



March 18, 2005

ALFRED INIGUEZ  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

ALEXANDER LAZAROFF  
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Surface Networks – Intermodal Rail and Highway  
Transportation – Pacific Area (Report Number NL-AR-05-004)

On February 25, 2004, we began a nationwide audit of scheduled bulk mail center highway transportation routes. The objectives of our audit were to evaluate the effectiveness of the routes and identify opportunities to save money. The audit was requested by the vice president, Network Operations Management (Project Number 04YG013NL003).

## **Background**

Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or on-line retail companies. It is processed by a system of 21 bulk mail centers and other facilities nationwide. The Postal Service spends more than \$500 million annually on contracts to transport bulk mail over highway networks. Contracted routes are controlled by individual Postal Service areas.

During our work in the Eastern Area, we noted Pacific Area mail inbound by rail to Greensboro, North Carolina. The rail transportation was administered by the Pacific Area. The Postal Service pays for rail service only when it is actually used. Consequently, we examined the mail volume to determine if the mail could be transported more economically using excess space on existing highway contract routes. This report focuses on rail and highway routes administered by the Pacific and Eastern Areas.

## **Objective, Scope, and Methodology**

The objective of this report was to identify potential savings that could be achieved by reducing railroad service from Los Angeles, California, to Greensboro, North Carolina, and placing mail in excess space on already existing highway contract transportation.

During our work, we interviewed headquarters, Pacific Area, and Eastern Area officials; reviewed relevant Postal Service policies and procedures; interviewed managers and employees; and observed and photographed operations. We also analyzed rail transportation inbound to the Eastern Area from the Pacific Area, including 39 rail trips from Los Angeles to Greensboro, and coordinated with Pacific and Eastern Area officials to consider alternate highway transportation. We consulted with financial analysts, computer analysts, and other subject matter experts; evaluated mail volume and the type of mail carried; and considered service standards. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

We conducted work associated with this report from June 2004 through March 2005 in accordance with generally accepted government auditing standards, and included such tests of internal controls that we considered necessary under the circumstances.

During our audit we examined computer data in management's Transportation Contract Support System and Transportation Information Management Evaluation System. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, the Transportation Information Management Evaluation System had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to partially compensate by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussion with responsible officials.

### **Prior Audit Coverage**

Over a two-year period, the Office of Inspector General (OIG) issued ten audit reports covering evaluation of highway contract routes, and has worked with the Postal Service to identify 1,011 highway contract trip eliminations, consolidations or modifications, potentially resulting in savings of \$50.5 million over the life of the contracts. The Postal Service eliminated or modified these trips without negatively affecting service or operational flexibility because mail volume was low and mail could be consolidated on other trips. For more detailed information about these audits see Appendix A.

### **Audit Results**

#### **Rail and Highway Service Consolidation**

The Postal Service could save approximately \$1 million over the normal four-year term of affected highway contracts by reducing rail shipments and eliminating an average of two rail trips per week from Los Angeles to Greensboro. These savings represent

potential funds that could be put to better use and will be reported as such in our Semiannual Report to Congress.<sup>1</sup>

Postal Service policy requires transportation managers to balance service and cost. Rail shipments could be reduced because excess space exists on already contracted highway routes. Consequently, managers could reduce rail shipments, place mail in excess highway space, and still maintain service standards. There would be no rail service termination costs because the Postal Service pays for rail transportation only when it is actually used.

The Los Angeles and San Francisco bulk mail centers use highway transportation to send mail to Greensboro. We examined Postal Service transportation records for a 19-week period from February 1, 2004, through June 15, 2004, and discussed requirements with Postal Service transportation managers. Based on our examination of records, and our discussions with transportation managers, we concluded:

- Trips on highway contract route 27418 from Los Angeles to Greensboro generally move across the country with 17 to 39 percent cargo space available.
- Trips on highway contract route 27419 from San Francisco to Greensboro generally move across the country with 19 to 52 percent cargo space available.
- Trips on highway contract route 90111 from Los Angeles to San Francisco generally have 23 to 92 percent cargo space available.

Consequently, we concluded some mail currently shipped by rail from Los Angeles to Greensboro, could be shipped by highway instead, or alternatively, could be sent to San Francisco for transshipment to Greensboro.

### **Cooperative Effort and Rapid Implementation**

Eastern and Pacific Area managers and transportation managers in Los Angeles, San Francisco, and Greensboro agreed with our conclusions that rail service could be reduced while still meeting service standards, and they stated that they would make the necessary adjustments. Eastern Area officials noted that the decision rested with the Pacific Area since the rail trips were coordinated by the Pacific Area.

On January 15, 2005, Pacific Area officials rerouted mail on existing highway trips to Greensboro in order to reduce rail traffic. Greensboro officials subsequently noted that trailer space utilization had significantly improved, and trailers arriving from California were hauling more mail.

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<sup>1</sup> The cost of one rail trip from Los Angeles to Greensboro is \$2,515. The estimated \$1 million is calculated as follows: \$2,515 X 2 trips per week X 52 weeks per year X 4 years = \$1,046,240.

### **Exit Conference**

On February 7, 2005, we conducted a formal exit conference with Pacific Area officials and discussed their rapid implementation of our proposals. During the conference, Pacific Area officials provided an example of the dynamic and ever changing nature of the transportation network. They explained that to accommodate ocean transportation from San Francisco to Honolulu, mail was now shipped on the Los Angeles–San Francisco route we identified in our analysis, and consequently, that route could not accommodate as much of the Greensboro mail as anticipated. However, Pacific Area officials suggested an alternate solution by adding a stop in Los Angeles on a San Francisco–Greensboro route controlled by the Eastern Area. The Pacific Area explained that they would coordinate with the Eastern Area and provide full documentation when they had fully implemented the alternate solution.

We did not audit or validate the alternate solution. However, we consider the proposal responsive to the intent of our recommendation. We thank the Pacific and Eastern Areas for their rapid review and cooperation.

### **Recommendation**

We recommend the vice president, Pacific Area Operations, and the vice president, Eastern Area Operations:

1. Coordinate the necessary contract modifications and adjustments in order to reduce mail transportation by rail from the Pacific Area to the Eastern Area.

### **Management's Comments**

Both Eastern and Pacific Area management concurred with our finding and recommendation. Eastern Area management stated they would partner with the Pacific Area to reduce the cost of rail, but, since they had not yet coordinated with the Pacific Area or received Postal Service Headquarters' concurrence, they could not agree with our estimated monetary impact at this time. Pacific Area management stated they would make the appropriate modifications and they had already submitted the changes to Postal Service Headquarters. Management's comments, in their entirety, are included in Appendix B of this report.

### **Evaluation of Management's Comments**

Management's comments are responsive to our finding and recommendation. The service change submitted to headquarters reflects the level of cooperation the Eastern and Pacific Areas provided throughout our audit. We applaud the immediate action taken by the two areas and we consider the actions they have taken or planned sufficient to address the issues we identified in the finding.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. The OIG requests written confirmation when corrective action is completed. This 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 during our audit. If you have any questions or need additional information, please contact Joe Oliva, Director, Transportation, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory  
Deputy Assistant Inspector General  
for Core Operations

Attachments

cc: Paul E. Vogel  
Anthony M. Pajunas  
Steven R. Phelps

**APPENDIX A. PRIOR AUDIT COVERAGE**

Report Name	Report Number	Report Final Issue Date	Number of Trips Identified for Elimination	Potential Savings Identified	Number of Trips With Which Management Agreed	Number of Trips With Which Management Disagreed	Number of Trips Identified by the Postal Service
Highway Network Scheduling - Pacific Area	TD-AR-02-003	9/24/2002	158	\$ 4,500,417	76	34	48
Highway Network Scheduling - Northeast Area	TD-AR-03-002	11/25/2002	18	776,992	10	8	
Highway Network Scheduling - Capital Metro Area	TD-AR-03-007	3/28/2003	34	1,144,218	20	14	
Highway Network Scheduling - New York Metro Area	TD-AR-03-008	3/31/2003	32	470,123	12	20	
Highway Network Scheduling - Southwest Area	TD-AR-03-010	7/11/2003	249	5,989,082	148	101	
Highway Network Scheduling - Western Area	TD-AR-03-013	9/23/2003	70	2,721,530	30	40	
Highway Network Scheduling - Southeast Area	TD-AR-03-014	9/26/2003	101	11,352,881	23	24	54
Highway Network Scheduling - Eastern Area	TD-AR-03-015	9/30/2003	181	10,577,367	128	53	
Highway Network Scheduling - Great Lakes Area	NL-AR-04-003	3/29/2004	72	5,352,877	48	22	2
Bulk Mail Center Transportation Routes - Great Lakes Area	NL-AR-04-004	9/29/2004	96	7,660,533	49	7	40
<b>Totals</b>			<b>1,011</b>	<b>\$ 50,546,020</b>	<b>544</b>	<b>323</b>	<b>144</b>

## APPENDIX B. MANAGEMENT'S COMMENTS

VICE PRESIDENT, AREA OPERATIONS  
EASTERN AREA



February 18, 2005

**Kim H. Stroud**  
**Office of Inspector General**  
**Director, Audit Operations**  
1735 N. Lynn St.  
Arlington VA 22209-2020

**SUBJECT:** Draft Audit Report – Surface Transportation – Intermodal Rail and  
Highway Transportation Routes – Pacific Area (Report Number NL-AR-  
05-DRAFT)

The Eastern Area has reviewed the subject Draft Audit Report and is in concurrence with the findings and OIG recommendations.

Recommendation 1:

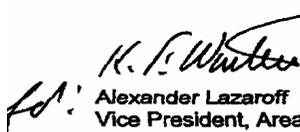
Coordinate the necessary contract modifications and adjustments in order to reduce mail transportation by rail from the Pacific Area to Eastern Area.

Response

The Eastern Area agrees to partner with the Pacific Area to work out a fiscally responsible solution to reduce the cost of rail between the termini.

The Eastern Area has not as of this date received the Pacific Area's counter proposal, therefore we can not agree on the potential service and monetary impacts at this time. The final concurrence lies with the Headquarters Network Operations Management group since they have the fiscal responsibility for the identified Highway Contract Routes. Once we receive the Pacific Area's proposal we will forward it to Headquarters for their review and concurrence.

If you have any questions or require further information contact Wayne Persang, A/Manager Distribution Networks at 412-494-2627, or Jim Hallstein, Transportation Budget & Financial Analyst at 412-494-2621.

  
Alexander Lazaroff  
Vice President, Area Operation  
Eastern Area

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March 3, 2005

Kim H. Stroud  
Office of Inspector General  
Director, Audit Operations  
1735 N. Lynn St.  
Arlington, VA 22209-2020

**SUBJECT:** Draft Audit Report – Surface Transportation – Intermodal Rail and Highway  
Transportation Routes – Pacific Area (Report Number NL-AR-05-DRAFT)

The Pacific Area has reviewed the subject Draft audit reports and is in concurrence with the OIG findings; however, we have modified the recommendations as follows.

**Recommendation:**

Coordinate the necessary contract modifications and adjustments in order to reduce mail transportation by rail from Pacific Area to Eastern Area.

**Response:**

The Eastern area will modify HCR 27419, San Francisco BMC to Greensboro BMC by adding a stop at the Los Angeles BMC. This alternative was selected because the Pacific Area presently utilizes HCR 90111 (LA BMC to SF BMC) to carry Southern California's Honolulu mail to SF BMC, so there is no capacity to move the Greensboro mail.

This change has been submitted to the HQ Network Operations management group, since they have the fiscal responsibility for the identified Highway Contract routes.

If you have any questions or require additional information contact Jill Navarrette, A/Networks Manager at 510-292-2426.

A handwritten signature in black ink, appearing to read "Al Iniguez".

Al Iniguez

cc: Darie Guluan

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