



September 21, 2006

MICHAEL DALEY
ACTING VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Surface Transportation – Processing and Distribution
Center Transportation Routes – Pacific Area
(Report Number NL-AR-06-011)

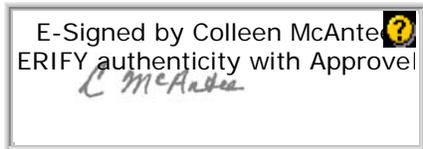
This report presents results from our processing and distribution center (P&DC) transportation routes audit (Project Number 06XG012NL001). Our objectives were to evaluate the effectiveness of P&DC routes and identify opportunities to save money. This report responds to a request from the Vice President, Network Operations Management, and focuses on routes controlled by the Pacific Area.

The U.S. Postal Service could save about \$3.7 million over the term of existing Pacific Area P&DC highway contracts by canceling, not renewing, or modifying 84 trips. The savings represent potential funds that could be put to better use and will be reported as such in our *Semiannual Report to Congress*. The Postal Service could eliminate or modify the trips without negatively affecting service because trip volume was low and mail could be consolidated on other trips. We recommended the Acting Vice President, Pacific Area Operations: (1) verify the actual cancellation, modification, or substitution of the 30 trips identified by Postal Service managers during our audit; (2) verify the actual cancellation, modification, or substitution of the 42 trips with which Postal Service officials agreed; and (3) reassess the 12 trips managers feel are still necessary.

Management agreed with our recommendations. They stated that all 72 trip reductions to which they agreed were in the process of being completed. They also agreed to reassess the remaining 12 trips. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (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 follow-up tracking system until the OIG provides written confirmation 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, or me at (703) 248-2300.



Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

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INTRODUCTION

Background

Processing and distribution centers (P&DCs) are central facilities that receive and process mail and then distribute it to local service areas over the U.S. Postal Service's transportation network. The mail processed by P&DCs, including First-Class Mail® and Periodicals, is very time sensitive. As a result, Postal Service transportation managers often must move it from origin to destination overnight and, in making transportation decisions, continually balance on-time service standards with transportation costs. There are approximately 270 P&DCs in the Postal Service network and the Postal Service spends about \$1.3 billion annually on surface transportation contracts moving mail to and from these facilities.

A highway transportation contractor waiting at the dock at the Anaheim Processing and Distribution Facility, June 8, 2006.



On November 22, 2005, the Vice President, Network Operations Management, requested that we audit the scheduled contracted transportation routes supporting P&DCs. Individual Postal Service areas control those routes. This report focuses on routes the Pacific Area controls and responds to the request from the Vice President, Network Operations Management.

Objectives, Scope, and Methodology

The objectives of our audit were to evaluate the effectiveness of the scheduled contracted transportation routes supporting P&DCs and to identify opportunities to save money.

Using Postal Service computer-generated data, we identified 5,851 trips operated under 361 Pacific Area contracts that had at least one P&DC service point. We did

not audit or comprehensively validate the data; however, we noted several data quality weaknesses that constrained our work. For example, some computer files had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to support our audit conclusions by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussion with appropriate officials.

During our work, we audited 22 facilities, visited 10 facilities, interviewed officials at headquarters and in the Pacific Area, reviewed relevant Postal Service policies and procedures, interviewed managers and employees, and observed and photographed operations. We also evaluated mail volume and the type of mail carried, considered on-time service standards and area initiatives to improve service, and analyzed all 5,851 trips.

We conducted work associated with this report from March through September 2006, in accordance with generally accepted government auditing standards, and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

Since September 2002, the U.S. Postal Service Office of Inspector General (OIG) has worked with the Postal Service to reduce surface transportation. As a result, we have issued 23 audit reports that identified potential savings exceeding \$88.7 million over the life of eliminated or reduced transportation contracts. For more detailed information about these audits, see Appendix A.

AUDIT RESULTS

Contracted Highway Transportation Trips

The Postal Service could improve the effectiveness of scheduled surface contract routes supporting P&DCs and save about \$3.7 million over the term of existing Pacific Area highway contracts by canceling, not renewing, or modifying 84 trips. The Postal Service could eliminate or modify the trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. As indicated below, 27 percent of affected trips expire on June 30, 2007. The other 73 percent expire in 2008 or later and have 1 to 3 years remaining.

PROPOSED NONRENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring on June 30, 2007	27 percent	23	\$991,330
Contracts expiring in 2008 or later	<u>73 percent</u>	<u>61</u>	<u>\$2,658,705</u>
All terminated trips	100 percent	84	\$3,650,035

The Postal Service transportation network is dynamic and requirements constantly change. As we discussed in the

Surface transportation contractor entering the premises of the San Francisco P&DC, April 26, 2006.



objectives, scope, and methodology section of our report Postal Service data has certain limitations. Consequently, our data analysis needed to be tempered by the experience

of on-site transportation managers. Accordingly, throughout our audit we coordinated extensively with plant and area transportation officials and proposed service reductions to them. The officials then reviewed each proposal in conjunction with their own assessment of area-wide network requirements and we discussed our proposals with them.

Based on these discussions, we believe the Postal Service could attain savings through service reductions by:

- Not renewing unnecessary trips that are scheduled to expire on June 30, 2007.
- Canceling unnecessary trips that are currently contracted to expire in 2008 or later and have 1 to 3 years remaining.

The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$209,364. The area agreed with the 72 proposals outlined in Appendices B and C and agreed to reassess the 12 trips listed in Appendix D, which plant and district managers feel are still necessary.

PROPOSED CANCELLATIONS AND MODIFICATIONS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	ESTIMATED SAVINGS
Postal Service-identified trip cancellations or modifications during the audit	30	B	\$902,187
Proposals with which area officials agreed	42	C	2,132,406
Proposals with which plant and district managers disagreed	<u>12</u>	D	<u>615,442</u>
Total	84		\$3,650,035

On August 8, 2006, we conducted a meeting with Pacific Area officials to discuss our report and recommendations. The officials stated they agree with our recommendations and with the trip proposals in Appendices B and C. Regarding Appendix D, they also stated that they agree with the OIG that 10 of the 12 trips can be eliminated without

having a negative impact on service. However, at this point, the local plant and district managers feel the trips are still necessary. The officials specifically agreed to work with the local managers and reassess the 12 trips in Appendix D.

Recommendations

We recommend the Acting Vice President, Pacific Area Operations:

1. Verify the actual cancellation, modification, or substitution of the 30 trips management identified during our audit.
2. Verify the actual cancellation, modification, or substitution of the 42 trips with which Postal Service managers agreed and provide the dates action was taken.
3. Reassess the 12 trips which Postal Service managers still feel are necessary and cancel or modify the trips as indicated by the reassessment or document the reasons for retaining the trips.

**Management's
Comments**

Management agreed with all of our recommendations. They stated they had already initiated action or were anticipating action on all 30 changes identified in recommendation 1; were currently implementing all 42 changes identified in recommendation 2; and would reassess the 12 proposals identified in recommendation 3. Management also stated they established a target date of November 30, 2006, for the completion of all recommendations. Management's comments, in their entirety, are included in Appendix E.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendations. We consider management's actions, taken or planned, sufficient to address the recommendations we made in our report.

APPENDIX A
PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Trips With Which Management Agreed	Trips With Which Management Disagreed	Trips Identified by Management
Highway Network Scheduling - Pacific Area	TD-AR-02-003	9/24/2002	158	\$4,500,417	76	34	48
Highway Network Scheduling - Northeast Area	TD-AR-03-002	11/25/2002	18	776,992	10	8	0
Highway Network Scheduling - Capital Metro Area	TD-AR-03-007	3/28/2003	34	1,144,218	20	14	0
Highway Network Scheduling - New York Metro Area	TD-AR-03-008	3/31/2003	32	470,123	12	20	0
Highway Network Scheduling - Southwest Area	TD-AR-03-010	7/11/2003	249	5,989,082	148	101	0
Highway Network Scheduling - Western Area	TD-AR-03-013	9/23/2003	70	2,721,530	30	40	0
Highway Network Scheduling - Southeast Area	TD-AR-03-014	9/26/2003	101	11,352,881	23	24	54
Highway Network Scheduling - Eastern Area	TD-AR-03-015	9/30/2003	181	10,577,367	128	53	0
Highway Network Scheduling - Great Lakes Area	NL-AR-04-003	3/29/2004	72	5,352,877	48	22	2
BMC Transportation Routes - Great Lakes Area	NL-AR-04-004	9/29/2004	96	7,660,533	49	7	40
BMC Transportation Routes - Eastern Area	NL-AR-05-003	3/17/2005	35	4,791,570	29	6	0
Intermodal Rail and Highway Transportation - Pacific Area	NL-AR-05-004	3/18/2005	0	1,046,240	0	0	0
BMC Transportation Routes - Southeast Area	NL-AR-05-005	3/18/2005	52	6,563,582	52	0	0
BMC Transportation Routes - New York Metro	NL-AR-05-007	6/9/2005	16	1,499,371	16	0	0
BMC Transportation Routes - Southwest Area	NL-AR-05-008	8/3/2005	79	7,175,912	76	0	3
BMC Transportation Routes - Capital Metro Area	NL-AR-05-009	9/2/2005	10	803,060	10	0	0
Intermodal Rail and Highway Transportation Between the Pacific and Southeast Areas	NL-AR-05-011	9/19/2005	0	1,261,308	0	0	0
BMC Transportation Routes - Pacific Area	NL-AR-05-012	9/21/2005	22	3,123,562	10	2	10
BMC Transportation Routes - Northeast Area	NL-AR-05-013	9/26/2005	41	2,491,133	15	0	26
BMC Transportation Routes - Western Area	NL-AR-06-001	2/14/2006	77	2,235,812	50	2	25
Intermodal Rail and Highway Transportation Between the Western and Great Lakes Areas	NL-AR-06-002	3/10/2006	2	1,942,841	2	0	0

Report Name	Report Number	Date Final Report Issued	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Trips With Which Management Agreed	Trips With Which Management Disagreed	Trips Identified by Management
BMC Transportation Routes - Summary Report	NL-AR-06-004	3/28/2006	0	0	0	0	0
P&DC Transportation Routes - Great Lakes Area	NL-AR-06-008	7/25/2006	107	5,289,849	73	14	20
Totals	23		1,452	\$88,770,260	877	347	228

BMC – Bulk Mail Center

P&DC – Processing and Distribution Center

APPENDIX B

**TRIPS IDENTIFIED BY POSTAL SERVICE MANAGERS
 DURING AUDIT WORK**

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
10/29/2005	6/30/2009	91318	N/A	Reduction of rate, mileage and hours on entire contract	Los Angeles P&DC to Santa Clarita P&DC and return	\$35,474	\$97,554	\$11,825	\$85,729
10/30/2005	6/30/2008	91332	725 and 726	Reduction of mileage on trips 725 and 726	Santa Clarita P&DC to Burbank and return	6,473	11,328	1,079	10,249
10/30/2005	6/30/2007	91333	N/A	Reduction of rate, mileage, and hours on entire contract	Santa Clarita P&DC to Reseda Main Office and return	23,654	94,616	0	94,616
10/18/2005	6/30/2008	91335	N/A	Reduction of hours on entire contract	Santa Clarita P&DC to Tujunga and return	2,207	3,862	368	3,494
10/30/2005	6/30/2007	91337	N/A	Reduction of hours on entire contract	Santa Clarita P&DC to Pacoima Main Office and return	12,234	48,936	0	48,936
10/30/2005	6/30/2007	91338	N/A	Eliminate trips	Santa Clarita P&DC to Northridge Mail Office and return	2,035	8,140	0	8,140
9/3/2005	6/30/2008	91339	N/A	Reduction of hours on entire contract	Santa Clarita P&DC to North Hollywood Chandler Station and return	7,860	13,755	1,310	12,445

Surface Transportation – Processing and Distribution Center
 Transportation Routes – Pacific Area

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Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
10/30/2005	6/30/2007	91362	N/A	Reduction of rate, mileage, and hours on entire contract	Santa Clarita P&DC to Canyon Country and return	44,525	178,100	7,421	170,679
7/1/2006	6/30/2008	92642	19, 20, 21, 22, 25, 26	Eliminate mileage and hours	Anaheim P&DF to Orange and return	22,449	39,286	0	39,286
7/1/2005	6/30/2009	93230	N/A	Eliminate mileage and hours	Bakersfield P&DC to Exeter and return	41,838	115,055	13,946	101,109
11/27/2004	6/30/2010	932AQ	1, 2	Cancel contract	Bakersfield P&DC to Sequoia Pacific Systems Inc. and return	14,244	53,416	0	53,416
11/26/2005	6/30/2007	940L0	121, 122, 127, 128, 137, 138	Eliminate trips	Evergreen Eagle SFO to San Francisco ISC-PRI and return	39,885	79,770	0	79,770
8/6/2005	6/30/2008	95619	N/A	Eliminate mileage and hours	Sacramento P&DC to San Francisco P&DC and return	111,039	194,318	0	194,318
		Totals	30			\$363,917	\$938,135*	\$35,948*	\$902,187

P&DC – Processing and Distribution Center
 SFO – Code for San Francisco Airport
 ISC-PRI – International Mail Service Center-Priority Mail Center
 P&DF – Processing and Distribution Facility

* Minor rounding difference

APPENDIX C

**TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH
 POSTAL SERVICE MANAGERS AGREED**

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
1/7/2006	6/30/2010	90016	101	Eliminate trip	Los Angeles P&DC to San Francisco P&DC	\$113,149	\$424,308	\$37,716	\$386,591*
1/7/2006	6/30/2010	90016	102	Eliminate trip	San Francisco P&DC to Los Angeles P&DC	113,149	424,308	37,716	386,591*
7/1/2005	6/30/2009	900L1	1	Eliminate trip	Los Angeles P&DC to Venice Main Office	8,106	22,290	0	22,290
7/1/2005	6/30/2009	900L1	2	Eliminate trip	Venice Main Office to Los Angeles P&DC	8,106	22,290	0	22,290
10/1/2005	6/30/2009	900L2	121	Eliminate trip	Los Angeles P&DC to Beverly Hills, CA	9,236	25,398	3,079	22,320*
10/1/2005	6/30/2009	900L2	122	Eliminate trip	Beverly Hills to Los Angeles P&DC	9,236	25,398	3,079	22,320*
7/1/2005	6/30/2009	90713	7	Eliminate all but Sunday	Long Beach P&DC to Los Angeles P&DC	9,088	24,992	3,029	21,963
7/1/2005	6/30/2009	90713	8	Eliminate all but Sunday	Los Angeles P&DC to Long Beach P&DC	9,088	24,992	3,029	21,963

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Pacific Area

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Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
12/17/2005	6/30/2008	91016	121	Eliminate Monday	Pasadena P&DC to Worldway AMC	2,905	5,084	484	4,600
12/17/2005	6/30/2008	91016	122	Eliminate Monday	Worldway AMC to Pasadena P&DC	2,905	5,084	484	4,600
10/29/2005	6/30/2009	91318	9	Eliminate trip	Santa Clarita P&DC to Los Angeles P&DC	23,732	65,264	7,911	57,354*
10/29/2005	6/30/2009	91318	10	Eliminate trip	Los Angeles P&DC to Santa Clarita P&DC	23,732	65,264	7,911	57,354*
7/1/2005	6/30/2009	91712	1	Eliminate trip	Industry P&DC to Worldway AMC	16,560	45,541	5,520	40,021
7/1/2005	6/30/2009	91712	2	Eliminate trip	Worldway AMC to Industry P&DC	16,560	45,541	5,520	40,021
7/1/2005	6/30/2009	91712	15	Eliminate trip	Industry P&DC to Worldway AMC	14,128	38,852	4,709	34,142*
7/1/2005	6/30/2009	91712	16	Eliminate trip	Worldway AMC to Industry P&DC	14,128	38,852	4,709	34,142*
8/6/2005	6/30/2009	91740	19	Eliminate trip	Industry P&DC to Chino	12,369	34,014	4,123	29,891
8/6/2005	6/30/2009	91740	20	Eliminate trip	Chino to Anaheim P&DF	10,317	28,371	3,439	24,932
10/1/2005	6/30/2008	92318	5	Eliminate trip	San Bernardino P&DC to Los Angeles P&DC	28,107	49,187	0	49,187
10/1/2005	6/30/2008	92318	6	Eliminate trip	Los Angeles P&DC to San Bernardino P&DC	28,107	49,187	0	49,187
3/4/2006	6/30/2010	92630	13	Eliminate trip	Anaheim P&DF to Yorba Linda	5,794	21,726	1,931	19,795
3/4/2006	6/30/2010	92630	14	Eliminate trip	Yorba Linda to Anaheim P&DF	4,224	15,842	1,408	14,434

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Pacific Area

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Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
3/4/2006	6/30/2010	926L0	13	Eliminate trip	Anaheim P&DF to Placentia	4,308	16,156	1,436	14,720
3/4/2006	6/30/2010	926L0	14	Eliminate trip	Placentia to Anaheim P&DF	5,620	21,073	1,873	19,200
7/1/2006	6/30/2008	926L6	7	Eliminate Saturday	Santa Ana P&DC to Haxton Station	1,310	2,292	0	2,292
7/1/2006	6/30/2008	926L6	8	Eliminate Saturday	Haxton Station Huntington Beach to Santa Ana P&DC	1,295	2,267	0	2,267
3/18/2006	6/30/2008	928L1	9	Eliminate trip	Anaheim P&DF to Brea	6,778	11,861	1,130	10,731
3/18/2006	6/30/2008	928L1	10	Eliminate trip	Brea to Anaheim P&DF	6,699	11,723	1,116	10,607
11/26/2005	6/30/2007	93011	5	Eliminate trip	Santa Barbara P&DC to Worldway AMC	31,663	126,650	0	126,650
11/26/2005	6/30/2007	93011	6	Eliminate trip	Worldway AMC to Santa Barbara P&DC	32,636	130,545	0	130,545
10/1/2005	6/30/2007	93012	7	Eliminate trip	Oxnard P&DF to Los Angeles P&DC	34,698	138,794	0	138,794
10/1/2005	6/30/2007	93012	8	Eliminate trip	Los Angeles P&DC to Oxnard P&DF	34,114	136,456	0	136,456
10/1/2005	6/30/2007	93035	209	Eliminate trip	Oxnard P&DF to Port Hueneme	5,674	22,695	0	22,695
10/1/2005	6/30/2007	93035	210	Eliminate trip	Port Hueneme to Oxnard P&DF	5,427	21,708	0	21,708
8/6/2005	6/30/2007	930L1	7	Eliminate trip	Oxnard P&DF to Saviers Station	1,906	7,625	0	7,625
8/6/2005	6/30/2007	930L1	8	Eliminate trip	Saviers Station to Oxnard P&DF	1,179	4,716	0	4,716
10/1/2005	6/30/2009	932AA	507	Eliminate trip	Bakersfield P&DC to South Station	7,883	21,679	2,628	19,051

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Pacific Area

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Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
10/1/2005	6/30/2009	932AA	508	Eliminate trip	South Station to Bakersfield P&DC	7,883	21,679	2,628	19,051
7/1/2005	6/30/2009	95239	305	Eliminate trip	Stockton P&DC to Paradise Station	13,507	37,144	4,502	32,642
7/1/2005	6/30/2009	95239	306	Eliminate trip	Paradise Station to Stockton P&DC	13,722	37,736	4,574	33,162
7/1/2005	6/30/2009	95239	307	Eliminate trip	Stockton P&DC to Paradise Station	2,772	7,623	924	6,699
7/1/2005	6/30/2009	95239	308	Eliminate trip	Paradise Station to Stockton P&DC	2,816	7,745	939	6,806
		Totals	42			\$704,617*	\$2,289,954*	\$157,549*	\$2,132,406*

AMC – Air Mail Center
 P&DC – Processing and Distribution Center
 P&DF – Processing and Distribution Facility

* Minor rounding difference

APPENDIX D

**TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH
 POSTAL SERVICE MANAGERS DISAGREED**

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
9/3/2005	6/30/2010	90022	5	Eliminate trip	Los Angeles P&DC to Margaret Sellers P&DC	\$27,044	\$101,416	\$ 0	\$101,416
9/3/2005	6/30/2010	90022	6	Eliminate trip	Margaret Sellers P&DC to Los Angeles P&DC	27,044	101,416	0	101,416
9/3/2005	6/30/2010	90022	9	Eliminate all days but Monday	Los Angeles P&DC to Margaret Sellers P&DC	23,280	87,302	0	87,302
9/3/2005	6/30/2010	90022	10	Eliminate all days but Monday	Margaret Sellers P&DC to Los Angeles P&DC	23,280	87,302	0	87,302
1/21/2006	6/30/2008	926L2	11	Eliminate trip	Santa Ana P&DC to Ontario AMF	22,692	39,711	0	39,711
1/21/2006	6/30/2008	926L2	12	Eliminate trip	Ontario AMF to Santa Ana P&DC	22,692	39,711	0	39,711
9/3/2005	6/30/2008	92830	17	Eliminate trip	Anaheim P&DF to Corona	12,899	22,573	2,150	20,423
9/3/2005	6/30/2008	92830	18	Eliminate trip	Corona to Anaheim P&DF	8,337	14,590	1,390	13,200
3/18/2006	6/30/2008	928L1	1	Eliminate all days but Monday	Anaheim P&DF to Brea	5,611	9,819	935	8,884
3/18/2006	6/30/2008	928L1	2	Eliminate all days but Monday	Brea to Anaheim P&DF	5,546	9,705	924	8,780*

Surface Transportation – Processing and Distribution Center
 Highway Transportation Routes – Pacific Area

NL-AR-06-011

Effective Date of Last Change	Ending Date of Contract	Highway Contract Route Number	Trip Number	Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Savings
5/14/2005	6/30/2010	93032	13	Eliminate trip	Oxnard P&DF to Simi Valley	15,252	57,195	5,084	52,111
5/14/2005	6/30/2010	93032	14	Eliminate trip	Simi Valley to Oxnard P&DF	16,152	60,570	5,384	55,186
		Totals	12			\$209,830*	\$631,309*	\$15,867	\$615,442

P&DC – Processing and Distribution Center
 P&DF – Processing and Distribution Facility
 AMF – Air Mail Facility

* Minor rounding difference

APPENDIX E. MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
(A) VICE PRESIDENT, PACIFIC AREA OPERATIONS



September 7, 2006

Ms. Kim H. Stroud
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SUBJECT: Draft Audit Report – Surface Transportation – Processing and Distribution Center
(P&DC) Transportation Routes – Pacific Area (Report Number NL-AR-06-DRAFT)

The Pacific Area agrees with the general findings and observations provided in the OIG audit of the P&DC highway transportation routes; however, we would like to provide some clarification and context to the estimated savings, a status of each of the 72 agreed upon recommendations and our commitment to reassess the twelve (12) trips disagreed to by the field representatives during their meetings and correspondence with the OIG.

Appendix B - Trips Identified by Postal Service Managers During OIG Audit:

Appendix B includes thirty (30) trips that were identified by the Postal Service for elimination. Thus far, all have been submitted into the Service Change Request System (SCRS) with the exception of the elimination of six (6) trips on 940L0 (Trips 121/122, 127/128 and 137/138). The San Francisco terminal handling supplier (THS), Evergreen moved to a new facility effective last Tuesday, August 28 and we are awaiting the submission of the service change in SCR. The remaining twenty-four (24) trips have already been submitted and processed with annual savings in SCR estimated at \$209,034.

Appendix C - Trips Identified by Postal Service Managers During OIG Audit:

Appendix C includes forty-two (42) trips that the OIG identified for elimination during their audit. We are currently in the process of implementing the recommended changes as provided in Appendix C. Thus far, we can confirm that the field has submitted thirty-eight (38) of the proposed trip eliminations into the SCR System for an estimated annual savings of \$216,222. We are still awaiting the Santa Barbara P&DC to submit the service changes for the elimination of four (4) trips on HCRs 93011 and 93012.

Appendix D - 12 Trips Identified by OIG Audit With Which Local USPS Mgt. Disagreed:

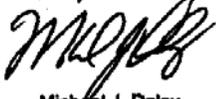
The Pacific Area Distribution Networks staff is committed to reassessing these twelve (12) trips and will provide the OIG with our findings and recommendations upon completion.

We have established a target date of November 30, 2006 to complete the elimination of the proposed trip reductions and our reassessment of the above.

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Please direct any questions or concerns to Jill Navarrette, Transportation Budget & Financial Analyst for the Pacific Area Distribution Networks office at 510-292-2426.



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