



March 28, 2006

PAUL E. VOGEL  
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

SUBJECT: Audit Report – Surface Transportation – Bulk Mail Center Surface  
Transportation Routes – Summary Report (Report Number NL-AR-06-004)

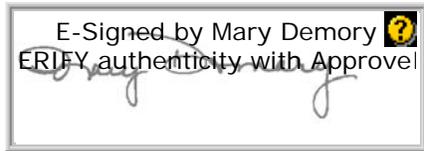
This is the last in the series of reports from our nationwide bulk mail center (BMC) surface transportation route audit (Project Number 04YG013NL012). We conducted the audit in response to your request and this report summarizes our work. Our objectives were to evaluate the effectiveness of scheduled BMC transportation and identify opportunities to save money.

The 12 reports that preceded this summary collectively concluded that the U.S. Postal Service could reduce rail and highway transportation costs by about \$40.6 million without affecting on-time performance because trip mail volume was low and mail could be consolidated. The reports involved a total of 22 recommendations; we issued the reports to area vice presidents; and we included their formal written comments.

In their comments, area vice presidents agreed with all of our recommendations and generally agreed with our monetary impact assessments — although they frequently stipulated that because of the dynamic nature of a constantly changing transportation network, the calculation of future savings was imprecise. In our various semiannual reports to Congress, we already identified the \$40.6 million in potential savings as potential funds put to better use, so we are not reporting them again in this report.

Throughout our audit, we appreciated the noteworthy cooperation of Postal Service transportation officials in the various areas and that of your staff. Management's comments were responsive to our findings and recommendations; we consider management's actions, taken or planned, sufficient to address the recommendations we made throughout our audit; and we have no further recommendations at this time.

If you have any questions or need additional information, please contact Joe Oliva, director, Transportation, or me at (703) 248-2300.



**for**  
Colleen McAntee  
Deputy Assistant Inspector General  
for Core Operations

Attachments

cc: William P. Galligan  
Anthony M. Pajunas  
Steven R. Phelps

## INTRODUCTION

### Background

This is the last in the series of reports from our nationwide bulk mail center (BMC) surface transportation route audit. The vice president, Network Operations Management, requested the audit and this report summarizes our work.

Highway transportation contractor in the Southeast Area traveling Northbound on Interstate 95 in January 2005.



Bulk mail includes magazines, advertising, and merchandise shipped by major mailers like publishers, catalog companies, or online retail companies. A system of 21 BMCs and other facilities nationwide process it. Bulk mail is less time-sensitive than other mail such as First-Class or expedited mail. As a result, transportation managers move it over long distances on surface routes, rather than on faster, but more costly air networks. The U.S. Postal Service spends more than \$500 million annually on bulk mail transportation.

The Postal Service is divided into nine geographical areas, each directed by a vice president for area operations. The individual area vice presidents administer most of the BMC transportation routes. Appendices A and B identify the nine areas. Our audit included detailed work in all nine Postal Service areas and involved close cooperation with area transportation officials.

As a result of our work, we issued 12 reports — including at least one to each area vice president — and all areas gave formal written comments which we published as part of those reports. For more details on the 12 individual reports, see Appendix B.

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**Objectives, Scope,  
and Methodology**

The objectives of our audit were to evaluate the effectiveness of scheduled BMC transportation and identify opportunities for cost savings.

Train departing the  
Burlington Northern  
Santa Fe Rail Yard,  
Minneapolis, Minnesota,  
February 15, 2006.



Using Postal Service computer-generated data, we identified rail and highway transportation routes that included at least one BMC service point. These routes included 9,573 trips operated under 1,086 surface contracts. In preparation for our work, we provided area officials and Postal Service managers with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the various areas. We reviewed relevant Postal Service policies and procedures. We visited 19 BMCs, rail yards, and other facilities; 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 identified transportation routes.

We conducted this audit from March 2004 through March 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.

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.

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**Prior Audit Coverage**

Our Highway Network Scheduling audit involved nine area reports issued between September 2002 and March 2004. The audit identified 915 trips that could be eliminated or modified by consolidating mail on other trips. The audit concluded that the transportation reductions could be implemented without affecting mail on-time performance, and would potentially save about \$42.9 million over the life of affected contracts. For more detailed information about these reports see Appendix A.

## AUDIT RESULTS

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### Bulk Mail Center Surface Transportation

Postal Service policy requires transportation managers to balance service and cost. Our audit reports concluded that the Postal Service could save about \$40.6 million over the term of affected highway contracts by modifying those contracts to eliminate trips, reducing trip frequency, or transporting some mail currently moved by rail in excess space on scheduled highway transportation.

Transportation Category	Potential Savings
Highway Contract Routes	\$36,344,535
Rail Transportation	<u>4,250,389</u>
Total	\$40,594,924

See Appendix B for further details

The reports also concluded that the Postal Service could reduce transportation cost without negatively affecting mail on-time performance because trip mail volume was low and mail could be consolidated on other trips.

The Postal Service transportation network is dynamic and requirements constantly change. As we discussed in the objectives, scope, and methodology section of our report, Postal Service transportation 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, routinely proposed service reductions based on our data analysis, discussed our proposals with them, and made appropriate adjustments. As a result of this cooperative effort, the officials frequently made cost-saving changes before we completed field work.

The 12 audit reports we issued to area vice presidents contained 22 recommendations with potential savings totaling about \$40.6 million. In their formal written comments, area vice presidents agreed with all of our recommendations and generally agreed with our monetary impact assessments — although they frequently stipulated that for various reasons, including the dynamic nature of a constantly changing transportation network, the calculation

of future savings was imprecise. In our various semiannual reports to Congress, we already identified the \$40.6 million in possible savings as potential funds put to better use, so we are not doing so again in this report.

Throughout our audit, we appreciated the noteworthy cooperation of Postal Service transportation officials in the various areas and at headquarters, as well as their proactive action to rapidly implement transportation reductions and save the Postal Service money. We also appreciated the positive management reaction to our reports. Management's comments were responsive to our findings and recommendations and we consider management's actions, taken or planned, sufficient to address the recommendations we made throughout our audit. We have no further recommendations at this time.

## 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
<b>Totals</b>	<b>9</b>		<b>915</b>	<b>\$42,885,487</b>	<b>495</b>	<b>316</b>	<b>104</b>

## APPENDIX B BMC SURFACE TRANSPORTATION ROUTES REPORTS

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 - 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
<b>Totals</b>	<b>12</b>		<b>430</b>	<b>\$ 40,594,924</b>	<b>309</b>	<b>17</b>	<b>104</b>

BMC – Bulk Mail Center