



March 30, 2007

TERRY WILSON
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Postal Vehicle Service Transportation Routes – Memphis Processing and Distribution Center (Report Number NL-AR-07-003)

The U.S. Postal Service network transportation involves contracted transportation and transportation using Postal Service vehicles and employees. Network transportation using Postal Service vehicles and employees is called postal vehicle service (PVS).

This report presents the results of our audit of PVS routes controlled by the Memphis Processing and Distribution Center (Project Number 06XG019NL000). Our objectives were to evaluate the effectiveness of PVS operations and identify opportunities to save money. This report, the first in a series, responds to a request from the Vice President, Network Operations, to audit PVS operations nationwide.

The Memphis P&DC could improve PVS effectiveness and save more than \$7.3 million over 10 years if officials remove 18,874 excess hours from existing PVS schedules. Officials could eliminate hours without negatively affecting service because schedules contain: (1) unassigned time where drivers were not needed for a specific trip or related activity, (2) duplicate trips, and (3) trips that were unproductive because they were not full and their loads could be consolidated.

The Postal Service transportation network is dynamic and requirements constantly change. Accordingly, throughout our audit we coordinated with local transportation managers and proposed schedule realignments to them. The managers then reviewed each proposal in conjunction with their own assessment of operational requirements and we discussed any differences. As a result of our discussions, the officials agreed to remove 13,963 excess hours from PVS schedules; however, they considered 4,911 hours we recommended for reduction as still needed to meet on-time performance standards. Agreement on the 13,963 hours reflects a high level of cooperation between local transportation managers and U.S. Postal Service Office of Inspector General (OIG) auditors. Nonetheless, we continue to believe the remaining 4,911 hours could produce savings without jeopardizing on-time performance. We recommended the Vice President, Southeast Area Operations (1) verify the elimination of the 13,963 hours that Postal Service managers agreed to remove from trip schedules, and (2) reassess

the 4,911 hours which Postal Service managers still feel are necessary. We will report \$7,344,820 in funds put to better use in our Semiannual Report to Congress.

Management agreed with our recommendations. They stated that changes associated with the 13,963 hours identified in recommendation 1 had been implemented as of January 6, 2007, that they were reassessing the 4,911 hours identified in recommendation 2, and that they would report the results of the reassessment when it was completed. Management's comments and our evaluation of these comments are included in the report.

The OIG considers all the recommendations 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 the audit. If you have any questions or need additional information, please contact Joe Oliva, Director, Transportation, or me at (703) 248-2100.

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

Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
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INTRODUCTION

Background

U.S. Postal Service transportation includes both nationwide “network” transportation between cities and major facilities and “delivery” transportation between local post offices and neighborhood delivery or pick-up points.

Network transportation costs the Postal Service \$8.1 billion every year and is the fastest growing cost segment in the Postal Service’s annual operating budget. Network transportation includes two categories — contracted transportation and transportation using Postal Service vehicles and employees. As shown below, contracted transportation — which includes approximately 17,000 highway contract routes (HCRs) — is by far the largest category.

Network Transportation		
Category	Percentage	Annual Cost
Contracted transportation	88	\$7.1 billion
Transportation with Postal Service vehicles and employees	<u>12</u>	<u>1.0 billion</u>
Total	100	\$8.1 billion

Transportation using Postal Service vehicles and employees is called postal vehicle service (PVS). The

Early 20th Century
Post Office Department
vehicles and uniformed
personnel.



Post Office began using owned and operated vehicles in October 1914 to avoid a monopoly threat posed by New York City horse-drawn screen wagon contractors. Since

then, transportation managers have been required to weigh the risks and benefits of “contracted” transportation against the risks and benefits of “in-house” transportation. That analysis includes balancing operational flexibility with cost. Transportation managers explain PVS transportation

Mail transportation in an early 20th Century horse-drawn screen wagon.



provides flexibility for irregular schedules and short distance trips, but personnel and capital costs make it more expensive. They also explain contracted transportation is less costly, but because contract changes can take 30 to 45 days or more, contracting is less flexible to meet short distance rapidly changing customer service requirements.



PVS cargo van transporting mail from a mail processing facility to the historic Memphis Post Office, February 12, 2007.



Postal Service highway contractor hauling mail on Interstate 40 between Memphis and Nashville, Tennessee, March 19, 2005.

PVS is capital and personnel intensive. PVS capital assets include 1,900 cargo vans, 2,200 tractors, and 4,700 trailers. These vehicles are serviced and repaired at 322 Postal Service vehicle maintenance facilities (VMFs) or annexes and local commercial garages nationwide.

PVS currently involves about 10,000 employees including 8,500 uniformed drivers, 620 administrative support personnel, and 930 managers. PVS drivers and support personnel are represented by the American Postal Workers Union (APWU). APWU and Postal Service agreements restrict PVS over-the-road routes to 350 miles round trip and 8 hours operating time.

PVS capital assets include 1,900 cargo vans, 2,200 tractors, and 4,700 trailers.

PVS tractors, trailers, and cargo vans are serviced at a nationwide network of 322 VMFs, as well as in local commercial garages.

Here a cargo van arrives at the Memphis VMF, February 12, 2007.



PVS vehicles and personnel are typically assigned to Postal Service network facilities such as bulk mail centers (BMCs) or processing and distribution centers (P&DCs). These facilities are located in or near metropolitan areas.

PVS operations are normally conducted in urban and suburban areas within 50 miles of the base facility.

Operations can include:

- Yard operations defined as the movement of trailers and equipment in or around a facility yard.
- Transportation to and from major commercial business mailers.
- Transportation to and from other facilities or post offices.

PVS drivers log about 150 million miles every year. There are about 300 processing facilities in the Postal Service network. Only 150 conduct PVS operations. Because PVS operations are localized, they are managed at the facility level under guidance and policy provided by district, area, and headquarters transportation officials.

The Vice President, Network Operations, requested that we audit PVS operations nationwide. Because individual facilities control PVS operations, our audit approach is localized. This report — the first in a series — focuses on PVS operations at the Memphis P&DC in the Postal Service Southeast Area.

**Objectives, Scope,
and Methodology**

The objectives of our audit were to evaluate the effectiveness of PVS operations and identify opportunities to save money.

PVS includes yard operations, network transportation between cities or major Postal Service facilities, and customer service for major commercial business mailers.

The tractor in the picture is called a “spotter” and is used for “yard” operations to move trailers in and around a facility yard. The Postal Service owns 382 spotters.

Jet Cove processing facility, Memphis, Tennessee, June 28, 2006.



Using Postal Service computer-generated data and other records, we examined all 165 Memphis P&DC driver schedules and identified 141,301 workhours associated with those schedules. We also evaluated load volume. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, some computer records had missing data and inaccurate load volumes. Even though data limitations and other restrictions constrained our work, we were able to compensate by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussions with appropriate officials.

During our work, we visited the Memphis P&DC, other regional facilities, and local post offices. We reviewed relevant Postal Service policies and procedures, interviewed managers and employees, and observed and photographed operations. We evaluated the type of mail carried, considered on-time service standards, visited major commercial business mailers, and considered Southeast Area initiatives to improve customer service. We examined the cost of PVS operations, including the cost of PVS personnel, fuel, and equipment, and considered potential contracting alternatives. We also identified PVS trip duplications and analyzed potential trip consolidations.

We conducted work associated with this report from April 2006 through March 2007 in accordance with generally accepted government auditing standards and included such

PVS provides direct service to major Postal Service customers.

Here a PVS tractor-trailer is making a mail pick-up at a major customer in Memphis, Tennessee, on February 12, 2007.



tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials throughout our audit and included their comments where appropriate.

Prior Audit Coverage

Since September 2002, the U.S. Postal Service Office of Inspector General (OIG) has worked with the Postal Service to reduce highway and rail transportation cost. As a result, we have issued 31 audit reports that identified potential savings exceeding \$101.5 million. For more detailed information about these reports, see Appendix A.

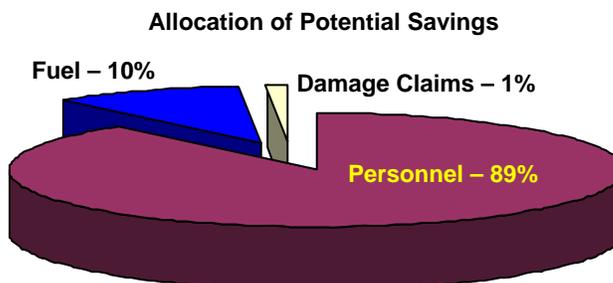
AUDIT RESULTS

Postal Vehicle Service Excess Hours

Our examination of annual PVS workhours identified 18,874 unnecessary hours. The Memphis P&DC could improve PVS effectiveness and save more than \$7.3 million over 10 years if officials remove the unnecessary hours from existing PVS schedules. Officials could eliminate the hours without negatively affecting service because schedules contain:

- Unassigned time where drivers are not needed for a specific trip or related activity.
- Duplicate trips.
- Unproductive trips where the loads are not full or could be consolidated.

Most potential savings (89 percent) would be achieved through personnel workhour reductions. However, the Postal Service would also realize a reduction in fuel costs and damage claims, as indicated below. For more detailed information, see Appendices B and C.



Cost Category	Percentage	Potential Savings
Personnel	89	\$6,570,000
Fuel	10	720,000
Damage Claims	1	55,000
Total	100	\$7,345,000

The Postal Service transportation network is dynamic and requirements constantly change. As we discussed in the objectives, scope, and methodology section of our report, Postal Service data has certain limitations. Accordingly, throughout our audit we coordinated with local transportation managers and proposed schedule realignments to them. The managers then reviewed each

proposal in conjunction with their own assessment of operational requirements and we discussed any differences. As a result of our discussions, the officials agreed to remove 13,963 excess hours from PVS schedules; however, they considered 4,911 hours we recommended for reduction as still needed to meet on-time performance standards.

Proposed Consolidations, Workhour Reductions, and Potential Savings

Category	Workhours	Appendix	Savings
Workhours management agreed to eliminate.	13,963	B	\$5,331,000
Workhours management feels are still needed.	<u>4,911</u>	C	<u>2,013,000</u>
Total	18,874		\$7,344,000

Agreement on the 13,963 hours reflects a high level of cooperation between the local transportation managers and the OIG auditors. Nonetheless, we continue to believe the remaining 4,911 hours could produce savings without jeopardizing on-time performance.

Implementation and Audit Exit Conference	During the week of February 12, 2007, we met with the Vice President, Network Operations; the Vice President, Southeast Area Operations; Southeast Area transportation officials; and officials from the Memphis P&DC. The officials agreed with our report and recommendations. Southeast Area and Memphis P&DC officials explained they had already begun to eliminate the hours they agreed were unnecessary and would reassess the hours they felt might still be necessary.
Recommendation	We recommend the Vice President, Southeast Area Operations: <ol style="list-style-type: none"> 1. Verify elimination of the 13,963 hours that Postal Service managers agreed to remove from trip schedules.
Management's Comments	Management agreed with our finding and recommendation. They stated that they were in agreement with the 13,963 hours identified in recommendation 1 and that all changes associated with those hours had been implemented as of January 6, 2007. Management's comments, in their entirety, are included in Appendix D.

Recommendation	2. Reassess the 4,911 hours which Postal Service managers still feel are necessary and eliminate the hours as indicated by the reassessment or document the reasons for retaining the hours.
Management's Comments	In his response to our draft report, the Vice President, Southeast Area Operations provided an attachment indicating why managers felt the hours identified in recommendation 2 were still necessary. However, he said he believed the hours provided the opportunity for additional savings, that the area was reassessing the hours, and that the area would report the results of the reassessment when it was completed. He noted that because the area budgeted on an annual basis, budget calculations might vary from reported savings, which were discounted over a 10-year period in accordance with OIG methodology.
Evaluation of Management's Comments	Management's comments are responsive to recommendations 1 and 2. Management's actions, taken or planned, should correct the issues identified in the findings.

APPENDIX A. PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued	Potential Savings Identified
Highway Network Scheduling – Pacific Area	TD-AR-02-003	9/24/2002	\$4,500,417
Highway Network Scheduling – Northeast Area	TD-AR-03-002	11/25/2002	776,992
Highway Network Scheduling – Capital Metro Area	TD-AR-03-007	3/28/2003	1,144,218
Highway Network Scheduling – New York Metro Area	TD-AR-03-008	3/31/2003	470,123
Highway Network Scheduling – Southwest Area	TD-AR-03-010	7/11/2003	5,989,082
Highway Network Scheduling – Western Area	TD-AR-03-013	9/23/2003	2,721,530
Highway Network Scheduling – Southeast Area	TD-AR-03-014	9/26/2003	11,352,881
Highway Network Scheduling – Eastern Area	TD-AR-03-015	9/30/2003	10,577,367
Highway Network Scheduling – Great Lakes Area	NL-AR-04-003	3/29/2004	5,352,877
BMC Transportation Routes – Great Lakes Area	NL-AR-04-004	9/29/2004	7,660,533
BMC Transportation Routes – Eastern Area	NL-AR-05-003	3/17/2005	4,791,570
Intermodal Rail and Highway Transportation – Pacific Area	NL-AR-05-004	3/18/2005	1,046,240
BMC Transportation Routes – Southeast Area	NL-AR-05-005	3/18/2005	6,563,582
BMC Transportation Routes – New York Metro	NL-AR-05-007	6/9/2005	1,499,371
BMC Transportation Routes – Southwest Area	NL-AR-05-008	8/3/2005	7,175,912
BMC Transportation Routes – Capital Metro Area	NL-AR-05-009	9/2/2005	803,060
Intermodal Rail and Highway Transportation Between the Pacific and Southeast Areas	NL-AR-05-011	9/19/2005	1,261,308
BMC Transportation Routes – Pacific Area	NL-AR-05-012	9/21/2005	3,123,562
BMC Transportation Routes – Northeast Area	NL-AR-05-013	9/26/2005	2,491,133
MTEC Network – Highway Transportation Routes New York Metro Area	NL-AR-05-014	9/28/2005	1,025,812
BMC Transportation Routes – Western Area	NL-AR-06-001	2/14/2006	2,235,812
Intermodal Rail and Highway Transportation Between the Western and Great Lakes Areas	NL-AR-06-002	3/10/2006	1,942,841
MTEC Network – Highway Transportation Routes San Francisco	NL-AR-06-003	3/23/2006	1,092,640
MTEC Network – Highway Transportation Routes Memphis	NL-AR-06-005	3/28/2006	699,397
BMC Transportation Routes – Summary Report	NL-AR-06-004	3/28/2006	0
P&DC Transportation Routes – Great Lakes Area	NL-AR-06-008	7/25/2006	5,289,849
MTEC Network – Highway Transportation Routes Atlanta	NL-AR-06-009	8/18/2006	801,097

APPENDIX A. PRIOR AUDIT COVERAGE (CONTINUED)

Report Name	Report Number	Date Final Report Issued	Potential Savings Identified
MTESC Network – Highway Transportation Routes Greensboro	NL-AR-06-010	9/18/2006	1,607,510
P&DC Transportation Routes – Pacific Area	NL-AR-06-011	9/21/2006	3,650,035
MTESC Network – Highway Transportation Routes Dallas	NL-AR-06-012	9/28/2006	1,476,981
P&DC Transportation Routes – Eastern Area	NL-AR-07-002	3/23/2007	2,330,769
Totals	31		\$101,454,501

BMC – Bulk Mail Center

P&DC – Processing and Distribution Center

MTESC – Mail Transport Equipment Service Center

APPENDIX B

MEMPHIS POSTAL VEHICLE SERVICE TRANSPORTATION ROUTE ELIMINATION COST SAVINGS WITH WHICH POSTAL SERVICE AGREES

PROJECT YEAR FISCAL YEAR	0 2007	1 2008	2 2009	3 2010	4 2011	5 2012	6 2013	7 2014	8 2015	9 2016
LABOR COST AVOIDANCE - LEVEL 7 TRACTOR TRAILER OPERATORS										
FY 2007 ACTION PLAN: ELIMINATE 13,963 HOURS										
	\$465,642	\$572,181	\$585,913	\$599,975	\$614,374	\$629,119	\$644,218	\$659,679	\$675,512	\$691,724
FUEL COST AVOIDANCE										
94,970 ANNUAL MILES										
	\$49,159	\$50,388	\$51,648	\$52,939	\$54,262	\$55,619	\$57,009	\$58,434	\$59,895	\$61,393
TORT CLAIMS COST AVOIDANCE										
94,970 ANNUAL MILES										
	\$3,867	\$3,937	\$4,008	\$4,080	\$4,153	\$4,228	\$4,304	\$4,382	\$4,460	\$4,541
TOTAL COST AVOIDANCE										
	\$518,668	\$626,505	\$641,568	\$656,993	\$672,790	\$688,966	\$705,531	\$722,495	\$739,867	\$757,657
PRESENT VALUE @ 5.25%										
	\$518,668	\$595,254	\$579,160	\$563,501	\$548,266	\$533,442	\$519,020	\$504,987	\$491,334	\$478,051
NET PRESENT VALUE @ 5.25%										
	\$5,331,683									

APPENDIX C

MEMPHIS POSTAL VEHICLE SERVICE TRANSPORTATION ROUTE ELIMINATION COST SAVINGS WITH WHICH POSTAL SERVICE DISAGREES

PROJECT YEAR FISCAL YEAR	0 2007	1 2008	2 2009	3 2010	4 2011	5 2012	6 2013	7 2014	8 2015	9 2016
LABOR COST AVOIDANCE - LEVEL 7 TRACTOR TRAILER OPERATORS										
FY 2007 ACTION PLAN: ELIMINATE 4,911 HOURS										
	\$163,773	\$201,245	\$206,075	\$211,020	\$216,085	\$221,271	\$226,581	\$232,019	\$237,588	\$243,290
FUEL COST AVOIDANCE										
61,204 ANNUAL MILES	\$31,681	\$32,473	\$33,285	\$34,117	\$34,970	\$35,844	\$36,740	\$37,658	\$38,600	\$39,565
TORT CLAIMS COST AVOIDANCE										
61,204 ANNUAL MILES	\$2,492	\$2,537	\$2,583	\$2,629	\$2,677	\$2,725	\$2,774	\$2,824	\$2,875	\$2,926
TOTAL COST AVOIDANCE										
	\$197,946	\$236,255	\$241,942	\$247,766	\$253,731	\$259,839	\$266,095	\$272,501	\$279,062	\$285,781
PRESENT VALUE @ 5.25%										
	\$197,946	\$224,470	\$218,407	\$212,508	\$206,769	\$201,185	\$195,751	\$190,465	\$185,321	\$180,316
NET PRESENT VALUE @ 5.25%										
	\$2,013,137									

APPENDIX D. MANAGEMENT'S COMMENTS

Terry J. Wilson
Area Manager, A-3-Operations
Southeast Area



March 27, 2007

MEMORANDUM FOR: Ms. Kim H. Stroud
Director, Audit Operations
Office of Inspector General

SUBJECT: Draft Audit Report-Postal Vehicle Service Transportation
Routes-Memphis Processing and Distribution Center

As requested, this letter represents the Southeast Area's response to Recommendations 1 and 2 listed in the Draft Report of Postal Vehicle Service Transportation Routes-Memphis Processing and Distribution Center.

The Southeast Area is in agreement with the 13,963 hours identified in Recommendation 1 of the Draft Report. In addition, as of January 6, 2007, all schedule changes associated with these hours have been implemented.

The Southeast Area also believes that the 4911 hours that are identified as disagreed in Recommendation 2 provide potential opportunity for additional savings. These 4911 hours are being evaluated at this time, and we will inform the OIG of the results of this reassessment when complete.

Because the Postal Service operates in a zero budget environment, the Southeast Area does its budget on an annual basis. Actual annual savings may vary somewhat from reported savings. The final accounting of savings associated with these recommendations will be determined once our reassessment of the 4911 hours outlined in Recommendation 2 is complete and changes have been implemented.

We would like to take this opportunity to thank all the parties involved in this audit. The 13,963 hours represents a high level of cooperation between Area officials, local transportation managers, and the OIG audit team.

Terry J. Wilson

Attachment

cc: David M. Patterson, Manager, Operations Support (Area), Southeast Area Office
David J. McClelland, A/Manager, Distribution Networks, Southeast Area Office

Terry J. Wilson
Area Manager, A-3-Operations
Southeast Area

AUDIT REASSESSMENT

The audit performed on June 12 and 13 identified a potential PVS savings of \$7.3 million projected over the next ten years. This is to be accomplished with the reduction of 18,874 excess hours annually. The report contends these hours can be saved without affecting service by:

1. Reducing driver unassigned time
2. Eliminating duplicate trips
3. Consolidating less than full trips

Local Postal Officials and DN staff agreed to the removal of 13,963 hours. This has been accomplished as of January 6, 2007. The OIG's estimation of that contribution is \$5,331,000.

The OIG recommends an additional 4,911 hours or \$2,013,000 proposed savings over ten years. Specifically, these recommendations involve the following three trips:

1. Trip DX-201 – OIG recommends the consolidation of two collection trips performed for Mendenhall and White Stations. The OIG contends the approximate 2-mile distance and load factors easily allow for consolidation. The Memphis TANS disagrees with the proposal, and the DN concurs.

The area is heavily congested at the time of day this service takes place, and the offices are separated by above-ground active train tracks. Trains travel this route often throughout the day, as well as when the collections take place. With an average train pulling 100+ cars traveling at an estimated 30 MPH, having to wait to cross these tracks would unnecessarily delay the processing of this collected mail.

2. Trip DX-241 – OIG proposes consolidation of two morning station dispatches: Hickory Hill and Germantown. The Memphis TANS disagrees with this proposal, also. These offices are both receiving their mail now at 0710, with the trips departing those stations at 0725. The proposal would retain the arrival at Hickory Hill at 0710 and departure at 0725. However, the truck would then proceed to Germantown and effect the morning delivery to them an estimated 25 minutes later at 0750 (travel 7 miles to Germantown via city streets).

I forwarded the proposal to Bruce Derouen, who reviewed it and found there would be a negative impact of the later delivery to Germantown. He recommends no change be made, and the DN concurs.

3. Trip DX-355 – Involves the elimination of a 1 our 3 spotter at the Jet Cove and MIAC (MTE Annex) facilities. The spotter makes approximately 20 moves per tour. The OIG believes this work can be accomplished by the operators of arriving and departing transportation during their downtime between trips. The Memphis TANS and the DN have already reduced the number of hours for this employee from 8 to 6 (operator now performs a collection trip), saving an additional 500 hours a year. However, it is believed to fully depend on operators of other routes to arrive timely each day and to lose the flexibility of making movements as needed would place the operation's efficiencies in danger. Therefore, it is not recommended that any further hours be reduced at this time.

At this point, any further reduction of the "remaining 4,441 hours" (500 have been captured by reducing the spotter's hours at Jet Cove) would negatively impact service to our customers.