



April 20, 2007

ELLIS BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Processing and Distribution
Center Transportation Routes – Southwest Area
(Report Number NL-AR-07-004)

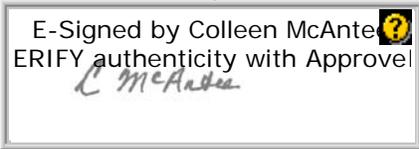
This report presents results from our processing and distribution center (P&DC) transportation routes audit (Project Number 06XG012NL003). Our objectives were to evaluate the effectiveness of P&DC routes and identify opportunities to save money. This report responds to a request from the Vice President, Network Operations, and focuses on routes controlled by the Southwest Area.

The U.S. Postal Service could save \$2,116,153 over the term of existing Southwest Area P&DC highway contracts by canceling, not renewing, or modifying 32 trips. These are funds 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, Southwest Area Operations verify the actual cancellation, modification, or substitution of the 32 trips identified by the U.S. Postal Service Office of Inspector General (OIG).

Management agreed with our findings and recommendation. They stated that they were in the process of implementing the reductions, that contract reduction negotiations were ongoing, and that they anticipated all reductions would be completed by May 31, 2007. They explained that because negotiations were on-going, actual savings might differ slightly from our estimates. They also said they would provide us with documentation when their negotiations were finalized. Management's comments and our evaluation of these comments are included in the report.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation 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) 248-2100.



Colleen A. McAntee
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Attachment

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INTRODUCTION

Background

Processing and distribution centers (P&DC) are central facilities that receive and process mail and then distribute it to local service areas over the U.S. Postal Service's transportation network. The mail P&DCs process, including First-Class Mail® and Periodicals, is very time-sensitive. As a result, Postal Service transportation managers often must move it from origin to destination overnight and, in making transportation decisions, continually balance on-time service standards with transportation costs. There are approximately 270 P&DCs in the Postal Service network and the Postal Service spends about \$1.6 billion annually on surface transportation contracts moving mail to and from these facilities.

Highway contractor at the
North Texas P&DC
November 28, 2006.



The Vice President, Network Operations, requested we audit the scheduled contracted transportation routes supporting P&DCs. Individual Postal Service areas control those routes. This report focuses on routes the Southwest Area controls and responds to this request.

Objectives, Scope, and Methodology

The objectives of our audit were to evaluate the effectiveness of the scheduled contracted transportation routes supporting P&DCs and to identify opportunities to save money.

Using Postal Service computer-generated data, we identified 6,995 trips operated under 746 Southwest Area contracts that had at least one P&DC service point. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, some computer files had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to support our audit conclusions by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussion with appropriate officials.

During our work, we audited 20 facilities, visited three facilities, interviewed officials at headquarters and in the Southwest Area, reviewed relevant Postal Service policies and procedures, interviewed managers and employees, and observed and photographed operations. We also evaluated mail volume and the type of mail carried, considered on-time service standards and area initiatives to improve service, and analyzed all 6,995 trips.

We conducted this audit from September 2006 through April 2007 in accordance with generally accepted government auditing standards and included such 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 surface transportation. As a result, we have issued 32 audit reports that identified potential savings exceeding \$108.8 million over the life of eliminated or reduced transportation contracts. See Appendix A for more detailed information about these audits.

AUDIT RESULTS

Contracted Highway Transportation Trips

The Postal Service could improve the effectiveness of scheduled surface contract routes supporting P&DCs and save \$2,116,153 over the term of existing Southwest Area highway contracts by canceling, not renewing, or modifying 32 trips. The Postal Service could eliminate or modify the trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. As indicated below, 12 percent of affected trips expire on June 30, 2007. The other 88 percent expire in 2008 or later and have 1 to 3 years remaining.

PROPOSED NONRENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring on June 30, 2007	12 percent	4	\$1,077,221
Contracts expiring in 2008 or later	<u>88 percent</u>	<u>28</u>	<u>\$1,038,932</u>
All Total terminated trips	100 percent	32	\$2,116,153

Highway contractor departing the Southwest Area Surface Transfer Center, November 28, 2006.



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 plant and area transportation officials and proposed service reductions to them. The officials then reviewed each proposal in

conjunction with their own assessment of area wide network requirements and we discussed our proposals with them. Based on these discussions, we believe the Postal Service could attain savings through service reductions by:

- Not renewing unnecessary trips scheduled to expire on June 30, 2007.
- Canceling unnecessary trips currently contracted to expire in 2008 or later, which have 1 to 3 years remaining.

The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$92,000.

On March 13, 2007, we met with Southwest Area officials and discussed our report and recommendation. At that meeting, the officials agreed with our recommendation and with the 32 trip proposals. (See Appendix B.)

Recommendation

We recommend the Vice President, Southwest Area Operations:

1. Verify the actual cancellation, modification, or substitution of the 32 trips with which Postal Service managers agreed and provide the dates action was taken.

**Management's
Comments**

Management agreed with our findings and recommendation. They stated that they were in the process of implementing the reductions, that contract reduction negotiations were ongoing, and that they anticipated all reductions would be completed by May 31, 2007. They explained that because negotiations were on-going, actual savings might differ slightly from our estimates. They also said they would provide us with documentation when their negotiations were finalized. Management's comments, in their entirety, are included in Appendix C.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendation. We consider management's actions, taken or planned, sufficient to address the recommendation we made in our report.

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
MTESC 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-06-006	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
MTESC Network – Highway Transportation Routes San Francisco	NL-AR-06-003	3/23/2006	1,091,640
BMC Transportation Routes – Summary Report	NL-AR-06-004	3/28/2006	0
MTESC Network – Highway Transportation Routes Memphis	NL-AR-06-005	3/28/2006	699,397
P&DC Transportation Routes – Great Lakes Area	NL-AR-06-008	7/25/2006	5,289,849

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Southwest Area

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Report Name	Report Number	Date Final Report Issued	Potential Savings Identified
MTESC Network – Highway Transportation Routes Atlanta	NL-AR-06-009	8/18/2006	801,097
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
Postal Vehicle Service Transportation Routes – Memphis P&DC	NL-AR-07-003	3/30/2007	7,344,820
Totals	32		\$108,798,321

BMC – Bulk Mail Center

MTESC – Mail Transport Equipment Service Center

P&DC – Processing and Distribution Center

APPENDIX B

**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
7/1/2006	3/31/2010	720CA	1	Eliminate trip	Little Rock, AR P&DC to Little Rock, AR APT	\$ 19,292	\$ 56,267	\$ 6,431	\$ 49,837*
7/1/2006	3/31/2010	720CA	2	Eliminate trip	Little Rock, AR APT to Little Rock, AR P&DC	19,292	56,267	6,431	49,837*
7/1/2006	3/31/2010	720CA	3	Eliminate trip	Little Rock, AR P&DC to Little Rock, AR APT	19,292	56,267	6,431	49,837*
7/1/2006	3/31/2010	720CA	4	Eliminate trip	Little Rock, AR APT to Little Rock, AR P&DC	19,292	56,267	6,431	49,837*
7/1/2006	3/31/2010	720CA	5	Eliminate trip	Little Rock, AR P&DC to Little Rock, AR APT	19,292	56,267	6,431	49,837*
7/1/2006	3/31/2010	720CA	6	Eliminate trip	Little Rock, AR APT to Little Rock, AR P&DC	19,292	56,267	6,431	49,837*
7/1/2006	6/30/2008	75464	5	Eliminate trip	Greenville, TX to Greenville, TX Annex	4,905	5,722	817	4,905
7/1/2006	6/30/2008	75464	6	Eliminate trip	Greenville, TX Annex to Greenville, TX	4,905	5,722	817	4,905
2/1/2007	6/30/2007	752L2	5	Eliminate trip	Dallas, TX P&DC to North Houston, TX P&DC	30,080	20,319	0	520,319
2/1/2007	6/30/2007	752L2	6	Eliminate trip	North Houston, TX P&DC to Dallas, TX P&DC	30,080	20,319	0	520,319
7/1/2006	3/31/2010	76016	5	Eliminate trip	Fort Worth, TX P&DC to Dallas, TX AMC	20,068	58,532	6,689	51,843

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Southwest 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
7/1/2006	3/31/2010	76016	6	Eliminate trip	Dallas, TX AMC to Fort Worth, TX P&DC	19,321	56,354	6,440	49,914
8/1/2006	3/31/2010	76049	7	Eliminate trip	Fort Worth, TX P&DC to Denton, TX	13,662	39,848	4,554	35,294
8/1/2006	3/31/2010	76049	8	Eliminate trip	Denton, TX to Fort Worth, TX P&DC	13,662	39,848	4,554	35,294
8/1/2006	3/31/2010	76049	15	Eliminate trip	Fort Worth, TX P&DC to Denton, TX	2,835	8,269	945	7,324
8/1/2006	3/31/2010	76049	16	Eliminate trip	Denton, TX to Fort Worth, TX P&DC	2,835	8,269	945	7,324
7/1/2006	3/31/2010	760M2	1	Eliminate trip	Forth Worth, TX P&DC to Dallas, TX P&DC	29,326	85,535	9,775	75,760
7/1/2006	3/31/2010	760M2	2	Eliminate trip	Dallas, TX P&DC to Forth Worth, TX P&DC	29,326	85,535	9,775	75,760
4/1/2007	3/31/2011	793BA	55	Eliminate trip	Lubbock, TX P&DF to Lubbock, TX Singer STA	11,459	44,881	3,820	41,062*
4/1/2007	3/31/2011	793BA	56	Eliminate trip	Lubbock, TX Singer STA to Lubbock, TX P&DF	9,234	36,166	3,078	33,088
10/2/2005	6/30/2007	710AD	5	Eliminate trip	Shreveport, LA P&DC to Shreveport, LA APT	4,573	18,292	0	18,292
10/2/2005	6/30/2007	710AD	6	Eliminate trip	Shreveport, LA APT to Shreveport, LA P&DC	4,573	18,292	0	18,292
9/2/2006	6/30/2007	730L9	3	Eliminate trip	Oklahoma City, OK P&DC to Dallas, TX P&DC	69,459	138,917	0	138,917
9/2/2006	6/30/2007	730L9	4	Eliminate trip	Dallas, TX P&DC to Oklahoma City, OK P&DC	69,459	138,917	0	138,917

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Southwest Area

NL-AR-07-004

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
7/1/2006	6/30/2008	740BD	11	Change Frequency to Sunday Only	Tulsa, OK P&DC to Tulsa, OK AMF	4,174	4,869	0	4,869
7/1/2006	6/30/2008	740BD	12	Change Frequency to Sunday Only	Tulsa, OK AMF to Tulsa, OK P&DC	4,174	4,869	0	4,869
7/1/2006	6/30/2008	740BD	25	Eliminate trip	Tulsa, OK P&DC to Tulsa, OK AMF	7,440	8,681	0	8,681
7/1/2006	6/30/2008	740BD	26	Eliminate trip	Tulsa, OK AMF to Tulsa, OK P&DC	7,440	8,681	0	8,681
3/18/2006	6/30/2008	785AD	7	Eliminate trip	McAllen, TX P&DF to McAllen, TX APT	3,127	3,648	521	3,127
3/18/2006	6/30/2008	785AD	8	Eliminate trip	McAllen, TX APT to McAllen, TX P&DF	3,127	3,648	521	3,127
3/18/2006	6/30/2008	785AD	15	Eliminate trip	McAllen, TX P&DF to McAllen, TX APT	3,127	3,648	521	3,127
3/18/2006	6/30/2008	785AD	16	Eliminate trip	McAllen, TX APT to McAllen, TX P&DF	3,127	3,648	521	3,127
		Totals	32			\$ 721,246*	\$ 2,209,032*	\$ 92,879	\$ 2,116,153*

P&DC – Processing and Distribution Center
 P&DF – Processing and Distribution Facility
 AMC – Air Mail Center
 AMF – Air Mail Facility
 APT – Airport
 STA – Station

* Minor rounding

APPENDIX C. MANAGEMENT'S COMMENTS

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April 9, 2007

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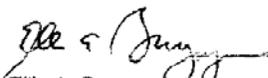
**SUBJECT: Southwest Area Surface Transportation Reductions –
OIG Audit (Report Number NL-AR-07-DRAFT)**

The Southwest Area concurs with the overall findings and assessments outlined in your March 23, 2007, correspondence Transmittal of Draft Audit Report-Surface Transportation-Processing and Distribution Center Transportation Routes-Southwest Area.

Although we are in agreement with your recommended transportation reductions covering approximately 32-trips outlined in your Appendix B, our actual Line 3P cost savings may slightly differ from your estimates based upon the actual effective date of the negotiated service change.

At this time, local contract negotiations are ongoing to terminate the above mentioned surface trips. These negotiated surface reductions will be finalized no later than May 31, 2007. At that time, a final accounting of the reductions and overall savings will be forwarded to your office.

The Southwest Area continues to support the OIG review process and other Breakthrough Productivity Initiatives. We appreciate the review team's cooperation, insight and recommendations that precipitated the overall reductions and cost savings opportunities for the Southwest Area.


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