



September 21, 2007

MICHAEL DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Postal Vehicle Service Transportation – Los Angeles Bulk Mail Center (Report Number NL-AR-07-006)

U.S. Postal Service network transportation involves contracted transportation and transportation using Postal Service vehicles and employees. Network transportation using Postal Service vehicles and employees is called Postal Vehicle Service (PVS).



The Vice President, Network Operations, requested that we audit PVS operations nationwide. The objectives of our nationwide audit are to evaluate the effectiveness of PVS operations and identify opportunities to save money. During our nationwide audit, the Los Angeles Bulk Mail Center (BMC) requested that the Pacific Area authorize eight additional PVS tractor-trailer drivers for BMC operations, and the Pacific Area requested that we audit those operations. This report responds to both the request of the Vice President, Network Operations, and the request of the Pacific Area (Project Number 06XG019NL001). The report documents our conclusions and recommendations regarding additional drivers for the Los Angeles BMC (along with the resulting management response), and offers an additional recommendation.

The Los Angeles BMC will save about \$4.9 million in new personnel costs by not adding eight full-time tractor-trailer drivers to its workforce. The cost can be avoided because the current BMC staff of 31 full-time drivers and eight part-time drivers is sufficient to accomplish all required work and, at the same time, meet established Los Angeles BMC productivity standards. On February 6, 2007, we notified Pacific Area management of our preliminary conclusions and informally recommended the area disapprove the Los Angeles BMC's request. On April 13, 2007, area officials agreed to disapprove the request. We verified the disapproval, and no further action on that recommendation is needed. In this report, we also recommended that the Vice President, Pacific Area Operations, conduct further analysis to determine whether additional Los Angeles BMC driver reductions can be made. We will report \$4,914,726 of monetary impact of funds put to better use in our *Semiannual Report to Congress*.

Management agreed with our findings and recommendation. They stated that they would begin analyzing Los Angeles BMC requirements in October 2007 and complete the analysis by December 1, 2007. 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 the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The 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) 248-2100.

E-Signed by Colleen McAntee 
[VERIFY authenticity with Approve]


Colleen A. McAntee
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INTRODUCTION

Background

U.S. Postal Service transportation includes both nationwide “network” transportation between cities and major facilities and “delivery” transportation between local post offices and neighborhood delivery or pick-up points. Network transportation using Postal Service vehicles and employees is called Postal Vehicle Service (PVS).

**PVS tractor-trailer near the
Los Angeles International
Airport,
November 16, 2006.**



PVS is capital and personnel intensive. PVS capital assets include 1,900 cargo vans, 2,200 tractors, and 4,700 trailers. These vehicles are serviced and repaired at 322 Postal Service vehicle maintenance facilities or annexes and local commercial garages nationwide.

PVS currently involves about 10,000 employees including 8,500 uniformed drivers, 620 administrative support personnel, and 930 managers.

PVS vehicles and personnel are typically assigned to Postal Service network facilities such as bulk mail centers (BMCs) or processing and distribution centers (P&DCs). These facilities are located in or near metropolitan areas. PVS operations are normally conducted in urban and suburban areas within 50 miles of a base facility. Operations can include:

- Transportation to and from other facilities or local post offices.
- Transportation to and from major commercial business mailers.
- “Yard operations,” defined as the movement of trailers and equipment in or around a facility yard.

PVS drivers log about 150 million miles every year. There are about 300 processing facilities in the Postal Service network, but only 150 conduct PVS operations. PVS activities at BMCs are limited exclusively to “yard operations.” Because PVS operations are localized, they are managed at the facility level under guidance and policy provided by district, area, and headquarters transportation officials.

The tractors in this picture are called “spotters.” Spotters are used for “yard operations” to move trailers in and around a facility yard. The Postal Service owns 382 spotters.

Los Angeles BMC,
February 27, 2007.



The Vice President, Network Operations, requested that we audit PVS operations nationwide to determine whether the Postal Service could improve PVS effectiveness and to identify opportunities to save money. Because individual facilities control PVS operations, our audit approach is localized. This report is one in a series of reports and focuses on PVS operations at the Pacific Area’s Los Angeles BMC.

In May and July 2006, the Postal Service installed two Automated Package Processing System (APPS) machines at the Los Angeles BMC. At the time, the BMC staff included 32 full-time PVS drivers and seven part-time drivers. BMC transportation managers believed the new

During May and July 2006, the Postal Service installed two APPS machines at the Los Angeles BMC.

The Postal Service subsequently decided to remove the machines and install them at other facilities. As of July 3, 2007, the Postal Service had removed both machines.

APPS machines at the Los Angeles BMC, February 27, 2007.



APPS machines increased workload and, as a result, increased tractor-trailer driver workforce requirements. Accordingly, in a memorandum to the Pacific Area dated August 31, 2006, the Los Angeles BMC requested the area to authorize eight additional full-time PVS drivers to conduct yard operations. The request cited previous issues raised by the U.S. Postal Service Office of Inspector General (OIG) regarding staffing and productivity, and the Pacific Area asked us to evaluate PVS operations at the Los Angeles BMC.

Objectives, Scope, and Methodology

The objectives of our nationwide audit are to evaluate the effectiveness of PVS operations and identify opportunities to save money. This report responds to the specific Pacific Area request, documents our conclusions and recommendations regarding the additional drivers the Los Angeles BMC requested (along with the resulting management response), and offers an additional recommendation.

To achieve our objective, we audited the entire Los Angeles BMC PVS operation, determined the total operational

requirement for PVS drivers, and compared the requirement to the existing driver workforce. To audit the Los Angeles BMC PVS operation, we interviewed officials from Postal Service Headquarters, the Pacific Area, and the Los Angeles District. We visited the Los Angeles BMC and interviewed managers, supervisors and employees, and observed and photographed operations.

We examined relevant Postal Service policies and procedures and other related documents, including the Los Angeles BMC driver workload staffing standard developed by the Postal Service Breakthrough Productivity Initiative (BPI) program in January 2005. We also examined agreements between the Postal Service and the relevant employee union.

We examined Postal Service computer-generated data for the 8-week period from October 7 through December 1, 2006, and, in conjunction with the January 2005 Los Angeles BMC driver staffing standards, used the data to analyze workload productivity. We did not audit or comprehensively validate the data; however, we noted several factors that constrained our work. For example, we were concerned that data in the period prior to our analysis might have been skewed because:

- The year preceding our analysis was a year of operational volatility during which many operational functions were transferred to the Los Angeles BMC from other processing facilities in the Los Angeles region. As a result, we could not fully evaluate the impact of that operational volatility on driver requirements.
- Data constraints did not allow us to fully evaluate how new APPS machine start-up activities may have exaggerated short-term driver requirements.

In addition, during the 8-week analysis period of October 7 through December 1, 2006, the BMC was experiencing its annual workload surge in anticipation of the 2006-2007 holiday season. Since we were uncertain how APPS machines' start-up activities and operational volatility earlier in the year impacted driver requirements, we did not regard the data from earlier in the year as a valid comparison with

the 8-week surge period we analyzed. Consequently we could not determine how the holiday surge may have impacted driver requirements.

Although these factors impacted our work, we were able to compensate by applying alternate audit procedures including observation, physical inspection, reasonable approximation, and consultation with subject matter experts such as the BMC Operations Group at Postal Service Headquarters. We also relied on previous audit work and routinely consulted with on-site network transportation managers to gain their perspective. For example, Los Angeles BMC network transportation managers told us that the period October through November 2006 presented a good approximation of ongoing PVS driver requirements.

We also discussed our observations, concerns, and conclusions with senior management officials throughout our audit, considered their perspective, included their comments where appropriate, and considered initiatives to improve operations and save money. Finally, we applied conservative principles to our monetary impact estimates and, accordingly, always selected the most restrained assessment.

We conducted work associated with this performance audit report from November 2006 through September 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Audit Coverage

Our report titled *Postal Vehicle Service Transportation Routes – Memphis Processing and Distribution Center* (Report Number NL-AR-07-003, dated March 30, 2007) concluded that the Memphis P&DC could improve PVS effectiveness and save more than \$7.3 million over 10 years if officials remove 18,874 excess hours from existing PVS schedules. The report also concluded that officials could eliminate hours without negatively affecting service because schedules contain: (1) unassigned time where drivers were not needed for a specific trip or related activity, (2) duplicate

trips, and (3) trips that were unproductive because they were not full and their loads could be consolidated. Officials agreed to remove 13,963 excess hours from PVS schedules; however, they considered 4,911 hours we recommended for reduction as still needed to meet on-time performance standards.

We recommended the Vice President, Southeast Area Operations (1) verify the elimination of the 13,963 hours that Postal Service managers agreed to remove from trip schedules, and (2) reassess the 4,911 hours which Postal Service managers felt were still necessary. Management agreed with our recommendations.

AUDIT RESULTS

Los Angeles BMC PVS Driver Workload

The Los Angeles BMC will save \$4.9 million in new personnel costs by not adding eight full-time tractor-trailer drivers to the BMC workforce. The cost can be avoided because the current staff of 31 full-time drivers and eight part-time drivers is sufficient to accomplish all required work and, at the same time, meet established Los Angeles BMC productivity standards. For more detailed information about the savings, see Appendix A.

PVS spotter in the Los Angeles BMC yard
April 26, 2006.

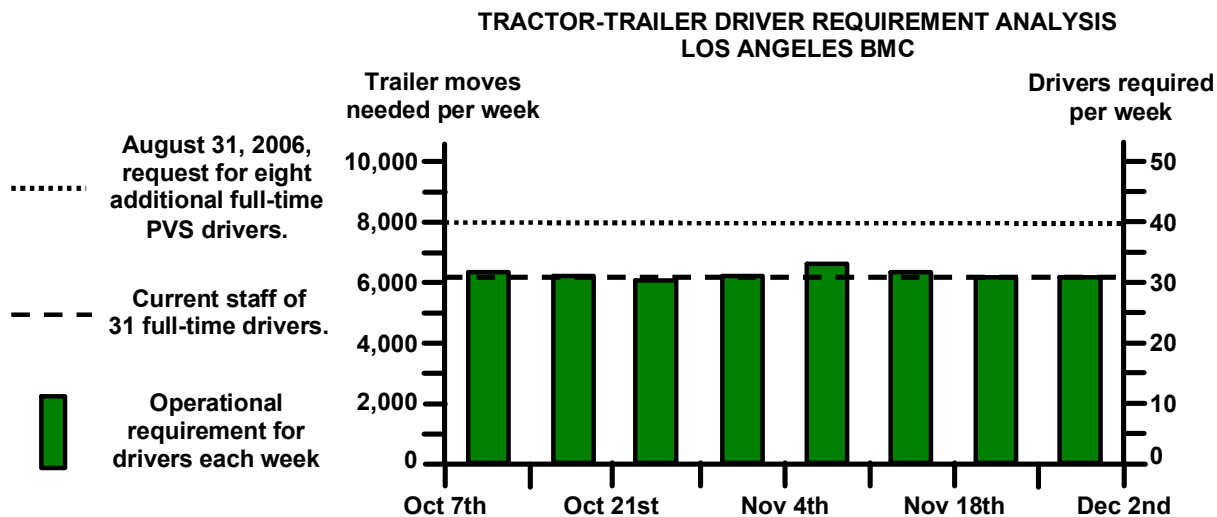


Driver Workload Requirements

Postal Service BPI productivity standards for Los Angeles BMC drivers specify that 40 trailer moves within the BMC yard require one driver for 8 hours or, otherwise stated, one driver can accomplish 200 trailer moves within the BMC yard during a 40-hour work week. Headquarters and Pacific Area transportation managers explained to us that the BPI standard was reasonable and conservative.

Based on the standard, we analyzed all 50,079 trailer moves within the BMC yard during the 8-week period of October 7 through December 1, 2006. During the period, we noted initial APPS machine start-up activity had stabilized. As

indicated by the chart below, we also noted that throughout the 8-week period, the requirement for drivers remained relatively constant — fluctuating between 30 and 33 drivers — and that the requirement for trailer moves within the BMC yard could be achieved with an average of 31.3 drivers.



NOTE: Flexible part-time drivers substitute for full-time personnel and sustain routine operations when full-time personnel are absent for vacation, illness, or other reasons. Part-time drivers also accommodate seasonal surges in operational activity such as the annual holiday season surge.

Pacific Area transportation officials explained that the purpose of part-time flexible drivers was to accommodate fluctuations in workload requirements and to help managers adjust to periodic surges in operational activity. They also said the current staff of eight part-time drivers was sufficient to accomplish that objective.

As a result of our analysis, observations, and discussions with transportation managers, we concluded the current PVS driver workforce of 31 full-time drivers and eight part-time drivers was sufficient to accomplish all PVS driver requirements at the Los Angeles BMC. On February 6, 2007, we notified the Pacific Area of our preliminary conclusions and informally recommended that the area disapprove the Los Angeles BMC’s request for eight additional full-time drivers.

On April 13, 2007, the Pacific Area agreed to disapprove the Los Angeles BMC’s request for additional drivers. We verified the disapproval and no further action on that recommendation is needed. At the same time, Pacific Area officials also notified us the Postal Service would remove the

two APPS machines from the Los Angeles BMC and relocate them to other facilities in the Los Angeles region. By July 3, 2007, the Postal Service had removed both machines.

Spotters moving trailers to and from loading docks at the Los Angeles BMC, February 28, 2007.



As a result of the limitations we identified in the Objectives, Scope, and Methodology section of our report, we were unable to precisely evaluate how driver requirements were impacted by:

- Los Angeles BMC operational volatility in the year prior to our analysis.
- The installation of the two APPS machines.
- The annual holiday season surge.

For similar reasons, we cannot precisely evaluate how the removal of the APPS machines impacted driver requirements. Consequently, we cannot make an additional recommendation for driver workforce reductions at this time. However, we believe removal of the APPS machines reduced PVS driver requirements.

Audit Exit Conference	During the week of July 30, 2007, we met with the Pacific Area transportation officials. These officials agreed with our report and recommendation.
Recommendation	We recommend the Vice President, Pacific Area Operations: 1. Conduct a tractor-trailer driver workload analysis to determine how the removal of the Automated Package Processing System machines impacted Los Angeles Bulk Mail Center driver workforce requirements and reduce the driver workforce as appropriate.
Management's Comments	Management agreed with our findings and recommendation. They stated that they would begin analyzing Los Angeles BMC requirements in October 2007 and complete the analysis by December 1, 2007. Management's comments, in their entirety, are included in Appendix B.
Evaluation of Management's Comments	Management's comments are responsive to the findings and recommendation. Although management did not comment on the monetary impact of our findings and recommendation, management's actions taken or planned should correct the issues identified and achieve the anticipated savings.

APPENDIX A.

**LOS ANGELES BULK MAIL CENTER COST AVOIDANCE BY NOT
ADDING EIGHT POSTAL VEHICLE SERVICE DRIVERS**

PROJECT YEAR	0	1	2	3	4	5	6	7	8	9
FISCAL YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LABOR COST AVOIDANCE										
BASED ON AN ESTIMATED ANNUAL WORKHOUR CONTENT OF EIGHT PVS DRIVERS -14,000 WORKHOURS (1,750 hours per driver)	\$578,609	\$591,917	\$605,531	\$619,458	\$633,706	\$648,281	\$663,191	\$678,445	\$694,049	\$710,012
PRESENT VALUE @ 5.00%	\$551,056	\$536,886	\$523,080	\$509,630	\$496,525	\$483,757	\$471,318	\$459,198	\$447,390	\$435,886
NET PRESENT VALUE @ 5.00% – COST AVOIDANCE BY NOT ADDING EIGHT PVS DRIVERS	\$4,914,726									

NOTE: Standard OIG practice for savings calculations of this type employs a 10-year cash flow methodology, discounted to present value by applying factors published for the purpose by Postal Service Headquarters Finance. Based on this 10-year discounted cash flow methodology, we estimate the Los Angeles BMC will avoid about \$4.9 million in new tractor-trailer driver personnel costs.

APPENDIX B. MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



September 14, 2007

KIM H. STROUD
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SUBJECT: Draft Audit Report Response – Postal Vehicle Service Transportation
Los Angeles Bulk Mail Center (Report Number NL-AR-07-DRAFT)

The Pacific Area concurs with the findings and assessments outlined in your August 29, 2007, correspondence Transmittal of Draft Audit Report — Postal Vehicle Service Transportation – Los Angeles Bulk Mail Center (BMC). It is the Pacific Area's view that the Office of Inspector General (OIG) recommendations are reasonable and appropriate. The Pacific Area is in agreement with established standards of 40 moves per day since it was previously established during internal USPS audits of various Bulk Mail Centers.

Recommendation:

1. Conduct a tractor-trailer driver workload analysis to determine how the removal of the Automated Package Processing System machines impacted Los Angeles Bulk Mail Center driver workforce requirements and reduce the driver workforce as appropriate.

The review of the Los Angeles Bulk Mail Center's Postal Vehicle Service operations is scheduled to begin in October. The complete analysis and recommendations will be provided to operations by December 1, 2007. The assessment of the Los Angeles Bulk Mail Center will include an analysis using the tractor-trailer driver workload methodology to determine if a complement reduction is in order.

A handwritten signature in black ink, appearing to read "mjd", written over a horizontal line.

Michael J. Daley

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