March 28, 2006

WILLIAM J. BROWN
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Mail Transport Equipment Service Center Network – Highway Transportation Routes – Memphis (Report Number NL-AR-06-005)

This is one in a series of reports that presents results from our self-initiated nationwide audit of the mail transport equipment service center (MTESC) network (Project Number 04YG003NL006).

The objectives of our audit were to determine whether management implemented audit recommendations from our report, *Mail Transport Equipment Service Center Decision Analysis Report, Performance and Financial Benefit* (Report Number TR-AR-01-003, dated May 4, 2001), and whether there were additional opportunities to save money. The report, initiated in response to a Board of Governors request, concluded the network would not achieve the financial benefits anticipated by the 1997 Decision Analysis Report. We recommended, in part, that management reduce cost by analyzing transportation requirements and other costs associated with the network.

This follow-up report focuses on whether there were opportunities for the U.S. Postal Service to save money by reducing the number of highway round-trips originating at the Memphis MTESC. The Memphis MTESC provides service to mail processing facilities in the Postal Service's Southeast and Southwest Areas.

We concluded the Postal Service could save approximately $416,752 over the term of existing contracts by canceling, not renewing, or modifying 25 round trips originating at the Memphis MTESC. The Postal Service could eliminate the trips without affecting customer service by consolidating loads to more fully utilize trailer capacity and by stopping the inappropriate shipment of serviceable over-the-road (OTR) containers. Further, we concluded that during 2004 and 2005, the Postal Service may have missed an opportunity to save an additional $282,645 because management did not comply with the Postal Service's OTR container processing policy. These amounts represent funds put to better use and questioned costs and will be reported as such in our *Semiannual Report to Congress*. We recommended that management assess our proposed trip eliminations, and cancel or modify the trips as indicated by the assessment or document the reasons for retaining the trips.

Management agreed with our findings and recommendation. The Southeast Area explained that in response to our recommendation, they had already assessed our trip elimination proposals and made certain substitutions. They stated that based on their additional analysis, they would increase the savings we identified and would implement the changes no later than June 30, 2006. The Southwest Area stipulated that their trip utilization data might be inaccurate, explained that to compensate, they would conduct an on-site review to document actual utilization, and stated their on-site review would begin March 20, 2006. Management's comments and our evaluation of these comments are included in this report.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendation 1 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 review. If you have any questions or need additional information, please contact Joe Oliva, director, Transportation, or me at (703) 248-2300.

E-Signed by Mary Demory
ERIFY authenticity with Approve

for
Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

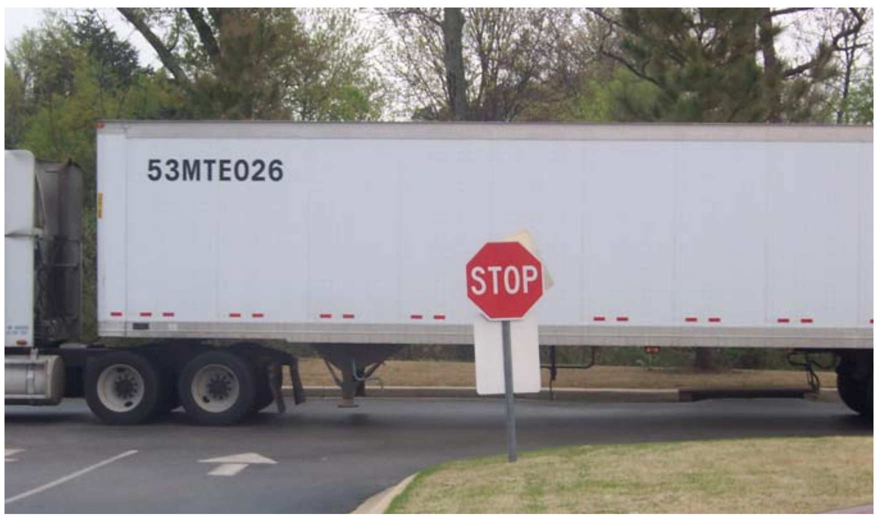
cc: Paul E. Vogel
Anthony M. Pajunas
Dana L. Austin
Paul J. McDermott
Steven R. Phelps

INTRODUCTION

Background

The mail transport equipment service center (MTESC) network is a system of 22 contractor-operated service centers designed to supply mailbags, carts, hampers, and other mail transport equipment to mail processing facilities nationwide. The service centers deliver equipment to users with dedicated transportation.

The original plan to create the network was presented to the U.S. Postal Service Board of Governors (BOG) in the Decision Analysis Report (DAR), *Mail Transport Equipment Service Center Network*, dated May 13, 1997. The DAR forecast costs exceeding $3.6 billion over 10 years and the BOG approved it in June 1997. The new network became fully operational in January 2000. From the outset, allegations of poor performance and excessive costs troubled the new network. As a result, the BOG asked the U.S. Postal Service Office of Inspector General (OIG) to evaluate the program.



The MTESC network has dedicated transportation.

Our 2001 audit report identified $1 billion in potential MTE transportation cost overruns.

This MTE tractor-trailer was photographed in April 2005 near the Memphis MTESC.

Our audit report titled *Mail Transport Equipment Service Center Decision Analysis Report, Performance and Financial Benefit* (Report Number TR-AR-01-003, dated May 4, 2001) concluded the network would not achieve the financial benefits anticipated by the DAR. We recommended, in part, that management reduce cost by analyzing transportation requirements and related costs associated with the network.

Postal Service Headquarters implemented our recommendation and is aggressively pursuing opportunities to reduce MTESC network costs. Network Operations Management transportation assessment teams, supplemented by area personnel, are currently analyzing network transportation costs in order to reduce operating expense and improve efficiency.

The MTESC network is a system of 22 contractor-operated service centers designed to supply equipment to mail processing facilities nationwide.

Photograph of the Memphis MTESC, April 2005.

Objective, Scope, and Methodology

This audit is a follow-up to our May 4, 2001 report. Our objectives were to determine if management implemented our recommendations and whether there were additional opportunities to save money. This report focuses on Memphis MTESC transportation requirements. The Memphis MTESC provides service to mail processing facilities in the Postal Service's Southeast and Southwest Areas.

During our work, we interviewed Postal Service Headquarters officials in Network Operations Management and Supply Management. We also interviewed officials, managers, and employees in the Southeast Area, Southwest Area and at the Memphis MTESC.

We used Postal Service computer-generated data to determine trip dispatch, arrival, and load efficiency and to identify potential trips for consolidation or elimination.[1] We

[1] Data Limitation - We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, the 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.

observed and photographed operations and examined applicable Postal Service policies, procedures, and directives. We consulted with statisticians and other subject-matter experts. We also discussed our observations and conclusions with management officials and included their comments where appropriate. We performed our work in close coordination with the Network Operations Management transportation assessment team and area personnel.

We conducted work associated with this report from April 2005 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.

Prior Audit Coverage

Our report titled *Mail Transport Equipment Service Center Network – Equipment Processing* (Report Number NL-AR-05-006, dated March 31, 2005) concluded the Postal Service saved more than $7.2 million in processing costs from March 2002 through September 2004, in part because headquarters took aggressive and positive action in response to OIG recommendations. (See Appendix A.) Our report also concluded that the Postal Service missed an opportunity to save an additional $1.4 million because all mail processing facilities did not quickly comply with headquarters' implementing instructions, and could still save $628,000 over the next 2 years if all facilities implement headquarters' policy. We recommended management reemphasize the over-the-road (OTR) container processing policy. Management agreed with our recommendation and issued additional instructions on March 23, 2005. (See Appendix B.)

Our report titled *Mail Transport Equipment Service Center Network – Highway Transportation Routes – New York Metro Area* (Report Number NL-AR-05-014, dated September 28, 2005) concluded the Postal Service could save approximately $741,000 over the term of existing contracts by eliminating 49 round trips originating at the Long Island MTESC. The Postal Service could eliminate trips without affecting customer service by consolidating loads to more fully utilize trailer capacity and by stopping the inappropriate shipment of serviceable OTR containers. Further, we concluded that during 2004 and 2005, the

Postal Service may have missed an opportunity to save about $285,000 because management did not comply with the Postal Service OTR container processing policy. We recommended Postal Service evaluate the 49 trips we proposed for termination, terminate the trips, or document the reasons for retaining the trips. Management agreed with our recommendation.

AUDIT RESULTS

Highway Contract Management

The Postal Service could save approximately $416,752 over the term of existing Memphis MTESC highway contracts by canceling, not renewing, or modifying 25 unnecessary round trips. Further, the Postal Service may have missed an opportunity to save an additional $282,645 because the Memphis Bulk Mail Center (BMC) did not comply with the OTR container processing policy. The affected trips originated from and returned to the Memphis MTESC.

Postal Service policy requires transportation managers to balance service and cost and precludes managers from sending serviceable OTR containers to equipment service centers. The Postal Service could eliminate the 25 trips without affecting service because:

- Some trailer loads were not optimized and equipment could be consolidated on other trips.
- Some trips were scheduled primarily to return serviceable OTR containers the Memphis BMC inappropriately sent to the MTESC.

The interior of an underutilized trailer arriving at the Memphis MTESC, April 5, 2005.

Cooperative Effort

As a result of our continuing efforts to partner with and bring value to the Postal Service, we had ongoing communication with area officials throughout our audit and provided the officials with a list of our specific trip proposals. We then discussed our proposals and area operational needs with officials and made appropriate adjustments. As a result of our cooperative effort, area officials agreed to assess our

25 proposed trip eliminations. For additional detail see Appendices C and D.

These serviceable OTR containers were sent to the Memphis MTESC April 5, 2005.

Postal Service policy precludes serviceable OTR containers from being returned to the MTESC. The policy stipulates that only containers requiring repair are to be returned.

Trips scheduled to return serviceable containers are not needed and result in unnecessary expenditures.

In eight of the 25 cases, officials explained that trips were needed to return serviceable OTR containers sent to the MTESC by the Memphis BMC. However, Postal Service's March 2002 policy states that serviceable OTR containers are to remain exclusively within the bulk mail center network, and only containers requiring repair are to be shipped to service centers. (See Appendices A and B.) Our trip cancellation proposals are summarized below:

PROPOSED TRIP ELIMINATIONS BY ELIMINATION CATEGORY

ELIMINATION CATEGORY	NUMBER OF TRIPS	APPENDIX	SAVINGS
Proposed trip eliminations with which area officials agreed to assess.	17	C	$355,956
Trips officials felt were needed to return serviceable OTR containers.	8	D	$ 60,796
Total	25		$416,752

Figure 1

During our on-site inspection from April 4 through 8, 2005, we inspected 357 incoming OTR containers to determine compliance with Postal Service policy. Only three required repair while 354 were serviceable and had been inappropriately shipped to the MTESC for storage and reissue.

Our examination of Postal Service records indicated that from January 1, 2004, through October 13, 2005, the Memphis MTESC operated at least 3,616 trips to return OTR containers the Memphis BMC inappropriately sent to the MTESC. As a result, the Postal Service may have missed an opportunity to save more than $282,000 because the BMC did not comply with headquarters' OTR container policy. See Figure 2 below.

Unneeded Cost of Shipping Serviceable OTR Containers from the Memphis BMC to the Memphis MTESC

Time Period	Number of Round Trips	Cost Per Round Trip	Missed Savings Opportunity
January 1, through November 26, 2004	1,750	$83.5954	$146,292
November 27, 2004 through October 13, 2005	1,866	$73.0724	$136,353
Total	3,616		$282,645

Figure 2

Although Network Operations Management officials continually strive to optimize transportation with aggressive cost-cutting efforts such as their MTESC network cost and efficiency assessments, transportation requirements are dynamic and constantly change. Based on our examination of scheduled shipments and our physical examination of trailer utilization for the proposed trip eliminations, we continue to believe the potential for trip cancellation and savings exists without jeopardizing service or operational flexibility.

Recommendation

We recommend the vice president, Southeast Area Operations, coordinate with the vice president, Southwest Area Operations, to:

1. Assess the 25 proposed trip eliminations as agreed to by Postal Service management, and cancel or modify the trips as indicated by the assessment or document the reasons for retaining the trips.

Management's Comments

The Southeast Area agreed with our findings and recommendation. They explained that in response to our recommendation, they had already assessed our trip elimination proposals and made certain substitutions. They stated that based on their additional analysis, they would increase the savings we identified and would implement the changes no later than June 30, 2006.

Regarding the trips scheduled for returning serviceable OTRs to the MTESC, the Southeast Area explained that they were aggressively emphasizing headquarters OTR policy to mitigate the need for such trips.

The Southwest Area agreed with the Southeast Area's comments. They stipulated that their trip utilization data might be inaccurate, and explained that to compensate for any underutilization perception caused by inaccurate data, they would conduct an on-site review to document actual utilization. They stated that their on-site review would begin March 20, 2006, and that in addition to documenting actual utilization, their review would focus on correcting any deficiencies in the OTR process. Management's comments, in their entirety, are included in Appendix E of this report.

Evaluation of Management's Comments

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

APPENDIX A. OTR CONTAINER POLICY LETTER

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER
AND EXECUTIVE VICE PRESIDENT

UNITED STATES
POSTAL SERVICE

March 1, 2002

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: Bulk Mail Center (BMC) Over-The-Road Container (OTR) Management

Control of bulk mail center (BMC) over-the-road containers (OTR) is being transferred from the mail transport equipment service center (MTESC) network to the BMC network. These containers will either be in continuous use during the normal part of the year or they will be stored when necessary. This will eliminate the redistribution of BMC OTRs by the MTESC network. The MTESC network will retain the responsibility for repair of OTRs. All processing operations must be vigilant about red-tagging damaged and unsafe containers (in accordance with Postal Operations Manual paragraph 583.11).

With more than 216,000 OTRs in service, there is a sufficient supply of containers for each BMC to manage its local operations. Over-the-road containers are for the exclusive use between the BMCs and the processing and distribution centers/facilities (P&DC/F) within the BMC service area. An exception to this rule is the newer P&DC/F sites, which have BMC/OTR processing equipment. Inter-BMC or inter-area dispatches are not authorized, unless adequate and workable "closed loops" have been established. Where imbalances exist, the BMC network will be responsible for relocating OTRs from surplus areas to deficit ones using existing transportation. Transporting mail in OTRs instead of Postal Paks to deficit BMCs will also help to relocate surplus units. Reciprocal agreements also exist between BMCs to exchange non-machineable outsides either in OTRs or cardboard boxes. The MTESC network can provide order information and data to BMC managers concerning "leakage" of OTRs to other operations. Over-the-road containers should not be used for merchandise return operations.

The MTESC network sorts used cardboard boxes in two sizes, small and large. All processing operations should attempt to take advantage of this resource. The MTE organization encourages the return of raw MTE to the MTESC network using these boxes. Using a combination of unprocessed MTE types can maximize truck density.

The MTESC network has previously supplied OTRs nationwide, but the costs (over $9 million for standing transportation and more than $4 million for processing BMC containers) have become prohibitive. Every effort must be made to keep OTRs circulating for the benefit of the entire mail processing and distribution network. The distribution network office must make the appropriate MTESC standing order and highway contract changes. This transfer will be effective March 18.

If you should have further questions, please contact Regina Wesson at (202) 268-4376.

Patrick R. Donahoe

cc: Managers, Operations Support (Area)
Managers, Bulk Mail Centers

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WASHINGTON DC 20260-0080
www.usps.com

APPENDIX B. REEMPHASIS OF OVER-THE-ROAD CONTAINER POLICY LETTER

Attachment #1

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER
AND EXECUTIVE VICE PRESIDENT

UNITED STATES
POSTAL SERVICE

March 23, 2005

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJCT: Compliance of Bulk Mail Center, Over-The-Road Container Management

The Office of Inspector General recently completed an audit of OTR container usage throughout the Mail Transport Equipment Service Center (MTESC) network. The audit was undertaken to measure compliance to the policy letter issued on March 1, 2002. The policy states that the OTR was designed to be used exclusively within the bulk mail center network and only OTRs requiring repair (those red tagged) should be shipped to the MTESC. The audit completed in February 2005, shows the MTESC network and the percent reduction in OTRs process as of September 2004 (see attached data).

Overall, the data depicts a positive trend in compliance; however, there is still room for improvement and a savings within your areas. Please review the data and ensure postal plants within your area are in compliance with the national policy for OTR usage.

Patrick R. Donahoe

Attachment

cc: Paul Vogel
Tony Pajunas
Walter OTormey
Jaime Fuentes

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APPENDIX C. TRIP ANALYSIS DETAIL
PROPOSED ELIMINATIONS POSTAL SERVICE MANAGEMENT AGREED TO ASSESS

Highway Contract Route	Destination Point	Contract Term	Origination or Destination Trip Number	OIG Proposed Weekly Round Trip Eliminations	Total Projected Savings on Contract
381AK	Nashville, TN Processing and Distribution Center		110	1	
381AK	Nashville, TN Processing and Distribution Center		112	1	
381AK	Nashville, TN Processing and Distribution Center		116	1	
	TOTALS FOR Nashville P&DC	11/27/2004 – 06/30/2006		3	$122,764
381AK	Memphis, TN Processing and Distribution Center		318	1	
381AK	Memphis, TN Processing and Distribution Center		320	2	
381AK	Memphis, TN Processing and Distribution Center		322	1	
381AK	Memphis, TN Processing and Distribution Center		324	2	
381AK	Memphis, TN Processing and Distribution Center		326	2	
381AK	Memphis, TN Processing and Distribution Center		328	2	
	TOTALS FOR Memphis P&DC	11/27/2004 – 06/30/2006		10	$106,393
381AK	Memphis, Nashville Processing and Distribution Center	11/27/2004 – 06/30/2006	106	1	$44,582
	Memphis, Lindsey Road Annex, AR		724	1	
	Memphis, Lindsey Road Annex, AR		728	1	
	Lindsey Rd Annex, AR/Memphis Mail Well Mailer		736	1	
381AK	TOTAL FOR Lindsey Road Annex, AR	11/27/2004 – 06/30/2006		3	$82,217
	TOTAL ELIMINATIONS FOR 381AK			**17**	**$355,956**

APPENDIX D. TRIP ANALYSIS DETAIL
PROPOSED OTR TRIP ELIMINATIONS POSTAL SERVICE MANAGEMENT AGREED TO ASSESS

Highway Contract Route	Destination Point	Contract Term	Origination or Destination Trip Number	OIG Proposed Weekly Round Trip Eliminations	Total Projected Cost Avoidance
381AK	Memphis BMC	11/27/2004 – 06/30/2006	406	1	
381AK	Memphis BMC	11/27/2004 – 06/30/2006	408	1	
381AK	Memphis BMC	11/27/2004 – 06/30/2006	410	1	
381AK	Memphis BMC	11/27/2004 – 06/30/2006	414	1	
381AK	Memphis BMC	11/27/2004 – 06/30/2006	416	2	
381AK	Memphis BMC	11/27/2004 – 06/30/2006	422	2	
	TOTALS FOR BMC			**8**	**$60,796**

APPENDIX E. MANAGEMENT'S COMMENTS

WILLIAM J. BROWN
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA

UNITED STATES
POSTAL SERVICE

March 10, 2006

MEMORANDUM FOR: Ms. Colleen A. McAntee
Deputy Assistant Inspector General for Core Operations
Office of Inspector General

SUBJECT: Mail Transport Equipment Service Center Network-Highway Transportation Routes-Memphis (Report Number NL-AR-06-DRAFT)

The Southeast Area agrees with the findings and observations to assess the 25 proposed trips, with the following exceptions and reasons for retaining the affected trips.

Recommendation

1. Assess the proposed 25 trip eliminations as agreed to by Postal Service management and cancel/modify the trips as indicated by the assessment, or document the reasons for retaining the trips.

Response

- The trips documented on Appendix C (HCR 381AK) for elimination are Trip Numbers 106, 110, 112 and 116, respectively, between Nashville P&DC and Memphis MTESC. However, management supports the retention of these trips since they support five (5) facilities in the area and are needed to prevent extra trips for excessive MTE overloads.
- The trips documented on Appendix C (HCR 381AK) for elimination and agreed to by management are Trip Numbers 318, 322 and 324, respectively, between Memphis P&DC and Memphis MTESC. However, Trip Numbers 320, 326 and 328 should be retained due to the excessive number of extra trips utilized on those trips due to unprocessed MTE overloads.
- The trips documented on Appendix C (HCR 381AK) for elimination are Trip Numbers 724, 728 and 736, respectively, between Lindsey Road Annex AR and the Memphis MTESC. However, management supports the retention of these trips due to the excessive number of extra trips utilized on those trips due to unprocessed MTE overloads.

The costs of the trips to be retained are $268,817. However, based on management's assessment, an additional analysis revealed that additional trips could be eliminated (see attachment) including Trip Numbers 320, 326 and 328 referenced above that equate to cost savings of $346,652. The net difference in the OIG recommended trips and management is

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$9,331 ($355,956 - $346,652). The trips on the attached spreadsheet have been input into the electronic service change process for implementation during the upcoming renewal date for this HCR contract, which is June 30, 2006. The new contract will be for four (4) years, which will yield a savings of $693,305 over the contract period of performance.

Management agrees to reevaluate the trips recommended for elimination to assess the need for extras and make operational adjustments as needed. The additional savings identified will also be captured and added to the amount above. The trips identified on Appendix D for proposed OTR trip eliminations will be continually assess on an ongoing basis to avoid the costs for this transportation due to the MTESC receiving OTRs in error. One of the major drivers for P&DC's dispatching OTRs to the service center is due to their associate offices returning OTRs with unprocessed MTE and limited storage space for storing MTE at the plants. The area is aggressively communicating the HQ policy on OTR management to the field locations and identifying offending facilities on the correct process which should mitigate the need for the trips (see attachment).

William A. Brown

Attachments

cc: Terry Wilson, Area Manager, Operations Support, Southeast Area Office
Paul McDermott, Manager, Distribution Networks, Southeast Area Office

TRIPS TO BE DELETED ON 381AK

TRIP	FREQ	ANNUAL TRIPS	PART A MILES	PART B MILES	PART A YR COST	PART B YR COST
123	1X	46.04	94		$3,905.63	
124	1X	46.04	94		$3,905.63	
301	9	52.18		7.2		$1,525.16
302	9	52.18		7.2		$1,525.16
307	15X	97.64		4		$1,585.50
308	15X	97.64		4		$1,585.50
309	6X	51.61		4		$838.06
310	6X	51.61		4		$838.06
317	67X	103.22		12.6		$5,279.75
318	67X	103.22		12.6		$5,279.75
321	67X	103.22		12.6		$5,279.75
322	67X	103.22		12.6		$5,279.75
323	Q	359.25		12.6		$18,375.80
324	Q	359.25		12.6		$18,375.80
329	Q	359.25		12.6		$18,375.80
330	Q	359.25		12.6		$18,375.80
703	14X	97.22	359		$31,497.64	
704	14X	97.22	359		$31,497.64	
	TOTALS	2539.26	906	131.2	$70,806.54	$102,519.64

START DATE
7/1/2006

END DATE
6/30/2010

$173,326.18 PER YR SAVINGS

$346,652.37 2 YEAR SAVINGS

$693,304.73 4 YEAR SAVINGS

OPERATIONS SUPPORT
SOUTHEAST AREA OFFICE

UNITED STATES
POSTAL SERVICE

January 19, 2006

MEMORANDUM FOR: Bulk Mail Center Managers
Lead Plant Managers

SUBJECT: Transportation of Over-the-Road (OTR) Containers

The Southeast Area has been notified by the Office of Inspector General of plans to initiate an audit associated with the transport of OTR containers. The objective of the audit is determine compliance with headquarters policy issued in March 2002 regarding control of the containers being transferred from the Mail Transport Equipment Service Center (MTESC) network to the BMC Network. Several memos have been issued in the past to Southeast Area facilities regarding adherence to this policy. This memorandum is being sent as reminder for all facilities to send unprocessed MTE in cardboard, wire containers, or APC's which will affect a dock transfer of MTE. However if OTR's are tendered to the BMC as the only equipment option from facilities in their service area, the BMC should remove the MTE, off load to cardboard containers for dispatch to the MTESC.

According to headquarters policy, the only OTR's that are allowable in the MTESC network are red-tagged equipment in need of repair. National policy should not be compromised by sending non red-tagged OTRs to the MTESC as they drive additional contractor costs as well. Southeast Area BMC's should develop a system of notifying the offending facilities upon receipt of OTR's containing unprocessed MTE. This information should also be communicated to MDO's/SDO's to monitor compliance within their dock operations. MTESC's are incurring additional transport costs in returning OTR's to the BMC's. Currently, the Atlanta BMC and Atlanta area plants are sending as much as 50% of the OTR's received at the Atlanta MTESC and the Memphis BMC sends over 50% of OTR's received at the Memphis MTESC as well.

One of the primary objectives of this effort is to ensure adherence to this policy as well as the opportunity to effect significant reductions in transportation costs and maintain the proper balance in national OTR inventory to support efficient BMC operations.

If you have questions, please contact Malcolm Hunt at 901-747-7322.

Terry J. Wilson
Manager, Operations Support (Area)

Attachment

cc: Mr. McDermott, Ms. Stevenson

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GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

March 17, 2006

COLLEEN A. MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL FOR CORE OPERATIONS

C/O: KIM H. STROUD
DIRECTOR, AUDIT REPORTING
OFFICE OF INSPECTOR GENERAL

SUBJECT: Transmittal of Draft Audit Report – Mail Transport Equipment Service Center Network – Highway Transportation - Memphis (Report Number NL-AR-06-DRAFT)

The Southwest Area agrees with the concept of the audit findings and recommendation to cancel, modify or not renew designated trips on HCR 381AK. However, at this time we must disagree with the 3 particular trips presented on Appendix C of this report associated with Little Rock, Arkansas.

We have conferred with the Southeast Area in our assessment prior to reaching this conclusion. The audit lists questioned costs of $82,217.00 for 3 trips perceived to be underutilized by the Arkansas District that we feel is largely based on some inconsistencies in USPS local data input for those trips. Whereas we agree there are monetary cost savings to be realized, we concur that the alternate savings presented by Southeast Area better represent where those opportunities exist.

Recommendation [1]:

It was recommended that the Vice President of the Southeast Area coordinate with the Vice President of the Southwest Area to assess the 25 proposed trip eliminations as agreed to by Postal Service management, and cancel or modify the trips as indicated by the assessment or document the reasons for retaining the trips.

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- 2 -

Response:

We agree with the Southeast Area proposal and the trips identified for elimination. We will initiate a thorough review of the current practices of the Arkansas District for returning OTR containers to the Memphis Bulk Mail Center and correct any deficiencies with the process.

In accordance with our discovery of the inconsistencies in data input, our recommended action is an immediate onsite review. We have scheduled an onsite review to document the actual utilization of all trips arriving and departing the Little Rock, Arkansas P&DC from the Memphis MTESC.

The review will begin on March 20, 2006. The focus of this review will be to determine if any additional savings can be realized through elimination of other trips not identified and to ensure that Arkansas adheres to proper procedures for returning OTR containers to the Memphis BMC.

George L. Lopez

cc: Paul E. Vogel
Anthony M. Pajunas
Dana L. Austin
Paul J. McDermott
Stephen R. Phelps
William C. Rucker
Terry J. Wilson
Stephen F. Johnsen