



September 21, 2005

ALFRED INIGUEZ  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Highway  
Transportation Routes – Pacific Area (Report Number NL-AR-05-012)

This report presents results from our Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG013NL008). 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 Pacific Area.

The Postal Service could save about \$3.1 million over the term of existing Pacific Area bulk mail highway contracts by canceling, not renewing, or modifying 22 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, Pacific Area Operations: (1) verify the actual cancellation, modification, or substitution of the ten trips identified by Postal Service managers during our audit; (2) verify the actual cancellation, modification, or substitution of the ten trips with which Postal Service officials agreed; and (3) reassess the two trips managers feel are still necessary.

Management agreed with our findings and recommendations. They stated that all 20 trip reductions to which they had agreed, had already been made, or would be made by September 30, 2005. They also stated they would reassess the two remaining trips. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendations 1, 2, and 3 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 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  
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.

Highway transportation contractor departing the San Francisco Bulk Mail Center April 26, 2005.



This report focuses on the routes controlled by the Pacific 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 identify opportunities for cost savings.

Using Postal Service computer-generated data, we identified 694 trips operated under 84 Pacific 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 Pacific Area contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Pacific Area; reviewed relevant Postal Service policies and procedures; visited the area's bulk mail centers; contacted the Phoenix auxiliary service facility; 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 694 trips.

We conducted work associated with this report from April through September 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 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 17 audit reports that identified potential savings exceeding \$73.6 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 \$3.1 million over the term of existing Pacific Area bulk mail highway contracts by canceling, not renewing, or modifying 22 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, 55 percent of affected trips will expire within 1 year. The other 45 percent have 1 to 3 years remaining.

#### PROPOSED NON-RENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring within 1 year	55 percent	12	\$1,111,462
Contracts expiring in 1 to 3 years	<u>45 percent</u>	<u>10</u>	<u>\$2,012,100</u>
All terminated trips	100 percent	22	\$3,123,562

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 non-renewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$67,318.

### **Cooperative Effort**

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with Pacific Area officials throughout our audit. We provided the Pacific 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 our cooperative effort, the area agreed with the 20 proposals outlined in Appendices B and C, and agreed to reassess the 2 trips listed in Appendix D, which managers feel are still necessary.

**PROPOSED TRIP CANCELLATIONS AND MODIFICATIONS**

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	ESTIMATED SAVINGS
Postal Service identified trip cancellations or modifications during the audit	10	B	\$2,554,965
Proposals with which area officials agreed	10	C	\$525,129
Proposals with which managers disagreed	<u>2</u>	D	<u>\$43,468</u>
<b>Total</b>	<b>22</b>		<b>\$3,123,562</b>

<b>Recommendation</b>	<p>We recommended the vice president, Pacific Area Operations:</p> <ol style="list-style-type: none"> <li>1. Verify the actual cancellation, modification, or substitution of the ten trips identified during our audit by management.</li> </ol>
<b>Management's Comments</b>	<p>Management agreed with our recommendation and stated all trip reductions had already been implemented. Management noted a minor difference between the estimated savings and the actual savings achieved from implementation. They explained that actual savings included a reduction in anticipated cancellation fees. Management's comments, in their entirety, are included in Appendix E of this report.</p>
<b>Recommendation</b>	<ol style="list-style-type: none"> <li>2. Verify the actual cancellation, modification, or substitution of the ten trips with which Postal Service managers agreed and provide the dates action was taken.</li> </ol>

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<b>Management's Comments</b>	Management agreed with our recommendation and stated they were in the process of implementing the recommended changes. They estimated the changes would be complete by September 30, 2005. Management agreed with our estimated savings.
<b>Recommendation</b>	We recommended the vice president, Pacific Area Operations:  3. Reassess the two trips which Postal Service managers still feel are necessary, and cancel or modify the trips as indicated by the reassessment or document the reasons for retaining the trips.
<b>Management's Comments</b>	Management agreed with our recommendation and stated they would reassess the proposed trip eliminations.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to our findings and recommendations. Regarding management's response to recommendation 1, we consider the minor difference between the estimated and actual savings insignificant. With regard to management's comments in general, we consider management's actions, taken or planned, sufficient to address the recommendations we made in our report.

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## APPENDIX A. PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Trips with which Management Agreed	Trips with which Management Disagreed	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	6/9/2005	16	1,499,371	16	0	0
Bulk Mail Center Transportation Routes - Southwest Area	NL-AR-05-008	8/3/2005	79	7,175,912	76	0	3
Bulk Mail Center Transportation Routes - Capital Metro Area	NL-AR-05-009	9/2/2005	10	803,060	10	0	0
Intermodal Rail and Highway Transportation Between the Pacific and Southeast Areas	NL-AR-05-011	9/19/2005	0	1,261,308	0	0	0
<b>Totals</b>	<b>17</b>		<b>1,203</b>	<b>\$73,687,063</b>	<b>727</b>	<b>329</b>	<b>147</b>

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

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
7/1/2005	6/30/2006	90018	15 and 16	Eliminate roundtrip	Los Angeles BMC, CA to Phoenix P&DC, AZ and Return	\$ 762,021	\$ 1,524,042	\$0	\$ 1,524,042
7/1/2005	12/23/2005	90092	825 and 826	Eliminate roundtrip	Margaret Sellers P&DC, CA to Los Angeles BMC, CA and Return	\$ 64,704	\$ 258,815	\$0	\$ 258,815
7/1/2005	12/23/2005	90093	805 and 806; 823 and 824	Eliminate two roundtrips	Los Angeles BMC to San Bernardino P&DC and Return	\$ 147,560	\$ 590,241	\$0	\$ 590,241
11/27/2004	6/30/2006	94895	819 and 820	Eliminate roundtrip	San Jose P&DC, CA to San Francisco BMC, CA	\$ 45,467	\$ 181,868	\$0	\$ 181,868
	<b>TOTALS</b>		<b>10</b>			<b>\$ 1,019,752</b>	<b>\$ 2,554,965*</b>	<b>\$0</b>	<b>\$ 2,554,965*</b>

BMC Bulk Mail Center  
 P&DC Processing and Distribution Center  
 \*Minor rounding differences

**APPENDIX C**  
**TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH**  
**POSTAL SERVICE MANAGERS AGREED**

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
10/2/2004	6/30/2008	90096	801	Eliminate Monday, Tuesday, Thursday, and holiday trips	Los Angeles BMC, CA to Oxnard P&DF, CA	\$ 10,490	\$ 28,847	\$ 3,497	\$ 25,350
10/2/2004	6/30/2008	90096	802	Eliminate Monday, Tuesday, Thursday, and holiday trips	Oxnard P&DF, CA to Los Angeles BMC, CA	\$ 10,664	\$ 29,326	\$ 3,555	\$ 25,772*
10/2/2004	6/30/2006	90198	807	Eliminate Saturday, Sunday, and holiday trips	Los Angeles BMC, CA to Santa Clarita P&DC, CA	\$ 8,879	\$ 35,515	\$ 0	\$ 35,515
10/2/2004	6/30/2006	90198	808	Eliminate Saturday, Sunday, and holiday trips	Santa Clarita P&DC, CA to Los Angeles BMC, CA	\$ 8,879	\$ 35,515	\$ 0	\$ 35,515
7/1/2004	6/30/2008	94892	801	Eliminate Saturday trips	Salinas P&DF, CA to San Francisco BMC, CA	\$ 8,289	\$ 22,794	\$ 2,763	\$ 20,031
7/1/2004	6/30/2008	94892	802	Eliminate Saturday trips	San Francisco BMC, CA to Salinas P&DF, CA	\$ 8,296	\$ 22,815	\$ 2,765	\$ 20,050
1/22/2005	6/30/2008	94896	813	Eliminate trip	Oakland P&DC, CA to Marysville P&DF CA	\$ 73,395	\$ 201,836	\$ 24,465	\$ 177,371
1/22/2005	6/30/2008	94896	814	Eliminate trip	Marysville P&DF, CA to Oakland P&DC, CA	\$ 72,834	\$ 200,294	\$ 24,278	\$ 176,016

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
10/30/2004	6/30/2006	852L1	3	Eliminate holiday trips	Phoenix P&DC, AZ to Wickenburg, AZ	\$ 1,189	\$ 4,755	\$ 0	\$ 4,755
10/30/2004	6/30/2006	852L1	4	Eliminate holiday trips	Wickenburg, AZ to Phoenix P&DC, AZ	\$ 1,189	\$ 4,755	\$ 0	\$ 4,755
<b>TOTALS</b>			<b>10</b>			<b>\$ 204,103*</b>	<b>\$ 586,452</b>	<b>\$ 61,323*</b>	<b>\$ 525,129*</b>

BMC Bulk Mail Center  
 P&DF Processing and Distribution Facility  
 P&DC Processing and Distribution Center  
 \*Minor rounding differences

**APPENDIX D  
 TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH  
 POSTAL SERVICE MANAGERS DISAGREED**

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
12/25/2004	6/30/2008	85610	9	Eliminate Monday trips	Tucson P&DC to West Valley L&DC	\$ 8,993	\$ 24,732	\$ 2,998	\$ 21,734
12/25/2004	6/30/2008	85610	10	Eliminate Monday trips	West Valley L&DC to Tucson P&DC	\$ 8,993	\$ 24,732	\$ 2,998	\$ 21,734
<b>TOTALS</b>			<b>2</b>			<b>\$ 17,987*</b>	<b>\$ 49,463*</b>	<b>\$ 5,996</b>	<b>\$ 43,468</b>

P&DC Processing and Distribution Center  
 L&DC Logistics and Distribution Center  
 \*Minor rounding differences

## APPENDIX E. MANAGEMENT'S COMMENTS

AL INIGUEZ  
VICE PRESIDENT  
PACIFIC AREA



September 9, 2005

MARY W. DEMORY  
DEPUTY ASSISTANT INSPECTOR GENERAL  
CORE OPERATIONS

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

The Pacific Area agrees with the general findings and observations provided in the OIG audit of BMC highway transportation routes; however, we would like to provide some clarification and context to the estimated savings, a status of each of the 20 agreed upon recommendations and our commitment to reassess the elimination of the Monday frequency on 85610, Trips 9/10 that Phoenix feels are necessary.

### **Appendix B - Trips Identified by Postal Service Managers During OIG Audit:**

Appendix B includes ten (10) round trips that were identified by the Postal Service for elimination. The OIG estimated the savings from the elimination of these 10 round trips in dollars saved over the remaining term of the contract estimated to be \$2,554,965. The estimated annual savings were estimated to be \$1,019,752. All of these recommendations were implemented with a net annual savings of \$984,444.36 that includes a reduction for Indemnity charges of \$20,220.33.

### **Appendix C - Trips Identified by Postal Service Managers During OIG Audit:**

Appendix C includes ten (10) trips that the OIG identified for elimination during their audit that are estimated at \$525,129, including Indemnity costs over the remaining highway contract term for an annualized savings of \$204,103. We are currently in the process of implementing the recommended changes as provided in Appendix B spreadsheet with an estimated completion date of September 30, 2005 and believe that the estimated annual savings should be very close to the OIG estimate.

### **Appendix D - Trips Identified by During OIG Audit With Which USPS Mgt. Disagreed:**

You have our commitment that we will revisit the proposed elimination of the Monday frequency on 85610, Trips 9/10 from Tucson to the West Valley L&DC with the Phoenix and Tucson transportation managers.

Please direct any questions or concerns to Jill Navarrette, Transportation Budget & Financial Analyst for the Pacific Area Distribution Networks office at 510-292-2426.

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

Al Iniguez

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