

September 24, 2002

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

AL INIGUEZ
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Highway Network Scheduling – Pacific Area
(Report Number TD-AR-02-003)

Background

On November 29, 2001, the Office of Inspector General (OIG) announced an audit of highway network scheduling (Project Number 01NA023TR000). The announcement responded to a request from the vice president, Network Operations Management. This is the first in a series of reports. It focuses on the Pacific Area.



Highway contract trip terminating at a Postal Service plant.

Objective, Scope, and Methodology

The objective of our audit was to evaluate the effectiveness of scheduled highway contract routes, and to identify opportunities for cost savings. The vice president, Network Operations Management, provided a list of plant-to-plant highway contract routes he wanted considered for elimination or consolidation. A total of 1,325 trips were

operated under the 89 Pacific Area contracts. In preparation for our work, we provided plant managers in the Pacific Area with the list of contracts we intended to audit. During our work, we interviewed officials at headquarters and in the Pacific Area; reviewed relevant Postal Service policies and procedures; visited 23 plants; interviewed managers and employees; observed and photographed operations; analyzed data in the Postal Service “Transportation Information Management Evaluation System,” evaluated mail volume and critical entry times for First-Class and Priority Mail; and analyzed all 1,325 trips. Work associated with the Pacific Area was conducted from November 2001 through September 2002 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings with appropriate management officials, and included their comments, where appropriate.

Audit Results

Unnecessary Highway Contract Trips. Our audit revealed that the Postal Service could save about \$4.5 million over the term of existing Pacific Area highway contracts by canceling 158 unnecessary trips. The trips could be terminated because trip mail volume was low, and mail could be consolidated on other trips without negatively affecting service. The cost savings we identified were net of contract cancellation fees totaling approximately \$730,000.

After we completed our analysis, we discussed the 158 trips with plant managers. The managers had already initiated cancellation on 48 trips, agreed an additional 76 should be cancelled, but disagreed with our assessment of 34. The trip cancellation proposals are summarized below:

TRIP CANCELLATION PROPOSALS

CANCELLATION CATEGORY	NUMBER OF TRIPS	APPENDIX	IDENTIFIED SAVING
Cancellations initiated by plant managers after we provided the list of contracts we intended to audit.	48	A	\$1,189,223
Trips we identified during audit work with which plant managers agreed.	76	B	2,414,212
Trips we identified during audit work with which plant managers disagreed.	<u>34</u>	C	<u>896,982</u>
Total	158	NA	\$4,500,417

The plant managers disagreed with the 34 proposals for various reasons—generally that eliminating the trips would reduce operational flexibility. We revisited each of the trips with the plant managers and reconsidered trip mail volume and service requirements. We continue to believe the potential for trip cancellation without jeopardizing service or operational flexibility and savings exists.

Recommendations

We recommend the vice president, Pacific Area Operations:

1. Verify the actual cancellation of the 48 termination actions initiated by plant managers after receiving the list of contracts we intended to audit.
2. Cancel the 76 trips, which plant managers agree are unnecessary.
3. Reassess the 34 trips plant managers feel are necessary, cancel trips indicated by the reassessment as necessary, and document the reasons for retaining the other trips.

Management's Comments

Management agreed with the intent of our recommendation. Regarding the 124 trips we identified for elimination in recommendations 1 and 2, management stated they had already eliminated 110 trips, and other trips were in the Pacific Area contracting office pending final action. They also stated that most cancellations were as agreed during our audit, but that they had made certain substitutions they considered appropriate. Regarding the 34 trips we identified for elimination in recommendation 3, but with which local plant managers disagreed, management stated they would reassess the recommendations, and retain or eliminate the trips as appropriate. Finally, management stated that at the completion of their work, they would notify the OIG of all cancelled trips, and of the resulting cost savings. Management's comments, in their entirety, are included in Appendix D of this report.

Evaluation of Management's Comments

Management's comments are responsive to our recommendations. We consider the actions taken and planned sufficient to address the issues we identified.

The OIG considers recommendations 1, 2, and 3 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 audit. If you have any questions or need additional information, please contact Joe Oliva, director, Transportation and Delivery, at (703) 248-2100, or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
for Core Operations

Attachment

cc: Patrick R. Donahoe
Anthony M. Pajunas
Susan M. Duchek

APPENDIX A. CANCELLATIONS INITIATED BY PLANT MANAGERS AFTER WE PROVIDED THE LIST OF CONTRACTS WE INTENDED TO AUDIT					
Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
926L5	5 and 6	Santa Ana to Anaheim and Return	\$ 4,446	\$ 0	\$ 4,446
926L5	37 and 38	Santa Ana to Anaheim and Return	743	0	743
92631	1 and 2	Santa Ana to Newport Beach, California and Return	25,650	4,275	21,375
92631	109 and 110	Santa Ana to John Wayne A/P* and Return	12,918	2,153	10,765
926L8	3 and 4	Santa Ana to United Terminal and Return	25,404	8,468	16,936
926L8	13 and 14	Santa Ana to United Terminal and Return	25,743	8,581	17,162
926L8	31 and 32	Santa Ana to Worldway AMC,* California and Return	29,951	9,984	19,967
926L8	35 and 36	Santa Ana to Worldway AMC,* California and Return	36,080	12,027	24,053
92315	5 and 6	Not Available	98,758	16,460	82,298
92318	203 and 204	San Bernardino to IBC Building and Return	137,218	22,870	114,348
92318	221 and 222	San Bernardino to Mercury Building and Return	138,308	23,051	115,257
95010	3 &4, 5 & 6, 7&8, 21&22, 33&34, 27&28	San Jose to San Francisco and Return	519,552	57,728	461,824
90218	9 and 10	Marina to D-net and Return	5,142	571	4,571
90218	11 and 12	Marina to D-net and Return	5,142	571	4,571
90218	23 and 24	Marina to United Terminal and Return	27,039	3,004	24,035
91316	1&2, and 3&4	Santa Clarita to Anaheim and Return; Anaheim to Santa Clarita and Return	140,000	23,333	116,667
91318	5 and 6	Santa Clarita to Los Angeles and Return	11,481	1,276	10,205
91319	59 and 60	Santa Clarita to Van Nuys Hub and Return	168,000	28,000	140,000
Total	48 Trips		\$1,411,575	\$222,352	\$1,189,223

*Airport (A/P).

Airport Mail Center (AMC).

**APPENDIX B. TRIPS IDENTIFIED DURING AUDIT WORK WITH
WHICH AREA MANAGERS AGREED**

Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
926L5	1 and 2	Santa Ana to Los Angeles and Return	\$ 10,345	\$ 0	\$ 10,345
926L5	13 and 14	Santa Ana to Anaheim and Return	4,331	0	4,331
926L5	31 and 32	Santa Ana to Anaheim and Return	5,078	0	5,078
926L5	39 and 40	Santa Ana to Anaheim and Return	4,331	0	4,331
926L5	47 and 48	Santa Ana to Anaheim and Return	3,588	0	3,588
92631	9 and 10	Santa Ana to Newport Beach and Return	26,328	4,388	21,940
92631	13 and 14	Santa Ana to Newport Beach and Return	30,900	5,150	25,750
92631	17 and 18	Santa Ana to Newport Beach and Return	25,650	4,275	21,375
92631	103 and 104	Santa Ana to John Wayne A/P* and Return	12,918	2,153	10,765
92631	117 and 118	Santa Ana to John Wayne A/P* and Return	19,088	3,181	15,907
926L8	1 and 2	Santa Ana to Worldway AMC* and Return	36,080	12,027	24,053
926L8	5 and 6	Santa Ana to OAS Bldg and Return	36,080	12,027	24,053
926L8	29 and 30	Santa Ana to Worldway AMC* and Return	29,951	9,984	19,967
926L2	5 and 6	Santa Ana to Ontario AMF* and Return	101,024	8,419	92,605
926L2	9 and 10	Santa Ana to Ontario AMF* and Return	101,792	8,483	93,309
926L7	3 and 4	Santa Ana to Pasadena and Return	91,264	15,211	76,053
93213	3 and 4	Bakersfield to Fresno and Return	15,375	5,125	10,250
94012	13 and 14	San Francisco to North Bay and Return	67,980	11,330	56,650
94514	1 and 2	Oakland to Stockton and Return	185,733	20,637	165,096
94515	2 or 6 or 10	North Bay to Oakland	13,233	1,470	11,763
95612	1 and 2	Sacramento AMF* to San Francisco AMC* Temp and Return	171,536	28,589	142,947
95612	11 and 12	Sacramento AMF* to San Francisco AMC* Temp and Return	142,490	23,748	118,742
95612	21 and 22	Sacramento AMF* to San Francisco AMC* Temp and Return	129,688	21,615	108,073

**APPENDIX B. TRIPS IDENTIFIED DURING AUDIT WORK WITH
WHICH AREA MANAGERS AGREED**

Highway Contract Route	Trip Number	Origin/Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
95619	5 and 6	Sacramento AMF* to San Francisco AMC* Temp and Return	399,540	33,295	366,245
95620	57 and 58	Worldway AMC* to Mojave and Return	245,328	20,444	224,884
928L2	19 and 20	Anaheim to Worldway AMC* and Return	9,589	0	9,589
928L2	2	Worldway AMC* to Anaheim	4,718	0	4,718
91016	5 and 6	Pasadena to Los Angeles and Return	34,044	5,674	28,370
91318	5 and 6	Santa Clarita to Los Angeles and Return	15,258	2,543	12,715
91318	9 and 10	Santa Clarita to Los Angeles and Return	107,102	17,850	89,252
91319	19 and 20	Santa Clarita to Worldway AMC* and Return	78,476	13,079	65,397
91319	39 and 40	Santa Clarita to Worldway AMC* and Return	49,524	8,254	41,270
90714	21 and 22	Long Beach to Worldway AMC* and Return	85,815	9,535	76,280
90714	13 and 14	Long Beach to Worldway AMC* and Return	85,815	9,535	76,280
90713	17 and 18	Long Beach to Los Angeles and Return	46,260	5,140	41,120
91712	19 and 20	Industry to Worldway AMC* and Return	92,034	10,226	81,808
91712	25 and 26	Industry to Worldway AMC* and Return	92,034	10,226	81,808
91712	15 and 16	Industry to Worldway AMC* and Return	107,829	11,981	95,848
91713	9 and 10	Industry to Anaheim and Return	61,998	10,331	51,657
Total	76 Trips		\$2,784,363	\$370,151	\$2,414,212

*Airport (A/P).

Airport Mail Center (AMC).

Airport Mail Facility (AMF).

**APPENDIX C. TRIPS IDENTIFIED DURING AUDIT WORK WITH
WHICH AREA MANAGERS DISAGREED**

Highway Contract Route	Trip Number	Origin and Destination	Estimated Contract Costs	Indemnity Fees	Estimated Cost Savings
95616	2	Stockton to Sacramento	\$ 65,133	\$ 7,237	\$ 57,896
95620	53 and 54	Worldway AMC* to Mojave and Return	203,224	16,935	186,289
92830	7 and 8	Anaheim to Corona and Return	35,064	5,844	29,220
92830	11 and 12	Anaheim to Citrus Annex and Return	39,686	6,614	33,072
92830	15 and 16	Anaheim to Corona and Return	38,982	6,497	32,485
92830	201 and 202	Anaheim to Norco and Return	38,178	6,363	31,815
92830	207 and 208	Anaheim to Norco and Return	38,178	6,363	31,815
92830	212	Industry to Anaheim	22,638	3,773	18,865
92830	22	Industry to Anaheim	22,638	3,773	18,865
92830	2 or 4 or 6	Citrus Annex to Anaheim	19,088	3,181	15,907
91016	117 and 118	Pasadena to Worldway AMC* and Return	68,498	11,416	57,082
91314	5 and 6	Santa Clarita to Santa Ana and Return	24,922	4,154	20,768
91315	5 and 6	Santa Clarita to Oxnard and Return	15,912	1,768	14,144
91317	5 and 6	Santa Clarita to Industry and Return	20,708	3,451	17,257
91317	9 and 10	Santa Clarita to Pasadena and Return	14,540	2,423	12,117
90218	21 and 22 or 25 and 26	Marina to Worldway AMC* and Return	30,729	3,414	27,315
90217	7 and 8	Marina to Los Angeles and Return	58,347	6,483	51,864
90216	1 and 2 or 3 and 4	Marina to Santa Ana and Return	125,829	13,981	111,848
91714	3 and 4	Industry to San Diego and Return	154,030	25,672	128,358
Total	34 Trips		\$1,036,324	\$139,342	\$896,982

*Airport Mail Center (AMC).

APPENDIX D. MANAGEMENT'S COMMENTS

PACIFIC AREA OFFICE
DISTRIBUTION NETWORKS



September 18, 2002

MEMORANDUM FOR B. WAYNE GOLESKI
ASST. INSPECTOR GENERAL
CORE OPERATIONS

SUBJECT: Draft Audit Report – Highway Network Scheduling, Pacific Area
(Report No. TD-AR-02-DRAFT)

I am responding to the Office of Inspector General (OIG) draft audit report dated August 15, 2002, referenced above. We concur with the intent of your findings and recommendations. Appendices A and B of the report identified 124 trips for elimination. Cancellation of these trips had either already been initiated during your audit, or was identified during your work. To date, the Pacific Area has eliminated 110 trips and a number of other trips are currently in the contracting office pending final action. Most cancellations are as we agreed during the audit; however, we have made some substitutions we think appropriate. Upon completion of our effort, we will notify you of the trips eliminated and the resulting cost savings.

Appendix C of your report recommended the elimination of 34 trips; however, our plant managers are in disagreement with the recommendations. We will reassess those recommendations, retain or eliminate the trips as may be appropriate, and notify you of the action we have taken.

Through our ongoing Breakthrough Productivity Initiative and efficiency improvement efforts, such as the one conducted by the OIG, the Pacific Area leads the nation in reducing highway transportation contract costs during FY 01 and FY 02, with over \$20 million in savings. We will continue this commitment in FY 03 as we seek further optimization of our transportation network.

If you require further documentation please contact Jill Navarrette, Network Planning Specialist, at (510) 292-2426.

A handwritten signature in black ink, appearing to read "Lee A. Jordan".

Lee A. Jordan
A/Manager, Distribution Networks

cc: Kim H. Stroud (OIG, Dir., Audit Operations)
A. Iniguez
A. Mendicino
P. Vogel
A. Pajunas

2501 HYDIN ROAD, ROOM 210
RICHMOND CA 94850-9650
510-282-2430
FAX: 510-282-2434