

March 31, 2003

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

DAVID L. SOLOMON
VICE PRESIDENT, NEW YORK METRO AREA OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling – New York Metro Area
(Report Number TD-AR-03-008)

Background

On July 5, 2002, the Office of Inspector General (OIG) announced an audit of highway network scheduling. 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 New York Metro Area (Project Number 02YG017TD001).



Highway contract terminating route at the Air Mail Center at John F. Kennedy International Airport, New York, New York, September 16, 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 1,027 trips were operated under the 70 New York Metro Area contracts.¹ In preparation for our work, we provided the area transportation manager in the New York Metro Area with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the New York Metro Area, reviewed relevant Postal Service policies and procedures, visited five 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 1,027 trips. We did not evaluate the reliability of the data obtained from the Transportation Information Management Evaluation System. Work associated with the New York Metro Area was conducted from July 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 conclusions and observations 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

¹ The list of contract routes provided by the vice president, Network Operations Management, included 83 contracts, however, five were inactive or terminated and eight fell under the Trenton Processing and Distribution Center, which had been closed.

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 \$470,000 over the term of existing New York Metro Area highway contracts by canceling 32 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 \$74,000.

After we completed our analysis, we discussed the 32 trips with plant managers. The managers agreed 12 trips could be canceled, but disagreed with our assessment of another 20 trips. The trip cancellation proposals are summarized in the following table:

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.	12	A	\$182,142
Trips we identified during audit work with which plant managers disagreed.	<u>20</u>	B	<u>\$287,981</u>
Total	32		\$470,123

The plant managers disagreed with the 20 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 exists, without jeopardizing service or operational flexibility.

Recommendation

We recommend the vice president, New York Metro Area Operations:

1. Cancel the 12 trips, which plant managers agree are unnecessary.

Management's Comments

Management agreed with our recommendation and stated that the contracting officer at the New York Distribution Networks Office already authorized termination of all 12 trips. Management's comments, in their entirety, are included in Appendix C of this report.

Recommendation

We recommend the vice president, New York Metro Area Operations:

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

Management's Comments

Management agreed with our recommendation and stated that during their Breakthrough Productivity Initiative they would reassess the 20 trips plant managers felt were necessary.

Evaluation of Management's Comments

Management's response cited savings at variance with the savings we identified. They suggested the variance was the difference between annual savings and savings projected over the canceled term of terminated contracts. However, management did not otherwise support the amounts they cited, and we cannot determine from the information provided whether the amounts they cited are reasonable. Nonetheless, management promised that at the completion of their reassessment, they would notify the OIG of actions they had taken, and the resulting savings they anticipated. At that time, we will be able to examine the accuracy of their projections. In the interim, we consider management's comments responsive to our recommendations, and the actions taken or planned should correct the issues identified in the report.

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 our audit. 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
John A. Rapp
Anthony M. Pajunas
Susan M. Duchek

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

Highway Contract Route	Trip Number	Origin/Destination	Estimated Life of Contract	Indemnity Fees	Estimated Cost Savings
08810	17 and 18	Kilmer P&DC* to Newark Air Mail Center and return	\$20,905	\$3,484	\$17,421
08810	7 and 8	Kilmer P&DC to Continental Airlines and return	18,966	3,161	15,805
07711	5 and 6	Monmouth P&DC to Newark Air Mail Center and return	58,097	4,841	53,256
07029	13 and 14	New Jersey Facility to Bronx Facility and return	43,669	7,278	36,390
07032	11and12	Newark P&DC to Westfield Facility and return	4,111	0	4,111
10513	11S and 12S	Westchester P&DC to LaGuardia Air Mail Center and return	66,190	11,032	55,158
Total	12 Trips		\$211,938	\$29,796	\$182,142

*Processing and Distribution Center

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

Highway Contract Route	Trip Number	Origin/Destination	Estimated Life of Contract	Indemnity Fees	Estimated Cost Savings
07611	3 and 4	Hackensack P&DC* to Newark P&DC and return	\$23,438	\$3,906	\$19,532
07611	33 and 34	Hackensack P&DC to Newark P&DC and return	5,143	857	4,286
07692	3 and 4	Hackensack Annex to Saddle Brook Facility and return	42,362	7,060	35,302
08810	1 and 2	Kilmer P&DC to Newark Air Mail Center and return	20,905	3,484	17,421
08810	19 and 20	Kilmer P&DC to D.V. Daniels P&DC and return	34,696	5,738	28,913
11710	15 and 16	Mid-Island P&DC to J. Farley P&DC and return	67,110	7,457	59,653
07028	5 and 6	D.V. Daniels P&DC to New Jersey Facility and return	25,649	0	25,649
07032	1 and 2	Newark P&DC to Westfield Facility and return	21,210	0	21,210
07129	7 and 8	Newark P&DC to New Jersey Facility and return	59,518	9,920	49,498
07910	7 and 8	West Jersey P&DC to Newark P&DC and return	31,700	5,283	26,417
Total	20 Trips		\$331,731	\$43,750	\$287,981

*Processing and Distribution Center

APPENDIX C. MANAGEMENT’S COMMENTS

MANAGER, TRANSPORTATION CONTRACTS
 NEW YORK METRO AREA OPERATIONS- DISTRIBUTION NETWORKS OFFICE



March 13, 2003

Mr. B. Wayne Goleski
 Assistant Inspector General – Core Operations
 Office of the Inspector General
 1735 N. Lynn Street
 Arlington, VA 22209-2020

Subject: Audit Report –Highway Transportation Scheduling – New York Metro Area
 (Report Number TD-MA-03-Draft)

As per discussion with Joe Oliva last Friday, this will serve as a follow-up and update to our response dated January 9th (attached).

Recommendation # 1: Cancel the 12 trips which plant managers agree are unnecessary.

NYMA Response: We concurred with the intent of the IG recommendations. The Contracting Officer at the NY DNO has finalized and effected the service reduction on all 12 trips (see below).

HCR #	Contract Ends	Trip Number	Eff. Date of Service Change	Savings
08810	6/30/03	7/7, 17/18	September 14, 2002	\$ 26,013.03
07032	6/30/03	11/12	November 30, 2002	\$ 5,017.47
10513	6/30/05	11s/12s	July 27, 2002	\$ 32,010.55
07711	6/30/03	5 / 6	March 8, 2003	\$ 36,783.21
07029	6/30/03	13/14	February 1, 2002	\$ 25,331.35
Total				\$125,155.61

Recommendation #2: Reassess the 20 trips plant managers feel are unnecessary, cancel trips indicated by the reassessment as unnecessary, and document the reasons for retaining the other trips.

NYMA Response: We concur with the intent of the IG recommendation to reassess whether these trips are necessary. However, we still do not necessarily agree that the trips can be terminated or consolidated without negatively impacting service. Nonetheless, during our Breakthrough Productivity Initiative (BPI) reassessment, we are reassessing and considering which trips are necessary.

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Regarding the OIG's conclusion that canceling the 32 trips would save \$470,123, we cannot validate that conclusion at this time. During our BPI reassessments we will consider trip substitutions, consolidations, and other adjustments to the intent of the OIG's recommendations that we may consider appropriate. Upon final completion of our effort, we will notify the OIG of the actions taken and any savings achieved.



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Manager, Transportation Contracts
New York Metro Area Operations– Distribution Networks Office (DNO)

Cc: David L. Solomon
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VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



January 9, 2003

B. Wayne Goleski
Assistant Inspector General for Core Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Highway Transportation Scheduling – New York Metro Area
(Report Number TD-AR-03-Draft)

Reference is made to the above subject matter. Our comments regarding the recommendations are as follows:

Finding: Audit revealed that the Postal Service could save about \$470K by canceling 32 unnecessary trips. Postal management agreed with 12 trip cancellations but disagreed with the OIG's assessment of the other 20 trips.

Recommendation # 1: Cancel the 12 trips, which plant managers agree are unnecessary.

NYMA Response: We concur with the intent of the OIG's recommendations. The Contracting Officer (CO) at the NY DNO has already authorized and effected the service reduction on 8 of the 12 trips (see below). The CO is in the process of effecting the service reductions on the remaining 4 (also see below).

<i>HCR #</i>	<i>Contract Ends</i>	<i>Trip Numbers</i>	<i>Eff. Date of Service Change</i>	<i>Savings</i>
08810	6/30/03	7&7, 17&18	September 14, 2002	\$26,013.03
07032	6/30/03	11/12	November 30, 2002	\$ 5,017.47
10513	6/30/05	11s/12s	July 27, 2002	\$32,010.55
Total				\$63,041.05

<i>HCR#</i>	<i>Contract Ends</i>	<i>Trip Numbers</i>	<i>Est. Date of Service Change</i>	<i>Est. Savings</i>
07029	6/30/03	13 and 14	NLT February 22, 2002	\$ 35,000
07711	6/30/03	5 and 6	NLT February 22, 2002	\$ 50,000
Total				\$ 85,000

Grand Total \$148,041

Note: The estimated savings cited above are annualized and realized each year. As per Special Agent Maria Longley, the OIG has estimated savings only to full contract term. Under this scenario, the savings to full contract term will be \$143,767.45

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Recommendation #2: Reassess the 20 trips plant managers feel are unnecessary, cancel trips indicated by the reassessment as unnecessary, and document the reasons for retaining the other trips. The estimated savings for the above is approximately \$288K.

NYMA Response: We concur with the OIG's recommendation to reassess whether these trips are necessary. However, at this time, we do not agree with the OIG's conclusion stated early in the draft report that these trips could be terminated or consolidated without negatively impacting service. Our New York Metro Area plant managers have reviewed these trips and have concluded that they are necessary to protect service. We will review and revalidate those conclusions once again through our Area BPI Transportation Team. Upon completion of that reassessment, we will make any identified substitutions, deletions, consolidations, and retention decisions as appropriate and notify the OIG of any action taken. We plan on beginning that assessment no later than February 22, 2003, and completing it by March 21, 2003.



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