

June 30, 2000

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA

PAUL J. SEEHAVER
EXECUTIVE DIRECTOR, MAIL TRANSPORT EQUIPMENT
SERVICE CENTER NETWORK PROGRAM

SUBJECT: Audit Report – Extra Trip Expenditures at the Dallas Bulk Mail Center
(Report Number TR-AR-00-008)

This report presents the results of our audit of extra trip expenditures at the Dallas Bulk Mail Center (Project Number 00PA002TR001). The audit disclosed that 52 percent of the \$9.7 million in fiscal year 1999 extra trip expenditures were charged to Dallas Bulk Mail Center operations by other facilities and were not controlled by the Dallas Bulk Mail Center. In addition, the extra trip expenditures controlled by the Dallas Bulk Mail Center could be reduced by optimizing trailer capacity, processing service change requests more timely, and increasing oversight of transportation operations. Management agreed with our findings and recommendations to improve management oversight and reduce extra trip expenditures at the Dallas Bulk Mail Center. Management's comments, in their entirety, are included in the Appendix of this report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Mr. Joseph Oliva, director, Transportation, at (703) 248-2317 or me at (703) 248-2300.

Ronald K. Stith
Acting Assistant Inspector General
for Business Operations

Attachment

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EXECUTIVE SUMMARY

Introduction

The Office of Inspector General conducted an audit of the Postal Service's expenditures for extra trips on highway contract routes at the Dallas Bulk Mail Center. In fiscal year (FY) 1999, extra trip expenditures at the Dallas Bulk Mail Center totaled \$9.7 million.

The audit was conducted in response to issues identified by Transportation managers during the development of our FY 2000 audit workload plan. Specifically, our objectives were to determine (1) the major causes of extra trips and (2) the adequacy of management oversight of extra trip expenditures.

Results in Brief

Our audit disclosed that 52 percent¹ of FY 1999 extra trip expenditures were charged to the Dallas Bulk Mail Center by other Texas facilities. A quality improvement program test started in 1997 allowed other facilities to charge extra trip expenditures to the Dallas Bulk Mail Center. As a result, the Dallas Bulk Mail Center did not have control over all extra trip expenditures charged to its account.

Extra trips operated by the Dallas Bulk Mail Center occurred because the center did not have the proper mail transport equipment to optimize trailer capacity. The Dallas Bulk Mail Center relied on palletized cardboard boxes that consumed more trailer floor space than other types of containers and could not be stacked inside the trailer. Palletized cardboard boxes were used because other mail transport equipment, such as over the road containers, were not available from the Dallas Mail Transport Equipment Service Center.

We were unable to identify specific trips for elimination because trailer utilization rates in the Transportation Information Management System were inaccurate. Utilization rates were generally overstated because postal employees determined that trailers were loaded to capacity when only the floor space was covered. These determinations were subjectively made and did not consider the cubic capacity of the trailer. This practice produced unreliable data and prevented managers from optimizing transportation.

¹ Fifty-two percent equals \$5 million of \$9.7 million in extra trip expenditures.

As discussed in our previous report on highway contract routes,² converting regularly scheduled extra trips to regular service could reduce extra trip expenditures. Although the Dallas Bulk Mail Center submitted service change requests to the Distribution Networks office, such requests took up to 16 months to be processed and approved. As a result, needed transportation changes were not made in a timely manner.

Finally, the Dallas Bulk Mail Center and the Southwest Distribution Networks office did not exercise adequate oversight of extra trip operations. Dispatch discipline reviews were not performed, as required, contributing to an excessive number of extra trips operating on a daily basis. Management stated they were not aware of the requirement to perform these reviews. Performing dispatch discipline reviews can identify routes needing adjustments and other dispatch issues requiring attention. Also, extra trip authorization forms were preapproved by route and left in the Dallas Bulk Mail Center Transportation office. This circumvented case-by-case justification and approval of extra trips. When we brought this issue to the attention of management, officials took immediate action to discontinue the process of preapproving forms.

**Summary of
Recommendations**

We made five recommendations to improve management oversight and reduce the number of extra trips at the Dallas Bulk Mail Center. To strengthen controls over extra trip expenditures, we recommended that the vice president, Southwest Area ensure extra trip costs are charged to the facility requesting the trip, problems with obtaining mail transport equipment are documented, adequate mail transport equipment is provided, timelines are established for processing service change requests, and dispatch discipline reviews are conducted.

We also recommended the executive director, Mail Transport Equipment Service Center Network Program ensure the Dallas Bulk Mail Center has the proper mail transport equipment.

² September 29, 1999, report on Emergency and Extra Trip Expenditures on Highway Contract Routes (TR-AR-99-003).

**Summary of
Management's
Comments**

Management agreed with our recommendations and provided corrective actions (1) to ensure extra trip costs were charged to the facility requesting the extra trip, (2) to ensure that the Dallas Bulk Mail Center documented problems obtaining adequate mail transport equipment, (3) to establish timelines for processing service change requests', (4) to ensure adequate mail transport equipment was available, and (5) to conduct dispatch discipline reviews. Management's comments, in their entirety, are included in the Appendix of this report.

**Overall Evaluation of
Management's
Comments**

Management's comments were responsive to our findings and recommendations, and planned actions should correct the issues identified in this report.

INTRODUCTION

Background

Highway contract routes provide regularly scheduled service between postal facilities. If unforeseen transportation needs arise that cannot be met by established routes, the Postal Service can require contractors to perform extra trips on existing routes. In FY 1999, extra trip expenditures totaling \$9.7 million were charged to the Dallas Bulk Mail Center.

Responsibility for managing extra trip expenditures is currently divided between Networks Operations staff in the field and Transportation staff at processing and distribution centers and bulk mail centers. Purchasing and Materials staff in each area process service changes affecting highway contract routes.

Objective, Scope, and Methodology

The objective of the audit was to determine how the Postal Service could reduce extra trip expenditures at the Dallas Bulk Mail Center. To identify these opportunities, we (1) determined the major causes for extra trips and (2) evaluated the adequacy of management oversight of extra trip expenditures.

To determine the major causes for extra trips at the Dallas Bulk Mail Center, we observed operations, identified sources for expenditures, reviewed trailer utilization rates reported in the Transportation Information Management Evaluation System, and reviewed dispatch schedules for regularly scheduled highway routes. We did not determine the causes of trips operated by other facilities that charged extra trip expenditures to the Dallas Bulk Mail Center.

To determine adequacy of management oversight of extra trips operated by the Dallas Bulk Mail Center, we reviewed extra trip authorization forms, and interviewed management officials.

This audit was conducted between October 1999 and June 2000 in accordance with generally accepted government auditing standards, and included 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.

Prior Audit Coverage

In our September 29, 1999, report on Emergency and Extra Trip Expenditures on Highway Routes (TR-AR-99-003), we found extra trip rates were excessive because they included fixed costs such as general overhead and insurance for which the Postal Service is already paying contractors as part of regular contract service. Eliminating fixed costs would have produced annual savings of \$448,000 at the Dallas Bulk Mail Center, based on FY 1999 extra trip expenditures. We also reported that better monitoring of extra trip expenditures could have led to identifying extra trips that occurred with such frequency that they were "regularly scheduled trips." We recommended that extra trip rates be established when regular service contracts are negotiated and Networks offices monitor extra trip expenditures. The Postal Service concurred with our findings and agreed to establish a pilot to negotiate extra trip service rates at contract award or renewal and to develop a tracking system to monitor extra trip expenditures.

AUDIT RESULTS

Major Causes of Extra Trips

Our audit disclosed that 52 percent of extra trip expenditures were charged to the Dallas Bulk Mail Center by other Texas facilities. Some extra trips operated by the Dallas Bulk Mail Center occurred because it did not have the proper mail transport equipment to optimize trailer capacity. Management relied on 4 foot palletized cardboard boxes to transport mail that consumed far more trailer floor space than other mail transport equipment and could not be stacked inside the trailer. We were unable to identify specific trips for elimination because utilization rates in the Transportation Information Management Evaluation System were inaccurate. Finally, scheduled extra trips ran on a daily basis because service change requests were not processed in a timely manner.

Extra Trip Charges by Other Facilities

About \$ 9.7 million in extra trip expenditures were charged to the Dallas Bulk Mail Center in FY 1999. However, only \$4.7 million, or 48 percent, of this amount supported Dallas Bulk Mail Center operations. The remaining \$5 million, or 52 percent, comprised extra trips operated by other facilities. The Distribution Networks office also charged trips to the bulk mail center that were used to move empty mail transport equipment within the Southwest Area. During 1997 the area Distribution Networks office initiated a quality improvement program (Quality Service End to End) and allowed other facilities to charge their extra trip expenditures against the Dallas Bulk Mail Center's finance number as a test. As of January 2000 this process was still in effect. Consequently, the Dallas Bulk Mail Center had no control over all expenditures charged to its account. The following table identifies the sources of the Dallas Bulk Mail Center extra trip expenditures in FY 1999:

**Sources of FY 1999 Extra Trip Expenditures
Charged to the Dallas Bulk Mail Center**

<u>Source</u>	<u>Expenditures</u>
Dallas Bulk Mail Center	\$4,769,803
Other Sources:	
Distribution Networks Office (for mail transport equipment) ³	1,557,144
Other facilities:	
Dallas Processing and Distribution Center	1,709,924
North Texas Annex	849,923
Fort Worth	367,632
Dallas Airport Mail Center	79,075
Destination facilities ⁴	<u>415,183</u>
Total Other Sources	\$4,978,881
Total	\$9,748,684

Allowing other facilities to charge extra trips to the Dallas Bulk Mail Center does not provide proper controls over such expenditures as the Dallas Bulk Mail Center lacks authority over these facilities. Such costs should be managed by each facility to place accountability where it belongs.

Utilization of Trailer Space	The Dallas Bulk Mail Center did not always optimize trailer space because mail was transported in palletized cardboard boxes that consumed more trailer space than other types of mail transport equipment. As illustrated in the photograph below, palletized cardboard boxes could not be stacked and lost their shape once they were loaded.
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³ The contract to transport empty equipment ended January 31, 2000.

⁴ Extra trip originated at destination facility.



Although management recognized the use of cardboard boxes was inefficient, they were unable to get the proper mail transport equipment, such as over the road containers, from the Dallas Mail Transport Equipment Service Center to optimize space on trailers. While the facility could have purchased larger cardboard boxes, such as postal-paks or stackable west-paks, destinating facilities lacked the proper equipment to unload these containers.

We were unable to identify specific trips for elimination because trailer utilization rates in the Transportation Information Management Evaluation System were inaccurate. Trailer utilization data was inaccurate because bulk mail center personnel subjectively determined capacity usage based on floor coverage versus the quantity of mail loaded on the trailers. For example, we observed a trailer leaving the center that was reported as loaded to full capacity when, in fact, only 50 percent of the total cubic space of the trailer was filled. However, given that trips to delivery units require specific mail separation, a more accurate measure of trailer utilization may not be possible. For this reason the Dallas Bulk Mail Center and Distribution Networks office need to more frequently review dispatch discipline to ensure existing transportation is optimized.

Service Change
Requests

The Dallas Bulk Mail Center extended extra trip service that should have been converted to regular trips. The Postal Service Purchasing Manual states that extra trips may be required only when an unanticipated increase in mail volume or other conditions arise that require the performance of an extra trip. Because these trips had been operating daily over a long period of time, they no longer met the criteria of being "unanticipated." As a result, service change requests should have been processed to convert these trips to regular service. According to the manager, Transportation Networks, Dallas Bulk Mail Center, service change requests had been submitted; however, the requests were not processed timely. For example, network specialists at the Southwest Area Distribution Networks office took up to 16 months to process and approve service change requests submitted by the Dallas Bulk Mail Center.

Savings could be achieved by converting daily extra trips that indicate a long-term need for the regular service. For example, one route had an annual contract rate of \$5.2 million with extra trip costs of \$1.7 million for FY 1999. The Southwest Area Distribution Networks office made a service change and included the daily extra trips into the regular route resulting in annual savings of approximately \$244,000. While this type of savings is not guaranteed, similar savings could occur when daily scheduled extra trips are included into regular routes.

Recommendations

We recommend the vice president, Southwest Area Operations:

1. Ensure extra trip costs are charged to the originating facility requesting the extra trip to facilitate better control over such costs.

**Management's
Comments**

Management agreed with our recommendation. They stated that the Southwest Area office and the Dallas Bulk Mail Center were implementing tracking systems which would charge extra trips to individual facilities, and explained that under the new process the practice of allowing other facilities to charge extra trips against the Dallas Bulk Mail Center would be terminated. Management projected implementation by November 2000.

Recommendation	2. Require the Dallas Bulk Mail Center to document problems with obtaining adequate mail transport equipment and forward to the Distribution Networks office for appropriate action.
Management's Comments	Management agreed with our recommendation and stated that Dallas Bulk Mail Center documented requirements would be monitored so that the Dallas Bulk Mail Center would be supplied with necessary equipment.
Recommendation	3. Establish timelines to process service change requests.
Management's Comments	Management agreed with our recommendation. They stated that they had established a timeline of 74 days from inception to disposition to process transportation service requests.
Recommendation	We recommend the executive director, Mail Transport Equipment Service Center Network Program: 4. Ensure adequate mail transport equipment is provided to the Dallas Bulk Mail Center.
Management's Comments	Management agreed with our recommendation. They stated that nationally they had repositioned more than 1,100 over the road containers to the Dallas Bulk Mail Center from locations outside the Southwest Area and would continue to rebalance mail transport equipment until the Dallas Bulk Mail Center was supplied with requirements. Management stipulated that peak seasonal demand and spot shortages would occasionally cause requirements to exceed supply, but that their expectation was that routine equipment needs would be met under normal operating conditions.
Evaluation of Management's Comments	Management's comments are responsive to our findings and recommendations. We believe that the actions, taken and planned, should correct the issues identified in our report.

Management Oversight

Our audit disclosed that management personnel did not schedule or perform required dispatch discipline reviews, or ensure extra trip authorization forms were properly completed and authorized.

**Dispatch Discipline
Reviews**

According to the Postal Service's M-22 Handbook,⁵ both Distribution Networks offices and processing facilities should perform dispatch discipline reviews. These reviews assess whether mail volumes are actually moved as planned to meet intended transportation windows and that transportation provides the best possible service at the most cost-effective rate. However, both management from the Southwest Area Distribution Networks office and the Dallas Bulk Mail Center stated they were not aware of the requirement to perform dispatch discipline reviews. By not completing the required reviews, daily scheduled extra trips continued to operate for long periods of time. For example, although mail volume might justify occasional extra service, four routes operated daily extra trips, supporting a need for a service change. Performing dispatch discipline reviews can identify routes needing adjustments and other dispatch issues requiring attention.

Internal Controls

Extra trip authorization forms were not properly completed and authorized. These forms are payment documents used to compensate contractors for extra trip service. The Dispatch Quality Students Guide states properly completed forms and documentation are required for payment and performance tracking purposes. In order to expedite the approval process, forms were preapproved by route and left in the Transportation office at the Dallas Bulk Mail Center. This practice circumvented the case-by-case justification and approval of extra trips. When we brought this issue to the attention of management at the Dallas Bulk Mail Center they discontinued the process of preapproving forms.

⁵ Handbook M-22, Dispatch and Routing Policies issued in October 1994.

Recommendation

We recommend the vice president, Southwest Area Operations:

5. Require that the Networks Distribution office and the Dallas Bulk Mail Center perform required dispatch discipline reviews, document results, and follow-up on the effectiveness of corrective actions taken in response to the recommendations.

**Management's
Comments**

Management agreed with our recommendation. They stated that dispatch discipline reviews began May 20, 2000, and that findings are being documented. Management also stated that reviews will be conducted every four weeks until such time as proper procedures are followed; that subsequent reviews will be conducted quarterly; and that the Dallas Bulk Mail Center will conduct semiannual reviews in accordance with the Dispatch and Routing Policies Handbook.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendations. We believe that the actions, taken and planned, should correct the issues identified in our report.

APPENDIX. MANAGEMENT'S COMMENTS

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



June 6, 2000

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Re: Office of Inspector General's Report – Extra Trip Expenditures at the Dallas
Bulk Mail Center (Report Number TR-AR-00-DRAFT)

This correspondence responds to the Office of Inspector General's audit of extra trip expenditures at the Dallas Bulk Mail Center (BMC).

We agree with all findings and recommendations. The actions to correct the discrepancies are listed below each recommendation contained in the audit summary.

Ensure extra trip costs are charged to the facility requesting the trip

The Dallas BMC has initiated a tracking system that lists extra trips by postal facility. This is the first step in identifying where costs should be appropriated pending completion of zero basing the BMC's transportation that is currently underway.

The Southwest Area office and the Dallas BMC are jointly implementing a zero based tracking system whereby each facility is assigned its route numbers which allows for extra trip charges to be levied against the facility's finance number. The Dallas and Houston plants have been independently charged for transportation since December 1999. This process, to include the remaining plants, is scheduled for completion in November 2000. This will end the practice of allowing other facilities to charge their extra trip expenditures against the Dallas BMC's finance number.

Under these procedures BMC Management has direct control of extra trips operating within their responsibility. The SWA Distribution Networks office has oversight of this process.

Document problems with obtaining mail transport equipment

The Dallas BMC now has a standing order with the local MTEC for a daily supply of OTRs based on presently established MTE requirements. To supplement shortages during high volume periods, the BMC is exploring the use of stackable pool cases. This practice will not necessarily eliminate extra trips, but it will give the BMC the ability to optimize trailer capacity.

Office of Inspector General's Report – Extra Trip Expenditures
at the Dallas BMC (Report #TR-AR-00-DRAFT)
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Nationally, the MTEC Network has repositioned over 1,100 OTRs during APs 6, 7, and 8 to the Dallas BMC to increase the available supply of containers from locations outside the Southwest Area. We have experienced an increase in the number of OTRs from an average of 469 during AP 3 through 6 to an average of 1,203 per AP during APs 7 and 8.

The national network will continue the re-balancing of rolling stock until the BMC is consistently supplied with their legitimate requirements. Peak seasonal demand and spot shortages will occasionally exceed the supply of rolling stock, however the expectation is to consistently fill all orders for MTE under normal operating conditions.

The MTE requirements for the BMC will continue to be monitored to establish reliable base requirements and methods for supplying the necessary equipment.

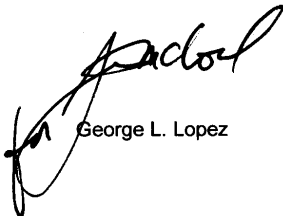
Establish timelines for processing service change requests

A timeline of seventy-four days has been established and implemented in the SWA Distribution Networks office to process transportation service requests. This timeframe covers the period from inception to disposition. The request is logged in upon receipt and assigned to a Networks Specialist who has up to fourteen days to review the request. After review, the request is returned to the coordinator to log in and send to the contract specialist for acquisition of service. The contract specialist has the remaining time to complete the request. The entire process is given seventy-four days, barring any contract disputes. To alleviate delays in processing, if it is necessary for a requesting facility to send in supplemental information, the facility has 10 days to do so or the request is returned for resubmission.

Conduct dispatch discipline reviews

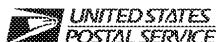
Dispatch discipline reviews will be conducted and findings documented along with suspense dates for noted disparities by the Distribution Networks office personnel. The reviews will begin in AP 10, and each AP thereafter, until it is determined that the proper procedures are being followed. Subsequent reviews will be conducted quarterly. The Dallas BMC will also conduct semiannual reviews per the Dispatch and Routing Policies Handbook (M-22).

The procedures listed above will be enacted and monitored to determine if the desired results are being obtained. Result indicators displaying less than the desirable effect will be appropriately modified. Contact Michael L. Craig, Manager, Distribution Networks at 214-819-8801 if you have questions regarding this correspondence.



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June 9, 2000

Robert L. Emmons
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Subject: Audit report # TR-AR-00-DRAFT – Extra Trip Expenditures at the Dallas Bulk Mail Center

This responds to the recommendations found at page 6-7 of the subject audit. We agree that the Dallas Bulk Mail Center (and all other Postal facilities) should be provided with adequate mail transport equipment. To that end we have repositioned over 1,100 OTRs¹ during APs 6, 7 & 8 to the Southwest Area in order to increase the general supply of containers available for Dallas BMC. Our data indicates this has had a very positive impact. The number of OTRs provided to the Dallas BMC from the MTE SC has increased to an average of 1,203² per Accounting Period during APs 7 and 8 versus an average of only 469 per period during AP 3 through 6.

Our intention is to continue the re-balancing of rolling stock until we are able to consistently supply Postal facilities with their legitimate requirements. Although we expect peak seasonal demand to exceed the supply of rolling stock and occasional spot shortages to still take place, generally we expect to consistently fill all orders for MTE.

A handwritten signature in cursive script, appearing to read "J. Paul Seehaver".

J. Paul Seehaver

cc: Paul E. Vogel
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David E. Roloff

¹ 1,130 OTRs were repositioned to Dallas during AP 6, 7 & 8.

² Source: MTE Ordering and Fulfillment documentation, special report for Dallas BMC

**Major Contributors to
the Report**

[REDACTED]