

September 26, 2003

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

WILLIAM J. BROWN
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling - Southeast Area
(Report Number TD-AR-03-014)

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, in support of the Postal Service Breakthrough Productivity Initiative. This is one of a series of reports. It focuses on the Southeast Area (Project Number 02YG017TD004).



**Highway contract route originating at Tampa Processing and Distribution Center,
Tampa, Florida, October 23, 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 1,546 trips were operated under the 183 Southeast Area contracts. In preparation for our work, we provided plant managers in the Southeast Area with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Southeast Area; reviewed relevant Postal Service policies and procedures; visited 13 processing facilities; 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 1,546 trips. We did not evaluate the reliability of the data obtained from the Transportation Information Management Evaluation System. Work associated with the Southeast Area was conducted from October 2002 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. After we issued our draft report, management made certain suggestions with which we concurred. Consequently, we modified our final report to accommodate those suggestions.

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 \$11.3 million (\$.8 million for the remainder of fiscal year (FY) 2003 and \$10.5 million in future years) by canceling 101 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. As indicated below, five of the affected contracts expired in June 2003. The other 25 contracts have 1 to 3 years remaining.

TRIP CATEGORY	AFFECTED CONTRACTS	NUMBER OF TRIPS	ANTICIPATED SAVINGS
Contracts which expired in June 2003	5	18	\$ 3,892,306
Contracts expiring in 1 to 3 years	<u>22</u>	<u>83</u>	<u>7,460,575</u>
All Terminated Trips	27	101	\$11,352,881

Savings could be attained by not renewing contract trips identified as unnecessary that expired in June 2003 and canceling unnecessary trips that are currently contracted to continue 1 to 3 years. The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$1.3 million.

After we completed our analysis, we discussed the 101 trips with plant managers and area officials. The Postal Service has a Breakthrough Productivity Initiative underway, whose goal is to optimize the movement of mail on the transportation network and reduce expenditures for mail transportation. The Southeast Area conducted a Breakthrough Productivity Initiative review during the course of our audit in the Atlanta Area. Postal Service officials identified 54 trips for cancellation as a result of the Breakthrough Productivity Initiative review. In addition, plant managers agreed that an additional 23 trips could be canceled, but disagreed with our assessment of 24 trips. The trip cancellation proposals are summarized below:

TRIP CANCELLATION PROPOSALS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	IDENTIFIED SAVING
Cancellations identified during the Breakthrough Productivity Initiative	54	B	\$ 8,298,053
Trips we identified during audit work with which plant managers agreed.	23	C	1,313,316
Trips we identified during audit work with which plant managers disagreed.	<u>24</u>	D	<u>1,741,512</u>
Total	101		\$11,352,881

The plant managers disagreed with the 24 proposals for various reasons—generally that eliminating the trips would reduce operational flexibility. We revisited each of the trips with the plant managers and reconsidered trip mail volume and service requirements. We continue to believe the potential for trip cancellation without jeopardizing service or operational flexibility and savings exists.

Recommendation

We recommend the vice president, Southeast Area Operations:

1. Verify the actual cancellation of the 54 trips identified during the Breakthrough Productivity Initiative.

Management's Comments

Management concurred with the intent of our finding and recommendation. They stated that to date, they had eliminated or adjusted all trips. Management's comments, in their entirety, are included in Appendix E of this report.

Recommendation

2. Cancel the 23 trips, which plant managers agree are unnecessary.

Management's Comments

Management concurred with the intent of our finding and recommendation. Management stipulated that many of the trips we recommended for cancellation required their further analysis because they could not verify their plant manager's concurrence. They explained trips were subject to changing requirements and reserved the right to make adjustments or substitutions. Management also stated they anticipated completion of their analysis no later than November 1, 2003, and they would notify us when all actions were completed.

Recommendation

3. Reassess the 24 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 concurred with the intent of our finding and recommendation. They stated they would reassess the recommended trip cancellations, retain or eliminate the trips as may be appropriate, and notify us of the action taken.

Other Management's Comments

Management stated they were unable to validate our monetary findings at this time. They explained that their normal methodology was to restrict savings calculations to a 1-year planning and budgeting cycle and that they understood OIG calculations extended beyond the current year. They explained that because of changing requirements, trip substitutions or adjustments, and differing methodologies for calculating cost benefit, their savings calculations differed from the OIG's. They acknowledged our willingness to work with them to reconcile differences and expressed appreciation for that opportunity. They stated when their reassessment of all trip cancellations was complete, and when they had reconciled methodologies for calculating cost benefit, they would specify anticipated savings.

Evaluation of Management's Comments

Management's comments are responsive to our findings and recommendations. Management correctly identified the dynamic nature of changing highway transportation requirements, as well as differing methodologies for identifying savings. For example, management pointed out that the OIG methodology is not restricted to the 1- year planning and budgeting cycle. That is a correct observation. As we specified in our report, the methodology is linked to contract term net of applicable cancellation fees. We share management's perspective that optimization of scheduled highway trips is an important continuing objective. We believe our audit served as a significant catalyst toward that objective. We look forward to continued work with management in order to optimize networks and save money. Management's actions taken or planned should correct the issues identified in the report.

The OIG considers recommendations 1, 2, and 3 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. Duchek

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 draft 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. Plant managers agreed that 20 trips should be canceled, but disagreed with our assessment of another 14 trips. We recommended management cancel the 20 trips, which plant managers agree are unnecessary, and reassess the 14 trips plant managers feel are necessary. We considered management's actions responsive to our recommendations.

Our draft 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. Plant managers agreed 12 trips should be canceled, but disagreed with our assessment of another 20 trips. We recommended management cancel the 12 trips, which plant managers agree are unnecessary, and reassess the 20 trips plant managers feel are necessary. We considered management's actions responsive to our recommendations.

<p align="center">APPENDIX B TRIP CANCELLATIONS IDENTIFIED DURING THE BREAKTHROUGH PRODUCTIVITY INITIATIVE REVIEW DURING THE AUDIT</p>						
Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Contract Savings	Indemnity Fees ¹	Estimated Cost Savings
9/3/02	30010	5, 6, 8, 9, 3003, and 3004,	Atlanta Processing and Distribution Center to Montgomery Processing and Distribution Center and Return	\$ 475,134	\$ 0	\$ 475,134
9/6/02	30193	803, 805, 806, 810, 811, 812, 813, 814, 815, 816, 818, 801, and 804	Atlanta Bulk Mail Center to Knoxville Processing and Distribution Center and Return	2,170,329	321,530	1,848,799
9/10/02	323CE	3702, 3703, and 3706	Tallahassee Processing and Distribution Center to Clinton Facility and Return	1,217,579	0	1,217,579
5/18/02	30198	801 and 803	Atlanta Bulk Mail Center to Selma Facility and Return	273,092	40,458	232,634
5/20/02	310CE	3701, 3702, 3703, 3704, 3705, and 3706	Macon Processing and Distribution Center to Clinton Facility to Macon Processing and Distribution Center and Return	2,008,930	0	2,008,930
5/18/02	301L2	3702, 3703, 3704, 3705, 3706, and 3707	Clinton Facility to Atlanta Facility and Return	1,219,791	180,710	1,039,081
10/4/02	30096	3, 4, 3001, 3002, 805, 815, 818, and 823	Chattanooga Facility to Atlanta Airport Mail Center to Atlanta Processing and Distribution Center and Return; Chattanooga Facility to Atlanta Facility and Return; Chattanooga Facility to Atlanta Bulk Mail Center and Return	627,123	92,907	534,216
7/24/02	300U1	9, 10, 13, 22, 3005, 3007, 3012, 3020, 3011, and 3015	Atlanta Processing and Distribution Center to Birmingham Processing and Distribution Center and Return; Atlanta Air Mail Center to Birmingham Processing and Distribution Center and Return; Atlanta Facility to Birmingham Processing and Distribution Center and Return; Atlanta Delta Cargo to Birmingham Processing and Distribution Center	1,105,451	163,771	941,680
	Total	54 Trips		\$9,097,429	\$799,376	\$8,298,053

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

<p align="center">APPENDIX C TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH PLANT MANAGERS AGREED</p>						
Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Contract Savings	Indemnity Fees ¹	Estimated Cost Savings
12/28/02	35636	6 and 13	Huntsville Processing and Distribution Center to Athens Facility and Return	\$ 69,341	\$ 7,112	\$ 62,229
7/2/02	36018	4	Selma Facility to Montgomery Processing and Distribution Center	13,329	1,346	11,983
8/10/02	300U0	23 and 6	Atlanta Air Mail Center to Augusta Facility	170,509	25,261	145,248
9/28/02	305L1	1, 2, 7, and 8	Athens Processing and Distribution Center to Buford Facility and Return	110,970	31,322	79,648
5/18/02	30015	3 and 4	Macon Processing and Distribution Center to Waycross Facility and Return	257,272	38,114	219,158
7/1/00	378ME	3700, 3701, 3706, and 3707	Clinton Facility to Knoxville Processing and Distribution Center and Return; Clinton Facility to Knoxville Air Mail Facility to Knoxville Processing and Distribution Center and Return	31,253	8,334	22,919
7/1/02	33111	605 and 606	Miami Priority Mail Processing Center to South Florida Mail Processing Center and Return	65,721	6,741	58,980
7/1/02	32016	9, 10, 11, and 12	North Florida Mail Processing Center and Return	774,792	135,159	639,633
4/20/02	30541	1 and 2	Athens Facility to Gainesville Facility and Return	86,304	12,786	73,518
	Total	23 Trips		\$1,579,491	\$266,175	\$1,313,316

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

Effective Date of Last Contract Change	Highway Contract Route	Trip Number	Origin/Destination	Contract Savings	Indemnity Fees ¹	Estimated Cost Savings
2/9/02	39047	8 and 9	Meridian Facility to Jackson Processing and Distribution Center and Return	\$ 99,845	\$ 13,313	\$ 86,532
11/3/01	38760	1 and 2	Greenville Facility to Grenada Facility and Return	118,268	17,521	100,747
11/3/01	389AO	3 and 4	Grenada Facility to Jackson Processing and Distribution Center and Return	69,286	0	69,286
10/28/00	387BD	1 and 2	Greenville Facility to Memphis Air Mail Center and Return	281,977	41,774	240,203
10/5/02	35045	8	Gadsden Facility to Birmingham Facility	121,377	0	121,377
12/28/02	35636	3 and 4	Huntsville Facility to Athens Facility and Return	75,795	7,774	68,021
1/15/03	36010	5 and 2	Montgomery Processing and Distribution Center to Opelika Facility; Auburn Facility to Montgomery Processing and Distribution Center	147,983	15,178	132,805
8/10/02	300U0	3013	North Metro Facility to Augusta Facility and Return	160,273	23,744	136,529
4/20/02	30541	6 and 12	Athens Facility to Gainesville Facility and Return; Gainesville Facility to North Metro Processing and Distribution Center	48,472	7,181	41,291
9/7/02	30095	842 and 843	Atlanta Bulk Mail Center to Birmingham Processing and Distribution Center and Return	297,447	44,066	253,381
4/20/02	30810	3 and 4	Augusta Processing and Distribution Center to Macon Processing and Distribution Center and Return	20,296	3,007	17,290
7/1/02	37813	4603 and 4604	Knoxville Processing and Distribution Center to Indianapolis Facility and Return	293,742	15,064	278,678
11/2/02	37010	7 and 8	Nashville Processing and Distribution Center to Nashville Facility to Chattanooga Processing and Distribution Center and Return	229,350	33,978	195,372
	Total	24 Trips		\$1,964,111	\$222,600	\$1,741,512

APPENDIX E. MANAGEMENT'S COMMENTS

WILLIAM J. BROWN
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



September 19, 2003

MEMORANDUM FOR: Mary Demory
Deputy Assistant Inspector General
For Core Operations

SUBJECT: Draft Audit Report – Highway Network scheduling –
Southeast Area

As requested, following is our response to the Office of Inspector General (OIG) draft audit report dated April 10, 2003. We concur with the intent of your findings and recommendations:

The recommendations requested that we:

1. Verify the cancellation of 54 trips on 8 highway contract routes which was identified by our Distribution Networks Office during our Breakthrough Productivity Initiative (BPI). Included in the OIG draft audit is a projected savings of \$8.298M associated with the Southeast Area BPI initiative compared to the Southeast Area calculated savings of \$876K. To date, the Southeast Area has eliminated or adjusted all trips.
2. Cancel 23 trips plant managers agree are unnecessary. Nearly half of the trips identified by recommendation 2 require additional analysis by the Area before termination action can be implemented, primarily due to our inability to verify that concurrence by the plant managers was ever obtained. Our discussions with transportation managers indicate that other trips are subject to changing requirements; and, we reserve the right to make adjustments or substitutions to the OIG recommendation. We will notify you when all eliminations or other actions are completed. We anticipate these actions being completed no later than November 1, 2003. The optimization of scheduled highway trips is an important continuing objective of the Southeast Area.
3. Reassess the 24 trips plant managers felt were still needed. We will reassess those recommendations, retain or eliminate the trips as may be appropriate, and notify you of the action taken.

Regarding monetary findings, we are unable to validate the OIG's monetary findings at this time. When calculating savings, our normal methodology is to restrict identified savings to a one year planning and budgeting cycle. Based on our continuing discussions with the OIG, we understand the OIG uses a different methodology

225 N HUMPHREYS BLVD
MEMPHIS TN 38166-0100
901-747-7333
FAX: 901-747-7491

Draft Audit Report – Highway Network scheduling –
Southeast Area

2

extending beyond the current year. Because of changing requirements, resulting trip substitutions or adjustments, and shorter periods for calculating cost benefits, our identified savings differ from the OIG. The OIG has expressed a willingness to work with us to reconcile differences in our methodologies to calculate savings. We appreciate that opportunity. When our reassessment of all recommended trip cancellations is complete, and we have reconciled methodologies for calculating cost benefit, we will specify anticipated savings.

We appreciate the efforts of the OIG to supplement our own BPI. We continue to pursue efficiencies for both highway contract routes and Postal vehicle service and remain committed to seeking further optimization of transportation networks.



William J. Brown