

November 25, 2002

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

JON M. STEELE
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling – Northeast Area
(Report Number TD-AR-03-002)

Background

On July 5, 2002, the Office of Inspector General (OIG) announced an audit of highway network scheduling (Project Number 02YG017TD000). The announcement responded to a request from the vice president, Network Operations Management. This is the second in a series of reports. It focuses on the Northeast Area.



Highway contract route at Northwest Boston Processing and Distribution Center, Waltham, Massachusetts, September 10, 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 978 trips were operated under the 90 Northeast Area contracts. In preparation for our work, we provided the area transportation manager in the Northeast Area with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Northeast Area; reviewed relevant Postal Service policies and procedures; visited 3 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 978 trips. Work associated with the Northeast Area was conducted from July 2002 through November 2002 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.

Audit Results

Unnecessary Highway Contract Trips. Our audit revealed that the Postal Service could save about \$777,000 over a 2-year period on Northeast Area highway contracts by canceling 18 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 \$16,000.

After we completed our analysis, we discussed the 18 trips with plant managers. The managers agreed ten trips could be cancelled, but disagreed with our assessment of another eight trips. The trip cancellation proposals are summarized on the next page:

TRIP CANCELLATION PROPOSALS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	IDENTIFIED SAVINGS
Trips we identified during audit work with which plant managers agreed.	10	A	\$407,503
Trips we identified during audit work with which plant managers disagreed.	<u>8</u>	B	<u>\$369,489</u>
Total	18		\$776,992

The plant managers disagreed with the eight 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.

Recommendations

We recommend the vice president, Northeast Area Operations:

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

Management Comments

Management agreed with the intent of our recommendations. Regarding the ten trips we identified for elimination in recommendation 1, management stated they had already eliminated nine trips and two additional trips will be eliminated by January 4, 2003. They also stated that most cancellations were as agreed during our audit, but that they had made certain substitutions they considered appropriate. Regarding the eight trips we identified for elimination in recommendation 2, but with which local plant managers disagreed, management stated they would reassess the recommendations, and retain or eliminate the trips as appropriate. Finally, management stated that at the completion of their work, 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 C of this report.

Evaluation of Management Comments

Management's comments are responsive to our recommendations. Management's 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 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.

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

Highway Contract Route	Trip Number	Origin/Destination	Estimated 2 Year Costs	Indemnity Fees	Estimated Cost Savings
02121	5 and 6	Boston Airmail Center to Portland and Return	\$219,332	\$9,138	\$210,194
021L2	1 and 2 or 3 and 4	Boston to Westborough and Return	68,332	2,847	65,485
024L2	19 and 20 or 23 and 24	Northwest Boston to Boston and Return	60,012	0	60,012
024L2	33 and 34	Northwest Boston to Boston and Return	8,548	0	8,548
068L5	15 and 16	Stamford to John F. Kennedy Airmail Center and Return	63,264	0	63,264
Total	10 Trips		\$419,488	\$11,985	\$407,503

APPENDIX B

TRIPS IDENTIFIED DURING AUDIT WORK WITH WHICH AREA MANAGERS DISAGREED

Highway Contract Route	Trip Number	Origin/Destination	Estimated 2 Year Costs	Indemnity Fees	Estimated Cost Savings
060L6	1 and 2	Hartford to Westborough and Return	\$120,792	0	\$120,792
064AE	3 and 4	Southern Connecticut to Bronx Facility and Return	150,190	0	150,190
01543	5 and 6	Central Massachusetts to Westborough and Return	21,694	\$903	20,791
01543	7 and 8	Central Massachusetts to Natick and Return	81,094	3,378	77,716
Total	8 Trips		\$373,770	\$4,281	\$369,489

APPENDIX C. MANAGEMENT'S COMMENTS



November 12, 2002

MEMORANDUM FOR B. WAYNE GOLESKI
ASST. INSPECTOR GENERAL
CORE OPERATIONS

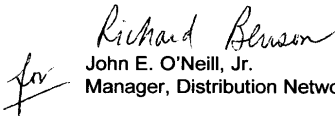
SUBJECT: Draft Audit Report – Highway Network Scheduling, Northeast Area
(Report No. TD – AR – 03 – Draft)

This letter is in response to the Office of Inspector General (OIG) draft audit report dated October 10, 2002 referenced above. This office agrees with the intent of your findings and recommendations. In Appendix A of the report, you recommended the elimination of ten (10) highway contract trips. After reviewing your recommendations and making substitutions we deem appropriate, this office has identified a total of eleven (11) trips for elimination. Of this total, nine (9) have already been removed and the remaining two (2) are scheduled to be eliminated on December 28, 2002 and January 4, 2003 respectively. Upon completion of our ongoing review and contract negotiations we will provide a detailed listing of the trips eliminated and the resulting reduction in annual cost.

Appendix B of this report identified an additional eight (8) trips for elimination. The Distribution Networks Office is continuing to work with local transportation staff to reassess the three (3) highway contracts involved and will retain or eliminate the trips as may be appropriate. To date, this effort has resulted in agreement to eliminate two (2) different trips on one of the contracts. Once the review is final, we will notify you of the action we have taken.

The Northeast Area fully supports reviews such as the one conducted by the OIG. Only through these types of reviews and our ongoing Breakthrough Productivity Initiative can we continue to achieve the goal of optimizing the transportation network.

If you require any further documentation or information, please contact Brian Leary of my staff at (860) 285-7047.


John E. O'Neill, Jr.
Manager, Distribution Networks

cc: Kim H Stroud, Director Audit Operations and Quick Response, OIG
Jon M. Steele
Allen W. Lariviere