractor ontime performance. Although we feel such a monitoring system is good, it has generated some complaints from contractors in the southern region.

The Service has always expected its highway contractors to comply with contract terms and conditions and has long had a localized method for identifying and reporting performance irregularities. Under earlier procedures though, there was no centralized reporting and measurement of contractors performance and no set criteria for initiating action to correct poor performance.

In January 1976, the southern region instituted a formal performance tracking system which significantly improved the measurement of contractor performance. The system simply tabulates the number of performance irregularities reported for each route during a postal accounting period (4 weeks), relates that number to the number of regularly scheduled trips required by the contract, and arrives at a percentage for ontime performance. The eastern and central regions do not have a formal system for monitoring ontime performance.

A few contractors alleged that the southern region's performance monitoring system is too harsh. We determined that the purpose of the system is to alert transportation management officials to contractor problems before poor performance impairs Postal Service delivery commitments. To accomplish this, the southern region established a level of expected contract compliance (98 percent) that, when not achieved for two successive accounting periods, triggers administrative actions aimed at identifying and resolving contract performance problems. The eastern and central regions have not set a goal.

Corrective action depends on the number and gravity of the irregularities and on the responsible postmaster's knowledge of the contractor's operations. For example, a Postal official may phone the contractor to offer assistance or to find out the corrective steps he plans. In a serious case, the official may request a formal conference with demands for immediate corrective measures and warnings of future action in the event of continued unsatisfactory performance.

While one Texas-based contractor views the southern region's performance monitoring system as "* * * arbitrary and unrealistic* * *" and not "* * * specifically covered under the terms and conditions of the Contract General Provisions," another pictures it as "* * * our report card," reminding his drivers to "* * * give it 100 percent," and "* * * have our company at the top of the stack." These widely different views of the performance monitoring system reflect on the contractors' willingness and ability to perform the services.

SOME CONTRACTORS EXPERIENCE
PROBLEMS WITH OTHER FEDERAL AGENCIES

In addition to contractors' problems with the Postal Service, a few large contractors also experienced problems

with other Federal agencies--notably the Department of Transportation and the Department of Labor.

Surprise inspections by Department of Transportation inspectors at the Dallas and Jacksonville Bulk Mail Centers resulted in grounding significant amounts of contractor equipment because they were not in compliance with motor carrier safety regulations. Also, the Department of Labor investigations of mail contractors have disclosed some contractor pay violations.

Department of Transportation inspections
identified unsafe equipment

At the request of postal headquarters officials, Department of Transportation inspectors made surprise inspections at the Dallas and Jacksonville Bulk Mail Centers. As a result, a significant amount of contractor equipment was grounded because it was not in compliance with motor carrier safety regulations. Grounded equipment cannot be used again until it is properly repaired.

The Department of Transportation is responsible for inspecting all contractor 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. Department of Transportation inspection reports from early 1976 through mid-1978, including the recent Dallas and Jacksonville Bulk Mail Center inspections, showed that some contractors were driving unsafe equipment. Deficiencies identified included 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 28 pieces of equipment belonging to 1 contractor. On the basis of the surprise safety inspection at the Dallas Bulk Mail Center and their past experience with highway mail contractors, Department of Transportation inspectors singled out one southern mail contractor as the worst safety regulation offender in their five-state region. A Department of Transportation official said 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.

Department of Labor identified some
contractors underpaying employees

Investigations of mail contractors conducted by the Department of Labor have disclosed some contractor pay violations. Under the terms of the standard Postal Service highway transportation contract, the contractor is required to pay, as a minimum, the Department of Labor's area wage determination. If the contractor's employees are unionized, he is required to pay the amount specified in the union agreement. When contractors bid on route solicitations, their bids must include sufficient funds to pay the required wages. The Postal Service is responsible for ensuring that the bid does include adequate compensation for the contractor's drivers.

If the Department of Labor becomes aware of a contractor failing to pay the proper wages, it will investigate the contractor, determine the amount of back compensation due the employees, and file a claim against the contractor. On occasion, the amount claimed by the Department of Labor can be very substantial. For example, a current claim against one defunct contractor in the Southern Region for underpaying his employees is estimated by the Department of Labor at between \$350,000 to \$500,000. The other claims we reviewed were lower.

Department of Labor workhour
interpretation threatens bankruptcy
for contractors using team drivers

The Postal Service has identified about 30 to 40 contractors holding 66 contracts that could face severe economic consequences if the Service is not successful in persuading the Department of Labor to revise its current interpretation of regulations for compensating team drivers on long-haul trips.

Beginning in the early 1970s, approximately 30 trucking companies contracted with the Postal Service to provide long-haul mail service. Because of the limitation on driving hours imposed by Department of Transportation regulations, most contractors established two-man driving teams to make the runs. In computing their bids, the contractors determined their drivers' wages in accordance with the Department of Transportation rule that time spent by a member of the driving team in the truck's sleeper berth was off duty. The Postal Service accepted bids computed in this fashion.

In 1977, the Department of Labor brought an action against a contractor asserting that, on trips of less than 48 hours, only 8 hours of sleeper berth time can be considered off-duty, and that a driver must be paid for all other time sleeping or resting in the berth. Because the 66 existing contracts do not provide sufficient compensation to pay these additional wages, retroactive application of Labor's interpretation could result in bankruptcy, loss of jobs by drivers, and personal liability and bankruptcy of individuals responsible for the contractors payment practices.

After learning of the serious implications resulting from the Department of Labor's current interpretation of the rules, the Postal Service invoked a moratorium on awarding new long-haul contracts, except for emergency routes on a short-term basis.

SCOPE OF REVIEW

We reviewed and discussed with Postal Service officials the policies and procedures for procuring and administering highway transportation services. We interviewed several large mail contractors and corresponded with many others. We also reviewed Postal Service files and records concerning transportation services, highway safety, cost adjustment requests, and ontime delivery performance. We reviewed contractor compliance with policies and procedures as outlined in the Postal Contracting Manual.

We performed our review at the Postal Service headquarters in Washington, D.C.; the southern, eastern and central region headquarters; and at the facilities listed below.

Transportation Management Offices

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

Management Sectional Centers

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

ENCLOSURE I

ENCLOSURE I

Bulk Mail Centers

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