



August 3, 2005

GEORGE LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Highway
Transportation Routes – Southwest Area
(Report Number NL-AR-05-008)

This report presents results from our Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG013NL005). Our objectives were to evaluate the effectiveness of bulk mail center routes and identify opportunities for cost savings. This report responds to a request from the vice president, Network Operations Management, and focuses on routes controlled by the Southwest Area.

The Postal Service could save about \$7.2 million over the term of existing Southwest Area bulk mail highway contracts by canceling, not renewing, or modifying 79 trips. The savings represent potential funds that could be put to better use and will be reported as such in our Semiannual Report to Congress. The Postal Service could eliminate or modify the trips without negatively affecting service because trip volume was low and mail could be consolidated on other trips. We recommended the vice president, Southwest Area Operations, (1) verify the actual cancellation, modification, or substitution of the three trips identified by Postal Service managers during our audit; and (2) verify the actual cancellation, modification, or substitution of the 76 trips with which Postal Service officials agreed.

Management agreed with our findings and recommendations. Management stated they would implement the recommendations not later than August 30, 2005. Management's comments and our evaluation of their comments are included in this report.

The Office of Inspector General (OIG) considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations 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: Patrick R. Donahoe
William P. Galligan
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INTRODUCTION

Background

Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or online 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.

Highway Contract Route 87011 being loaded at the dock of the Albuquerque Processing and Distribution Center for transport to the Albuquerque Auxiliary Service Facility on December 1, 2004.



This report focuses on the routes controlled by the Southwest Area and responds to a request from the vice president, Network Operations Management.

Objectives, Scope, and Methodology

The objectives of our audit were to evaluate the effectiveness of scheduled bulk mail center highway transportation routes and to identify opportunities for cost savings.

Using Postal Service computer-generated data, we identified 1,050 trips operated under 86 Southwest Area contracts that had at least one bulk mail center service point. In preparation for our work, we provided area officials and Postal Service managers with the list of Southwest Area contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Southwest Area; reviewed relevant Postal Service policies and

procedures; visited the area's bulk mail center and two auxiliary service facilities; interviewed managers and employees; and observed and photographed operations. We consulted with financial analysts, computer analysts, and other subject matter experts; evaluated mail volume and the type of mail carried; considered service standards; and analyzed all 1,050 trips.

We conducted work associated with this report from November 2004 through July 2005, in accordance with generally accepted government auditing standards and included such tests of internal controls that we considered necessary under the circumstances. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

Data Limitations

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. We also applied conservative principles to our monetary impact estimates and, accordingly, always selected the most restrained assessment.

Prior Audit Coverage

Since September 2002, the Office of Inspector General has worked with the Postal Service to reduce surface transportation. As a result, we have issued 14 audit reports that identified potential savings exceeding \$64.4 million over the life of eliminated or reduced transportation contracts. For more detailed information about these audits, see Appendix A.

AUDIT RESULTS

Contracted Bulk Mail Center Highway Trips

The Postal Service could save about \$7.2 million over the term of existing Southwest Area bulk mail highway contracts by canceling, not renewing, or modifying 79 trips. The Postal Service could eliminate or modify the trips without negatively affecting service because trip mail volume was low and mail could be consolidated on other trips. As indicated below, 33 percent of affected trips will expire within one year. The other 67 percent have one to three years remaining.

PROPOSED NONRENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring within one year*	33 percent	26	\$5,508,161
Contracts expiring in one to three years	<u>67 percent</u>	<u>53</u>	<u>\$1,667,751</u>
All terminated trips	100 percent	79	\$7,175,912

* Contracts in this trip category expired June 30, 2005.

Postal Service policy requires transportation managers to balance service and cost. Although managers continually strive to optimize transportation through aggressive cost-cutting efforts—such as their breakthrough productivity initiative—transportation requirements are dynamic and constantly change. Consequently, the Postal Service could attain additional savings through further service reductions by not renewing unnecessary trips that are scheduled to expire within one year or by canceling unnecessary trips that are currently contracted to continue for one to three years. The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$222,262.

Cooperative Effort

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with Southwest Area officials throughout our audit. We provided the Southwest Area officials with a list of our specific trip proposals and the officials reviewed each proposal in conjunction with their own assessment of

area-wide network requirements. After the area’s review, we held discussions with area officials and discussed our proposals and area operational needs and made appropriate adjustments.

As a result of our cooperative effort, the area agreed with the 79 proposals outlined in Appendices B and C.

PROPOSED TRIP CANCELLATIONS AND MODIFICATIONS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	ESTIMATED SAVINGS
Postal Service identified trip cancellations or modifications during the audit	3	B	\$27,531
Proposals with which area officials agreed	<u>76</u>	C	<u>\$7,148,381</u>
Total	79		\$7,175,912

Recommendations

We recommend the vice president, Southwest Area Operations:

1. Verify the actual cancellation, modification, or substitution of the three trips identified during our audit by management.
2. Verify the actual cancellation, modification, or substitution of the 76 trips with which Postal Service managers agreed and provide the date action was taken.

Management’s Comments

Management agreed with our findings and recommendations. They stated they would finalize contract negotiations to implement trip reduction recommendations not later than August 30, 2005. Management agreed with our savings estimates, but noted that actual savings might differ slightly once contract negotiations were complete and stated that they would provide a final accounting of savings at that time.

Management stated that they supported our reviews and other breakthrough productivity initiatives; and that they appreciated our cooperation, insight, and recommendations. Management also stated that our recommendations

precipitated overall trip reduction and savings opportunities for the Southwest Area. Management’s comments, in their entirety, are included in Appendix D of this report.

**Evaluation of
Management’s
Comments**

Management’s comments are responsive to our recommendations. We applaud the Southwest Area’s cooperative effort and timely action and we consider the actions management has taken or planned sufficient to address the issues we identified.

APPENDIX A. PRIOR AUDIT COVERAGE

Report Name	Report Number	Report Final Issue Date	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Number of Trips With Which Management Agreed	Number of Trips With Which Management Disagreed	Number of Trips Identified by Management
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	0
Highway Network Scheduling – Capital Metro Area	TD-AR-03-007	3/28/2003	34	1,144,218	20	14	0
Highway Network Scheduling – New York Metro Area	TD-AR-03-008	3/31/2003	32	470,123	12	20	0
Highway Network Scheduling – Southwest Area	TD-AR-03-010	7/11/2003	249	5,989,082	148	101	0
Highway Network Scheduling – Western Area	TD-AR-03-013	9/23/2003	70	2,721,530	30	40	0
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	0
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
Bulk Mail Center Transportation Routes – Eastern Area	NL-AR-05-003	3/17/2005	35	4,791,570	29	6	0
Intermodal Rail and Highway Transportation – Pacific Area	NL-AR-05-004	3/18/2005	0	1,046,240	0	0	0
Bulk Mail Center Transportation Routes – Southeast Area	NL-AR-05-005	3/18/2005	52	6,563,582	52	0	0
Bulk Mail Center Transportation Routes – New York Metro	NL-AR-05-007	6/9/2005	16	1,499,371	16	0	0
Totals			1,114	\$64,446,783	641	329	144

APPENDIX B

**TRIPS IDENTIFIED BY POSTAL SERVICE MANAGERS
 DURING AUDIT WORK**

Effective Date of Last Change	End Date of Contract	Highway Contract Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
7/1/2003	6/20/2005	73740	1	Eliminate AMC stop on Sundays and Holidays	Enid, Oklahoma to Oklahoma City P&DC, Oklahoma	\$ 971	\$ 3,884	\$ –	\$ 3,884
9/4/2004	6/30/2007	730AA	347 and 348	Whole Trip	Oklahoma City P&DC to Shartel Station, Oklahoma	\$ 13,512	\$ 28,151	\$ 4,504	\$ 23,647
	TOTALS		3			\$ 14,483	\$ 32,035	\$ 4,504	\$ 27,531

P&DC – Processing and Distribution Center
 AMC – Air Mail Center

APPENDIX C

TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH POSTAL SERVICE MANAGERS AGREED

Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
8/7/2004	6/30/2005	73042	9	Whole Trip	Oklahoma City MPA, Oklahoma to Sooner Station, Oklahoma	\$ 4,245	\$ 16,980	\$ –	\$ 16,980
8/7/2004	6/30/2005	73042	10	Whole Trip	Sooner Station, Oklahoma, to Oklahoma City MPA, Oklahoma	\$ 4,245	\$ 16,980	\$ –	\$ 16,980
10/2/2004	6/30/2008	75090	801	Whole Trip	Dallas BMC to Denton	\$ 22,432	\$ 69,166	\$ 7,477	\$ 61,689
10/2/2004	6/30/2008	75090	802	Whole Trip	Denton to Dallas BMC	\$ 22,432	\$ 69,166	\$ 7,477	\$ 61,689
9/4/2004	6/30/2006	75091	803	Holidays	Dallas BMC to Lake Charles	\$ 2,981	\$ 3,229	\$ 497	\$ 2,732
9/4/2004	6/30/2006	75091	804	Holidays	Lake Charles to Dallas BMC	\$ 2,938	\$ 3,183	\$ 490	\$ 2,693
1/22/2005	6/30/2007	75092	805	Holidays	Dallas BMC to McAllen P&DF	\$ 2,714	\$ 5,655	\$ 905	\$ 4,750
1/22/2005	6/30/2007	75092	806	Holidays	McAllen P&DF to Dallas BMC	\$ 2,714	\$ 5,655	\$ 905	\$ 4,750
1/2/2005	6/30/2008	75110	801	Eliminate Saturdays	Dallas BMC to Denver BMC	\$ 57,888	\$ 178,488	\$ 19,296	\$ 159,192
1/2/2005	6/30/2008	75110	802	Eliminate Saturdays	Denver BMC to Dallas BMC	\$ 57,888	\$ 178,488	\$ 19,296	\$ 159,192
1/2/2005	6/30/2008	75110	803	Holidays	Dallas BMC to Denver BMC	\$ 11,107	\$ 34,248	\$ 3,702	\$ 30,546

Surface Transportation – Bulk Mail Center Highway
 Transportation Routes – Southwest Area

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Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
1/2/2005	6/30/2008	75110	804	Holidays	Denver BMC to Dallas BMC	\$ 11,094	\$ 34,206	\$ 3,698	\$ 30,508
1/22/2005	6/30/2005	75112	803	Whole Trip	Dallas BMC to Des Moines BMC	\$ 171,758	\$ 687,032	\$ –	\$ 687,032
1/22/2005	6/30/2005	75112	804	Whole Trip	Des Moines BMC to Dallas BMC	\$ 171,758	\$ 687,032	\$ –	\$ 687,032
9/4/2004	6/30/2008	75117	804	Eliminate Fridays and Saturdays	St. Louis BMC to Dallas BMC	\$ 81,983	\$ 252,781	\$ 27,328	\$ 225,453
9/4/2004	6/30/2008	75117	805	Eliminate Fridays and Saturdays	Dallas BMC to St. Louis BMC	\$ 81,426	\$ 251,063	\$ 27,142	\$ 223,921
9/4/2004	6/30/2005	75119	803	Eliminate Sundays and two Holidays	Dallas BMC to Detroit BMC	\$ 83,854	\$ 335,415	\$ –	\$ 335,415
9/4/2004	6/30/2005	75119	804	Eliminate Sundays and two Holidays	Detroit BMC to Dallas BMC	\$ 83,854	\$ 335,415	\$ –	\$ 335,415
12/4/2004	6/30/2008	75190	801	Eliminate North Texas and Fort Worth stops	Dallas BMC to Lubbock P&DF	\$ 12,110	\$ 37,339	\$ 4,037	\$ 33,303*
12/6/2004	6/30/2008	75191	803	Whole Trip	Dallas BMC to East Texas P&DC	\$ 28,695	\$ 88,475	\$ 9,565	\$ 78,910
12/6/2004	6/30/2008	75191	804	Whole Trip	East Texas P&DC to Dallas BMC	\$ 28,979	\$ 89,353	\$ 9,660	\$ 79,693
12/25/2004	6/30/2005	75194	807	Whole Trip	North Texas P&DC to Beaumont P&DF	\$ 177,952	\$ 711,809	\$ –	\$ 711,809

Surface Transportation – Bulk Mail Center Highway
 Transportation Routes – Southwest Area

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Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
12/25/2004	6/30/2005	75194	810	Whole Trip	Beaumont P&DF to North Texas P&DC	\$ 176,642	\$ 706,568	\$ –	\$ 706,568
9/4/2004	6/30/2008	75197	803 ¹	Eliminate Saturdays	Dallas BMC to San Angelo	\$ 18,091	\$ 55,779	\$ 6,030	\$ 49,749
9/4/2004	6/30/2008	75197	803	Eliminate Ft. Worth Stop, Dallas P&DC and North Texas Stops	Dallas BMC to San Angelo	\$ 10,468	\$ 32,276	\$ 3,489	\$ 28,787
9/4/2004	6/30/2008	75197	804	Eliminate Saturdays	San Angelo to Dallas BMC	\$ 15,664	\$ 48,298	\$ 5,221	\$ 43,076*
1/15/2005	4/30/2005	75238	5	Whole Trip	North Texas P&DC to Garland Kingsley	\$ 18,320	\$ 73,278	\$ –	\$ 73,278
1/15/2005	4/30/2005	75238	6	Whole Trip	Garland Kingsley to North Texas P&DC	\$ 18,320	\$ 73,278	\$ –	\$ 73,278
1/15/2005	4/30/2005	75238	105	Whole Trip	North Texas P&DC to Carrollton	\$ 9,753	\$ 39,014	\$ –	\$ 39,014
1/15/2005	4/30/2005	75238	106	Whole Trip	Carrollton to North Texas P&DC	\$ 9,753	\$ 39,014	\$ –	\$ 39,014
1/15/2005	4/30/2005	75238	155	Whole Trip	North Texas P&DC to Irving Carl Range	\$ 6,989	\$ 27,958	\$ –	\$ 27,958
1/15/2005	4/30/2005	75238	156	Whole Trip	Irving Carl Range to North Texas P&DC	\$ 6,989	\$ 27,958	\$ –	\$ 27,958
1/15/2005	4/30/2005	75238	165	Whole Trip	North Texas P&DC to Irving Carl Range	\$ 5,799	\$ 23,197	\$ –	\$ 23,197
1/15/2005	4/30/2005	75238	166	Whole Trip	Irving Carl Range to North Texas P&DC	\$ 5,799	\$ 23,197	\$ –	\$ 23,197

¹Trip 803 for contract 75197 appears twice due to two distinct recommendations for this trip.

Surface Transportation – Bulk Mail Center Highway
Transportation Routes – Southwest Area

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Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
11/27/2004	6/30/2006	76090	835	Whole Trip	Dallas BMC to Arlington Main	\$ 7,333	\$ 7,944	\$ 1,222	\$ 6,722
11/27/2004	6/30/2006	76090	836	Whole Trip	Arlington Main to Dallas BMC	\$ 7,333	\$ 7,944	\$ 1,222	\$ 6,722
9/4/2004	6/30/2005	87010	3	Eliminate Saturdays	Albuquerque P&DC to Clovis Northwest Station	\$ 19,115	\$ 76,459	\$ –	\$ 76,459
9/4/2004	6/30/2005	87010	4	Eliminate Saturdays	Clovis Northwest Station, New Mexico, to Albuquerque P&DC	\$ 19,115	\$ 76,459	\$ –	\$ 76,459
9/4/2004	6/30/2005	87010	6	Eliminate Saturdays	Clovis Northwest Station, New Mexico, to Albuquerque P&DC	\$ 19,115	\$ 76,459	\$ –	\$ 76,459
4/17/2004	6/30/2005	87013	1	Eliminate Saturdays	Albuquerque ASF to Alamogordo, New Mexico	\$ 15,400	\$ 61,602	\$ –	\$ 61,602
4/17/2004	6/30/2005	87013	2	Eliminate Sundays	Alamogordo, New Mexico, to Albuquerque ASF	\$ 15,400	\$ 61,602	\$ –	\$ 61,602
4/17/2004	6/30/2005	87014	1	Eliminate Saturdays	Albuquerque P&DC to Farmington, New Mexico	\$ 14,030	\$ 56,122	\$ –	\$ 56,122
4/17/2004	6/30/2005	87014	2	Eliminate Sundays	Farmington to Albuquerque P&DC	\$ 12,879	\$ 51,515	\$ –	\$ 51,515
9/4/2004	6/30/2007	730AA	325 and 326	Whole Trip	Oklahoma City P&DC to Stockyards Station, Oklahoma, and Return	\$ 2,562	\$ 5,337	\$ 854	\$ 4,483

Surface Transportation – Bulk Mail Center Highway
 Transportation Routes – Southwest Area

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Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
9/4/2004	6/30/2007	730AA	337 and 338	Whole Trip	Oklahoma City P&DC to Northwest Station, Oklahoma, and Return	\$ 8,413	\$ 17,528	\$ 2,804	\$ 14,723*
9/4/2004	6/30/2007	730AA	367 and 368	Whole Trip	Oklahoma City P&DC to Southwest Station, Oklahoma, and Return	\$ 14,532	\$ 30,275	\$ 4,844	\$ 25,431
9/4/2004	6/30/2007	730AA	369 and 370	Whole Trip	Oklahoma City P&DC to Southwest Station, Oklahoma, and Return	\$ 14,532	\$ 30,275	\$ 4,844	\$ 25,431
9/4/2004	6/30/2007	730AA	377 and 378	Whole Trip	Oklahoma City P&DC to Westside Station, Oklahoma, and Return	\$ 14,173	\$ 29,527	\$ 4,724	\$ 24,803
9/4/2004	6/30/2007	730AA	381 and 382	Whole Trip	Oklahoma City P&DC to Westside Station, Oklahoma, and Return	\$ 2,822	\$ 5,879	\$ 941	\$ 4,939*
9/4/2004	6/30/2007	730AA	455 and 456	Whole Trip	Oklahoma City P&DC to Oklahoma City AMF, Oklahoma, and Return	\$ 27,039	\$ 56,331	\$ 9,013	\$ 47,318
9/4/2004	6/30/2007	730AA	459 and 460	Whole Trip	Oklahoma City P&DC to Oklahoma City AMF, Oklahoma, and Return	\$ 27,039	\$ 56,331	\$ 9,013	\$ 47,318

Surface Transportation – Bulk Mail Center Highway
Transportation Routes – Southwest Area

NL-AR-05-008

Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
9/4/2004	6/30/2007	730AA	555 and 556	Whole Trip	Oklahoma City P&DC to Oklahoma City Standard B Annex, Oklahoma, and Return	\$ 13,212	\$ 27,525	\$ 4,404	\$ 23,121
9/4/2004	6/30/2007	730AA	557 and 558	Whole Trip	Oklahoma City P&DC to Oklahoma City Standard B Annex, Oklahoma, and Return	\$ 13,212	\$ 27,525	\$ 4,404	\$ 23,121
3/9/2005	3/9/2005	770XU	1	Whole Trip	Houston P&DC to Dallas BMC	\$ 155,231	\$ 620,925	\$ –	\$ 620,925
3/9/2005	3/9/2005	770XV	1	Whole Trip	Houston P&DC to Dallas BMC	\$ 149,753	\$ 599,010	\$ –	\$ 599,010
10/23/2004	6/30/2008	870DD	1	Eliminate Sundays	THS, New Mexico to Albuquerque P&DC	\$ 2,436	\$ 7,510	\$ 812	\$ 6,698
10/23/2004	6/30/2008	870DD	2	Eliminate Sundays	Albuquerque P&DC to THS, New Mexico	\$ 2,436	\$ 7,510	\$ 812	\$ 6,698
10/23/2004	6/30/2008	870DD	3	Eliminate Sundays	THS, New Mexico to Albuquerque P&DC	\$ 2,436	\$ 7,510	\$ 812	\$ 6,698
10/23/2004	6/30/2008	870DD	4	Eliminate Sundays	Albuquerque P&DC to THS, New Mexico	\$ 2,436	\$ 7,510	\$ 812	\$ 6,698
10/31/2004	6/30/2008	870FA	7	Whole Trip	Albuquerque P&DC to Albuquerque ASF	\$ 9,106	\$ 28,077	\$ 3,035	\$ 25,042

Effective Date of Last Change	End Date of Contract	Highway Contract Route Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
10/31/2004	6/30/2008	870FA	8	Whole Trip	Albuquerque ASF to Albuquerque P&DC	\$ 9,106	\$ 28,077	\$ 3,035	\$ 25,042
10/31/2004	6/30/2008	870FA	27	Eliminate Sundays and Holidays	Albuquerque P&DC to Albuquerque ASF	\$ 1,550	\$ 4,780	\$ 517	\$ 4,263
10/31/2004	6/30/2008	870FA	28	Eliminate Sundays and Holidays	Albuquerque ASF to Albuquerque P&DC	\$ 1,550	\$ 4,780	\$ 517	\$ 4,263
10/31/2004	6/30/2008	870FA	67	Eliminate Sundays and Holidays	Albuquerque P&DC to Albuquerque ASF	\$ 1,550	\$ 4,780	\$ 517	\$ 4,263
10/31/2004	6/30/2008	870FA	68	Eliminate Sundays and Holidays	Albuquerque ASF to Albuquerque P&DC	\$ 1,550	\$ 4,780	\$ 517	\$ 4,263
10/31/2004	6/30/2008	870FA	69	Eliminate Saturdays, Sundays, and Holidays	Albuquerque P&DC to Albuquerque ASF	\$ 2,801	\$ 8,637	\$ 934	\$ 7,704*
10/31/2004	6/30/2008	870FA	70	Eliminate Saturdays, Sundays, and Holidays	Albuquerque ASF to Albuquerque P&DC	\$ 2,801	\$ 8,637	\$ 934	\$ 7,704*
TOTALS			76			\$2,039,636*	\$ 7,366,139*	\$ 217,758*	\$ 7,148,381*

Recommendations cover 76 trips as reflected in the report. Appendix C reflects 77 line items because HCR 75197 trip 803, has two different modifications. As such, to ensure clear understanding of the specific trip proposals, we separated the distinct actions.

*Minor Rounding Differences

AMF – Air Mail Facility	MPA – Mail Processing Annex	THS – Terminal Handling Service
ASF – Auxiliary Service Facility	P&DC – Processing and Distribution Center	
BMC – Bulk Mail Center	P&DF – Processing and Distribution Facility	

APPENDIX D. MANAGEMENT'S COMMENTS

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



July 12, 2005

KIM H. STROUD
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Southwest Area Surface Reductions – BMC Transportation

This correspondence is in response to your memorandum dated June 28, referencing the Southwest Area BMC Highway Transportation Review and Audit, Project Number 04YG013NL005.

The Southwest Area concurs with the overall findings associated with the agreed upon recommendations and reductions covering approximately 79 specific Highway Contract Route (HCR) trips outlined in your Appendices B and C.

Although, we are in agreement with the recommended trip reductions and overall cost savings, it should be noted that differences between the estimated savings compared to the actual savings once the contract negotiations are complete may be slightly different. In some cases, substitute trips and/or routes have also been made to support specific operational requirements. The estimated savings outlined in your Appendices B and C represents the overall savings associated with HCR trip reductions for the remainder of each specific contract term. As such, the overall savings will be realized over a one to four year period.

Even though the above-mentioned HCR routes will experience trip reductions and cost savings opportunities, HCR routes in general will continue to experience increases to support new and/or expanded service requirements and escalating fixed contract expenses, such as, fuel increases, economic adjustments and wage determinations. These expenses continue to play a significant role in our overall Line 3P Highway Contract budget performance.

Local contract negotiations to order in the reductions are ongoing and should be finalized no later than August 30. At that time, a final accounting of the reductions and overall savings will be forwarded to your office.

The Southwest Area supports the OIG review process and other Breakthrough Productivity Initiatives. We appreciate the review team's cooperation, insight and recommendations that precipitated the overall reductions and cost savings opportunities for the Southwest Area.

A large, stylized handwritten signature in black ink, appearing to read "George L. Lopez".

George L. Lopez

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