

March 5, 2003

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SUBJECT: Management Advisory - Reno, Nevada Mail Transportation
(Report Number CQ-MA-03-001)

This management advisory reports the results our review in response to a hotline complaint relating to transporting bulk mail in the Reno, Nevada, area (Project Number 02BR004CQ000). Our review indicated that there was merit to the complaint. We recognized opportunities to reduce transportation costs and improve transportation management in the Reno, Nevada, area, assuming no legal constraints. However, the Postal Service should conduct more in-depth and proper cost analysis of all alternatives, including outsourcing, for improved decision making.

Though management did not specifically concur with our recommendation, management's actions taken and planned should correct the issues identified in the report. Management's comments and our evaluation of these comments are included in this report.

Background

Historically, letter carriers have been used to transport inter-station bulk mail within Reno city limits. In 1992, the Postal Service reassigned this work to a newly created postal motor vehicle craft that assumed all bulk mail transportation work in the Reno area. In 1997, after letter carriers grieved the transfer of work, an arbitrator ruled in favor of using letter carriers to transport interstation mail inside Reno, Nevada, city limits and using postal vehicle service drivers to perform the work outside city limits—the current arrangement used to transport bulk mail.

Since that time, there have been a number of grievances challenging the current allocation of transportation service within Reno, Nevada, city limits. The question of whether this arbitration can be challenged is still pending.

Objective, Scope, and Methodology

The purpose of our review was to determine the merits of a hotline complaint which asserted that:

- Over \$600,000 is wasted annually when two types of craft employees are used to transport bulk mail in the same general vicinity.
- The Postal Service's cost comparison on whether to keep transportation services in-house or to outsource was biased in favor of outsourcing.

Our auditors made observations of mail transportation routes, reviewed applicable policies and procedures, researched arbitration histories, and assessed cost analyses provided. The postal vehicle service, represented by the American Postal Workers Union, provided detailed route analyses supporting their assertions. We compared their proposal with actual year-end data, analyzed rates used, and assessed the reasonableness of assumptions claimed. We did not perform detailed analysis to identify optimal route reductions but verified with local managers whether proposed route reductions were achievable without affecting customer service.

We are providing this advisory so management can make necessary inquiries, and take action they consider appropriate under the circumstances. We conducted our review from September 2002 to March 2003, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and modified our report accordingly.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this review.

Results

Apparent Inefficiencies

Although Postal Service policies require continuous adjustments to its transportation network to maintain efficiencies,¹ we determined that the Reno, Nevada, transportation network for interstation mails has long-standing inefficiencies, such as:

¹ Network Planning Policies Handbook M-22.

- Letter carriers and postal vehicle service drivers performing overlapping work.
- Drivers underutilizing truck capacities for normal route delivery.
- Transportation routes not consolidated.

Over a 2-day period, we observed 13 trucks departing from the Reno General Mail Facility dock with mails for stations and noted that:

- Only 3 of 13 trucks were filled over 75 percent capacity.
- As exemplified in Appendix A, three other trucks were filled less than 25 percent of their capacity.
- Seven of thirteen trucks appeared to be at half capacity.
- Transportation routes of the two crafts routinely crossed paths when traveling to nearby destinations. Local Postal Service managers, letter carriers, and postal vehicle service drivers agreed that several routes could be enhanced through consolidation.

American Postal Workers Union Proposal

According to the American Postal Workers Union proposal, if routes were consolidated the Postal Service would significantly reduce the cost of mileage, labor hours, vehicles, torts and management overhead. Under the assumption that this proposal would not affect service, the American Postal Workers Union proposal results in a cost of \$2.2 million annually, which is at least \$600,000 less than fiscal year 2002 actual costs. The cost reductions above are dependent on management successfully renegotiating labor agreements with the two crafts impacted.

Opportunities to Improve Outsourcing Proposal

In August 2002, area managers submitted a cost savings proposal for approximately \$266,000 to outsource Reno interstation bulk mail transportation. While Postal Service guidelines² called for complete and uniform proposals that encompass and considers all cost factors under labor agreements,³ we believe that the cost savings proposal was incomplete for comparison purposes. Specifically, the cost analysis prepared by the Postal Service only considered workhours and mileage. Other relevant costs described in Postal Service guidelines such as those related to vehicle ownership, the excessing of employees, or the reassignment of employees, were not considered in the cost savings proposal.

² 1999 New Mode Conversion Guidelines – Postal vehicle services and highway contract route.

³ Article 32 American Postal Workers Union agreement.

According to the labor agreement covering motor vehicle drivers, cost comparisons should also consider average costs for employees, including fringe benefits, and all vehicle costs. Comprehensive costing factors, including the minimum required by labor agreements when considering whether to outsource functions, would allow the Postal Service to objectively capture and consider all relevant costs and result in improved decision making. Having incomplete cost analyses would bias decision making.

Conclusion

The Postal Service needs to analyze all alternatives in a complete and equitable manner. Based on our observations, there are probable savings that cannot be quantified until this analysis is performed.

Recommendation

We recommend the vice presidents, Pacific Area Operations, Delivery and Retail, and Network Operations Management, and the acting vice president, Labor Relations:

1. Determine available options and provide the Office of Inspector General (OIG) with your plan to reduce unnecessary costs for bulk mail transportation in the Reno, Nevada, area.

Management's Comments

To respond to the OIG concerns relating to long-standing transportation inefficiencies in Reno, management met with the Reno plant manager and his staff to develop several recommendations to be completed by March 31, 2003. These actions include:

- Conducting further comprehensive cost analysis considering all relevant cost factors to ensure an objective unbiased decision when submitting a revised comparative conversion proposal.
- Ensuring that cost comparisons follow labor agreement guidelines.
- Addressing employee excessing and reassignment issues.

Management's comments, in their entirety, are included in Appendix B of this report.

Evaluation of Management's Comments

Though management did not specifically concur with our recommendation, management's actions taken or planned should correct the issues identified in the report.

The OIG considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. The recommendation should not be closed in the 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 me at (703) 248-2300.

John M. Seeba
Assistant Inspector General for Audit

Attachment

cc: Patrick R. Donahoe
Susan M. Duchek

APPENDIX A OBSERVATIONS OF TRUCKS DEPARTING THE RENO GENERAL MAIL FACILITY



Postal Service trucks less than 25 percent full, departing the dock.



APPENDIX B. MANAGEMENT'S COMMENTS

PACIFIC AREA
VICE PRESIDENT



February 20, 2003

JOHN M. SEEBA
DEPUTY ASSISTANT INSPECTOR GENERAL

SUBJECT: Draft Management Advisory-Reno, Nevada Mail Transportation
(Report # CQ-MA-03-DRAFT)

This is in response to your subject management advisory-Reno: Nevada Mail Transportation dated January 15, 2003. Specifically, the Office of Inspector General report specifies the issues relating to long-standing transportation inefficiencies in Reno that include overlapping routes, under utilization of vehicles and no consolidation of routes.

A Postal Vehicle Service (PVS) and PS Form 5505 conversion proposal was submitted by the Western Area to USPS Headquarters in May, 2002 with a further revision in August, 2002.

In our effort to respond to your concerns, Pacific Area staff from Distribution Networks, Labor Relations and Delivery Programs Support, met with the Reno P&DC Plant Manager and his staff February 5-7, 2003 to discuss the PVS conversion proposal. We developed the following list of recommendations that respond to the OIG concerns and specifically address the opportunities to improve the proposal.

INCOMPLETE COST SAVINGS PROPOSAL

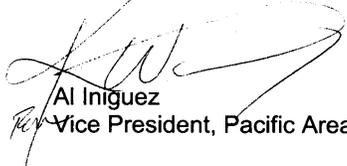
- Conduct further comprehensive cost analysis considering all relevant factors to ensure an objective, unbiased decision: work hours, mileage, vehicle utilization, vehicle overhead costs, employee overhead costs including benefits, employee excessing and reassignments. Submit revised conversion proposal and PS Form 5505 to Headquarters Network Operations Management that includes current cost analysis data. **Completion Date: March 31, 2003.**

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LABOR ISSUES

- Ensure that the comprehensive cost comparison follows labor agreement guidelines including the average costs for employees and their benefits.
- Specifically address employee excessing and reassignment issues in the revised conversion proposal. **Completion Date: March 31, 2003.**

Thank you for the opportunity to respond to the OIG recommendations. If you or your designee have questions or need additional information, please contact Jill Navarrette, Network Planning Specialist at (510) 292-2426.


Al Iniguez
Vice President, Pacific Area Operations

cc: P.Vogel, VP Network Operations Mgmt, Headquarters
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