



March 1, 2010

JO ANN FEINDT  
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Highway Contract Route Transportation – Greater  
Chicago (Report Number NL-AR-10-003)

This report presents the results of our audit of the Greater Chicago mail processing facilities' transportation routes (Project Number 09XG028NL001). Our objectives were to determine whether highway contract routes (HCRs) were effective and economical. This audit was self-initiated and was performed in conjunction with an audit on the efficiency of Cardiss Collins Processing and Distribution Center's (P&DC) Postal Vehicle Service (PVS) transportation, which was requested by the U.S. Postal Service's vice president, Network Operations. The report focuses on greater Chicago HCRs controlled by the Great Lakes Area. See [Appendix A](#) for additional information about this audit.

## Conclusion

Great Lakes Area and local officials were not effectively managing HCR transportation contracts as evidenced by some underutilized trips. This occurred because local management was not continually reviewing requirements and adjusting schedules<sup>1</sup> to address changing work loads and reductions.

We determined the greater Chicago facilities could improve the effectiveness of scheduled HCRs and save more than \$3.3 million in contract costs and fuel over the term of existing HCR contracts by canceling or modifying 68 trips. The Postal Service could eliminate these trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. The reduction in contracted surface transportation would also help achieve fuel consumption goals outlined in the Postal Service's National Energy Plan. See [Appendix B](#) for our detailed analysis of this topic.

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<sup>1</sup> Handbook M-22, *Dispatch and Routing Policies*, states that local management is responsible for working with area offices to develop local networks composed of postal-owned and contracted transportation services to ensure efficient and timely service to the processing and distribution service areas .

We recommend the vice president, Great Lakes Area Operations:

1. Ensure Great Lakes Area managers follow prescribed highway contract procedures for making highway contracts effective and economical, including the continual monitoring and adjustment of trips based on need.
2. Verify the elimination of six trips from highway contracts identified during our audit fieldwork.
3. Eliminate 42 trips from highway contracts identified in our audit and already agreed to by local and area management.
4. Reassess an additional 20 trips from highway contracts identified in our audit, and cancel or modify the trips as indicated by the reassessment, or document the reasons for retaining the trips.

### **Management's Comments**


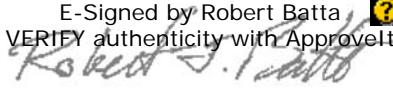
Management agreed with our findings and recommendations and stated that opportunities exist for several sites in the Chicago metropolitan area to better utilize HCR transportation. The Great Lakes Area did not agree with our estimated savings and cited that ongoing mail processing changes precludes a total agreement on the final intrametropolitan network structure. Additionally, management stated that contract negotiations and actual implementation dates will also impact the actual savings. See [Appendix D](#) for management's comments in their entirety.

### **Evaluation of Management's Comments**

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to all the recommendations and the corrective actions should resolve the issues identified in the report. Regarding our estimated savings, we still believe the amounts are valid based on our review of operations and data during the period audited.

The OIG considers recommendations 1, 3, and 4 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 Postal Service's 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. If you have any questions or need additional information, please contact Jody Troxclair, director, Transportation, or me at (703) 248-2100.

E-Signed by Robert Batta   
VERIFY authenticity with ApproveIt  


Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

#### Attachments

cc: Patrick R. Donahoe  
Steven J. Forte  
Jordan M. Small  
Cynthia F. Mallonee  
Pamela S. Grooman  
Sally K. Haring

## **APPENDIX A: ADDITIONAL INFORMATION**

### **BACKGROUND**

Postal Service transportation includes nationwide network transportation between cities and major facilities (such as P&DCs) and delivery transportation between local post offices and neighborhood delivery and pickup points. The Postal Service uses two types of surface transportation to move mail to and from Postal Service facilities. These include PVS transportation using Postal Service owned vehicles and contracted transportation with private contractors known as HCR transportation. Individual Postal Service areas control the HCRs, and Postal Service transportation managers at the area and local levels are responsible for continually reviewing these routes to balance on-time service standards with costs. The Postal Service spends about \$2.4 billion annually on HCRs.



Highway Contract Route traveling on a  
greater Chicago, IL, interstate.  
Picture taken September 15, 2009.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our audit were to determine whether the HCRs are effective and economical. This report focuses on routes under the Great Lakes Area's control.

This audit was self-initiated and was performed in conjunction with an audit of the efficiency of Cardiss Collins P&DC's PVS transportation, which was requested by the Postal Service's vice president, Network Operations. During our work, we audited 11 Greater Chicago facilities,<sup>2</sup> visited two of those facilities, and interviewed officials at the

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<sup>2</sup> These facilities were [REDACTED]

Great Lakes Area. We reviewed relevant Postal Service policies and procedures, interviewed managers and employees, and observed and photographed operations. We also evaluated mail volume and the type of mail carried, and considered on-time service standards.

Using Postal Service computer-generated data, we identified 2,770 trips operated under 202 Great Lakes Area contracts that had at least one service point within the greater Chicago facilities. We did not audit or comprehensively validate the data; however, we noted several control weaknesses that constrained our work. For example, some computer files had missing records and inaccurate trailer load volumes. Even though data limitations constrained our work, we were able to support our audit conclusions by applying alternate audit procedures, including source document examination, and discussion with appropriate officials.

We conducted this performance audit from July 2009 through March 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management throughout our audit and included their comments where appropriate.

## PRIOR AUDIT COVERAGE

This report is being issued in conjunction with our ongoing OIG audits on PVS transportation at selected Postal Service facilities. Our recent PVS transportation audits listed below identified opportunities to increase the effectiveness of scheduled PVS transportation by eliminating or consolidating routes. Management agreed with our recommendations in these audits. Our review of HCRs in this audit used the same methodology and had comparable findings.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Postal Vehicle Service Transportation Routes – Philadelphia Processing and Distribution Center</i>	NL-AR-09-006	7/20/2009	\$5.4
<i>Postal Vehicle Service Transportation Routes – Cardiss Collins Processing and Distribution Center</i>	NL-AR-10-002	12/28/2009	18.3
<b>Total</b>			<b>\$23.7</b>



## APPENDIX B: DETAILED ANALYSIS

### Underutilized Trips in HCR

Great Lakes Area and local officials were not effectively managing HCR transportation contracts as evidenced by some underutilized trips. Specifically, they could eliminate or modify 68 trips from 12 highway contracts in the Great Lakes Area without negatively impacting service. This occurred because management was not continually reviewing requirements and adjusting schedules as required by Postal Service policy to address changing work loads and reductions due, in part, to economic conditions. See [Appendix C](#) for a listing of contracts, related trips, and miles recommended for reduction, along with associated monetary impacts.

According to policy, local managers are responsible for working with area offices to develop local networks composed of postal-owned and contracted transportation services to ensure efficient and timely service to the processing and distribution service areas. As such, the greater Chicago facilities could improve the effectiveness of scheduled HCRs and save more than \$3.3 million in contract costs and fuel over the term of existing HCR contracts by canceling or modifying 68 trips. The Postal Service could eliminate these trips without negatively affecting on-time service because trip mail volume was low and mail could be consolidated on other trips. The reduction in contracted surface transportation would also help achieve fuel consumption goals outlined in the Postal Service's National Energy Plan by reducing fuel use for contracted transportation by about 640,000 miles annually. See [Appendix C](#) for our detailed analysis of this topic.

Throughout our audit, we coordinated proposed trip changes with Great Lakes Area transportation managers. The managers reviewed each proposal in conjunction with their own assessment of operational requirements, and we discussed any differences. Management agreed to 48 of 68 trips we identified as unnecessary and the Postal Service already initiated the elimination of six trips. In addition, we believe the remaining 20 trips could be eliminated without jeopardizing on-time performance.

**APPENDIX C: RECOMMENDED TRIP REDUCTIONS AND  
RELATED MONETARY IMPACT**

Recommended Reduction	Contract Number	Number of Trips	Annual Miles Reduced	Estimated Savings
<b>Postal Initiated</b>	601BK	2	4,026	\$42,922
	601L1	4	9,519	76,935
<b>Agreed</b>	60046	2	9,840	76,044
	60133	12	20,964	257,715
	60430	2	12,123	60,943
	600L1	14	43,830	645,892
	600M1	6	23,997	300,511
	601L1	2	2,629	21,250
	601L5	2	38,200	124,266
	606CK	2	20,267	228,793
<b>Disagreed</b>	60046	2	9,212	71,191
	60430	2	12,123	60,943
	600L1	4	6,216	92,567
	600L7	2	11,976	50,182
	600M1	2	8,444	105,748
	600M3	2	38,195	210,071
	601L1	4	21,341	172,484
	607Y0	2	350,060	726,794
<b>Total</b>		<b>68</b>	<b>642,960</b>	<b>\$3,325,251<sup>3</sup></b>

The standard OIG methodology for calculating the months remaining in the contract is to use actual months remaining as of a specified date. But if the months remaining are less than 1 year, the number of months in the renewal is used.

<sup>3</sup> This \$3,325,251 will be classified as funds put to better use (funds that could be used more efficiently by implementing recommended actions), and consists of \$2,768,291 in contract savings and \$556,960 in fuel savings.



## APPENDIX D. MANAGEMENT'S COMMENTS

JO ANN FEINDT  
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



February 19, 2010

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS  
1735 NORTH LYNN STREET  
ARLINGTON VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report – Highway Contract Route  
Transportation Greater Chicago (Report Number NL-AR-10-DRAFT)

The Great Lakes Area is in agreement with the Office of Inspector General that opportunities exist to better utilize Highway Contract Route transportation at several sites within the Chicago metro area. Steps are being taken to make the necessary changes towards a more efficient local network.

The Great Lakes Area is not in agreement with the estimated savings of \$3,325,251.00. The actual amount of estimated savings is \$1,835,271.00. The Chicago metro area is undergoing a review of all operations, particularly due to AMP and FSS activity, which precludes a total agreement on the finalized intra metro area network structure. As always, negotiations and actual implementation dates will also impact the actual savings.

Recommendation 1:

Ensure Great Lakes Area managers follow prescribed contract procedures for making highway contracts effective and economical, including the continual monitoring and adjustment of trips based on need.

Response:

The Great Lakes Area is in agreement with recommendation 1. Proper review of intra cluster HCR transportation is paramount to an efficient network. Periodic reviews of current schedules and volumes will be conducted quarterly at the Great Lakes Area Office and instructions will also be issued to the field to perform random reviews of their current transportation network.

Recommendation 2:

Verify elimination of six trips from highway contracts identified during our audit fieldwork.

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Response:

The Great Lakes area is in agreement with recommendation 2. The six trips have been eliminated under national Service Change Request System numbers #121333 dated 08/29/09, and #120227 dated 07/06/09.

Recommendation 3:

Eliminate 42 trips from highway contracts identified in our audit and already agreed to by local and area management.

Response:

The Great Lakes Area is in agreement with recommendation 3. Work has begun on the elimination of the trips. Due in part to the Supply Management restructure of the field transportation purchasing function, it is difficult to give an estimated date. We would anticipate that, due to staffing issues at the purchasing office (Central CMT), actual service change completion will take longer than what would be a normal expectation.

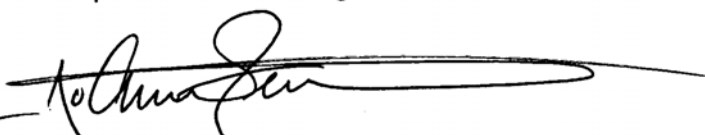
Recommendation 4:

Reassess an additional 20 trips from highway contract identified in our audit, and cancel or modify the trips as indicated by the reassessment, or document the reason for retaining the trips.

Response:

The Great Lakes Area agrees to reassess the additional 20 trips that have been identified in 90 days and either cancel or modify the trips or provide justification for retaining them.

We do not believe that this report contains any proprietary or information that would prevent it from being disclosed under the Freedom of Information Act.



Jo Ann Feindt