



September 2, 2005

JERRY D. LANE  
MANAGER, CAPITAL METRO AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Highway  
Transportation Routes – Capital Metro Area  
(Report Number NL-AR-05-009)

This report presents results from our Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG013NL007). 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 Capital Metro Area.

The Postal Service could save about \$800,000 over the term of existing Capital Metro Area bulk mail highway contracts by canceling, not renewing, or modifying ten 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 manager, Capital Metro Area Operations, verify the actual cancellation, modification, or substitution of the ten trips.

Management agreed with our finding and recommendation. Management stated that they had already implemented all contract service changes as of August 13, 2005. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are 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.

Mary W. Demory  
Deputy Assistant Inspector General  
for Core Operations

Attachments

cc: Patrick R. Donahoe  
William P. Galligan  
Paul E. Vogel  
Anthony M. Pajunas  
Steven R. Phelps

## INTRODUCTION

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### 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.

Capital Metro Area  
Southern Maryland  
combined  
Processing and Distribution  
Center and  
Bulk Mail Center.



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

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### 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 343 trips operated under 27 Capital Metro Area contracts that had at least 1 bulk mail center service point. In preparation for our work, we provided area officials and Postal Service managers with the list of Capital Metro Area contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Capital Metro Area; reviewed relevant Postal Service policies and procedures; and interviewed managers and employees. 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 343 trips.

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

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.

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**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 15 audit reports that identified potential savings exceeding \$71.6 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 \$800,000 over the term of existing Capital Metro Area bulk mail highway contracts by canceling, not renewing, or modifying ten 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, 20 percent of the affected trips will expire within 1 year. The other 80 percent have 1 to 3 years remaining.

#### PROPOSED NONRENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring within one year	20 percent	2	\$202,048
Contracts expiring in one to three years	<u>80 percent</u>	<u>8</u>	<u>\$601,012</u>
All terminated trips	100 percent	10	\$803,060

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 \$71,875.

### Cooperative Effort and Rapid Implementation

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with Capital Metro Area officials throughout our audit. We provided Capital Metro 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 discussed our proposals and area operational needs with area officials and made appropriate adjustments. As a result of the cooperative effort, the area agreed with the ten proposals outlined in Appendix B.

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<b>Recommendation</b>	We recommend the manager, Capital Metro Area Operations:  1. Verify the actual cancellation, modification, or substitution of the ten trips with which Postal Service managers agreed and provide the date action was taken.
<b>Management's Comments</b>	Management agreed with our finding and recommendation. They stated that they had finalized contract negotiations and that they had already implemented all recommended service reductions as of August 13, 2005. They also stated that during contract negotiations, the contractors waived indemnity fees. Management's comments, in their entirety, are included in Appendix C of this report.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to our finding and recommendation. We applaud the immediate action taken by the Capital Metro Area, and we consider the actions the area has taken or planned sufficient to address the issues we identified in the finding.

## APPENDIX A

### PRIOR REPORT 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 Area	NL-AR-05-007	6/09/2005	16	1,499,371	16	0	0
Bulk Mail Center Transportation Routes - Southwest Area	NL-AR-05-008	8/03/2005	79	7,175,912	76	0	3
<b>Totals</b>			<b>15</b>	<b>\$71,622,695</b>	<b>717</b>	<b>329</b>	<b>147</b>

**APPENDIX B**

**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
4/16/2005	10/10/2005	217Y1	33	Trip Elimination	Frederick, MD P&DF to Washington, D.C. BMC	\$44,608	\$89,216	\$0	\$89,216
4/16/2005	10/10/2005	217Y1	34	Trip Elimination	Washington, D.C. BMC to Frederick, MD P&DF	56,416	112,832	0	112,832
3/19/2005	6/30/2008	20111	13	Remove AMTRAK stop on trip	United Litho, VA to Washington, D.C. BMC	12,722	37,106	4,241	32,865
3/19/2005	6/30/2008	20111	15	Remove AMTRAK stop on trip	United Litho, VA to Washington, D.C. BMC	2,640	7,700	880	6,820
5/14/2005	6/30/2007	20291	803	Trip Elimination	Baltimore, MD P&DC to Washington, D.C. BMC	20,833	39,929	3,472	36,457

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
5/14/2005	6/30/2007	20291	804	Trip Elimination	Washington, D.C. BMC to Baltimore, MD P&DC	20,833	39,929	3,472	36,457
5/14/2005	6/30/2007	20291	881	Trip Elimination	Baltimore, MD IMF and P&DF to Washington, D.C. BMC	27,149	52,035	4,525	47,510
5/14/2005	6/30/2007	20291	882	Trip Elimination	Washington, D.C. BMC to Baltimore, MD IMF and P&DF	27,149	52,035	4,525	47,510
5/14/2005	6/30/2008	23390	815	Trip Elimination	Washington, D.C. BMC to Norfolk, VA P&DC	76,876	224,222	25,625	198,597
5/14/2005	6/30/2008	23390	816	Trip Elimination	Norfolk, VA P&DC to Washington, D.C. BMC	75,405	219,931	25,135	194,796
	<b>TOTALS</b>		<b>10</b>			<b>\$364,630*</b>	<b>\$874,935</b>	<b>\$71,875</b>	<b>\$803,060</b>

BMC Bulk Mail Center  
P&DC Processing and Distribution Center  
IMF Incoming Mail Facility  
P&DF Processing and Distribution Facility

\* Due to rounding differences from the source documentation, totals vary slightly when recalculated.

## APPENDIX C MANAGEMENT'S COMMENTS

MANAGER  
CAPITAL METRO OPERATIONS



August 19, 2005

KIM STROUD  
DIRECTOR, AUDIT REPORTING

SUBJECT: Surface Transportation – Bulk Mail Center Highway Transportation Routes – Capital Metro Area (Report Number NL-AR-05-DRAFT)

This report represents results from the Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG014NL007). The audit identified four highway contract routes and ten trips that could be eliminated or modified. The estimated cost savings of \$800,000 is over the expected term of the contracts. The findings as stated will result in a \$52,105 savings this fiscal year. The estimated indemnity fees of \$71,875 were waived by the contractors during negotiations.

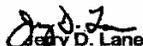
The Service Change Request Form System was used to implement the changes through the Contracting office. The actual effective dates of the changes were as follows:

HCR 217Y1	- Effective July 16, 2005
HCR 20111	- Effective July 9, 2005
HCR 20291	- Effective August 6, 2005
HCR 23390	- Effective August 13, 2005

The methodology used to calculate the savings was the effective date of the change through the end of the fiscal year. This established the number of days to multiply by the savings per day.

The new adjusted annual budget cost was applied to the contracts.

Please contact Joseph M. Lennon, Jr., Manager, Distribution Networks, Capital Metro Area, at 301-618-4401 if additional information is necessary.

  
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