

September 23, 2003

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling – Western Area (Report Number TD-AR-03-013)

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 of a series of reports. It focuses on the Western Area (Project Number 02YG017TD006).



**Highway contractor leaving the Denver, Colorado,
Processing and Distribution Center June 16, 2003.**

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 2,302 trips were operated under the 325 Western Area contracts. In preparation for our work, we provided the Western Area transportation manager with a list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Western Area; reviewed relevant Postal Service policies and procedures; visited two 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 2,302 trips. We did not evaluate the reliability of the data obtained from the Transportation Information Management Evaluation System.

Work associated with the Western Area was conducted from April through September 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 canceled

trips, as well as the resulting savings. We considered management’s actions responsive to our recommendations. For other related prior audit coverage see Appendix A.

Audit Results

Unnecessary Highway Contract Trips

Our audit revealed the Postal Service could save about \$2.7 million by terminating 70 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.

Savings could be attained by canceling unnecessary trips that are currently contracted to continue from 1 to 3 years. The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$147,000.

After we completed our analysis, we discussed the 70 trips with plant managers. The managers agreed 30 trips could be canceled, but disagreed with our assessment of another 40 trips. The trip cancellation proposals are summarized in the following table:

	TRIP CANCELLATION PROPOSALS		
CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	IDENTIFIED SAVINGS
Trips we identified during audit work with which plant managers agreed.	30	B	\$ 2,185,842
Trips we identified during audit work with which plant managers disagreed.	<u>40</u>	C	<u>535,688</u>
Total	70		\$2,721,530

The plant managers disagreed with the 40 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 and savings exists.

Recommendations

We recommend the vice president, Western Area Operations:

1. Cancel the 30 trips, which plant managers agree are unnecessary.
2. Reassess the 40 trips plant managers feel are necessary, cancel trips indicated by the reassessment as necessary, and document the reasons for retaining the other trips.

Management’s Comments

Management concurred with the intent of our finding and recommendations. Regarding the 70 trips we identified for elimination, management stated they had already eliminated 10 trips and that other trips were pending final action. They explained that most cancellations were as agreed during our audit, but they made certain substitutions they considered appropriate. Regarding the 40 trips we identified for elimination in recommendation 2, but with which local plant managers disagreed, management stated they would reassess the trips, and retain or eliminate the trips as appropriate. Finally, management stated that at the completion of their effort, they would notify the OIG of all cancelled trips, and of the resulting cost savings. Management’s comments, in their entirety, are included in Appendix D of this report.

Evaluation of Management’s Comments

Management’s comments are responsive to the intent of our recommendations. 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 action(s) 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 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.

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

Attachment

cc: Patrick R. Donahoe
John A. Rapp
Anthony M. Pajunas
Susan M. Ducheck

APPENDIX A. PRIOR AUDIT COVERAGE

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 ten trip terminations, but subsequently 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 canceled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

Our audit report, Highway Network Scheduling – Capital Metro Area (Report Number TD-AR-03-007, dated March 28, 2003), identified 34 highway contract trips we thought could be eliminated, and consequently result in savings to the Capital Metro Area of about \$1.1 million. Management agreed with 20 trip terminations, but subsequently made certain substitutions they considered appropriate. Although local plant managers disagreed with 14 trips we identified, management agreed to reassess the trips, retain, or eliminate trips as appropriate, and notify the OIG of all canceled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

Our audit report, Highway Network Scheduling – New York Metro Area (Report Number TD-AR-03-008, dated March 31, 2003), identified 32 highway contract trips we thought could be eliminated, and consequently result in savings to the New York Metro Area of about \$470,000. Management agreed with 12 trip terminations and canceled all 12 trips. Although local plant managers disagreed with 20 trips we identified, management agreed to reassess the trips, retain or eliminate trips as appropriate, and notify the OIG of all canceled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

Our audit report, Highway Network Scheduling – Southwest Area (Report Number TD-AR-03-0010, dated July 11, 2003), identified 249 highway contract trips we thought could be eliminated, and consequently result in savings to the Southwest Area of about \$6 million. Management agreed with 148 trip terminations, but indicated they may make certain substitutions they considered appropriate. Although local plant managers disagreed with 101 trips we identified, management agreed to reassess the trips, retain or eliminate trips as appropriate, and notify the OIG of all canceled trips, as well as the resulting savings. We considered management's actions responsive to our recommendations.

APPENDIX B. TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH PLANT MANAGERS AGREED						
Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Savings	Indemnity Fees¹	Estimated Cost Savings
7/1/2002	80810	7 and 8	Colorado Springs Processing and Distribution Center to Pueblo Main Post Office and Return	\$ 83,460	\$ 27,820	\$ 55,640
12/1/2001	68390	1, 2 and 3, 4	Des Moines Bulk Mail Center to Lincoln Processing and Distribution Center and Return	1,980,010	0	1,980,010
1/3/2001	56044	3 and 4	Mankato Processing and Distribution Facility to St. Cloud Processing and Distribution Facility and Return	20,226	3,371	16,855
10/5/2002	612CA	19, 20, 21, 22	Quad Cities Processing and Distribution Facility to Rock Island Main Post Office and Return	21,172	7,057	14,115
8/12/2001	84123	7 and 8	Salt Lake City Auxiliary Service Facility to Ben Lomand Station and Return	30,328	0	30,328
7/1/2002	570CD	1 and 2	Sioux Falls Processing and Distribution Center to Sioux Falls Regional Airport and Return	12,187	4,062	8,125
7/1/2002	570CD	3-8	Sioux Falls Processing and Distribution Center to Sioux Falls Regional Airport and Return	51,923	17,308	34,615
7/1/2002	570CD	21-24 and 33-36	Sioux Falls Processing and Distribution Center to Sioux Falls Regional Airport and Return	69,231	23,077	46,154
Total		30 Trips		\$2,268,537	\$ 82,695	\$ 2,185,842

¹ Highway contract routes reflecting \$0 indemnity fees expire in June 2003.

APPENDIX C. TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH PLANT MANAGERS DISAGREED

Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Savings	Indemnity Fees	Estimated Cost Savings
11/2/2002	524CD	1, 2 or 3, 4	Cedar Rapids Processing and Distribution Center to Cedar Rapids Airport Mail Facility and Return	\$ 5,972	\$ 498	\$ 5,474
11/2/2002	524CD	5, 6 or 7, 8	Cedar Rapids Processing and Distribution Center to Cedar Rapids Airport Mail Facility and Return	5,834	486	5,348
11/2/2002	524CD	11, 12 or 13, 14	Cedar Rapids Processing and Distribution Center to Cedar Rapids Airport Mail Facility and Return	7,024	585	6,439
11/2/2002	524CD	19, 20 or 21, 22	Cedar Rapids Processing and Distribution Center to Cedar Rapids Airport Mail Facility and Return	7,024	585	6,439
10/5/2002	80020	9, 10 or 13, 14	Denver Mail Processing Annex to Golden Main Post Office and Return	64,650	21,550	43,100
7/1/2000	80037	5 and 11	Denver Processing and Distribution Center to Durango Service Center Facility	7,168	597	6,571
8/5/2000	80118	873, 874 or 875, 876	Denver Processing and Distribution Center to Valmont Station and Return	38,250	3,187	35,063
1/27/2002	80122	44 and 64 or 66	Cheyenne Processing and Distribution Center to Denver Airport Mail Facility	42,334	3,528	38,806
10/5/2002	64019	1 and 2	Kansas City Airport Mail Facility to Maryville Post Office and Return	103,637	0	103,637
8/10/2002	577AD	1 and 2	Rapid City Processing and Distribution Facility to Rapid City Airport and Return	10,542	879	9,663
8/10/2002	577AD	7 and 8	Rapid City Processing and Distribution Facility to Rapid City Airport and Return	8,757	730	8,027
8/10/2002	577AD	9, 10 or 11, 12	Rapid City Processing and Distribution Facility to Rapid City Airport and Return	8,757	730	8,027
11/9/2002	670BA	429 and 430	Wichita Processing and Distribution Center to Wichita (Downtown Station) and Return	\$ 6,015	\$ 1,002	\$ 5,013

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Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Savings	Indemnity Fees	Estimated Cost Savings
11/9/2002	670BA	409, 410 or 411, 412	Wichita Processing and Distribution Center to Wichita Airport Mail Facility and Return	\$ 5,515	\$ 919	\$ 4,596
11/9/2002	670BA	413 and 414	Wichita Processing and Distribution Center to Wichita Airport Mail Facility and Return	8,229	1,372	6,857
11/9/2002	670BA	441 and 442	Wichita Processing and Distribution Center to Wichita Airport Mail Facility and Return	5,349	891	4,458
11/9/2002	670BA	445 and 446	Wichita Processing and Distribution Center to Wichita Airport Mail Facility and Return	7,596	1,266	6,330
11/9/2002	670BA	421 and 422	Wichita Processing and Distribution Center to Wichita Airport Mail Facility and Return	6,306	1,051	5,255
11/9/2002	670BA	323 and 324	Wichita Processing and Distribution Center to Wichita (North Station) and Return	41,138	6,856	34,282
9/7/2002	66391	803 and 804	Kansas City Bulk Mail Center to Hays Post Office and Return	209,785	17,482	192,303
Total		40 Trips		\$ 599,882	\$ 64,194	\$ 535,688

APPENDIX D. MANAGEMENT'S COMMENTS

DISTRIBUTION NETWORKS OFFICE
WESTERN AREA



September 11, 2003

MARY DEMORY
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR CORE OPERATIONS

SUBJECT: OIG Audit Report

This letter is in response to the Office of Inspector General (OIG) draft audit report, Highway Network Scheduling – Western Area, dated August 22, 2003.

This office concurs with the intent of your findings and recommendations. In total, your report identified 70 trips for elimination, of which 30 trips were included in Appendix B. To date, the Western Area has eliminated 10 trips, and a number of other trips are currently pending final action. Most cancellations are as we agreed during the audit; however, we have made some substitutions we think appropriate. Upon completion of our effort, we will notify you of the trips eliminated and the resulting cost savings.

Appendix C of your report recommended 40 trips for elimination, but these were recommendations with which our plant managers disagreed. We concur with the OIG's recommendation to reassess the trips, will retain or eliminate the trips as may be appropriate, and will notify you of the action we have taken.

If you have any questions, please call either Lyle F. Knapp at 303-313-5171 or Dale F. Creason at 303-313-5825.

A handwritten signature in black ink, appearing to read "Donald A. Dietz".

Donald A. Dietz
Manager

cc: Lyle F. Knapp, Senior Networks Operation Analyst
Dale F. Creason, Networks Operations Specialist

DAD:DFC:dfc

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