



September 19, 2005

ALFRED INIGUEZ  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report - Surface Networks – Intermodal Rail and Highway  
Transportation Between the Pacific and Southeast Areas  
(Report Number NL-AR-05-011)

This report is one in a series of reports from our nationwide audit of bulk mail center surface transportation. It focuses on intermodal rail and highway transportation between the Pacific and Southeast. The audit was requested by the vice president, Network Operations Management (Project Number 04YG013NL006).



Highway trailers “piggy-backed” onto “intermodal” rail flat-cars, departing the Burlington Northern Santa Fe Rail Yard, Los Angeles, California, April 28, 2005.

## **Background**

Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or online retail companies. A system of 21 bulk mail centers and other facilities nationwide processes it. The Postal Service spends more than \$500 million annually on contracts to transport bulk mail over rail and highway

networks. Contracted routes are controlled by individual Postal Service areas. During previous work on rail and highway routes in the Pacific Area, area officials identified an opportunity to save money on rail transportation to Jacksonville, Florida, and Atlanta, Georgia. This rail transportation is 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 Postal Service could transport mail more economically using excess space on existing highway contract routes. This report focuses on rail and highway routes administered by the Pacific and Southeast Areas.

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

The objective of this audit was to identify potential savings the Postal Service could achieve by reducing rail service from Los Angeles, California, to Atlanta, Georgia, and Jacksonville, Florida, and placing mail in excess space on existing highway transportation.



**Highway trailer loaded with mail being moved into rail yard for rail transportation.  
Burlington Northern Santa Fe Rail Yard, Los Angeles, California, April 28, 2005.**

During our work, we interviewed headquarters, Pacific, and Southeast Area officials; reviewed relevant Postal Service policies and procedures; interviewed transportation managers; and observed and photographed operations. We also analyzed rail transportation to the Southeast Area from the Pacific Area, including 46 rail trips from Los Angeles to Atlanta and 87 rail trips from Los Angeles to Jacksonville. We coordinated with Pacific, Southeast, and headquarters 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 also discussed our observations and conclusions with management officials and included their comments where appropriate.

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



**Highway trailer being lifted onto rail flat-car for rail transportation.  
Burlington Northern Santa Fe Rail Yard, Los Angeles, California, April 28, 2005.**

During our audit we examined computer data in management's Transportation Contract Support System, Transportation Information Management Evaluation System, and Rail Management Information 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 partially compensated by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussions with responsible officials.

### **Prior Audit Coverage**

Since September 2002, the Office of Inspector General (OIG) has worked with Postal Service management to reduce surface transportation. In total, we have issued 16 audit reports on surface transportation that identified potential savings exceeding \$72.4 million over the life of the eliminated or reduced transportation contracts. For more detailed information about these audits see Appendix A.

## Audit Results

### Rail and Highway Service Consolidation

The Postal Service could save approximately \$1.3 million on existing highway contracts by reducing rail shipments from the Pacific Area to Atlanta and Jacksonville. (See Appendix B.) These savings represent potential funds that could be put to better use and we will report them as such in our Semiannual Report to Congress.



**Highway trailers loaded with mail staged for rail transportation at the Burlington Northern Santa Fe Rail Yard, Los Angeles, California, April 28, 2005.**

Postal Service policy requires transportation managers to balance service and cost. Our analysis showed that rail shipments could be reduced because excess space exists on already contracted highway routes. Consequently, managers could reduce rail shipments by placing mail in this 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 both Atlanta and Jacksonville. We examined Postal Service transportation records outlined in Appendix B 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 30316 from San Francisco to Atlanta generally move across the country with 32 to 70 percent cargo space available.
- Trips on highway contract route 32211 from San Francisco to Jacksonville generally move across the country with 16 to 50 percent cargo space available.

Consequently, we concluded that some mail currently shipped by rail from Los Angeles to the Southeast Area could be sent to San Francisco for transshipment, allowing the Postal Service to save money and still meet service standards.

### **Exit Conference and Subsequent Management Actions**

On May 11, 2005, we conducted a formal exit conference with Pacific Area and headquarters officials to discuss our audit findings. On June 14, 2005, Pacific Area officials told us that they had rerouted rail volume onto existing highway trips to Atlanta and Jacksonville to reduce rail traffic.

### **Recommendation**

We recommend the vice president, Pacific Area Operations:

1. Verify the rerouting of mail on existing highway trips to Atlanta, Georgia, and Jacksonville, Florida, in order to reduce rail traffic.

### **Management's Comments**

In his formal response to our draft report, the vice president, Pacific Area Operations stated that he had verified management actions and that effective June 14, 2005, management implemented our recommendation. The vice president also agreed that our projection of \$1.3 million in potential savings was accurate. The vice president's comments, in their entirety, are included in Appendix C of this report.

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

The vice president's comments were responsive to our recommendation. We examined and validated management's actions, and applaud management's rapid implementation of our recommendation.

The Office of Inspector General (OIG) considers recommendation 1 significant and closed because of management's timely action. Consequently, the Postal Service can close the recommendation in their follow-up tracking system.

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: William P. Galligan  
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**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 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	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
BMC Transportation Routes - Great Lakes Area	NL-AR-04-004	9/29/2004	96	7,660,533	49	7	40
BMC 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
BMC Transportation Routes - Southeast Area	NL-AR-05-005	3/18/2005	52	6,563,582	52	0	0
BMC Transportation Routes - New York Metro Area	NL-AR-05-007	6/09/2005	16	1,499,371	16	0	0
BMC Transportation Routes - Southwest Area	NL-AR-05-008	08/03/2005	79	7,175,912	76	0	3
BMC Transportation Routes - Capital Metro Area	NL-AR-05-007	09/02/2005	10	803,060	10	0	0
<b>Totals</b>	<b>16</b>		<b>1,203</b>	<b>\$72,425,755</b>	<b>727</b>	<b>329</b>	<b>147</b>

BMC – Bulk Mail Center

## APPENDIX B. COST SAVINGS CALCULATIONS

### Los Angeles to Atlanta Rail Transportation

Cost of 1 rail trip from Los Angeles to Atlanta	\$2,954
Less cost to ship mail from Los Angeles to San Francisco	<u>\$761</u>
Net cost of 1 rail trip from Los Angeles to Atlanta	\$2,193
 Average rail trip per week is 1.70	
x 52 weeks per year	89 trips per year
\$2193 x 89 x 4 years	<u><u>\$780,708</u></u>

### Los Angeles to Jacksonville Rail Transportation

Cost of 1 rail trip from Los Angeles to Jacksonville	\$3,461
Less cost to ship mail from Los Angeles to San Francisco	<u>\$761</u>
Net cost of 1 rail trip from Los Angeles to Jacksonville	\$2,700
 Average rail trips per week is 1.70	
x 52 weeks per year	89 trips per year
\$2700 x 89 x 2 years (remaining contract term)	<u><u>\$480,600</u></u>

### Total Savings Los Angeles to Atlanta and Los Angeles to Jacksonville

Los Angeles to Atlanta Rail Transportation	\$780,708
<u>Los Angeles to Jacksonville Rail Transportation</u>	<u>\$480,600</u>
<b>Total</b>	<u><u>\$1,261,308</u></u>

We calculated the average number of rail trips per week by comparing the actual rail shipments with available capacity on existing highway contract routes and calculating the average rail trips used over the 27-week period reviewed. During this analysis, we examined records from various Postal Service management systems, including:

- Rail records for a 27-week period from August 17, 2004, through February 13, 2005.
- Trailer load volume records for August and September 2004.
- Current highway contracts for trips from Los Angeles and San Francisco to the Southeast Area.

## APPENDIX C. MANAGEMENT'S COMMENTS

AL INIGUEZ  
VICE PRESIDENT AREA OPERATIONS  
PACIFIC AREA



August 23, 2005

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

SUBJECT: Draft Audit Report - Surface Networks - Intermodal Rail and Highway Transportation  
Between the Pacific and Southeast Areas (Report Number NL-AR-05-Draft)

We have reviewed the subject draft audit report and have verified that the Pacific Area Distribution Networks Office has procured inter-modal transportation that will reduce existing rail traffic. Effective June 14, 2005, we began moving overflow mail from the Los Angeles BMC to Jacksonville and Atlanta through the San Francisco BMC on existing surface transportation. However, we continue to ship by rail approximately two loads per week to Jacksonville, due to a large mailer in the Los Angeles area that has high volume to this destination.

The projected savings of \$1.3 million for the rest of the two rail contracts is accurate; however, the Pacific Area will still incur approximately \$311,000 per year on the Jacksonville contract to support the extra runs on rail each week for our Los Angeles mailer.

Thank you for working with us on this cost-saving initiative.

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

Al Iniguez

cc: William Galligan  
Paul Vogel  
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