



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Highway Contract Routes – Western Pennsylvania District

Audit Report

September 27, 2011

Report Number NL-AR-11-007



OFFICE OF
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GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

Highway Contract Routes – Western Pennsylvania District

Report Number NL-AR-11-007

IMPACT ON:

Western Pennsylvania District's highway contract routes (HCRs).

WHY THE OIG DID THE AUDIT:

Our objective was to determine whether HCR transportation servicing facilities in Western Pennsylvania were effective and economical.

WHAT THE OIG FOUND:

The Western Pennsylvania District can more effectively manage HCR transportation processes and schedules, thereby reducing costs. We identified 26 trips that were unnecessary or underutilized and can be modified or removed from existing schedules. By making these changes, we estimate the Western Pennsylvania District could save about \$1.6 million over the contract terms.

WHAT THE OIG RECOMMENDED:

Ensure that Western Pennsylvania District managers follow prescribed fleet management procedures for making HCR changes to the schedules in a more timely fashion, verify the elimination or modification of 11 trips already initiated, and eliminate or modify the additional 15 trips identified during our audit.

WHAT MANAGEMENT SAID:

Management agreed with the finding and recommendations; however, they did not agree with the monetary impact calculations. The Eastern Area and the Western Pennsylvania District will work together and review procedures on how to identify opportunities to reduce transportation costs. The Eastern Area has already verified the elimination or modification of 11 trips from the Western Pennsylvania District, and the changes to 15 additional trips are in process and should be completed by October 31, 2011.

AUDITORS' COMMENTS:

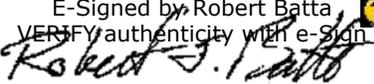
The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues identified in the report. Regarding our estimated savings, we believe the amounts are valid based on our review of operations and data during the period audited.

[*Link to review the entire report*](#)



September 27, 2011

MEMORANDUM FOR: JORDAN M. SMALL
VICE PRESIDENT, EASTERN AREA OPERATIONS

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Highway Contract Routes – Western
Pennsylvania District (Report Number NL-AR-11-007)

This report presents the results of our audit of the Western Pennsylvania District highway contract routes (Project Number 11XG032NL000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Jody J. Troxclair, director, Transportation, or me at 703-248-2100.

Attachments

cc: Patrick R. Donahoe
Megan J. Brennan
David E. Williams
Cynthia F. Mallonee
Pamela S. Grooman
Charles P. McCreadie
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the Western Pennsylvania District's highway contract routes (HCRs) (Project Number 11XG032NL000). We determined whether HCR transportation servicing Western Pennsylvania District facilities were effective and economical. The U.S. Postal Service Office of Inspector General (OIG) initiated this audit because the Western Pennsylvania District was one of the at-risk districts in our operational risk assessment based on key transportation indicators. This audit was performed in conjunction with an audit on the Western Pennsylvania District's Postal Vehicle Services Staffing and Scheduling. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service transportation network includes both nationwide transportation between cities and major facilities as well as delivery transportation between local Post Offices and neighborhood delivery and pick-up points. The Postal Service uses two types of surface transportation to move mail to and from their facilities. These include Postal Vehicle Service (PVS) transportation using Postal Service-owned vehicles and contracted transportation with private contractors known as HCR transportation. Individual Postal Service areas typically control the HCRs, and Postal Service transportation managers at the area and local levels are responsible for continually reviewing these routes to balance on-time service standards with costs. The Postal Service spends about \$3.2 billion annually on HCRs.

Conclusion

The Western Pennsylvania District can more effectively manage HCR transportation contracts as evidenced by 26 unnecessary or underutilized trips. This condition occurred because local management was not continually reviewing requirements and adjusting schedules to address changing workloads and mail volume reductions.

Once the route adjustments are made, the Western Pennsylvania District could save more than \$1.6 million in contract costs and fuel over the term of existing HCR contracts. The Postal Service could eliminate or modify these trips without negatively affecting on-time service. Also, the reduction in contracted surface transportation would help achieve the fuel consumption goals outlined in the Postal Accountability and Enhancement Act (PAEA).¹

¹ PAEA, Public Law 109-435, dated December 2006.

Unnecessary or Underutilized Trips in HCR

Postal Service officials were not effectively managing HCR transportation contracts as evidenced by 26 unnecessary or underutilized trips. We determined that management was not continually reviewing requirements and adjusting schedules, as required by Postal Service policy, to address changing work loads and reductions. This was due, in part, to mail volume reductions and other economic conditions. See [Appendix B](#) for a listing of contracts, related trips, and miles recommended for reduction, along with associated monetary impacts.

According to policy, local managers are responsible for working with the area office to develop local networks composed of postal-owned and contracted transportation services to ensure efficient and timely service. As such, the Western Pennsylvania District facilities could improve the effectiveness of scheduled HCRs and save more than \$1.6 million (see Table 1) in contract costs and fuel over the term of existing HCR contracts by eliminating or modifying 26 trips.

Table 1. HCR Potential Savings

Recommended HCR Modifications	Annual Miles Reduced	Total Estimated Savings
Postal Service Initiated	15,366	\$ 146,364
Agreed to by Postal Service	245,718	1,481,611
Total	261,084	\$ 1,627,975

The Postal Service could eliminate or modify these trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. The reduction in contracted surface transportation would also help achieve fuel consumption goals outlined in the PAEA by reducing fuel use for contracted transportation by 261,084 miles annually. See [Appendix B](#) for our detailed monetary impact calculations.

Throughout our audit, we coordinated proposed trip changes with Western Pennsylvania District and Eastern Area transportation managers. The managers reviewed each OIG proposal in conjunction with their own assessment of operational requirements, and we discussed any differences. Management agreed the 15 trips we identified were unnecessary or underutilized and they had already initiated the elimination or modification of 11 trips during our audit.

Recommendations

We recommended the vice president, Eastern Area Operations:

1. Ensure Western Pennsylvania District managers follow prescribed procedures for making highway contracts effective and economical, including the continual monitoring and adjustment of trips based on need.
2. Verify the elimination or modification of the 11 trips from highway contracts.
3. Eliminate or modify the additional 15 trips from highway contracts.

Management's Comments

Management agreed with our finding and recommendations; however, they did not agree with the methodology used for monetary impact calculations. Management stated that the Eastern Area and the Western Pennsylvania District will work together reviewing procedures to identify opportunities to reduce transportation. Eastern Area management also stated they have verified the elimination or modification of the 11 trips identified during our audit and the additional 15 trip changes have been submitted and should be fully implemented by October 31, 2011. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding our estimated monetary impact, we believe the amounts are valid based on our review of operations and data during the period audited.

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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

The Postal Service transportation network includes nationwide transportation between cities and major facilities as well as delivery transportation between local post offices and neighborhood delivery and pickup points. The Postal Service uses two types of surface transportation to move mail to and from Postal Service facilities. These include PVS transportation using Postal Service-owned vehicles and contracted transportation with private contractors known as HCR transportation. Individual Postal Service areas control the HCRs, and Postal Service transportation managers at the area and local levels are responsible for continually reviewing these routes to balance on-time service standards with costs. The Postal Service spends about \$3.2 billion annually on HCRs.



Source: OIG.

Highway contractor parked at the Pittsburgh Processing and Distribution Center (P&DC) dock.

Objectives, Scope, and Methodology

We determined whether HCR transportation servicing Western Pennsylvania District facilities were effective and economical. Because individual facilities control HCR operations, we localized our audit approach. This report focuses on HCR operations in the Western Pennsylvania District in the Postal Service's Eastern Area.

This audit was self-initiated and performed in conjunction with an audit of the efficiency of PVS operations in the Western Pennsylvania District. During our work, we visited the Pittsburgh P&DC as well as other associate 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 and considered on-time service standards. We examined the cost of HCR operations, including the cost of individual trips, mileage, and fuel.



Source: OIG.

**Highway contractor moving mail from the Pittsburgh
P&DC**

Using Postal Service computer-generated data and other records, we identified 2,360 trips operated under 175 Western Pennsylvania District contracts that had at least one service point within the district. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, some computer files were missing records and had 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, and discussion with appropriate officials. We reviewed the fuel reduction initiatives as contained in the PAEA and determined whether our recommendations impacted the initiatives. We also applied conservative principles to our schedule recommendations and cost-reduction estimates.

We conducted this performance audit from April through September 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on August 24, 2011, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Highway Contract Route Transportation – Greater Chicago</i>	NL-AR-10-003	3/1/2010	\$3.3 Million	We recommended that Great Lakes Area managers follow prescribed highway contract procedures, including the continual monitoring and adjustment of trips based on need. We recommended the elimination of six trips identified during audit fieldwork, the elimination of 42 trips agreed to by local management during the audit, and the reassessment of an additional 20 trips. Management agreed with our recommendations.
<i>Postal Vehicle Services – Staffing and Scheduling – Western Pennsylvania District</i>	NL-AR-11-005	8/12/2011	\$10.0 Million	We recommended that Pittsburgh P&DC ensure managers follow prescribed fleet management procedures for making PVS changes to the schedules in a more timely fashion, verify elimination of workhours from trip schedules, and reassess the remaining workhours, documenting the reasons for retaining them. We also recommended the Western Pennsylvania District negotiate the use of split days off with local union officials and continue to reduce operating costs through staff reductions. Further, we recommended the scheduling clerk position be eliminated from the employee complement. Finally, we recommended local management issue guidance on the use of chock blocks placed next to truck wheels by PVS motor vehicle operators and provide oversight of chock block usage. Management agreed with our recommendations.

This report is being issued in conjunction with our ongoing OIG audits on PVS staffing and scheduling at selected Postal Service facilities. Our recent PVS transportation audits listed above identified opportunities to increase effectiveness of scheduled PVS and HCR transportation by eliminating, consolidating or modifying routes. Management agreed with our recommendations in these audits. Our review of HCRs in this audit used the same methodology and had comparable findings.

Appendix B: Monetary Impacts

Finding	Impact Category	Amount
The Western Pennsylvania District can more efficiently and effectively manage HCR transportation processes and schedules, thereby reducing costs.	Funds Put to Better Use ²	\$1,627,975

HCR Schedule Changes and Fuel Cost Reductions³

Recommended Reduction	Contract Number	Number of Affected Trips	Annual Miles Reduced	Total Estimated Savings
Postal Initiated	15021 ⁴	2	4,061	\$ 33,467
	15032	4	6,213	64,717
	15034	3	364	3,957
	15041	2	4,728	44,224
Agreed to by Postal Service	15021	1	909	7,493
	15039	4	29,357	272,288
	15045	2	16,457	136,013
	150L7	4	8,306	58,923
	150L9	2	7,092	68,932
	150Y0	2	183,597	937,962
Total	10	26	261,084	\$ 1,627,975⁵

The standard OIG methodology for calculating the months remaining in the contract is to use actual months remaining as of a specified date. But if the months remaining are less than 1 year, the number of months in the renewal is used.

² Funds that could be used more efficiently by implementing recommended actions.

³ Totals slightly different due to rounding.

⁴ HCR 15021 had some changes that were Postal Service initiated and some that were OIG recommended and agreed to by management.

⁵ This \$1,627,975 will be classified as funds put to better use (funds that could be used more efficiently by implementing recommended actions), and consists of \$1,613,833 in contract savings and \$14,142 in fuel savings.

Appendix C: Management's Comments

JORDAN M. SMALL
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



September 20, 2011

Shirian B. Holland
Office of Inspector General
Acting Director, Audit Operations
1735 N. Lynn Street
Arlington VA 22209-2020

SUBJECT: Updated Draft Audit Report – Highway Contract Route
Western Pennsylvania District
(Report Number NL-AR-11-DRAFT)

The Eastern Area has reviewed the subject Draft Audit Report (Project Number # 11XG032NL000) and is in agreement in principle with the recommendations; however, we disagree with the methodology of the monetary impacts due to the broad assumptions that are being applied over a ten-year period.

Recommendation 1:

Ensure Western Pennsylvania District managers follow prescribed procedures for making highway contracts effective and economical, including the continual monitoring and adjustment of trips based on need.

Response

The Eastern Area agrees with the recommendation. Eastern Area Networks Operations will assist with identifying underutilized HCR transportation with representatives from the Western Pennsylvania District by reviewing procedures on how to identify opportunities to reduce transportation. This action will be completed by Friday, September 30, 2011.

Recommendation 2:

Verify the elimination or modification of the 11 trips from highway contracts.

Response

The Eastern Area agrees with the recommendation. A validation of the identified 11 trips from the Western Pennsylvania District was completed. The trips have been submitted, approved and processed through the Service Change Request (eSCR) as well as the TCSS database. Effective date of the majority of changes was between the dates of September 1 through September 17, 2011.

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Recommendation 3:

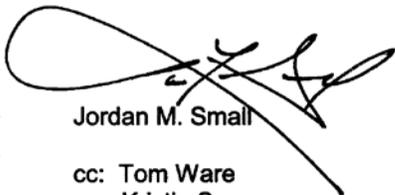
Eliminate or modify the additional 15 trips from highway contracts.

Response

The Eastern Area agrees with the recommendations on the identified routes. All 15 trips have been submitted through the Service Change Request (eSCR), 13 have been approved and processed while 2 trips are forthcoming. All trips should be eliminated from the contracts by the expected date of completion of October 31, 2011.

This report has no exemptions under the Freedom of Information Act.

If you have any questions or require further information, please contact Tom Ware, Manager, Network Operations, at 412-494-2611.



Jordan M. Small

cc: Tom Ware
Kristin Seaver
Eric Faber
Mark Tappe
OIG File

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