



March 10, 2006

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Surface Networks – Intermodal Rail and Highway
Transportation Between the Great Lakes and Western Areas
(Report Number NL-AR-06-002)

This report is one in a series of reports that presents results from our nationwide audit of bulk mail center (BMC) surface transportation routes (Project Number 04YG013NL011). Our objectives were to evaluate the effectiveness of BMC routes and identify opportunities for cost savings. The audit responded to a request from the vice president, Network Operations Management. This report focuses on rail and highway routes between the Great Lakes and Western Areas.

The U.S. Postal Service currently uses rail and highway transportation to move mail from the Chicago BMC to the Minneapolis and Seattle BMCs. The Postal Service pays for rail transportation only when it is actually used, but pays for contracted and scheduled highway transportation whether it is used or not. The principal highway contract route (HCR) from Chicago to Seattle generally moves across country with 75 percent of its cargo space available and has the capacity to assume additional volume. Our analysis concluded the Postal Service could save approximately \$1.9 million over the term of affected highway contracts by modifying those highway contracts and transporting some mail currently moved by rail in excess space on scheduled highway transportation. The savings represent potential funds that could be put to better use and will be reported as such in our *Semiannual Report to Congress*. We recommended that the Western and Great Lakes Areas make the appropriate highway contract modifications and reduce rail traffic accordingly.

Management agreed with our recommendations. They stated that the necessary highway contract modifications and resulting reduction of rail traffic have already been made or would be made by June 30, 2006. Management's comments and our evaluation of these comments are included in this report.

The U.S. Postal Service 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 the audit. If you have any questions or need additional information, please contact Joe Oliva, director, Transportation, or me at (703) 248-2300.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!
Colleen McAntee

Colleen McAntee
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

Background

This report is one in a series of reports from our nationwide audit of bulk mail center (BMC) surface transportation routes. It focuses on rail and highway transportation from the Great Lakes Area to the Western Area. The vice president, Network Operations Management, requested the BMC transportation route audit. During work in the Western Area, area transportation officials requested our assistance in evaluating rail transport between Minneapolis and Seattle and in identifying opportunities to save money. This report responds to that specific request.

Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or online retail companies. A system of 21 BMCs and other facilities nationwide process it. Bulk mail is less time-sensitive than other mail such as First-Class or expedited mail. As a result, transportation managers move bulk mail over long distances on surface routes, rather than on faster, but more costly air networks. The U.S. Postal Service spends more than \$500 million annually on bulk mail surface transportation routes. Individual Postal Service areas control most of those routes.

Train with highway trailers “piggy-backed” onto “intermodal” rail flat-cars, departing the Burlington Northern Santa Fe Rail Yard, Minneapolis, Minnesota, February 15, 2006.



The Postal Service pays for rail transportation only when it is actually used but pays for scheduled highway contract routes (HCRs) whether they are used or not. In previous surface transportation audit reports (see Appendix A), we

identified opportunities to save money by reducing the amount of mail moved by rail and using excess capacity on scheduled HCRs.

**Objectives, Scope,
and Methodology**

The objective of this report is to identify potential savings the Postal Service could achieve by reducing the amount of mail moved by rail from Minneapolis to Seattle and transporting that mail in excess space on already contracted and scheduled highway transportation.

Containers being lifted
onto a flat-car for rail
transportation.

Burlington Northern
Santa Fe Rail Yard
Minneapolis, Minnesota,
February 15, 2006.



During our work, we interviewed officials at headquarters and in the Great Lakes and Western Areas; reviewed relevant Postal Service policies and procedures; visited the Minneapolis and Seattle BMCs; interviewed transportation managers and employees; and observed and photographed operations. We also analyzed rail transportation to the Western Area, including 359 rail trips from Minneapolis to Seattle and considered alternate highway transportation. We coordinated with Great Lakes Area, Western Area, and headquarters officials; consulted with financial analysts, computer analysts, and other subject matter experts; evaluated mail volume and the type of mail carried; and considered “on-time” service standards.

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.

We conducted work associated with this report from October 2005 through March 2006, in accordance with generally accepted government auditing standards and included tests of internal controls we considered necessary under the circumstances.

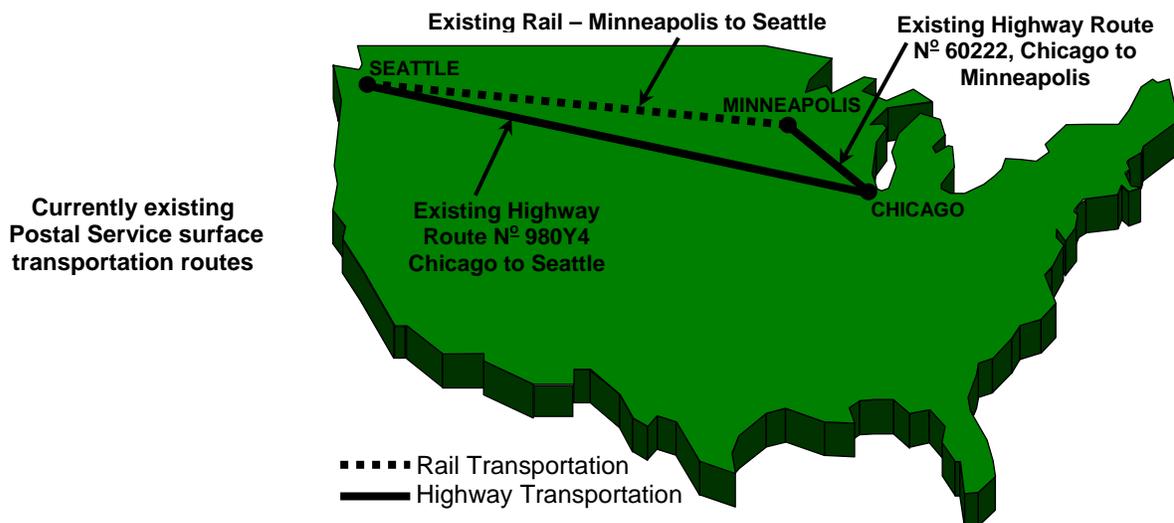
Prior Audit Coverage

Since September 2002, the U.S. Postal Service Office of Inspector General has worked with the Postal Service to reduce surface transportation and related costs. As a result, we have issued 20 audit reports that identified potential savings exceeding \$81.5 million over the life of eliminated or reduced transportation contracts. For more detailed information, see Appendix A.

AUDIT RESULTS

Rail and Highway Transportation Consolidation

As illustrated by the map below, the Postal Service currently uses rail and highway to move mail from the Chicago BMC to the Minneapolis and Seattle BMCs. However, HCR



980Y4 generally moves from Chicago to Seattle with 75 percent of its cargo space available and has the capacity to assume additional mail volume. Our analysis concluded that the Postal Service could save about \$1.9 million dollars over the term of existing highway contracts by rerouting HCR 980Y4 with a service stop in Minneapolis, then eliminating 286 rail trips per year from Minneapolis to Seattle, and eliminating twelve scheduled HCR 60222 trips per week from Chicago to Minneapolis. The savings could be achieved as illustrated in the chart below. For additional details see Appendix B.

PROPOSED TRIP ELIMINATIONS AND MODIFICATIONS

SERVICE REDUCTIONS	ESTIMATED SAVINGS
Minneapolis to Seattle rail service.	\$1,241,097
Chicago to Minneapolis highway service.	\$ 701,744
Total	\$1,942,841

Although some rail trips and HCR 60222 trips would still be necessary, the operational changes could save money because with 75 percent capacity available, HCR 980Y4 has the space needed to absorb mail volume from both.

Cooperative Effort	As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with Western and Great Lakes Area officials throughout our audit. As a result of our cooperative effort, the areas agreed with our proposal and cost savings.
Recommendation	We recommend the vice president, Western Area Operations: 1. Verify the rerouting of highway contract route 980Y4 from Chicago to Seattle to add a service stop at the Minneapolis Bulk Mail Center, and reduce rail traffic accordingly.
Management's Comments	Western Area management agreed with our finding and recommendation. The Western Area stated they had already implemented all recommended changes. Management's comments, in their entirety, are included in Appendix C of this report.
Recommendation	We recommend the vice president, Great Lakes Area Operations: 2. Verify the actual modification of Highway Contract Route 60222 to reduce scheduled trips as appropriate.
Management's Comments	Great Lakes Area management agreed with our finding and recommendation. They stated they will implement the recommended highway contract change at the renewal of the highway contract on June 30, 2006. y
Evaluation of Management's Comments	Management's comments are responsive to our findings and recommendations. We commend the quick actions taken by the Western and Great Lakes Areas. We consider management's actions, taken or planned, sufficient to address the findings and recommendations we made in our report.

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
BMC Transportation Routes – Northeast Area	NL-AR-05-013	9/26/2005	41	2,491,133	15	0	26
BMC Transportation Routes – Western Area	NL-AR-06-001	2/14/2006	77	2,235,812	50	2	25
Totals	20		1,343	\$81,537,570	802	333	208

BMC – Bulk Mail Center

APPENDIX B

RAIL AND HIGHWAY CONTRACT TRIP SAVINGS IDENTIFIED DURING AUDIT WORK WITH WHICH POSTAL SERVICE MANAGERS AGREED

Minneapolis to Seattle Rail Transportation

Cost of 1 rail move from Minneapolis to Seattle	\$1,578
Number of trip reductions per year	<u>X 286</u>
Estimated yearly savings	\$451,308
Divide by number of months per year	<u>/ 12</u>
Estimated savings per month	\$37,609
Remaining contract term for HCR 980Y4 in months	<u>x 33</u>
Estimated contract term savings	\$1,241,097

We calculated rail savings by comparing the annual rail shipments with the available capacity on existing HCRs. During this analysis, we examined records from various Postal Service management systems, including:

- Rail records for the 52-week period from October 1, 2004, through September 30, 2005.
- Trailer load volume for October 1, 2004, to September 30, 2005 (FY 2005).
- Current highway contracts for trips from Seattle to Minneapolis in the Western Area and Chicago to Minneapolis in the Great Lakes Area.

APPENDIX B

**RAIL AND HIGHWAY CONTRACT TRIP SAVINGS IDENTIFIED DURING AUDIT WORK
 WITH WHICH POSTAL SERVICE MANAGERS AGREED**

HIGHWAY SAVINGS

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
06/11/2005	06/30/2006	60222	903	Trip Elimination	Chicago 2C Metro Facility, IL to Minneapolis BMC, MN	\$174,612	\$349,224	\$0	\$349,224
06/11/2005	06/30/2006	60222	904	Trip Elimination	Minneapolis BMC, MN to Chicago 2C Metro Facility, IL	\$176,260	\$352,520	\$0	\$352,520
						\$350,872	\$701,744	\$0	\$701,744

APPENDIX C. MANAGEMENT'S COMMENTS

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS



February 8, 2006

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

SUBJECT: Audit Report Number NL-AR-06-DRAFT

Enclosed are Western Area comments relative to Report Number NL-AR-06-DRAFT, Transmittal of Draft Audit Report – Surface Networks – Intermodal Rail and Highway Transportation Between the Great Lakes and Western Area.

Recommendations:

Western Area is in agreement to Recommendation 1. We have verified the rerouting of HCR 980Y4 from the Chicago Bulk Mail Center to the Seattle Bulk Mail Center with an added stop at the Minneapolis/St. Paul Bulk Mail Center. Rail traffic from the Minneapolis/St. Paul Bulk Mail Center will be reduced accordingly.

Western Area agrees with the identified savings based on the dollar calculations provided.

Western Area has implemented the rail to highway conversion effective January 07, 2006.

Additional Comments:

Western Area must state that HCR 980Y4 has agreed to the current supplier's request for release from service effective 04/13/06. The change in suppliers could reflect a different rate; therefore, savings identified in the draft could be increased or reduced significantly.

The actual reduction in the number of rail trips during AP 04, 2006, has been an 83% reduction. This is very close to the estimated reduction of 76%.

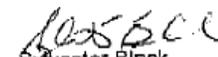
HCR 980Y4 is utilized for moves between Spokane P&DC and Billings P&DC as a Dispatch Of Value for 2-Day Surface First-Class and Priority movement. Schedule flexibility must meet Clearance Times and Critical Entrance Times in those facilities.

Western Area will realize more effective service between the Minneapolis/St. Paul Bulk Mail Center and the Seattle Bulk Mail Center due to the reduction in transit time required for rail versus highway transportation.

These additional comments afford the Western Area the opportunity to identify savings in service as well as monetary and express thanks to the Office of Inspector General in assisting in the capturing of said savings.

Documents enclosed include the NTMS Line Haul Costs, HCR 980Y4 Contract Activity Log, and HCR 980Y4 Statement of Work.

Questions may be directed to Fred Elliott, Traffic Management Specialist, at (253) 874-7306.


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JO ANN FEINDT
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February 21, 2006

Kim H. Stroud, Director
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SUBJECT: Response to Preliminary Audit Findings and Follow-up

Enclosed are Great Lakes Area comments relative to Report Number NL-AR-06-DRAFT, Transmittal of Draft Audit Report – Surface Networks - Intermodal Rail and Highway Transportation between the Great Lakes and Western Areas.

Recommendation:

Great Lakes Area is in agreement to Recommendation #2. We have verified that the elimination of HCR 60222 trip 903/904 on June 30, 2006 will be possible with the adjustments to the Western Area HCR 980Y4 trip 802 as proposed in your recommendation 1 for the Western Area.

Great Lakes Area agrees with the identified annualized savings of \$350,872, as you provided in your calculations.

Great Lakes Area will implement the proposed change to HCR 60222 on June 30, 2006 as agreed to in your draft proposal.

Questions may be directed to Networks Operations Analyst Ray Moreland at 630-539-4756.



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