



September 26, 2005

MEGAN J. BRENNAN
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Highway
Transportation Routes – Northeast Area (Report Number NL-AR-05-013)

This report presents results from our Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG013NL009). 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 Northeast Area.

The Postal Service could save about \$2.5 million over the term of existing Northeast Area bulk mail highway contracts by canceling, not renewing, or modifying 41 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, Northeast Area Operations: (1) verify the actual cancellation, modification, or substitution of the 26 trips identified by Postal Service managers during our audit; and (2) verify the actual cancellation, modification, or substitution of the 15 trips with which Postal Service officials agreed.

Management agreed they would terminate, modify, or substitute for 37 trips, but cited operational requirements and changed their position regarding four trips they previously agreed to eliminate. They explained that the estimated cost savings would only be a small offset against the need to maintain service standards. We understand the transportation network is dynamic and requirements continually change. We continue to believe the four proposals with which management now disagrees provide the potential for elimination without jeopardizing service or operational flexibility. Management agreed to provide documentation as to why they now believe the four trips are needed, and we have agreed to review that documentation and resolve any differences as part of our normal process for closing significant recommendations. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector (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
Paul E. Vogel
Anthony M. Pajunas
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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 transportation contractor departing the Springfield, Massachusetts, Bulk Mail Center September 14, 2004.



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

Using Postal Service computer-generated data, we identified 833 trips operated under 91 Northeast 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 Northeast Area contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Northeast

Area; reviewed relevant Postal Service policies and procedures; visited the area's bulk mail center; 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 833 trips.

We conducted work associated with this report from August 2004 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 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.

Prior Audit Coverage

Since September 2002, the Office of Inspector General (OIG) has worked with the Postal Service to reduce surface transportation. As a result, we have issued 18 audit reports that identified potential savings exceeding \$76.8 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 \$2.5 million over the term of existing Northeast Area bulk mail highway contracts by canceling, not renewing, or modifying 41 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, 61 percent of affected trips expired on June 30, 2005. The other 39 percent have 1 to 3 years remaining.

PROPOSED NONRENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts that expired on June 30, 2005	61 percent	25	\$2,046,396
Contracts expiring in 1 to 3 years	<u>39 percent</u>	<u>16</u>	<u>\$ 444,737</u>
All terminated trips	100 percent	41	\$2,491,133

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 has attained savings by not renewing unnecessary trips that expired June 30, 2005, and can achieve additional savings through further service reductions by canceling unnecessary trips that are currently contracted to continue for one to three years. The savings identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$88,148.

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 Northeast Area officials throughout our audit. We provided the Northeast 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 ultimately agreed

with all the proposals outlined in Appendix B and most of the proposals outlined in Appendix C.

PROPOSED TRIP CANCELLATIONS AND MODIFICATIONS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	ESTIMATED SAVINGS
Postal Service identified trip cancellations or modifications during the audit	26	B	\$2,076,679
Proposals with which area officials agreed	<u>15</u>	C	<u>\$ 414,454</u>
Total	41		\$ 2,491,133

During our audit, the Northeast Area made significant changes to their network and identified substantial opportunities for cost savings as reflected in Appendix B. We recognize the proactive actions taken by the Northeast Area and appreciate their cooperation, insight, and trip modifications. Further, we applaud the area’s quick responsiveness in implementing Postal Service-identified and OIG-recommended trip proposals.

Recommendation	<p>We recommend the vice president, Northeast Area Operations:</p> <ol style="list-style-type: none"> 1. Verify the actual cancellation, modification, or substitution of the 26 trips management identified during our audit.
Management’s Comments	<p>Management agreed with our recommendation and stated all trip reductions had already been implemented. Management noted that actual cost savings may differ from estimated cost savings due to negotiations and fixed costs. Management’s comments, in their entirety, are included in Appendix D of this report.</p>
Recommendation	<p>We recommend the vice president, Northeast Area Operations:</p> <ol style="list-style-type: none"> 2. Verify the actual cancellation, modification, or substitution of the 15 trips with which Postal Service managers agreed and provide the dates action was taken.

Management's Comments	Management concurred with the intent of our recommendation. However, management cited operational requirements and modified their position on four trips they previously agreed to eliminate. They explained that the estimated cost savings would only be a small offset against the need to maintain service standards.
Evaluation of Management's Comments	Management's comments are generally responsive to our recommendations. We understand the transportation network is dynamic and requirements continually change. We continue to believe the four proposals with which management now disagrees provide the potential for elimination without jeopardizing service or operational flexibility. Management has agreed to provide documentation as to why they now believe the four trips are needed, and we have agreed to review that documentation and resolve any differences as part of our normal process for closing significant recommendations.

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
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	NL-AR-05-007	6/9/2005	16	1,499,371	16	0	0
BMC Transportation Routes - Southwest Area	NL-AR-05-008	8/3/2005	79	7,175,912	76	0	3
BMC 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
BMC Transportation Routes – Pacific Area	NL-AR-05-012	9/21/2005	22	3,123,562	10	2	10
Totals	18		1,225	\$76,810,625	737	331	157

BMC – Bulk Mail Center

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
4/20/2004	6/30/2006	010AM	1-12	Cancel contract	Springfield BMC, MA to Philadelphia, PA Amtrak ramp and return	\$129,119	\$516,476	\$0	\$516,476
4/30/2004	6/30/2007	02190	Contract-level change	Change of frequency, mileage, stops	Boston P&DC, MA to Springfield BMC, MA and return	\$ 6,408	\$12,816	\$2,136	\$10,680
7/10/2004	6/30/2007	02390	801-802	Eliminate round trip	Brockton P&DC, MA to Springfield BMC, MA and return	\$55,158	\$110,316	\$18,386	\$91,930
1/27/2004	6/30/2005	06490	Contract-level change	Reduce trailers, miles, and hours	So. CT P&DC to Springfield BMC, MA and return	\$188,872	\$755,489	\$0	\$755,489
1/27/2004	6/30/2005	06490	607-610, 613-614, 624, 627	Eliminate round trip	So. CT P&DC to Springfield PMPC, MA and return	\$153,823	\$615,293	\$0	\$615,293
1/16/2004	6/30/2005	14021	803	Eliminate Sunday trips	Buffalo P&DC, NY to Syracuse P&DC, NY	\$10,459	\$41,834	\$0	\$41,834

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

NL-AR-05-013

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
1/16/2004	6/30/2005	14021	804	Eliminate Sunday trips	Syracuse P&DC, NY to Buffalo P&DC, NY	\$11,244	\$44,977	\$0	\$44,977
TOTALS			26			\$555,083	\$2,097,201	\$20,522	\$2,076,679

All trips presented in this appendix were initiated by the Postal Service after the Northeast Area was notified of our audit in June 2004.

We could not apply the OIG calculation methodology to several contracts above (010AM, 02190, 02390, and 06490) because of the type and number of changes involved. As a result, we obtained the annual budget cost from contracting service change documents furnished by the Northeast Area.

- BMC – Bulk Mail Center
- P&DC – Processing and Distribution Center
- PMPC – Priority Mail Processing Center

**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
6/11/2004	6/30/2007	01095	805	Eliminate Thanksgiving, Memorial Day, and July 4	Springfield BMC, MA to Plattsburgh P&DC, MA	\$1,001	\$2,002	\$0	\$2,002
6/11/2004	6/30/2007	01095	806	Eliminate Thanksgiving, Memorial Day, and July 4	Plattsburgh P&DC, MA to Springfield BMC, MA	\$999	\$1,998	\$0	\$1,998
12/27/2003	6/30/2007	01590	806	Eliminate stops at P&DC	Springfield BMC, MA to Central Mass P&DC	\$3,740	\$7,480	\$1,247	\$6,234*
5/15/2004	6/30/2007	01891	817	Eliminate trip	Middlesex Essex P&DC, MA to Springfield BMC, MA	\$40,891	\$81,781	\$13,630	\$68,151
5/15/2004	6/30/2007	01891	818	Eliminate trip	Springfield BMC, MA to Middlesex Essex P&DC, MA	\$40,126	\$80,253	\$13,375	\$66,877
5/15/2004	6/30/2007	01891	809	Eliminate trip	Middlesex Essex P&DC, MA to Springfield BMC, MA	\$41,459	\$82,918	\$13,820	\$69,099*

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

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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
5/15/2004	6/30/2007	01891	810	Eliminate trip	Springfield BMC, MA to Middlesex Essex P&DC, MA	\$33,231	\$66,461	\$11,077	\$55,384
7/10/2004	6/30/2007	02390	817	Eliminate trip	Brockton P&DC, MA to Springfield BMC, MA	\$6,560	\$13,119	\$2,187	\$10,933*
7/10/2004	6/30/2007	02390	818	Eliminate trip	Springfield BMC, MA to Brockton P&DC, MA	\$6,560	\$13,119	\$2,187	\$10,933*
1/1/2004	6/30/2007	028U0	1	Eliminate Sunday trips	Taunton (Chadwicks), MA to Springfield BMC, MA	\$6,705	\$13,409	\$2,235	\$11,174
1/1/2004	6/30/2007	028U0	2	Eliminate Sunday trips	Springfield BMC, MA to Taunton (Chadwicks), MA	\$6,771	\$13,542	\$2,257	\$11,285
1/25/2004	6/30/2005	03090	803	Eliminate Saturday trips	Manchester, NH to Springfield BMC, MA	\$9,041	\$36,163	\$0	\$36,163
1/25/2004	6/30/2005	03090	804	Eliminate Saturday trips	Springfield BMC, MA to Manchester, NH	\$9,041	\$36,163	\$0	\$36,163
4/17/2004	6/30/2007	14042	23	Eliminate trip	Buffalo P&DC, NY to Sanborn, NY	\$8,417	\$16,835	\$2,806	\$14,029
4/17/2004	6/30/2007	14042	24	Eliminate trip	Sanborn, NY to Buffalo P&DC, NY	\$8,417	\$16,835	\$2,806	\$14,029
TOTALS			15			\$222,958*	\$482,080*	\$67,626*	\$414,454

We could not apply the OIG calculation methodology to 01590 above because of the type of change involved. As a result, we obtained the annual budget cost from contracting service change documents furnished by the Northeast Area.

BMC – Bulk Mail Center
P&DC – Processing and Distribution Center

* Minor rounding differences

APPENDIX D. MANAGEMENT'S COMMENTS

MEGAN J. BRENNAN
VICE PRESIDENT, NORTHEAST AREA OPERATIONS



September 14, 2005

Ms. Kim H. Stroud
USPS Director, Audit Reporting
Office of Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Audit Reporting – BMC Surface Transportation, Northeast Area

Dear Ms. Stroud:

This is in response to your letter dated August 30, 2005, referencing the Springfield BMC Highway Transportation Review and Audit, Project Number: 04YG013NL009.

The Northeast Area concurs with the overall findings to modify, cancel, or not renew 37 trips. The four trips we disagree with are listed on Appendix C: HCR 01891, Trips 809/810, and 817/818, eliminating round trip service. Our records indicate that Trip 817 is averaging over 50% and Trip 809 has been averaging 76%. These routes could not absorb this volume within existing service if the trips were eliminated. Further, retention of the aforementioned routes only reduces the original cost savings of \$2.5M by approximately \$146K. This would be a small offset for maintaining service levels. The rest of the reductions noted on Appendix B & C have been accomplished and copies of service orders have been forwarded to your office.

The actual cost reduction may differ from your estimated cost savings due to negotiations with the contractor and the need to keep some of the "fixed" costs that were not necessarily reduced because of the changes.

We appreciate the Review Team's cooperation during this review and their cost savings recommendations to improve service and cost in the Northeast Area.

Sincerely,


for Megan J. Brennan

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