

March 28, 2003

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

JERRY D. LANE
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling – Capital Metro Area
(Report Number TD-AR-03-007)

Background

On July 5, 2002, the Office of Inspector General (OIG) announced an audit of highway network scheduling (Project Number 02YG017TD002). The announcement responded to a request from the vice president, Network Operations Management. This report is one in a series of reports. It focuses on the Capital Metro Area.



**Highway contract originating route at Washington Bulk Mail Center,
Landover, Maryland, November 8, 2002.**

Objective, Scope, and Methodology

The objective of our audit was to evaluate the effectiveness of scheduled highway contract routes, and to identify opportunities for cost savings. The vice president, Network Operations Management, provided a list of plant-to-plant highway contract routes he wanted considered for elimination or consolidation. A total of 1,689 trips were operated under the 83 Capital Metro Area contracts. In preparation for our work, we provided the transportation managers in the Capital Metro Area with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Capital Metro Area; reviewed relevant Postal Service policies and procedures; visited six plants; interviewed managers and employees; observed and photographed operations; analyzed data in the Postal Service Transportation Information Management Evaluation System, evaluated mail volume and critical entry times for First-Class and Priority Mail; and analyzed all 1,689 trips. We did not evaluate the reliability of the data obtained from the Transportation Information Management Evaluation System. Work associated with the Capital Metro Area was conducted from July 2002 through March 2003 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings with appropriate management officials, and included their comments, where appropriate.

Prior Audit Coverage

Our audit report, Highway Network Scheduling – Pacific Area (Report Number TD-AR-02-003, dated September 24, 2002), identified 158 highway contract trips we thought could be eliminated, and consequently result in savings to the Pacific Area of about \$4.5 million. Management agreed with 124 trip terminations, but subsequently made certain substitutions they considered appropriate. Although local plant managers disagreed with 34 trips we identified, management agreed to reassess the trips, retain or eliminate trips as appropriate, and notify the OIG of all cancelled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

Our audit report, Highway Network Scheduling – Northeast Area (Report Number TD-AR-03-002, dated November 25, 2002), identified 18 highway contract trips we thought could be eliminated, and consequently result in savings to the Northeast Area of about \$777,000. Management agreed with the intent of our recommendations and made certain substitutions they considered appropriate. Although local plant managers disagreed with eight trips we identified, management agreed to reassess the trips, retain or eliminate trips as appropriate, and notify the OIG of all cancelled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

Audit Results

Unnecessary Highway Contract Trips

Our audit revealed that the Postal Service could save about \$1.1 million over the term of existing Capital Metro Area highway contracts by canceling 34 unnecessary trips. The trips could be terminated because trip mail volume was low, and mail could be consolidated on other trips without negatively affecting service. The cost savings we identified were net of contract cancellation fees totaling approximately \$135,000.

After we completed our analysis, we discussed the 34 trips with plant managers. The managers agreed 20 trips should be cancelled, but disagreed with our assessment of another 14 trips. The trip cancellation proposals are summarized below:

TRIP CANCELLATION PROPOSALS

<u>CANCELLATION CATEGORY</u>	<u>NUMBER OF TRIPS</u>	<u>APPENDIX</u>	<u>IDENTIFIED SAVING</u>
Trips we identified during audit work with which plant managers agreed.	20	A	\$708,949
Trips we identified during audit work with which plant managers disagreed.	<u>14</u>	B	<u>435,269</u>
Total	34		\$1,144,218

The plant managers disagreed with the 14 cancellation proposals for various reasons—generally that eliminating the trips would reduce operational flexibility or affect service. We continue to believe the potential for trip cancellation without jeopardizing service or operational flexibility and savings exists.

Recommendations

We recommend the manager, Capital Metro Operations:

1. Cancel the 20 trips, which plant managers agree are unnecessary.
2. Reassess the 14 trips plant managers feel are necessary, cancel trips indicated by the reassessment as unnecessary, and document the reasons for retaining the other trips.

Management Comments

Management agreed in substance, with recommendations 1 and 2. They stated that of the 34 trips we recommended for termination, they had already eliminated 16 trips and had termination action pending on 8 others. They explained that network management was a dynamic process and that transportation requirements continually changed. They stated that they made substitutions and adjustments to our recommendations that they considered appropriate, and consequently, thought ten trips we recommended for termination might still be needed. Regarding monetary findings, they explained they could not validate our projections at this time because the amounts were subject to numerous variables. As an example, they explained that some cancellation fees we considered were negotiated to zero. They emphasized that their commitment to reduce highway transportation costs was ongoing with such projects as the Breakthrough Productivity Initiative, and stated that they would continue their effort to optimize transportation networks. Finally, they stated that they would provide documentation supporting their work and their assessment of potential monetary savings. Management's comments, in their entirety, are included in Appendix C of this report.

Evaluation of Management Comments

Management's comments are responsive to recommendations 1 and 2. We consider the actions taken and planned sufficient to address the issues we identified.

The OIG considers recommendations 1 and 2 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Joe Oliva, director, Transportation and Delivery, at 703-248-2100, or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
for Core Operations

Attachment

cc: Patrick R. Donahoe
Anthony M. Pajunas
Susan M. Duchek

APPENDIX A. TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH AREA MANAGERS AGREED

Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
3/23/02	207L1	41&42, and 43&44, or 45&46	Capital Facility to Northern Virginia Processing and Distribution Center and Return	\$155,779	\$12,982	\$142,797
7/1/01	207LE	15&16	Capital Facility to Bronx Facility and Return	115,698	12,855	102,843
7/1/01	21033	1&2, or 3&4, or 5&6	Linthicum Processing and Distribution Facility to Riderwood/Butler Facilities and Return	83,316	9,257	74,059
7/1/01	21036	41&42, or 43&44	Linthicum Processing and Distribution Facility to Bel Air Facility and Return	21,231	2,359	18,872
7/1/01	21036	65&66, or 67&68	Linthicum Processing and Distribution Facility to Bel Air Facility and Return	122,985	13,665	109,320
7/1/01	21037	47&48, or 57&58	Linthicum Processing and Distribution Facility to Elkridge Facility and Return	10,365	1,152	9,213
7/1/01	21038	9&10, or 11&12, or 13&14	Linthicum Processing and Distribution Facility to Randallstown Facility and Return	73,440	8,160	65,280
7/1/01	21038	87&88, or 89&90	Linthicum Processing and Distribution Facility to Reistertown Facility and Return	112,113	12,457	99,656
7/1/01	21038	73&74, or 75&76	Linthicum Processing and Distribution Facility to Owings Mills Facility and Return	97,773	10,864	86,909
	Total	20 Trips		\$792,700	\$83,751	\$708,949

APPENDIX B. TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH AREA MANAGERS DISAGREED

Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
5/18/02	20110	45&46, or 47&48	Dulles Processing and Distribution Center to Sully Station Facility and Return	\$17,672	\$1,473	\$16,199
5/18/02	20110	51&52, or 53&54	Dulles Processing and Distribution Center to Northern Virginia Processing and Distribution Center and Return	10,744	895	9,849
7/1/01	20731	5&6, or 7&8	Southern Maryland Processing and Distribution Center to Suburban Maryland Processing and Distribution Center and Return	97,608	10,845	86,763
7/1/00	20810	5&6	Suburban Maryland Processing and Distribution Center to Baltimore Processing and Distribution Center and Return	65,128	5,427	59,701
7/1/01	21030	23&24, or 25&26	Linthicum Processing and Distribution Facility to Magothy Bridge Delivery Destination Unit and Return	46,923	5,214	41,709
7/1/01	21036	17&18, or 23&24	Linthicum Processing and Distribution Facility to Whiteford Facility and Return	155,352	17,261	138,091
7/1/01	21038	79&80	Linthicum Processing and Distribution Facility to Reistertown Facility and Return	93,327	10,370	82,957
	Total	14 Trips		\$486,754	\$51,485	\$435,269

APPENDIX C. MANAGEMENT'S COMMENTS

MANAGER, CAPITAL METRO OPERATIONS



March 20, 2003

B. WAYNE GOLESKI

SUBJECT: Draft Audit Report - Highway Network Scheduling - Capital Metro Area
(Report TD-AR-03-DRAFT)

This letter is in response to the December 12, 2002, Office of Inspector General draft audit report. We appreciate the opportunity to comment on your work, and welcome your assistance in identifying opportunities for savings. Based on our review of the audit recommendations, we respond thus:

We substantively concur with your recommendations. Recommendations 1 and 2 identified 34 trips for elimination. We have already eliminated 16 trips and have termination action pending on 8 others. Network management is a dynamic process and transportation requirements continually change. Consequently we have reorganized trips on Route 21038, and we routinely make substitutions or adjustments we think appropriate. As a result, we believe 10 trips you recommended for cancellation are still needed.

Regarding monetary benefits. We cannot validate your projected savings at this time. The savings you estimated were based on remaining contract life, net of contract indemnity fees, and were subject to numerous variables. For example, on some of the trips we have already eliminated, we were able to negotiate indemnity fees to zero.

As you requested in recommendation 2, we will provide you with documentation supporting our decision to retain 10 trips you recommended for cancellation. At the same time, we will provide our assessment of potential monetary savings. Our commitment to reduce highway transportation costs is ongoing with projects such as our Breakthrough Productivity Initiative, and we will continue our ongoing effort to further optimize our transportation network.

If you require additional information, please contact Joseph Lennon, manager, Distribution Networks Office, at (301) 618-4401.

A handwritten signature in black ink, appearing to read "Jerry D. Lane".

Jerry D. Lane

cc: Paul Vogel

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