



June 9, 2005

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

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Highway
Transportation Routes – New York Metro Area
(Report Number NL-AR-05-007)

This report presents results of our Bulk Mail Center Highway Transportation Routes audit (Project Number 04YG013NL004). Our objectives were to evaluate the effectiveness of bulk mail center routes and identify opportunities for cost savings. This report responds to a request from the vice president, Network Operations Management, and focuses on routes controlled by the New York Metro Area.

The Postal Service could save about \$1.5 million over the term of existing New York Metro Area bulk mail highway contracts by canceling, not renewing, or modifying 16 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 vice president, New York Metro Area Operations, verify the actual cancellation, modification, or substitution of the 16 trips.

Management agreed with our recommendation. They stated that they would implement the adjustments by mid-July 2005. Management's comments and our evaluation of these comments are included in this report.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation 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.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: Patrick R. Donahoe
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INTRODUCTION

Background

Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or online retail companies. It is processed by a system of 21 bulk mail centers and other facilities nationwide. The Postal Service spends more than \$500 million annually on contracts to transport bulk mail over highway networks. Contracted routes are controlled by individual Postal Service areas.

This report focuses on the routes controlled by the New York Metro Area and responds to a request from the vice president, Network Operations Management.

Objectives, Scope, and Methodology

The objectives of our audit were to evaluate the effectiveness of scheduled bulk mail center highway transportation routes and to identify opportunities for cost savings.

Using Postal Service computer-generated data, we identified 229 trips operated under 43 New York Metro Area contracts that had at least one bulk mail center service point. In preparation for our work, we provided area officials and Postal Service managers with the list of New York Metro Area 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 the area's bulk mail center; interviewed managers and employees; and observed and photographed operations. We consulted with financial analysts, computer analysts, and other subject matter experts; evaluated mail volume and the type of mail carried; considered service standards; and analyzed all 229 trips. We also discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

We conducted work associated with this report from November 2004 through June 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls that we considered necessary under the circumstances.

Data Limitations During our audit, we examined computer data in management’s Transportation Contract Support System and Transportation Information Management Evaluation System. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, the Transportation Information Management Evaluation System had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to partially compensate by applying alternate audit procedures, including source document examination, observation, physical inspection, and discussion with responsible officials. We also applied conservative principles to our monetary impact estimates and, accordingly, always selected the most restrained assessment.

Prior Audit Coverage Since September 2002, the Office of Inspector General has worked with Postal Service management to reduce surface transportation. As a result, we have issued 13 audit reports that identified potential savings exceeding \$62 million over the life of eliminated or reduced transportation contracts. For more detailed information about these audits, see Appendix A.

AUDIT RESULTS

Contracted Bulk Mail Center Highway Trips

The Postal Service could save about \$1.5 million over the term of existing New York Metro Area bulk mail highway contracts by canceling, not renewing, or modifying 16 trips. The Postal Service could eliminate or modify the trips without negatively affecting service because trip mail volume was low and mail could be consolidated on other trips. As indicated below, 50 percent of affected trips will expire within one year. The other 50 percent have one to three years remaining.

PROPOSED NON-RENEWALS AND CANCELLATIONS

TRIP CATEGORY	AFFECTED TRIPS	NUMBER OF TRIPS	ESTIMATED SAVINGS
Contracts expiring within one year	50 percent	8	\$1,243,606
Contracts expiring in one to three years	<u>50 percent</u>	<u>8</u>	<u>255,765</u>
All terminated trips	100 percent	16	\$1,499,371

Postal Service policy requires transportation managers to balance service and cost. Although managers continually strive to optimize transportation through aggressive cost

Two highway transportation contractors entering the New Jersey International and Bulk Mail Center December 2, 2004.



cutting efforts such as their breakthrough productivity initiative, transportation requirements are dynamic and constantly change. Consequently, the Postal Service could attain additional savings through further service reductions by not renewing unnecessary trips that are scheduled

to expire within one year or by canceling unnecessary trips that are currently contracted to continue for one to three years. The savings we identified included savings from nonrenewable trips, plus savings from trip cancellations net of cancellation fees totaling approximately \$34,312.

Cooperative Effort and Rapid Implementation

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with New York Metro Area officials throughout our audit. After we completed our analysis, we provided the New York Metro Area officials with a list of our specific trip proposals and the officials reviewed each proposal in conjunction with their own assessment of area-wide network requirements. After the area's review, we met with area officials, discussed our proposals and area operational needs, and made appropriate adjustments to our proposals. As a result of the cooperative effort, the area agreed with the 16 proposals outlined in Appendix B.

Recommendation

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

1. Verify the actual cancellation, modification, or substitution of the 16 trips with which Postal Service managers agreed and give the date action was taken.

Management's Comments

Management agreed with our recommendation. They stated that all requested changes would be made by mid-July 2005. They also stated that they see reviews, like this one, as a means of optimizing the surface transportation network. Management's comments, in their entirety, are included in Appendix C of this report.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation. We applaud the cooperative efforts and timely action taken by the New York Metro Area and we consider the actions the area has taken or planned sufficient to address the issues we identified.

APPENDIX A. PRIOR REPORT COVERAGE

Report Name	Report Number	Report Final Issue Date	Number of Trips Identified for Elimination or Modification	Potential Savings Identified	Number of Trips With Management Agreed	Number of Trips With Management Disagreed	Number of 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	
Highway Network Scheduling - Capital Metro Area	TD-AR-03-007	3/28/2003	34	1,144,218	20	14	
Highway Network Scheduling - New York Metro Area	TD-AR-03-008	3/31/2003	32	470,123	12	20	
Highway Network Scheduling - Southwest Area	TD-AR-03-010	7/11/2003	249	5,989,082	148	101	
Highway Network Scheduling - Western Area	TD-AR-03-013	9/23/2003	70	2,721,530	30	40	
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	
Highway Network Scheduling - Great Lakes Area	NL-AR-04-003	3/29/2004	72	5,352,877	48	22	2
Bulk Mail Center Transportation Routes - Great Lakes Area	NL-AR-04-004	9/29/2004	96	7,660,533	49	7	40
Bulk Mail Center Transportation Routes – Eastern Area	NL-AR-05-003	3/17/2005	35	4,791,570	29	6	
Intermodal Rail and Highway Transportation – Pacific Area	NL-AR-05-004	3/18/2005	0	1,046,240			
Bulk Mail Center Transportation Routes – Southeast Area	NL-AR-05-005	3/18/2005	52	6,563,582	52		
Totals			1,098	\$ 62,947,412	625	329	144

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

Effective Date of Last Change	End Date of Contract	HCR Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
9/4/2004	6/30/2007	07692	817	Cancel trip	Northern New Jersey Metro P&DC to New Jersey International and BMC	\$10,060	\$21,797	\$3,353	\$18,443*
9/4/2004	6/30/2007	07692	818	Cancel trip	New Jersey International and BMC to Northern New Jersey Metro P&DC	\$10,060	\$21,797	\$3,353	\$18,443*
6/5/2004	6/30/2007	08890	811	Eliminate Saturday and Sunday	Kilmer P&DC to New Jersey International and BMC	\$8,499	\$18,414	\$2,833	\$15,581
6/5/2004	6/30/2007	08890	812	Eliminate Saturday and Sunday	New Jersey International and BMC to Kilmer P&DC	\$9,874	\$21,393	\$3,291	\$18,102
10/4/2003	6/30/2005	10094	801	Eliminate contract (combine with 10098 for new contract)	New Jersey International and BMC to McGuire AFB	\$38,191	\$152,765	\$0	\$152,765

Effective Date of Last Change	End Date of Contract	HCR Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
10/4/2003	6/30/2005	10094	802	Eliminate contract (combine with 10098 ¹ for new contract)	McGuire AFB to New Jersey International and BMC	\$38,191	\$152,765	\$0	\$152,765
8/7/2004	6/30/2007	10211	805	Change frequency from QQ7 to K7	New Jersey International and BMC to Washington BMC	\$3,486	\$7,553	\$1,162	\$6,391
8/7/2004	6/30/2007	10211	806	Change frequency from QQ7 to K7	Washington BMC to New Jersey International and BMC	\$3,486	\$7,553	\$1,162	\$6,391
10/2/2004	6/30/2005	10212	817	Cancel trip	New Jersey International and BMC to Springfield BMC	\$85,716	\$342,863	\$0	\$342,863
10/2/2004	6/30/2005	10212	818	Cancel trip	Springfield BMC to New Jersey International and BMC	\$85,716	\$342,863	\$0	\$342,863
4/3/2004	6/30/2005	10590	809	Cancel trip	Westchester P&DC to New Jersey International and BMC	\$30,368	\$121,473	\$0	\$121,473

¹Trips 801/802 for contract 10094 will be eliminated and service previously provided by 10094 will now be provided by contract 10098.

Effective Date of Last Change	End Date of Contract	HCR Number	Trip Number	Specific Recommendation	Origin to Destination	Annual Budget Cost	Estimated Contract Cost	Indemnity Fees	Estimated Cost Savings
4/3/2004	6/30/2005	10590	810	Cancel trip	New Jersey International and BMC to New Rochelle, New York	\$22,377	\$89,506	\$0	\$89,506
4/3/2004	6/30/2005	10590	817	Change frequency from QQ7 to QQ17	Westchester P&DC to New Jersey International and BMC	\$5,171	\$20,686	\$0	\$20,686
4/3/2004	6/30/2005	10590	818	Change frequency from QQ7 to QQ17	New Jersey International and BMC to Westchester P&DC	\$5,171	\$20,686	\$0	\$20,686
7/1/2004	6/30/2008	10990	809	Cancel trip	Rockland, New York to New Jersey International and BMC	\$28,736	\$95,785	\$9,579	\$86,207*
7/1/2004	6/30/2008	10990	810	Cancel trip	New Jersey International and BMC to Rockland, New York	\$28,736	\$95,785	\$9,579	\$86,207*
	TOTALS		16			Total: \$413,837*	Total: \$1,533,683*	Total: \$34,312	Total: \$1,499,371*

AFB Air Force Base
 BMC Bulk Mail Center
 HCR Highway Contract Route
 P&DC Processing and Distribution Center

* Minor rounding differences.

APPENDIX C. MANAGEMENT'S COMMENTS

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



May 26, 2005

KIM H. STROUD

SUBJECT: Audit Report Number: NL-AR-05-DRAFT
Surface Transportation - BMC Highway Transportation Routes – New York Metro Area

This memorandum contains our response and planned actions to be taken in response to the Office of the Inspector General's (OIG's) draft audit report dated May 2, 2005 (referenced above). The New York Metro Area (NYMA) supports reviews such as the one listed above and sees such reviews (and other NYMA-initiated similar BPI initiatives) as a means of continuing our established process of optimizing the surface transportation network.

If you require any additional assistance, please contact Hector M. Martinez at (646) 473-3719.

A handwritten signature in black ink, appearing to read "David L. Solomon".

David L. Solomon

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The following includes all actions to be taken regarding the recommendations contained in Report Number NL-AR-05-DRAFT.

Office of Inspector General Recommendations:

- 1) HCR 07692 – Cancel trips 817 and 818
- 2) HCR 08890 – Eliminate Saturday and Sunday service on trips 811 and 812
- 3) HCR 10211 – Change frequency from Q7 to K7 on trips 805 and 806
- 4) HCR 10212 – Cancel trips 817 and 818
- 5) HCR 10590 – Cancel trips 809 and 810
- 6) HCR 10590 – Change frequency on trips 817 and 818
- 7) HCR 10990 – Cancel trips 809 and 810
- 8) HCR 10094 – Eliminate Contract 10094 (trips 801 and 802) and merge with HCR Contract

The New York Metro Area concurs with the intent of these recommendations. We will make the adjustments within the scope of our current HCR renewal process. We are in the middle of the HCR contract renewals at this time, with many of the contracts above expiring on June 30, 2005. We will incorporate all of the requested changes within that renewal process, and those adjustments will be effective prior to July 1, 2005.

For those contracts that are not expiring on June 30, 2005, we will make the adjustments on or about July 16, 2005.

For Contract 10094/10098, the change will be incorporated within the proper guidelines of the USPS HCR Supplier Incumbency Policy. The change will be effective on July 1, 2005.