



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

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**POSTAL SERVICE INITIATIVE:  
Consolidation of Mail for  
Transportation Between  
Network Distribution Centers**

**Audit Report**

May 29, 2012

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Report Number NL-AR-12-006



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## **HIGHLIGHTS**

**POSTAL SERVICE INITIATIVE:  
Consolidation of Mail  
for Transportation Between  
Network Distribution Centers**

Report Number NL-AR-12-006

### ***IMPACT ON:***

Highway contract route (HCR) surface transportation between network distribution centers (NDCs).

### ***WHY THE OIG DID THE AUDIT:***

Our objective was to assess the efficiency of the U.S. Postal Service's consolidation pilot (involving loading, unloading, and utilization) for long-distance HCRs between NDCs. The pilot included 19 transportation lanes, 17 HCRs, and 4 consolidators. We initiated the audit based on an inquiry from the postmaster general and chief executive officer.

### ***WHAT THE OIG FOUND:***

The loading and unloading method used before the mail consolidation pilot was efficient based on workhours; however, it resulted in additional transportation costs. We determined that the consolidation increased mail handling time and costs but saved money overall and improved trailer utilization. We also found the use of contracted labor and facilities for consolidations provides the most flexibility and savings. We further determined that opportunities exist to increase overall trailer utilization by combining 2.5 trailer loads into one and by consolidating mail bound for Puerto Rico. By doing so, we estimate the Postal Service can save an additional \$7.68 million annually. Finally, we determined an onsite Postal Service

managerial presence is needed at the consolidation facilities.

### ***WHAT THE OIG RECOMMENDED:***

We recommended the vice president, Network Operations, continue pursuing opportunities to consolidate routes, increase the required average trailer consolidation load ratio, and consolidate lanes for mail bound to Puerto Rico. Finally, we recommended managerial oversight be provided at consolidation facilities.

### ***WHAT MANAGEMENT SAID:***

Management generally agreed with our recommendations but not our monetary impact, stating that they expanded the number of consolidation lanes in February 2012, would continue to pursue additional opportunities and a 2.5:1 utilization ratio, as well as evaluate the consolidation of mail bound for Puerto Rico. Management also stated they would conduct locally managed quarterly meetings with contractors.

### ***AUDITORS' COMMENTS:***

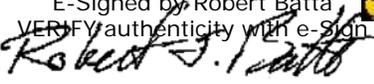
Management's comments are responsive to recommendations 1, 2 and 3 but not to recommendation 4. Management should pursue more aggressive managerial oversight at contractors' facilities to protect the Postal Service's interests.

[Link to review the entire report](#)



May 29, 2012

**MEMORANDUM FOR:** DAVID E. WILLIAMS  
VICE PRESIDENT, NETWORK 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 SERVICE INITIATIVE:  
Consolidation of Mail for Transportation Between Network  
Distribution Centers  
(Report Number NL-AR-12-006)

This report presents the results of our audit of the U.S. Postal Service's consolidation of mail for transportation between network distribution centers (Project Number 11XG044NL000).

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: Megan J. Brennan  
Timothy F. O'Reilly  
Cynthia F. Mallonee  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the U.S. Postal Service's consolidation of mail for transportation between network distribution centers (NDCs) (Project Number 11XG044NL000). Our objective was to assess the efficiency of the Postal Service's consolidation pilot (loading, unloading, and utilization) for long-distance highway contract routes (HCRs) between NDCs. We initiated the audit based on an inquiry by the postmaster general and chief executive officer to examine mail trailer loading and unloading practices of the Postal Service. As part of the review, we also evaluated the resource options available to perform the mail consolidations. See [Appendix A](#) for additional information about this audit.

The Postal Service's NDCs are part of a national system<sup>1</sup> consisting of 21 facilities with a transportation network dedicated to handling and moving bulk mail<sup>2</sup> and some other classes of mail.<sup>3</sup> Recognizing the opportunity to improve the efficiency of this dedicated NDC transportation network, the Postal Service's Network Operations (NO) began a pilot to reduce the number of HCR trips between NDCs in September 2010.<sup>4</sup> The goal of this pilot was to consolidate two HCR trips into one (2:1) by better utilizing the cubic space in the trailers. The Postal Service accomplished this by using existing contracted Terminal Handling Services (THS)<sup>5</sup> to perform the consolidations at contractor facilities near the NDCs. The pilot included 19 transportation lanes, 17 HCRs, and 4 consolidators. See Figures 1 and 2 below, depicting trailer loading before and after consolidation.

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<sup>1</sup> The purposes of NDCs are to concentrate "... the processing of bulk mail to increase operational efficiency, decrease costs, and maintain service, while expanding the surface transportation reach."

<sup>2</sup> The term bulk mail includes Standard Mail, Periodicals, and Package Services mail classes with service standards from 1 to 10 days.

<sup>3</sup> Some NDCs have incorporated surface transfer center operations that handle significant volumes of First-Class Mail and Priority Mail.

<sup>4</sup> Two outbound New Jersey NDC long-distance transportation lanes were tested. The first involved bulk mail bound for the Denver, CO NDC and the second involved bulk mail bound for the Los Angeles NDC.

<sup>5</sup> THS providers are responsible for the hand-off of mail between the Postal Service and Federal Express (FedEx) for transportation.

**Figure 1. Typically Loaded Trailers for Dispatch to Other NDCs**



Source: OIG



Source: OIG

Note the extensive use of container-loaded mail (palletized cardboard and rolling stock MTE) and the available vertical space in these trailers.

**Figure 2. Trailers Undergoing Consolidation by THS Mail Handlers Prior to Transportation to the Destination NDCs**



Source: OIG



Source: OIG

Generally, mail found in palletized-cardboard-MTE (for example, Postal Paks) and palletized-shrink-wrapped parcels/flats are forklifted onto the trailer floor (sometimes stacked). Then the parcels, trays, and bins are placed in a way that uses the vertical space in these trailers.

The Postal Service expanded the consolidation pilot in April 2011 to include 19 dedicated lanes and completed it on September 30, 2011. The Postal Service reported an overall reduction of 17 million highway miles with a net savings of about \$4 million during the pilot period from September 2010 through September 2011. See [Appendix A](#) for more details.

## Conclusion

Overall we concluded that:

- The existing loading and unloading method in place before the consolidation pilot was efficient from the standpoint of workhours; however, it resulted in additional transportation costs.
- Although the piloted method of consolidation increased mail handling time and costs, it saved money overall<sup>6</sup> and improved trailer utilization by a 2:1 ratio (2 trailers consolidated into one) without impacting service.
- The Postal Service's use of contracted labor and facilities for consolidations provides management with the most flexibility and savings under existing operating conditions.<sup>7</sup>

We also concluded that more opportunities exist to reduce transportation costs and fuel usage through consolidation efforts. First, we estimate that the Postal Service could save an additional \$12 million over the 2 years (about \$6 million annually) from the 19 piloted transportation lanes by increasing the overall trailer consolidation ratio from 2:1 to 2.5:1. Second, we estimate the agency could save an additional \$3.3 million over the 2 years (about \$1.7 million annually) by consolidating mail bound for the U.S. Territory of Puerto Rico. See [Appendix B](#) for additional information.

Finally, we determined that the Postal Service needs to have an onsite managerial presence at the contracted consolidation facilities to protect its interests.

## Mail Consolidation Impacts

- While the piloted mail consolidation process requires additional mail handling time (to better utilize the available trailer space in the trailers) and adds to labor costs, it did save money and increased utilization because fewer trucks were used to move the same amount of mail. We analyzed the impacts by comparing the way the Postal Service transported bulk mail before and after consolidation and found the method in place before the mail consolidation pilot was efficient from the standpoint of workhours; however, it resulted in additional transportation costs. The arrows in Figure 3 indicate increase or decrease in various factors and the green or red colors indicate positive or negative movement.

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<sup>6</sup> We analyzed the reported cost savings for reasonableness and accuracy and estimate the Postal Service saved \$10 million worth of fuel during the pilot phase in addition to the \$4 million that was reported.

<sup>7</sup> The conditions include limited workspace at the NDCs and higher wage rates if Postal Service employees perform consolidations.

**Figure 3. Costs, Mail Handling Workhours, Transportation, and Utilization**

	Before Consolidation	Contracted Consolidation Operations
<b>TOTAL COSTS</b>		
<b>Mail Handling Workhours</b>		
<b>Transportation Costs</b>		
<b>Trailer Utilization</b>		

Moreover, we examined:

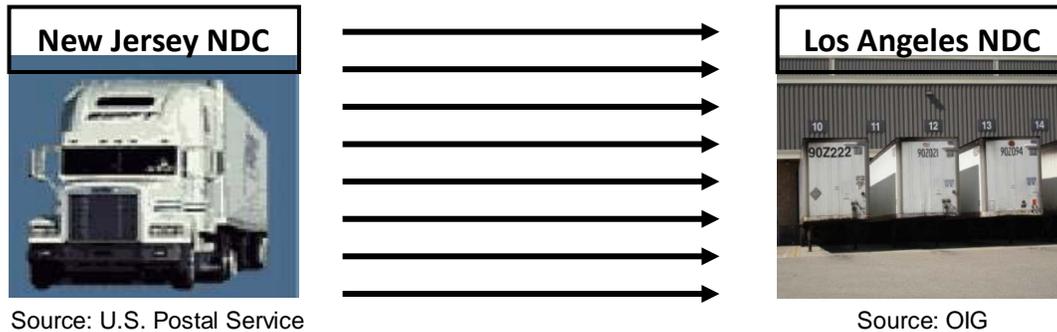
- **Efficiency:** We found that, although additional mail handling takes additional time and costs more for bulk mail consolidation, it did not have a negative impact on service.
- **Total Costs:** We concluded that total transportation costs significantly decrease when bulk mail is consolidated before long-distance transportation due to fewer trips and fuel savings. Moreover, consolidations help the Postal Service achieve fuel consumption goals<sup>8</sup> by reducing HCR fuel usage.<sup>9</sup>
- **Utilization:** We found that contracted mail consolidators significantly improved trailer utilization. In fact, the mail consolidation process achieves savings by reducing the number of trips in a transportation lane by about 50 percent (see Figure 4).

<sup>8</sup> The Postal Service's sustainability goal is to reduce vehicle petroleum fuel use by 20 percent by 2015.

<sup>9</sup> In the September 15, 2010 *Purchase Plan* NO concluded the "...expected reduction of trucks traversing the country and the associated reduction in miles fits perfectly with the Postal Service's mission to contain energy use and reduce its carbon footprint."

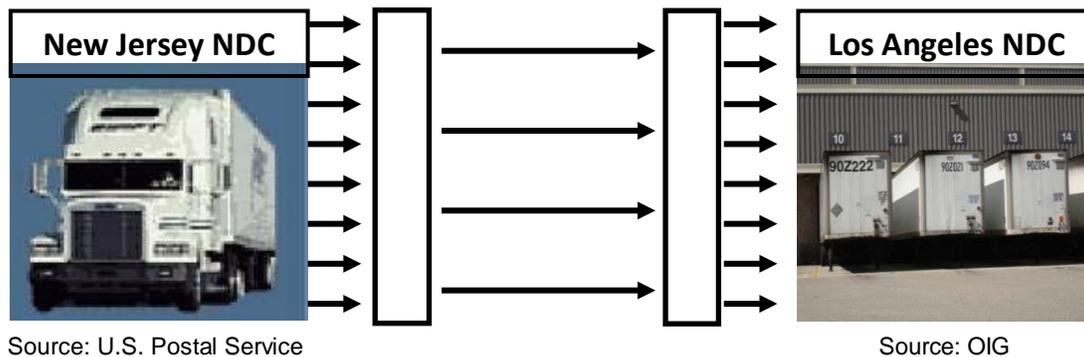
Figure 4. Consolidation of the New Jersey NDC to Los Angeles NDC HCR Lane

**BEFORE CONSOLIDATION** (prior to September 2010)



Before the consolidation, there were eight daily one-way long haul HCR trips with a cost of about \$13.3 million annually. Each trip costs the Postal Service about \$4,600, which includes driver labor, 2,800 miles traveled, and 435 gallons of diesel fuel consumed.

**AFTER CONSOLIDATION** (after September 2010)



As a result of 2:1 trailer consolidation, there are only four daily one-way long haul HCR trips with a cost of about \$6.7 million annually. In addition, consolidation costs for the Postal Service are \$1.4 million for mail handling and \$0.5 million for shuttling trailers between the NDCs and consolidators. The result is in an overall net savings of about \$4.7 million.

**Consolidation Resource Options**

We also evaluated resource options for the Postal Service to implement consolidation of bulk mail. We concluded that the most favorable option for the Postal Service is to continue consolidating bulk mail at contract facilities with contracted labor. We analyzed the impacts by comparing a mix of labor and facilities. The arrows in Figure 5 indicate increase or decrease in various costs and the green or red colors indicate positive or negative movement.

**Figure 5. Overall Costs Comparison of Options Available to the Postal Service for Consolidation of NDC Bulk Mail**

	Contracted Mail Handling Suppliers (Labor and Facility)	Postal Service Facility with Contracted Mail Handling Labor	Contracted Facility with Postal Mail Handler Labor	Postal Service Facility with Postal Mail Handler Labor
Consolidation Mail Handling Labor Costs				
Facility Costs for Sufficient Dock Door/Floor Space for Efficient Consolidation				

Moreover, we also examined:

- Postal Service Facility with Contract Labor: The option of having contracted mail handle labor performing work at the NDCs would allow the Postal Service to maintain its less expensive consolidation labor workforce;<sup>10</sup> however, management informed us that significant NDC infrastructure improvements would be required before consolidation operations could occur.<sup>11</sup> Given the current financial hardships the Postal Service is facing, capital investment funding is unlikely.
- Contract Facility with Postal Service Labor: The contracting of space option would provide the dock space necessary to perform consolidation operations efficiently. However, Postal Service wage rates are higher than contracted rates and this option may require hiring additional Postal Service mail handlers or moving mail handlers from other facilities, resulting in added costs. In addition, management would need to consider any union work issues and safety concerns based on the work conditions at the contractor locations, as they may be different from Postal Service facilities. This option would also provide less flexibility for the Postal Service.<sup>12</sup>

<sup>10</sup> Currently, contract labor costs the Postal Service about \$17 less per hour than postal employees performing the same work.

<sup>11</sup> NO management, as part of the Article 32 information provided to the U.S. Postal Service Office of Inspector General (OIG), estimated infrastructure, equipment, and facility space build-outs needed to perform consolidation and deconsolidation work at the tier 2 and 3 NDCs would exceed \$13 million. These build-out costs included the addition of 56 new dock bays. We found no reason to dispute the Article 32 NDC infrastructure improvements identified by the Postal Service. Further, our NDC visits and observations corroborated NO and plant managements' assertion that the current designs, layouts, and dock congestion would not accommodate this new work.

<sup>12</sup> According to the *Postal Service's Plan to Prosperity 5 Year Business Plan*, dated February 16, 2012, postal employee labor costs "create a fixed cost structure which is not readily scalable in response to changes in volume and revenue."

- Postal Service Facility and Labor: The option of Postal Service mail handlers performing consolidation work at the NDCs would be the least favorable for the Postal Service. It would cost significantly more in labor to operate and be less flexible.<sup>13</sup> Additionally, management must make expensive infrastructure improvements to the affected NDCs. For example, according to Postal Service estimates, infrastructure improvements at the New Jersey NDC would cost about \$2.1 million and improvements at the Los Angeles NDC would cost about \$1.4 million. Finally, management expressed concern over union work rule violations and the safety of Postal Service employees performing consolidations.

## Other Matters

During our review, we also identified other matters that provide opportunities for the Postal Service to improve the mail consolidation initiative.

### Consolidation Ratio and Highway Contract Route Lanes

Our analyses and observations of consolidation operations identified additional opportunities for improvement and savings:

- The Postal Service could reduce at least an additional 6.9 million HCR miles annually by increasing the overall consolidation density and ratio to 2.5:1 on the original 19 pilot lanes.<sup>14</sup> This would result in an additional savings for the Postal Service of about \$12 million over the 2 years (about \$6.0 million annually) without a negative impact on service. Additionally, management should plan and implement any expansion to include additional lanes with an overall consolidation density ratio of 2.5:1.
- Mail bound for Puerto Rico and shipped under HCR contracts in sea containers was not included in NO's Consolidation Initiative.<sup>15</sup> If this mail was included in the initiative and consolidated, the Postal Service could achieve additional savings of about \$3.3 million over the 2 years (about \$1.7 million annually). See [Appendix C](#) for additional information.

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<sup>13</sup> We analyzed the Article 32 Comparative Analysis's cost-savings figures provided by NO management on September 13, 2011.

<sup>14</sup> We arrived at this conclusion because of observations/discussions in October 2011 that occurred during our review of consolidation operations in Newark and Jacksonville. Specifically, we noted that more bulk mail could be placed in trailers with careful manual loading/stacking (also known as bedloading) to the top of the trailers.

<sup>15</sup> We observed this in October 2011 during our review of Postal Service operations in Jacksonville, the shipping point for the majority of bulk mail to Puerto Rico.

## Postal Service Presence at Contractors' Facilities

Based on observations and discussions with management, we noted the complete absence of Postal Service presence at consolidation contractors' facilities. During our visits to the contract mail handling facilities in Kearny, NJ and Jacksonville, FL, we also had concerns with mail accountability, Transportation Information Management Evaluation System (TIMES)<sup>16</sup> data integrity, and improper use of mail transport equipment (MTE).<sup>17</sup>

A Postal Service onsite managerial presence at the contracted facilities would ensure that:

- Mail is protected to prevent security breaches and exposure to theft.
- There is compliance with policies on locks/numbered security seals on trailer doors and HCR contract rules.<sup>18</sup>
- There is proper MTE use and conservation.
- Employees record TIMES percentages correctly and consistently<sup>19</sup> so that management can better rely on the resulting data to make adjustments.

See [Appendix D](#) for additional information.

## Recommendations

We recommend the vice president, Network Operations:

1. Continue to pursue opportunities to consolidate long distance transportation routes.
2. Pursue an overall trailer consolidation ratio of 2.5:1 in the original 19 consolidation pilot transportation lanes and all subsequent expansion lanes.

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<sup>16</sup> TIMES collects data about the arrival and departure of mail truck transportation and trailer utilization, among other things. The information in the system is available to other Postal Service processing facilities for managing their operations.

<sup>17</sup> MTE is a system of containers (such as sacks and pouches, trays, wheeled containers, and pallets) used to contain mail during processing or transportation within or among facilities by the Postal Service, its customers, or contractors.

<sup>18</sup> As described in Section 476, Sealing Program and Procedures, in the *Postal Operations Manual – Issue 9*, dated July 2002 (updated with *Postal Bulletin* revisions through December 1, 2011).

<sup>19</sup> Contracted employees are responsible for recording key utilization/MTE data into TIMES. This data includes, for example, stating that a consolidated trip was dispatched with a 90 percent trailer volume (90 percent of the trailer's floor was covered with mail/MTE), contract mail handlers' bedloaded mail (floor to ceiling) onto 60 percent of that trailer, and 32 pallets were used during the loading of the trailer.

3. Add Jacksonville Network Distribution Center's Puerto Rico Highway Contract Routes 32202 and 32204 into the Consolidation Initiative.
4. Ensure Postal Service managerial oversight at the contract consolidation facilities.

### **Management's Comments**

Management generally agreed with our recommendations.<sup>20</sup> Management stated that they expanded consolidation to an additional 11 lanes effective in February 2012. Further, management stated they would continue to evaluate additional opportunities for expansion and continue to monitor utilization to ensure they are maximizing their opportunities in pursuit of a ratio of 2.5:1 or better. Management also agreed to evaluate the opportunity of the Jacksonville - San Juan transportation lanes, taking into consideration the requirements in both locations relative to the consolidation and deconsolidation components. With regard to recommendation 4, management indicated they would establish a process for locally managed quarterly meetings between Postal Service management and the suppliers to address customer-supplier irregularities.

Management did not agree with our monetary impact. Management asserted they are currently achieving our recommended 2.5:1 consolidation ratio. Additionally, management expressed concerns over the cost considerations in our analysis of the Jacksonville – San Juan lanes, including the lack of consideration for the additional costs of THS deconsolidation. See [Appendix E](#) for management's comments in their entirety.

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to recommendations 1, 2, and 3, and corresponding corrective actions should resolve the issues identified in the report. With respect to recommendation 4, we believe management's action plan does not provide adequate Postal Service oversight needed at the subject facilities. Without an onsite Postal Service managerial presence, the Postal Service's interests are not adequately protected. Specifically, we believe mail theft and other security breaches might occur, MTE may be misused, and transportation data may not be adequately captured. We will continue working with management on implementing this recommendation during the closeout process and, if unresolved, we will pursue it through the formal audit resolution process.

Regarding monetary impact, we based our analyses of the trailer utilization ratio on the initial 19 lane pilot consolidation requirement of a 2:1 ratio, which is what contractors were following at the time of the pilot. We were informed in May 2012 that the additional 11 lanes and other changes subsequent to the pilot period have resulted in a current

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<sup>20</sup> Management did not explicitly state agreement with our findings in their response; however, they agreed in the exit conference with the findings and agreed in the response to implement the recommendations.

ratio approaching 2.5:1, and we acknowledge management's efforts to improve the consolidation ratio.

Concerning management's disagreement with our projected savings for the Jacksonville – San Juan lanes, we based our projected \$1.7 million in net annual savings on a gross savings of \$2.1 million. The net savings include reductions for THS consolidation labor and shuttling of sea containers in Jacksonville and for Postal Service employee deconsolidation in San Juan and adjustments for the transport of sea containers in San Juan. We believe that our calculations are valid and we will continue to work with management on these analyses through the process for closing significant recommendations.

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's NDCs are part of a national system consisting of 21 automated mail processing facilities linked by a dedicated transportation network. The system incorporates processing facilities and a transportation network dedicated to handling and moving bulk mail and some other classes of mail. NO is responsible for domestic mail processing and transportation networks. Recognizing the opportunity for making better use of the available space in trailers being sent long distances between NDCs (in this network) would result in significant savings in both overall transportation costs and fuel usage. In September 2010, NO began a pilot to reduce the number of HCR trips on New Jersey's Denver and Los Angeles NDC transportation lanes.

The consolidation pilot's goal was to have contractors consolidate two HCR trips into one trip (2:1) by better utilizing the cubic space in the trailers. To do this, management modified existing THS contracts on a short-term basis to provide the contract assistance needed near the NDCs. Because of NO's initial successes in these two dedicated transportation lanes, the Postal Service expanded the pilot to 17 additional transportation lanes within the national NDC network.

**Table 1. Consolidation Pilot - 19 Dedicated Transportation Lanes**

<b>Origin NDC (Number of lanes)</b>	<b>Destination NDCs (<i>*Initial lanes</i>)</b>
New Jersey (5)	Denver*, Los Angeles*, Dallas, Jacksonville, and Memphis
Dallas (1)	Des Moines
Denver (2)	Jacksonville and Pittsburgh
Greensboro (3)	Dallas, Denver, and Jacksonville
Los Angeles (2)	Jacksonville and Greensboro
Memphis (3)	Jacksonville, Los Angeles, and Seattle
Seattle (3)	Des Moines, Greensboro, and New Jersey

At the conclusion of testing in September 2011, NO reported successes including a reduction of 17 million miles for contracted transportation and a net 6-month savings (April – September 2011) of about \$4 million. On September 13, 2011, NO informed us that the consolidation of existing dedicated bulk mail transportation lanes would continue (see Table 1) and expand significantly in fiscal year (FY) 2012. On December 12, 2011 NO provided us with its preliminary FY 2012 expansion plans for its consolidation initiative. We reviewed these plans and noted an additional 22 bulk mail transportation lanes were being considered; however, the effective dates of their implementation were not identified.

## Objective, Scope, and Methodology

Our objective was to assess the efficiency of the Postal Service's pilot for consolidating (loading, unloading, and utilization) long-distance HCRs between NDCs. We accomplished this objective by examining existing mail transportation practices and the pilot consolidation initiative. During our work, we visited Postal Service Headquarters and the Jacksonville and New Jersey NDCs. We observed consolidation operations being performed by contract mail handlers at their facilities in Kearny, NJ and Jacksonville, FL. We also reviewed relevant Postal Service policies and procedures, interviewed managers and employees, and observed and photographed operations.

To identify any related cost savings, we obtained and analyzed relevant system data and documents including:

- NO management provided *Consolidation Pilot Article 32 Comparative Analysis Report*<sup>21</sup> with detailed costs and savings documentation.
- Transportation Contract Support System recent and historical HCR cost data (such as, contract terms, rates, fuel, schedules, dates, and so forth.) obtained between December 2011 and January 2012.
- TIMES data for the period October 2010 through November 2011.

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

We conducted this performance audit from August 2011 through May 2012 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on March 20, 2012, and included their comments where appropriate.

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<sup>21</sup> Recognizing the savings/successes the consolidation pilot was achieving, NO management prepared detailed costs and savings documentation (known as the *Comparative Analysis Report*). On September 12, 2011, in accordance with Article 32 of the Postal Service's union labor relations agreement with the National Postal Mail Handlers Union for subcontracting of mail handling work, management informed the union of their decision to continue and expand this practice.

### [Prior Audit Coverage](#)

The OIG did not identify any prior audits or reviews related to the objective of this audit.

**Appendix B: Monetary Impacts**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
Opportunities for Improving the Consolidation Initiative (2.5:1)	Funds Put to Better Use <sup>22</sup>	\$12,003,861
Expansion of the Consolidation Initiative (Mail Bound for Puerto Rico)	Funds Put to Better Use	3,361,671
<b>Total</b>		<b>\$ 15,365,532<sup>23</sup></b>

**Table 2. Consolidation Initiative (2.5:1) by Fiscal Year**

<b>2-Year Projection (2.5:1)</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY Totals</b>
NPV HCR Savings	\$1,959,761	\$1,910,098	\$ 3,869,859
NPV Fuel Savings	\$4,098,962	\$4,035,040	\$ 8,134,002
Monetary Impact – limited to 2 years per OIG policy			<b>\$12,003,861</b>

**Table 3. Consolidation Initiative (Mail Bound for Puerto Rico) by Fiscal Year**

<b>2-Year Projection (2.5:1)</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY Totals</b>
NPV HCR Savings	\$1,702,406	\$1,659,265	\$ 3,361,671
Monetary Impact – limited to 2 years per OIG policy			<b>\$ 3,361,671</b>

<sup>22</sup> Funds that could be used more efficiently by implementing recommended actions. The average contract term for these long distance HCRs was about 3 years; however, our calculated monetary impact is conservative by limiting it to 2 years.

<sup>23</sup> The first year of monetary impact is conservative to allow for implementation during the year. The second year of monetary impact is conservatively reduced by net present value (NPV). The average contract term for the PR sea container HCRs was about 5.5 years; however, our calculated monetary impact is conservative by limiting it to 2 years.

### Appendix C: Analysis of Surface Mail from Jacksonville Network Distribution Centers to Puerto Rico

While at the Jacksonville NDC, we observed mail being loaded into sea containers bound for Puerto Rico on HCRs 32202 and 32204. The mail consisted of pallets of letter trays and flat tubs, shrink-wrapped parcels on pallets, and parcels in boxes on pallets. Less than half the available cubic feet was used (see Figure 6).

**Figure 6. Mail Loaded in Sea Containers Bound For Puerto Rico**



Source: OIG



Source: OIG

We observed similar mail at the Jacksonville Cargo Force THS facility arriving from the New Jersey NDC to be transported to Puerto Rico (see Figure 7). The mail from the New Jersey NDC to Puerto Rico could have been staged at the THS and consolidated into the sea containers without having to go to the Jacksonville NDC and return. The New Jersey NDC is likely the heaviest generator of mail to Puerto Rico outside of Florida.<sup>24</sup>

**Figure 7. Parcels in Postal Paks Bound for Puerto Rico**



Source: OIG

<sup>24</sup> The audit team observed large volumes of mail – all palletized – bound for Puerto Rico at the Newark Cargo Force THS being loaded into trailers going to the Jacksonville NDC.

The mail in sea containers headed to Puerto Rico could easily be consolidated (bedloaded to at least a 2:1 ratio<sup>25</sup>) in Jacksonville; thereby, reducing about 50 percent of sea containers dispatched from Jacksonville to Puerto Rico.

An annual average of 1,685 sea containers have been sent from Jacksonville NDC to San Juan, PR via HCRs 32202 and 32204 in the last 2 years. Consolidation of this mail could save the Postal Service about \$3.3 million over the next 2 years (about \$1.7 million annually).

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<sup>25</sup> This can easily be accomplished without exceeding the sea containers' weight capacity, which is 67,200 pounds gross with 58,730 pounds of net payload available for mail after deducting the container tare weight of 8,470 pounds. Tare weight is the weight of an object when it is empty.

**Appendix D: Lack of Postal Service Presence at Contractors' Facilities**

Based on observations and discussions with management, we noted the absence of a Postal Service presence at consolidation contractors' facilities. The consolidation operation differs from FedEx THS operations in that the FedEx mail has distribution and routing tags on all mail-handling units and is scanned and tracked. Bulk mail at consolidators' facilities is not tracked. The opportunity for theft is great. In addition, packages have been reported missing and rifled (the packaging appeared to be open or excessively handled)<sup>26</sup> and HCR numbered security seals are being removed and applied by contract employees with little or no accountability. We observed some critical TIMES information entered by contract employees to be erroneous and inconsistent for many HCR trips (see Table 4).<sup>27</sup> We observed some MTE being misused and abused. In summary, we believe a Postal Service onsite managerial presence at the contracted facilities is necessary.

**Table 4. OIG Review of Recorded (October and November 2011)  
 TIMES Data Consistency**

Consolidation Destination	Consolidator's TIMES Facility Code	Consistently Recorded Total Trailer Volumes	Consistently Recorded Trailer Bedloading <sup>28</sup> Percentage	Consistently Recorded MTE Container Usage
Dallas NDC	DFWTH	Yes	No	No
Denver NDC	DENTH	Yes	No	Yes
Des Moines NDC	50ABX	No	No	No
Greensboro NDC	27MTE	Yes	Yes	Yes
Jacksonville NDC	JAXCF	Yes	No	No
Los Angeles NDC	LATHS	Yes	No	No
Memphis NDC	38H	Yes	No	No
New Jersey NDC	EWRTH	Yes	Yes	Yes
Pittsburgh NDC	PITTH	Yes	No	Yes
Seattle NDC	98ATO	Yes	No	Yes

<sup>26</sup> We confirmed that rifled and missing mail incidents have been timely reported to the Inspection Service.

<sup>27</sup> We obtained and analyzed TIMES data for a consecutive 4-week period (October 12, 2011, through November 9, 2011) and compared the sending and receiving contractor facilities' reported volumes and bedloading percentages, as well as MTE usage. We determined the recordings to be inconsistent when our analyses and comparison of the sending and receiving facilities recordings in TIMES showed significant discrepancies or omissions.

<sup>28</sup> Management refers to bedloading of a trailer as a process where mail handlers manually stack mail (trays, sacks, parcels, and so forth) from bottom to top of the bed/from the front of the trailer to the back.

## Appendix E: Management's Comments

DAVID E. WILLIAMS  
VICE PRESIDENT, NETWORK OPERATIONS



May 9, 2012

Shirian Holland  
Acting Director, Audit Operations  
1735 N. Lynn Street  
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – POSTAL SERVICE INITIATIVE:  
Consolidation of Mail for Transportation Between Network Distribution Centers  
(Report Number NL-AR-12-Draft)

Thank you for the opportunity to respond to the recommendations contained in the Discussion Draft Audit Report – POSTAL SERVICE INITIATIVE: Consolidation of mail for Transportation between Network Distribution Centers (Report Number NL-AR-12-Draft). Management agrees with the recommendations and will address each separately below.

**Recommendation 1:**

Continue to pursue opportunities to consolidate long distance transportation routes.

**Management Response/Action Plan:**

In February 2012, Headquarters Surface Operations expanded the consolidation initiative to 11 additional lanes serviced out of the Dallas, Des Moines, New Jersey, and Pittsburgh markets.

We will continue to evaluate additional opportunities for expansion.

**Target Completion Date:**

Ongoing

**Responsible Official:**

Jennifer Stevenson, a/Manager, Surface Transportation Operations

**Recommendation 2:**

Pursue an overall trailer consolidation ratio of 2.5:1 in the original 19 consolidation pilot transportation lanes and all subsequent expansion lanes.

**Management Response/Action Plan:**

Consolidation is currently maximized on a 2.5+:1 ratio where volume warrants. However, based on the mail mix/types this is not possible in every lane serviced. We will continue to monitor utilization to ensure we are maximizing our opportunity.

**Target Completion Date:**

Ongoing

**Responsible Official:**

Jennifer Stevenson, a/Manager, Surface Transportation Operations

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**Recommendation 3:**

Add Jacksonville Network Distribution Center's San Juan Highway Contract Routes 32202 and 32204 into the consolidation initiative.

**Management Response/Action Plan:**

We will evaluate the opportunity of the Jacksonville-San Juan lanes taking into consideration the requirements in both Jacksonville and San Juan relative to consolidation and deconsolidation.

**Target Completion Date:**

September 30, 2012

**Responsible Official:**

Jennifer Stevenson, a/Manager, Surface Transportation Operations

**Recommendation 4:**

Ensure Postal Service managerial oversight at the contract consolidation centers.

**Management Response/Action Plan:**

Headquarters Processing Operations and Surface Transportation Operations will work jointly to establish a process for locally managed quarterly meetings between USPS management and the supplier to address customer-supplier irregularities.

**Target Completion Date:**

July 30, 2012

**Responsible Official:**

Jennifer Stevenson, a/Manager, Surface Transportation Operations  
Monique Packer, a/Manager, Network and Logistics Distribution Centers

We have reviewed the projected annual savings of \$7.7M associated with the addition of the Jacksonville – San Juan lanes and the trailer maximization ratio increase to 2.5:1. At this time, we cannot agree with the projected annual savings of \$6M for the 2.5:1 ratio. As previously stated, the trailer consolidations currently exceed a 2.5:1 ratio; however, the residual volume impacts the overall consolidation ratio.

In addition, the \$1.7M annual savings estimated for the (2) Jacksonville – San Juan lanes does not consider additional cost for operations such as THS deconsolidation. Further estimates associated with the cost savings will be initiated as part of the evaluation process.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

  
David E. Williams

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cc: Ms. Brennan  
Ms. Mallonee  
Mr. Neri  
Ms. Packer  
Ms. Martin  
Ms. Stevenson  
Mr. Fields  
Mr. Small  
Ms. Feindt  
Mr. Uluski  
Mr. Aliperto  
Ms. Krage  
Mr. Black