



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

**Postal Vehicle Service
Transportation Routes –
Margaret L. Sellers Processing and
Distribution Center**

Audit Report

February 2, 2012

Report Number NL-AR-12-001



Postal Vehicle Service Transportation Routes – Margaret L. Sellers Processing and Distribution Center

Report Number NL-AR-12-001

IMPACT ON:

Margaret L. Sellers Processing and Distribution Center (P&DC). Savings in personnel costs, fuel costs, and tort claims.

WHY THE OIG DID THE AUDIT:

Our objectives were to determine whether Postal Vehicle Service (PVS) operations were effective and economical. PVS is network transportation that uses U.S. Postal Service vehicles and employees to transport mail to and from facilities usually within a 50-mile radius of Postal Service plants.

WHAT THE OIG FOUND:

Margaret L. Sellers P&DC management had reviewed and adjusted PVS schedules due to implementation of the Flats Sequencing System (FSS) at the facility. However, P&DC officials could more effectively manage PVS transportation processes and schedules which would reduce driver workhours as well as associated fuel use and damage claims. This occurred because managers did not always conduct annual PVS schedule reviews as required. Additionally, we verified that management cancelled or consolidated underutilized trips from highway contract routes (HCRs) that serve the P&DC. We estimate this will save the Postal Service an average of about \$435,000 annually, or more than \$4.3 million over 10 years. The reduction in PVS and

HCR transportation fuel use would also help achieve the Postal Service's fuel consumption goals.

WHAT THE OIG RECOMMENDED:

We recommend the vice president, Pacific Area Operations, ensure that Margaret L. Sellers P&DC managers follow prescribed fleet management procedures for making PVS schedule changes more timely, verify the reallocation of 2,424 workhours within existing PVS schedules, and reallocate an additional 5,728 workhours within PVS schedules to accommodate future FSS implementation.

WHAT MANAGEMENT SAID:

Management agreed with our findings and recommendations. Management stated that Pacific Area staff will assist local management to ensure audit reviews are completed properly. Management generally agreed with the reallocation of excess hours based on schedule reviews but commented that the exact amount of hours may change with network changes.

AUDITORS' COMMENTS:

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)



February 2, 2012

MEMORANDUM FOR: DREW T. ALIPERTO
VICE PRESIDENT, PACIFIC 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 – Postal Vehicle Service Transportation
Routes – Margaret L. Sellers Processing and Distribution
Center (Report Number NL-AR-12-001)

This report presents the results of our audit of the Margaret L. Sellers Processing and Distribution Center's Postal Vehicle Service transportation routes (Project Number 11XG017NL001).

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: David E. Williams, Jr.
Cynthia F. Mallonee
Pamela S. Grooman
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the Margaret L. Sellers Processing and Distribution Center's (P&DC) Postal Vehicle Service (PVS) transportation routes (Project Number 11XG017NL001). Our objectives were to determine whether selected PVS vehicle operations were effective and economical. This report is the last in a series of individual reports responding to a request from a former U.S. Postal Service vice president, Network Operations, for audit work in this area. See [Appendix A](#) for additional information about this audit.

Postal Service transportation includes both nationwide network transportation between cities and major facilities as well as delivery transportation between local post offices and neighborhood delivery and pick-up points. Network transportation that uses Postal Service vehicles and employees is called PVS. Management typically assigns PVS vehicles and personnel to Postal Service network facilities, such as network distribution centers or P&DCs, in or near metropolitan areas. PVS operations are normally conducted within 50 miles of the 154 Postal Service facilities with PVS operations. PVS drivers travel about 150 million miles every year. Because PVS operations are local, district, area, and headquarters transportation officials manage them at the facility level.

Conclusion

Margaret L. Sellers P&DC officials could more effectively manage PVS transportation processes and schedules which would reduce driver workhours as well as associated fuel use and damage claims. We also verified that management eliminated or consolidated underutilized trips from highway contract routes (HCRs)¹ that serve the Margaret L. Sellers P&DC. By making these adjustments, we estimate the Postal Service could save more than \$4.3 million over 10 years, or an average of about \$435,000 per year. The reduction in PVS and HCR transportation fuel use would also help the Postal Service achieve its fuel consumption goals.

Excess Workhours and Associated Cost Reductions

We found that during the past year management conducted some PVS schedule reviews and made schedule adjustments due to increased transportation needs for implementation of the Flats Sequencing System (FSS) at the facility. Management made adjustments to existing PVS schedules rather than create new schedules to accommodate FSS trips in this dynamic and fluid environment.

However, we found that, although PVS schedules overall were generally effective and economical at the Margaret L. Sellers P&DC, some PVS schedules included

¹ Although our focus was on PVS transportation, we also reviewed HCR transportation as part of overall facility transportation needs. Savings for underutilized HCR routes the Postal Service initiated are included in this report.

underutilized trips that management could have consolidated. This occurred because managers did not always conduct annual PVS schedule reviews as required.²

We concluded that Margaret L. Sellers P&DC management should validate the reallocation of 2,424 workhours³ that took place during our fieldwork and reallocate 5,728⁴ excess workhours from existing PVS schedules to accommodate FSS implementation. This will reduce workhours as well as related fuel costs and damage claims, thereby saving the Postal Service an average of \$358,736 per year, or over \$3.5 million, as reflected in Table 1.

**Table 1. PVS Potential Savings – Funds Put to Better Use
(Personnel, Fuel, and Damage Claims)**

Cost Category	Fiscal Year (FY) 2012 Total (Phased In)	FY 2013 (Annual) Total	10-Year Total (FYs 2012 to 2021)	Percentage
Personnel	\$256,002	\$343,401	\$2,889,232	80.5%
Fuel	50,749	50,256	485,881	13.5
Damage Claims	22,555	22,248	212,243	5.9
Total	\$329,306	\$415,906⁵	\$3,587,357⁶	100.0%

Throughout our audit, we coordinated proposed schedule realignments with local transportation managers. The managers reviewed each proposal with their own assessment of operational requirements and we discussed any differences.

Other Matters — Cost Reductions for HCRs

During our audit, Margaret L. Sellers P&DC management cancelled 14 HCR trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. As a result, the Postal Service will save \$770,693 over the term of existing contracts as detailed in Table 2. We are not making a recommendation in the area since we already verified the Postal Service removed the trips.

² Handbook PO-701, *Fleet Management*, Chapter 23, March 1991, requires PVS operations to perform vehicle utilization reviews at least annually to maintain effectiveness and efficiency.

³ Management stated that these hours were re-allocated subsequent to our fieldwork and will validate the change in response to the report.

⁴ Management has already proposed schedule changes that would use the 5,728 excess PVS workhours identified in our review to accommodate new transportation needs during further implementation of the FSS anticipated in early 2012.

⁵ Slight difference in total due to rounding.

⁶ Impact Category: Funds put to better use are funds that could be used more efficiently by implementing recommended actions. Slight difference in total due to rounding.

**Table 2. HCR Potential Savings for Cancelled Trips
Funds Put to Better Use (Contract and Fuel)**

Recommended Reduction	Contract Number	Number of Trips	Estimated Savings ⁷
Initiated by Management	92011	2	\$253,692
	92012	6	366,695
	92034	2	1,447
	92038	2	36,525
	920L2	2	112,334
Total		14	\$770,693

Recommendations

We recommend the vice president, Pacific Area Operations:

1. Ensure that Margaret L. Sellers Processing and Distribution Center managers follow prescribed fleet management procedures for making Postal Vehicle Service schedule changes more timely, including conducting annual schedule and vehicle utilization reviews.
2. Verify the reallocation of 2,424 workhours within existing Postal Vehicle Service schedules and reallocate the additional 5,728 workhours as proposed to accommodate future transportation needs based on further Flats Sequencing System implementation.

Management's Comments

Management agreed with our finding and recommendations regarding PVS schedule reviews. Management stated that Pacific Area staff will assist local management to ensure audit reviews are completed properly, with implementation beginning on January 30, 2012, and to be completed by November 1, 2012. Management generally agreed with our recommendation regarding the reallocation of excess hours based on schedule reviews, but commented that the exact amount of hours stated may change due to network changes. The reallocation of hours is expected to be completed by November 1, 2012. Management also commented that the savings for the HCR route adjustments had already reduced their Line 3P base and these savings will not occur every year over the contract life. See [Appendix C](#) for management's comments in their entirety.

⁷ Estimated savings are based on the remaining value of existing contracts and are negotiated between the Postal Service and their suppliers.

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 management's comment on the impact of network changes on the reallocation of hours, we agree that future changes may impact our projected workhour reductions. However, our estimates are based on the existing operating environment and are our best estimates at this time. In addition, our HCR route adjustment estimates represent future savings based on the remaining value of the contract, and we do not expect the operating budget to be reduced by this amount each year.

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

Postal Service transportation includes both nationwide network transportation between cities and major facilities, as well as delivery transportation between local post offices and neighborhood delivery and pick-up points. Network transportation that uses Postal Service vehicles and employees is called PVS. Management typically assigns PVS vehicles and personnel to Postal Service network facilities, such as network distribution centers or P&DCs in or near metropolitan areas. PVS operations are normally conducted within 50 miles of the 154 Postal Service facilities with PVS operations. PVS drivers travel about 150 million miles every year. Because PVS operations are local, district, area, and headquarters transportation officials manage them at the facility level.

PVS is capital- and personnel-intensive. Nationwide, PVS capital assets include approximately 2,154 cargo vans, 1,841 tractors, and 3,892 trailers. Employees service and repair these vehicles at 309 Postal Service vehicle maintenance facilities (VMFs), VMF auxiliaries,⁸ and local commercial garages nationwide. PVS currently involves about 8,500 employees, including 7,068 drivers, 603 administrative support personnel, and 851 managers. The American Postal Workers Union represents PVS drivers and support personnel.

PVS operations typically include:

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



Source: OIG

PVS vehicle assigned to Margaret L. Sellers P&DC arriving at the Midway Processing and Distribution Facility with mail for the Automated Package Processing System (APPS).

⁸ Extension of a VMF.

Objectives, Scope, and Methodology

Our objectives were to determine whether selected PVS vehicle operations were effective and economical. We conducted this performance audit from May through December 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 November 8, 2011 and included their comments where appropriate.

Using Postal Service computer-generated data and other records, we analyzed 135 Margaret L. Sellers P&DC driver schedules, identified 177,187 annual workhours associated with those schedules, and evaluated individual trips and trip load volume. We conducted the analysis to determine whether management could reduce workhours and labor costs. We also identified 530 trips operated under 17 highway contracts that had at least one service point within the district. As part of our review, we analyzed driver assignments and determined whether drivers made duplicate or unproductive trips. We also reviewed fuel-reduction initiatives for Postal Service-owned vehicles as contained in the FY 2011 Strategic Sustainability Performance Plan and determined whether our recommendations impacted the initiatives.

We noted several weaknesses in the computer-generated data that limited our work. For example, some computer records had missing data and inaccurate load volumes. Although these limitations constrained our work, we were able to compensate by applying alternate audit procedures, including observation, physical inspection, and discussion with appropriate officials. We also applied conservative principles, such as using discounted cash flows, to our workhour and cost-reduction estimates.

Prior Audit Coverage

At the request of the vice president, Network Operations, the OIG has worked with the Postal Service to reduce PVS costs. To determine a national estimate of the number of hours PVS could eliminate, we visited facilities derived from a statistical sample. As indicated in the following chart, since February 2009, we have issued five audit reports that identified labor and other potential savings of \$47.1 million. We found inefficiencies in PVS schedules because management did not conduct schedule and vehicle utilization reviews as required. Management agreed with all of our findings and recommendations in those reports. This report used the same methodology and had comparable findings. For all audits, we recommended management follow prescribed fleet management procedures for making PVS schedules effective, including conducting schedule and vehicle utilization reviews.

Report Title	Report Number	Final Report Date	Monetary Impact (In millions)	Report Recommendations
<i>Postal Vehicle Service Transportation Routes – Minneapolis Processing and Distribution Center</i>	NL-AR-09-001	2/13/2009	\$9.3	We recommended that management eliminate or reassess a total of 22,809 workhours. We also recommended management enforce load restraint policies and emphasize the use of seat belts by PVS motor vehicle operators.
<i>Postal Vehicle Service Transportation Routes – Cardiss Collins Processing and Distribution Center</i>	NL-AR-10-002	12/28/2009	\$18.3	We recommended that management eliminate or reassess a total of 45,688 workhours. We also recommended management enforce load restraint policies for PVS trips and provide oversight of load restraint processes and ensure that management issues a memorandum to drivers requiring their compliance with policies regarding the use of chock blocks.
<i>Postal Vehicle Service Transportation Routes – Southern Maryland Processing and Distribution Center</i>	NL-AR-10-006	7/14/2010	\$4.8	We recommended that management eliminate or reassess a total of 10,153 workhours. We recommended that management reassess the eight HCR trips identified in our audit. We also recommended management enforce load restraint and chock block usage policies.
<i>Postal Vehicle Service Transportation Routes – Suburban Maryland Processing and Distribution Center</i>	NL-AR-11-001	1/13/2011	\$6.5	We recommended that management eliminate a total of 14,177 workhours. We recommended that management verify the elimination of two HCR trips initiated during our audit and eliminate 11 HCR trips identified in our audit. We also recommended management enforce load restraint usage policies.
<i>Postal Vehicle Service Transportation Routes – Baltimore Processing and Distribution Center</i>	NL-AR-11-004	7/25/2011	\$8.2	We recommended that management eliminate or reassess a total of 19,062 workhours. We recommended that management eliminate 24 HCR trips identified in our audit. We also recommended management enforce load restraint usage policies.

Appendix B: Monetary Impacts

Finding	Impact Category	Amount
The Margaret L. Sellers P&DC could improve PVS processes and reallocate and remove 8,153 unnecessary workhours from existing PVS schedules, saving about \$3.6 million in costs associated with these schedules over 10 years.	Funds Put to Better Use ⁹	\$3,587,357
The Margaret L. Sellers P&DC could save \$770,693 over the existing Pacific Area's highway contracts by canceling or consolidating 14 trips.	Funds Put to Better Use	770,693
Total		\$4,358,049¹⁰

Excess Workhours and Associated Cost Reductions Findings: We employed a 10-year cash flow methodology, discounted to present value, by applying the following factors published by Postal Service Headquarters Finance.

Cost Category	FY 2012¹¹ Total (Phased In)	FY 2013 (Annual) Total	10-Year Total (FYs 2012 to 2021)	Percentage
Personnel	\$256,002	\$343,401	\$2,889,232	80.5%
Fuel	50,749	50,256	485,881	13.5
Damage Claims	22,555	22,248	212,243	5.9
Total	\$329,306	\$415,906¹²	\$3,587,357¹³	100.0%¹⁴

Rates by Type¹⁵	Factor
Discount Rate/Cost of Borrowing	3.0%
Labor Escalation Rate	1.6%
Fuel Cost Escalation Rate	2.0%
Tort Claim Cost Escalation Rate	1.6%

⁹ Funds that could be used more efficiently by implementing recommended actions.

¹⁰ Slight difference in total due to rounding.

¹¹ The FY 2012 figure is conservative to allow for phase-in of workhour reductions during the year.

¹² Slight difference in total due to rounding.

¹³ Impact Category: Funds put to better use are funds that could be used more efficiently by implementing recommended actions. Slight difference in total due to rounding.

¹⁴ Slight difference in total due to rounding.

¹⁵ Rates published June 16, 2011.

HCR Schedule Changes and Cost Reductions

Cost Reductions for HCRs Finding: To calculate the months remaining in HCR contracts, we used actual months as of a specified date. If the months remaining were less than 1 year, we used the number of months in the renewal contract.

Recommended Reduction	Contract Number	Number of Trips	Annual Miles Reduced	Estimated Savings ¹⁶
Initiated by Management	92011	2	49,673	\$253,692
	92012	6	72,825	366,695
	92034	2	197	1,447
	92038	2	10,913	36,525
	920L2	2	9,203	112,334
Total		14	142,812¹⁷	\$770,693

¹⁶ Estimated savings are based on the remaining value of existing contracts and are negotiated between the Postal Service and their suppliers.

¹⁷ Slight difference in total due to rounding.

Appendix C: Management's Comments

DREW T. ALIPERTO
VICE PRESIDENT, PACIFIC AREA OPERATIONS



January 17, 2012

SHIRIAN B. HOLLAND
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Postal Vehicle Service Transportation Routes, ML Sellers P&DC
Pacific Area (Report Number NL-AR-12-DRAFT)
Project Number 11XG017NL001

The Pacific Area understands the importance and financial impact of an efficient and effective Postal Vehicle Service (PVS) transportation network. Our Distribution Networks (DN) office continuously works with the field to identify opportunities for reducing or eliminating transportation costs in PVS operations, as well as Highway Contract Routes (HCR).

The following addresses the two recommendations requiring our response:

Recommendation #1

Ensure the Margaret L. Sellers P&DC managers follow prescribed fleet management procedures for making PVS schedule changes more timely including conducting annual schedule and vehicle utilization reviews.

Managements Response

Management agrees with this recommendation. Pacific Area DN staff will provide assistance to local management to ensure audit reviews are properly completed. Implementation will begin on January 30, 2012 and will be completed on November 1, 2012.

Pacific Area DN staff will coordinate reviews with the field, at a frequency of no less than once per Accounting Period, until all PVS sites have been reviewed in FY12. Additional reviews may be scheduled should there be significant changes to the PVS operations, i.e. FSS-zone processing additions, AMP impacts, delivery unit optimization, consolidations.

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Recommendation #2

Verify the reallocation of 2,424 workhours within existing PVS schedules and reallocate an additional 5,728 workhours within PVS schedules to accommodate future FSS implementation.

Managements Response

The initial budget allocation of PVS workhours for FY11 was complement-based; the same is true for FY12. Conducting the PVS review, as described in Recommendation #1, will provide management with a more accurate basis for workhour usage. Management generally agrees with the reallocation of excess hours based on schedule reviews, but the exact amount may change due to network changes, reallocation of excess hours based on schedule reviews is appropriate. Completion date will be November 2012

Additionally, with the continuing fluctuations in mail volumes, vehicle utilization and schedules are subject to change.

Additional Comments

This audit cited additional annualized cost savings based on HCR underutilization opportunities. The Pacific Area had initiated a Lean Six Sigma (LSS) project at the start of FY11 to review utilization on HCR routes and to identify and realign/eliminate trips as needed. The HCR routes identified in this audit were part of the Area-wide review. These routes, and others identified through the LSS project, resulted in a reduction of current fiscal year Line 3P (HCR) transportation cost and should not be identified as future opportunities for savings.

Although the trips for the identified routes were eliminated, we are not in agreement with the annualized savings. Line 3P is funded based on the current annual cost of an HCR contract. Using the savings for the remaining term of the contract does not take into account the difference in how we are funded for subsequent years for Line 3P. The savings are reflected in a lower base for the succeeding years.

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We appreciate the opportunity to provide comments to the draft audit report. This report and management's response do not contain information that may be exempt from disclosure under the FOIA. The responsible manager is Pedro Ortiz Pacific Area, Manager Networks Operations if you have any questions, please contact him at (858) 674-2679.


Drew T. Aliperto

cc: Sally K. Haring