



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Consolidation of Mail for Dallas and New Jersey Network Distribution Centers

Audit Report

Report Number
NL-AR-17-007

May 15, 2017





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Highlights

Background

Highway Contract Routes (HCR) are competitive fixed-price contracts the U.S. Postal Service awards to contractors to transport mail between post offices, network distribution centers (NDC), and other designated stops. In fiscal year (FY) 2016, the Postal Service spent about \$3 billion for about 8,664 HCRs.

The Postal Service uses 21 NDCs to increase operational efficiency by consolidating mail processing and dispatch. There are 19 consolidation deconsolidation facilities (CDF) associated with the NDCs. CDFs originated from a FY 2010 pilot program that used contractors to combine the contents of two or more NDC trailers into one when the combined mail contents of the trailers exceed the floor space of one trailer.

CDF contractors remove mail from containers and re-load it onto one trailer in a process known as bedloading. When bedloaded mail is received from another CDF, contractors load it into containers for transport to NDCs. This is known as recontainerizing. The goal is to maximize cubic capacity, reduce transportation costs, and increase operational efficiency. During the CDF pilot in 2010, the Postal Service intended to save about 30 percent of HCR costs by using these facilities. In FY 2016, the Postal Service spent about \$20 million for 19 CDFs.

Its CDF Standard Operating Procedures (SOP) allows for periodic onsite inspections to assess contractor performance

and determine if modifications are necessary. The SOP also allows the Postal Service to change the frequency of trips with seven days' notice to the contractor.

We judgmentally selected the Dallas and New Jersey NDCs based on low outbound trailer utilization percentages and the cost of consolidating and deconsolidating trailers at CDF locations.

Our objective was to assess the efficiency of the Postal Service's transportation consolidations of mail (loading, unloading, and trailer utilization) for long-haul HCRs for the Dallas and New Jersey NDCs.

What the OIG Found

We determined the Postal Service's consolidation of long-haul HCR trips for the Dallas and New Jersey CDFs was inefficient.

Specifically, we found during our observations that trips were automatically sent to the CDFs based on the contract schedule even though they did not require bedloading or recontainerization. We found that four of six NDC shuttle trips used for long-haul transportation originating from the Dallas CDF and all 43 NDC shuttle trips for long-haul transportation originating from the New Jersey CDF were unnecessarily sent for bedloading. Additionally, we found that all six trips to the Dallas CDF and six of the nine trips to the New Jersey CDF originating from another CDF were unnecessarily sent



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for recontainerization. Further, our analysis of calendar year (CY) 2015 and CY 2016 trip utilization data for Dallas and New Jersey showed an increase of trips not needing bed-loading and recontainerization.

This occurred because Postal Service SOP do not stipulate the frequency of the inspections or whether onsite inspections are mandatory and do not provide performance assessment measures. The Postal Service last reviewed Dallas CDF operations in March 2015, and last reviewed New Jersey CDF operations in October 2016 – the only review since the New Jersey CDF began operating in September 2010. Neither inspection resulted in trip modifications to the contracts.

Based on our review of trailer utilization data for calendar years 2015 and 2016, we estimated the Postal Service unnecessarily incurred contractor costs of about \$1.1 million at the Dallas CDF

and \$2.9 million at the New Jersey CDF by sending trips that did not need bedloading or recontainerization.

Additionally, the Postal Service should evaluate the Dallas and New Jersey CDFs to determine transportation needs and modify the contracts as necessary. If the Postal Service consolidates trips that do not need bedloading or recontainerization, it could save about \$619,000 in costs at the Dallas CDF and \$5.8 million in costs at the New Jersey CDF in calendar years 2017 and 2018.

What the OIG Recommended

We recommended management update the SOP to clarify the frequency of inspections and establish standards to assess the need for CDF trips and evaluate the Dallas and New Jersey CDFs to determine transportation needs and modify their contracts as necessary.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 15, 2017

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

SHAUN E. MOSSMAN
VICE PRESIDENT, SOUTHERN AREA

EDWARD F. PHELAN, JR.
VICE PRESIDENT, NORTHEAST AREA

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop

A handwritten signature in black ink, appearing to read "Michael Thompson", is written over a light gray rectangular background.

FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Consolidation of Mail for Dallas
and New Jersey Network Distribution Centers
(Report Number NL-AR-17-007)

This report presents the results of our audit of the U.S. Postal Service's Consolidation of Mail for Dallas and New Jersey Network Distribution Centers (Project Number 17XG004NL000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Dan Battitori, Director, Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management
Postmaster General

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Findings

Introduction

This report presents the results of our audit of the consolidation of mail for Network Distribution Centers (NDC) in Dallas and New Jersey at its consolidation deconsolidation facilities (CDF) (Project Number 17XG004NL000). Our objective was to assess the efficiency of the U.S. Postal Service's transportation consolidation of mail (loading, unloading and trailer utilization) for long-distance¹ highway contract routes (HCR) for the Dallas and New Jersey NDCs. We selected these NDCs² using trip utilization data to identify NDCs with low outbound utilization percentages and considered the cost of having CDF contractors bedload³ and recontainerize⁴ mail at CDFs. See [Appendix A](#) for additional information about this self-initiated audit.

CDF contractors provide bedloading and recontainerization services based on a contract agreement with the Postal Service. Postal Service NDC management oversees CDF operations. The Postal Service reserves the right to conduct periodic operational inspections on a scheduled or unscheduled basis to ensure contract compliance, assess contractor performance, and determine if modifications are necessary. The Postal Service can change the frequency of trips to CDFs with seven days' notice.

NDC personnel load mail⁵ on shuttle trailers and transport it to CDFs to consolidate outbound trips. Management uses CDFs to consolidate⁶ mail received on designated shuttles from NDCs into a specified single trailer when the combined mail contents of the trailers exceed the floor space of one trailer in a process known as bedloading. Additionally, CDFs deconsolidate⁷ inbound long-haul trailers from other CDFs by recontainerizing bedloaded mail into Mail Transport Equipment (MTE) and loading it onto multiple shuttles for dispatch to other NDCs.

Summary

We determined that Postal Service consolidations of long-haul HCR trips at the Dallas and New Jersey CDFs were inefficient. Based on site observations and analysis of trip utilization data, we found that NDC personnel automatically sent trips to CDFs based on the contract schedule even when bedloading was not needed. Four of six NDC shuttle trips used for long-haul transportation originating from the Dallas CDF and all 43 NDC shuttle trips for long-haul transportation originating from the New Jersey CDF were unnecessarily sent for bedloading. Additionally, trips from other CDFs were also unnecessarily sent for recontainerization. Six trips to the Dallas CDF and six of the nine trips to the New Jersey CDF originating from another CDF were unnecessarily sent for recontainerization.

Additionally, our analysis of trip utilization data showed an increase of about 84.8 percent in calendar year (CY) 2015, to 93.3 percent in CY 2016, of outbound long-haul HCR trips unnecessarily sent to the Dallas CDF for bedloading; and an increase from about 59.2 percent in CY 2015 to 67.8 percent in CY 2016, of outbound long-haul HCR trips unnecessarily sent to the New Jersey CDF.

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- 1 Long-haul HCR trips are those going from CDF to CDF.
 - 2 The Dallas and New Jerseys NDCs are categorized as Tier 2 NDCs, which are responsible for distributing local mail, destinating and outgoing Standard Mail, Periodicals, and Package Services.
 - 3 CDF contractors remove mail from containers and re-load it onto one trailer when the combined mail contents of the trailers exceed the floor space of one trailer in a process known as bedloading.
 - 4 Removing stacked mail from trailers and placing it into MTE.
 - 5 Primarily Standard Mail and Parcels.
 - 6 The consolidation operation requires the CDF to unload the mail from two to three shuttle trailers for consolidation into one long-haul outbound trailer for specified destinations.
 - 7 The deconsolidation operation requires CDF staff to unload inbound long-haul trailers with mail that has been partially bedloaded at the originating destination.

We found that personnel at both the Dallas and New Jersey CDFs were automatically sending trips for either bedloading or recontainerization based upon the contract. This resulted in unnecessary bedloading and recontainerization.

Our analysis of trip utilization data also showed an increase from about 48.6 percent in CY 2015 to 66.6 percent in CY 2016, of inbound long-haul HCR trips unnecessarily sent to the Dallas CDF for recontainerization; and an increase from about 75 percent in CY 2015 to 82.0 percent in CY 2016, of inbound long-haul HCR trips unnecessarily sent to the New Jersey CDF.

This occurred because NDC personnel did not determine if the Dallas and New Jersey CDF trips were needed during inspections. Additionally, the Postal Service SOP does not specify the frequency of inspections. The Postal Service last reviewed Dallas CDF operations in March 2015, and last reviewed New Jersey CDF operations in October 2016 – the only review conducted since the New Jersey CDF began operating in September 2010.

We determined the Postal Service unnecessarily incurred contractor costs of \$1.1 million at the Dallas CDF and \$2.9 million at the New Jersey CDF during CYs 2015 and 2016 by sending the trips that did not need bedloading or recontainerizing. NDC personnel could do the consolidations and send trips directly to the destinating NDCs instead of the CDFs when bedloading and recontainerization are not needed. The Postal Service should also evaluate the Dallas and New Jersey CDFs to determine their transportation needs and modify their contracts as necessary. The Postal Service could save about \$619,000 in costs at the Dallas CDF and \$5.8 million in costs at the New Jersey CDF during CYs 2017 and 2018.

Dallas and New Jersey Bedloading and Recontainerization

We found that personnel at both the Dallas and New Jersey CDFs were automatically sending trips for either bedloading or recontainerization based upon the contract. This resulted in unnecessary bedloading and recontainerization.

Dallas Consolidation Deconsolidation Facility



We observed six NDC shuttle trips⁸ during the week of November 14, 2016, that were consolidated into three outbound long-haul trips. We found that two of these long-haul trips (representing four shuttle trips) did not need bedloading, but NDC personnel automatically sent the shuttle trips to the CDF based on the contract schedule despite there not being enough mail to bedload. The remaining long-haul trip needed bedloading and was consolidated.

See [Table 1](#) for the shuttle trips that did not need to be bedloaded.

See [Figure 1](#) for pictures of a trip that was not bedloaded.

⁸ Shuttle trips provide mail volume for inbound and outbound trips between the CDFs and NDCs.

Table 1. Observation of Dallas Shuttle Trips Unnecessarily Sent for Bedloading

	Shuttle Trips					Consolidated Trips	
	Trip Number	Percent Full	Trip Number	Percent Full		Final Trip Number	Percent Full (Consolidated Mail)
	3801	20%	3803	5%		824	25%
2701	0%	2703	85%	803	85%		

Source: U.S. Postal Service Office of Inspector General (OIG) analysis.

Figure 1. Observation of Dallas Trip Unnecessarily Sent for Bedloading



Source: OIG observation at the Dallas CDF, November 15, 2016.

Left and center photos show mail from two shuttle trips that was consolidated to make one outbound trip to the CDF. Since the shuttle trips had low volume, mail could have been consolidated at the NDC instead and sent directly to the destinating NDC.

We also observed the six inbound long-haul trips that arrived from another CDF, five of which did not need to be recontainerized because they were not bedloaded. Since the remaining trip was bedloaded, it was recontainerized as required by the contract. However, because the mail volume was low, we concluded that bedloading and recontainerization were unnecessary (see [Table 2](#)).

Table 2. Observation of Inbound Trips Unnecessarily Sent for Recontainerization

Originating CDF	Consolidated Trip Number	Percent Full	Bedloaded Mail on Trailer (Y/N)	Mail Recontainerized (Y/N)
New Jersey	804	85%	N	N
Memphis	823	50%	N	N
New Jersey	806	90%	N	N
New Jersey	808	60%	N	N
Des Moines	812	20%	Y	Y
Greensboro	802	90%	N	N

Source: OIG analysis.

New Jersey Consolidation Deconsolidation Facility

We observed the 43 NDC shuttle trips during the week of November 14, 2016, that were consolidated into 21 long-haul trips. We found that none of the 21 long-haul trips needed bedloading. NDC personnel automatically sent the shuttle trips to the CDF based on the contract schedule, despite there not being enough mail to bedload.

See [Table 3](#) for the shuttle trips that were not bedloaded.

See [Figure 2](#) for pictures of a trip that was not bedloaded.

Table 3. Observation of New Jersey Trips Unnecessarily Sent for Bedloading

Shuttle Trips		Consolidated Trips					
Trip Number	Percent Full	Trip Number	Percent Full	Trip Number	Percent Full	Final Trip Number	Percent Full (Consolidated Mail)*
8009	40%	8011	65%	-	-	712	95
1511	50%	1513	5%	-	-	606	60
9017	60%	-	-	-	-	804	50
5001	60%	5003	65%	-	-	4	80
8013	25%	-	-	-	-	822	25
2711	60%	23	20%	-	-	805	80
9001	40%	9003	60%	-	-	806	100
6601	95%	6603	10%	6605	15%	802	95
1501	90%	1503	40%	1505	5%	602	100
9007	50%	9009	85%	-	-	802	100
9805	80%	9807	35%	-	-	704	80
4801	40%	4803	90%	-	-	806	100
9809	15%	9811	10%	-	-	706	60
1507	30%	1509	15%	-	-	604	45
8005	20%	8007	90%	-	-	704	95
2705	40%	2707	10%	-	-	818	65
3207	95%	3209	15%	3211	35%	806	95
4809	5%	4811	10%	-	-	808	15
5501	40%	5503	20%	-	-	810	60
4505	35%	4507	5%	-	-	810	30
9409	30%	9411	80%	-	-	822	80

Source: OIG analysis.

*CDF contractors stacked mail pallets to maximize container capacity. Although consolidated trips appear to need bedloading, our observations concluded they did not. The 21 consolidated trips were either 100 percent full, close to full, or had low mail, but none of the trips were bedloaded.

Figure 2. Observation of New Jersey Trip Unnecessarily Sent for Bedloading



Source: OIG observation at the New Jersey CDF, November 16, 2016. Picture on left is a shuttle trip from New Jersey NDC that arrived at the New Jersey CDF. Picture on right shows same trailer that was not unloaded or bedloaded. Additional mail was added to the trailer and sent to the destinating CDF.

We observed nine inbound long-haul trips that arrived from another CDF. Six of the nine trips did not need recontainerization because there was no bedloaded mail on the trailers. The remaining three trips at the New Jersey CDF were properly recontainerized (see Table 4).

Table 4. Observation of Inbound Trips Unnecessarily Sent for Recontainerization

Origin	Trip Number	Percent Full	Bedloaded Mail on Trailer (Y/N)	Mail Recontainerized (Y/N)
Chicago	831	100	N	N
Pittsburgh	605	55	N	N
Los Angeles	803	25	N	N
Jacksonville	805	75	N	N
Denver	711	80	N	N
Los Angeles	801	10	N	N

Source: OIG analysis.

Conditions at the Dallas and New Jersey CDFs occurred because the onsite inspections NDC management conducted did not determine the need and frequency for trips at the CDFs. The CDF SOP state that the Postal Service reserves the right to conduct periodic operational inspections on a scheduled or unscheduled basis to ensure contract compliance. However, the SOP do not mandate or clarify the frequency of onsite inspections. We found that New Jersey NDC management conducted an onsite inspection of CDF operations in October 2016, which was the first review since the CDF began operations in 2010. Additionally, Dallas NDC management performed their last onsite inspection of CDF operations in March 2015.

Further, the SOP do not provide performance measures to assess the need for CDF operations. Dallas NDC management could not locate documentation for their most recent inspection because the staff responsible for conducting the review were no longer employed at the CDF. The New Jersey NDC inspection focused on the amount of time it took CDF contractors to load and unload trailers. Neither inspection modified the contracts.

Trip Utilization Analysis

CDF contractors, as directed by the Postal Service, are required to bedload and recontainerize mail volume for optimal use of trailer capacity. The number of unnecessary trips sent to the Dallas and New Jersey CDFs increased in CYs 2015 and 2016. Specifically, our analysis of trip utilization data showed that outbound long-haul HCR trips unnecessarily sent to the Dallas CDF for bedloading increased from about 84.8 percent in 2015 to 93.3 percent in 2016 (see Table 5).

Table 5. Dallas Outbound HCR Trips Unnecessarily Sent for Bedloading

Destinating NDCs	CY 2015			CY 2016		
	Total Inbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading	Total Inbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading
Greensboro	291	263	90.28%	274	266	97.22%
Memphis	336	240	71.43%	334	294	88.10%
San Francisco	299	282	94.44%	271	260	95.83%
Total	926	785	84.78%	879	820	93.33%

Source: OIG analysis of data from Transportation Information Management Evaluation System (TIMES) and Surface Visibility 2.0. Inbound trips from destinating NDCs become outbound trips for the CDFs.

Our analysis⁹ of trip utilization data showed an increase in inbound long-haul HCR trips unnecessarily sent to the Dallas CDF for recontainerization from about 48.6 percent in 2015 to 66.6 percent in 2016 (see Table 6).

⁹ Based on our analyses of trip utilization data, we used a 95 percent threshold to determine which trips were unnecessarily sent for bedloading. We looked at the monthly average utilization percentage for each HCR trip in 2015 and 2016. We considered any long-haul trip below a 95 percent utilization percentage was unnecessary and did not need bedloading or recontainerization. We did not include the shuttle trips in our analysis.

Table 6. Dallas Inbound Trips Unnecessarily Sent for Recontainerization

Originating NDCs	CY 2015			CY 2016		
	Total Outbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization	Total Outbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization
Des Moines	714	459	64.29%	706	601	85.12%
Greensboro	362	95	26.19%	327	148	45.24%
Los Angeles	311	181	58.33%	309	275	88.89%
Memphis	361	241	66.67%	332	225	67.86%
New Jersey	1341	524	39.10%	1307	737	56.41%
Total	3,089	1,500	48.57%	2,981	1,986	66.63%

Source: OIG analysis based TIMES and Surface Visibility 2.0 data.
 Outbound trips from originating NDCs become inbound trips for the CDFs.

Our analysis of trip utilization data showed outbound long-haul HCR trips unnecessarily sent to the New Jersey CDF for bedloading increased from about 59.2 percent in 2015 to 67.8 percent in 2016 (see [Table 7](#)).

Table 7. New Jersey Outbound HCR Trips Unnecessarily Sent for Bedloading

Destinating NDCs	CY 2015			CY 2016		
	Total Inbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading	Total Inbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading
Pittsburgh	1,019	781	76.67%	908	729	80.34%
Des Moines	305	191	62.50%	279	213	76.39%
Los Angeles	1,480	885	59.82%	1,308	853	65.18%
Greensboro	928	908	97.81%	829	806	97.27%
Jacksonville	1,138	442	38.83%	1,062	533	50.19%
Cincinnati	662	526	79.49%	559	452	80.79%
Chicago	661	284	42.95%	447	237	52.99%
Atlanta	606	417	68.75%	551	371	67.36%
Detroit	653	569	87.18%	563	460	81.63%
Denver	1,087	453	41.67%	800	385	48.15%
Kansas City	300	79	26.39%	224	166	74.07%
Seattle	1,070	667	62.30%	729	556	76.22%
Dallas	1,338	553	41.35%	1,219	685	56.19%
Memphis	723	551	76.19%	640	488	76.19%
San Francisco	1,021	462	45.23%	894	612	68.49%
Minnesota	249	75	30.00%	172	31	18.18%
Total	13,240	7,843	59.24%	11,184	7,577	67.75%

Source: OIG analysis TIMES and Surface Visibility 2.0 data.
Inbound trips from destinating NDCs become outbound trips for the CDFs.

Our analysis of trip utilization data showed New Jersey inbound long-haul HCR trips unnecessarily sent to the CDF for recontainerization increased from about 75.0 percent in 2015 to 82.0 percent in 2016 (see [Table 8](#)).

Table 8. New Jersey Inbound Trips Unnecessarily Sent for Recontainerization

Originating NDCs	CY 2015			CY 2016		
	Total Outbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization	Total Outbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization
Pittsburgh	970	655	67.54%	937	707	75.45%
Des Moines	296	62	20.83%	200	55	27.52%
Los Angeles	714	646	90.48%	651	628	96.43%
Greensboro	352	281	79.76%	316	270	85.37%
Jacksonville	612	599	97.93%	577	573	99.30%
Memphis	722	700	97.02%	700	700	100.00%
Cincinnati	301	29	9.72%	260	60	23.19%
Denver	722	546	75.60%	531	426	80.16%
Total	4,689	3,518	75.03%	4,172	3,419	81.95%

Source: OIG analysis TIMES and Surface Visibility 2.0 data.
Outbound trips from originating NDCs become inbound trips for the CDFs.

We determined the Postal Service unnecessarily incurred contractor costs of \$1.1 million at the Dallas CDF and \$2.9 million at the New Jersey CDF during CYs 2015 and 2016 by automatically sending trips that did not need bedloading or recontainerization to the CDFs based on the contract schedule. NDC personnel could do the consolidations and send trips directly to the destinating NDC instead of the CDF when bedloading is not needed. The Dallas and New Jersey NDCs have available resources, such as dedicated docks and mail handlers, to perform onsite consolidations and send trips directly to the destinating NDC.

The Postal Service should evaluate the Dallas and New Jersey CDFs to determine transportation needs and modify their contracts as necessary. If the Postal Service consolidates trips that do not need bedloading or recontainerization, it could save about \$619,465 in costs at the Dallas CDF and about \$5.8 million in costs at the New Jersey CDF during CYs 2017 and 2018.

Stakeholder Feedback

We solicited Postal Service customer and stakeholder input through the OIG’s Audit Asks web page and received the following feedback from one Postal Service stakeholder:

“The Postal Service should move consolidations back into the NDC and terminate contracts with vendors to combine loads saving and trucking costs to an outside vendor.”

Further, the stakeholder said, “some deconsolidation should be considered on heavy lanes, with more oversight on misrouted mail possibly using double trailers and drop and hooks at NDCs”; however, we did not evaluate this recommendation because it was outside the scope of the audit.

Recommendations

We recommend management update the SOP to clarify the frequency of inspections and establish standards to assess the need for CDF trips; and evaluate the Dallas and New Jersey CDFs to determine transportation needs and modify their contracts as necessary.

We recommend the Vice President, Network Operations, in coordination with the Vice President, Supply Management, the Vice President, Southern Area, and the Vice President, Northeast Area:

1. Update Postal Service Headquarters standard operating procedures to clarify the frequency of inspections and establish standards to assess the need for consolidation deconsolidation facility trips.
2. Evaluate the Dallas and New Jersey consolidation deconsolidation facilities to determine transportation needs and modify the contracts as necessary.

Management's Comments

Management's comments and subsequent correspondence state disagreement with the findings, monetary impact, and recommendation 1; and agreement with recommendation 2.

Management disagreed with the findings because they believe it is impractical for NDC personnel to make daily decisions on what to send to the CDF facility for consolidation.

Management disagreed with the monetary impact because they said that the 95 percent trailer utilization threshold for recontainerization or bedloading was unreasonable.

Regarding recommendation 1, management disagreed stating that CDF inspections on a scheduled or unscheduled basis are better than pre-established reviews for assessing operational effectiveness and contract compliance. Management also stated that the current SOP addresses assessing the need for CDF trips.

Regarding recommendation 2, management agreed and indicated they will review Dallas and the New Jersey CDF operations and determine if contract modifications are necessary. Management's target implementation date is August 31, 2017.

See [Appendix B](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's actions unresponsive to recommendation 1.

The OIG considers management's comments responsive to recommendation 2 and corrective action should resolve the issue we identified in the report.

The OIG did not suggest that NDC personnel make daily decisions on what to send to the CDF, but determined that they sent trips unnecessarily to the CDF. The CDF's purpose is for contractors to bedload and recontainerize mail to maximize trailer capacity. The OIG identified that contractors were not bedloading or recontainerizing and the number of trips that needed bedloading or recontainerization was declining. NDC personnel can consolidate trips when bedloading or recontainerization are not necessary and the CDF headquarters SOP allows for cancellation or modification of CDF operations with a seven-day notice. Therefore, CDF trips need to be assessed periodically and modifications made as necessary.

The OIG believes that the monetary impact calculation was reasonable. First, the OIG determined the 95 percent threshold based upon discussions with Eastern Area network analysts during the *Consolidation of Mail for Transportation – Memphis National Distribution Center* audit (Report Number NL-AR-17-001, dated December 2, 2016). We also observed trips with utilization above 95 percent and mail not being bedloaded or recontainerized. Second, the OIG is not stating that consolidation should not occur below 95 percent utilization, but that NDC personnel could consolidate because bedloading and recontainerization are not necessary.

Regarding recommendation 1, the OIG found that with the current SOP, New Jersey NDC management conducted an onsite inspection in October 2016, which was the first inspection since 2010. Dallas NDC management conducted their last inspection in March 2015. Both inspections did not result in contract modifications. Additionally during our exit conference, the acting manager of NDC Operations stated that management plans to begin annual inspections. We view the disagreement with recommendation 1 as unresolved, but do not plan to pursue it through the formal audit resolution process. We consider recommendation 1 closed with the issuance of this report. We will look at this issue in future audit work.

Recommendation 2 requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendation 2 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

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Appendix A: Additional Information

Background

In FY 2016, the Postal Service spent about \$3 billion for about 8,664 HCRs. HCRs are competitive fixed-price contracts the Postal Service awards to contractors to transport mail between post offices, NDCs, and other designated stops. NDCs are part of the Postal Service's national system of automated mail processing facilities linked by a dedicated transportation network.

The Postal Service uses 21 NDCs to consolidate originating mail to increase operational efficiency, decrease costs, and maintain excellent service while expanding surface transportation. In FY 2010, the Postal Service piloted a program to reduce trips by consolidating two or more trailers into one at CDFs when the combined mail contents of the trailers exceed the floor space of one trailer. The Postal Service expanded the pilot in April 2011 and completed it in September 2011. Based on the results of the pilot, the Postal Service expanded the CDF program to include 19 CDFs to support the NDCs.

During the pilot, the Postal Service intended to save about 30 percent of the HCR costs for trips sent to the CDF and reported an overall reduction of 17 million highway miles, with a net savings of about \$4 million during the pilot period. As of FY 2016, the annual cost of HCR transportation between NDCs was about \$564 million, or 19 percent of the \$3 billion spent on highway contracts. In FY 2016, the Postal Service spent about \$20 million for 19 CDF contracts.

Postal Service NDC management oversees NDC and CDF operations. NDC personnel load mail onto shuttle trailers for transportation to CDFs to consolidate mail for outbound trips. CDF contractors remove mail from containers at CDFs and re-load it onto one trailer for long-haul trips to other CDFs in the NDC network.¹⁰ CDF contractors also recontainerize inbound mail from other CDFs. The consolidation of mail makes better use of the cubic space in trailers, helps increase operational efficiency, and reduces transportation costs.

Objective, Scope, and Methodology

Our objective was to assess the efficiency of Postal Service transportation consolidations of mail (loading, unloading, and trailer utilization) for long-haul HCRs to the Dallas and New Jersey NDCs.

To achieve our objective we:

- Interviewed Dallas and New Jersey NDC managers and CDF supervisors to obtain information on CDF loading, unloading, and utilization.
- Obtained and analyzed trip utilization data for the Dallas and New Jersey NDC for CYs 2015 and 2016 to determine the number of trips the NDC unnecessarily sent for bedloading and recontainerization.
- Judgmentally selected the Dallas and New Jersey NDCs (categorized as Tier 2 NDCs) using PARIS risk model data (trip utilization/van load percentages) to identify NDCs with low outbound truck utilization. We also reviewed contract dollars spent at each CDF to select our observation sites.
- Observed CDF operations the week of November 14, 2016, at the Dallas and New Jersey CDFs and determined the efficiency of loading, unloading, and trailer utilization activities.

¹⁰ This process is known as recontainerization or deconsolidation of mail that has been bedloaded.

- Calculated monetary impact for outbound and inbound long-haul trips for the Dallas and New Jersey CDFs using a 95 percent threshold to determine which trips were unnecessarily sent for bedloading and recontainerization. We looked at the monthly average utilization percentage for each HCR trip in 2015 and 2016. We considered any long-haul trip below a 95 percent utilization percentage to be unnecessary and not in need of bedloading or recontainerization. We only included long-haul trips in our monetary impact calculation.
- Reviewed prior OIG and Government Accountability Office reports related to our objective.

We conducted this performance audit from October 2016 through May 2017, 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 11, 2017, and included their comments where appropriate.

We assessed the reliability of data by comparing the results of our observations to data in the TIMES, Transportation Contracts Support System, and Surface Visibility 2.0 for reasonableness. We did not test the controls over these systems; however, we verified the accuracy of trailer utilization data by confirming our results with Postal Service management. We determined that the data were sufficiently reliable for the purpose of this audit.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Consolidation of Mail for Transportation – Memphis Network Distribution Center</i>	Assess the efficiency of the Postal Service’s transportation consolidations (loading, unloading, and trailer utilization) for long-haul HCRs at the Memphis NDC.	NL-AR-17-001	12/2/2016	\$5.8
<i>Efficiency Review of the Chicago, IL Network Distribution Center – Operations and Transportation</i>	Evaluate the efficiency of Chicago NDC mail processing and transportation operations.	NO-AR-15-003	1/22/2015	\$5.6
<i>Efficiency Review of the Cincinnati, OH, Network Distribution Center – Processing and Transportation</i>	Evaluate the efficiency of Cincinnati, OH, mail processing and transportation operations.	NO-AR-14-011	9/11/2014	\$5.0

Appendix B: Management's Comments



May 5, 2017

LORI LAU DILLARD

SUBJECT: Consolidation of Mail for Dallas and New Jersey Network Distribution Centers (Report Number NL-AR-17-DRAFT)

Thank you for providing the United States Postal Service (USPS) with an opportunity to review and comment on the draft audit report Consolidation of Mail for Dallas and New Jersey Network Distribution Centers. Management agrees with the recommendations as written, but disagrees in part with the findings and monetary impact associated with the draft report.

Management agrees, as indicated on the background information, that Highway Contract Route (HCR) contracts are competitive fixed-price contracts the Postal Service awards to contractors to transport mail between post offices, Network Distribution Centers (NDCs) and other designated stops. These HCR contracts also have fixed pre-established departing and arriving schedules from the designated facilities. Additionally, similar to the HCR contracts, there are suppliers operating Consolidation and Deconsolidation Facilities (CDFs) that also have fixed-price contracts awarded by the Postal Service to prepare consolidation and deconsolidation jobs according to established schedules. These CDF jobs are planned, coordinated, established, and contracted based on the arrival and departure of the long-haul HCR contracts and shuttle transportation runs between CDF sites and the NDCs.

Management disagrees with the statement on the report that personnel at both the Dallas and New Jersey NDCs were automatically sending trips for either bedloading or re-containerization based upon the contract and this resulted in unnecessary bedloading and re-containerization. It is impractical to suggest that dock personnel at the NDCs would make daily decisions whether to send the trailers to the consolidation facilities given the contracted schedule.

Management further disagrees with the statements and conclusion made on the report for the assessment of monetary impact that establishes 95 percent trailer utilization as a reasonable threshold to make a determination on whether the trips had enough mail for bedloading or re-containerization.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260

As an example, consider a scenario where there is a first truck from the New Jersey NDC to the Los Angeles NDC filled to 90 percent of capacity that departs as scheduled. Later in the day, there is a second truck from the New Jersey NDC to the Los Angeles NDC filled with 25 percent of mail. That second trip will also depart as scheduled resulting in two Long Haul trips from the New Jersey NDC to the Los Angeles NDC.

However, by utilizing the CDF approach, the first truck from the New Jersey NDC (at 90 percent) would become a feeder shuttle to the New Jersey CDF where the 90 percent of mail would be offloaded and staged. Later in the day, the second truck from the New Jersey NDC would also be routed to the New Jersey CDF as a feeder shuttle where the 25 percent mail load would also be offloaded. At that origin New Jersey CDF, the contracted CDF personnel would then identify containers with identical placards and similar mail types and consolidate/reduce the number of containers. The CDF crew would further re-containerize mail from OTRs or other rolling stock into 30" pallet boxes to double-stack them from floor to ceiling and/or loose load some mail from floor to ceiling if needed. The resulting single Long Haul Consolidated truck from the New Jersey CDF to the Los Angeles CDF could then become an 85 percent floor-loaded trip by utilizing more of the cubic space. While neither the feeder shuttle trucks (90 percent and 25 percent load) nor the resulting consolidated trip (85 percent) were at the 85 percent suggested threshold, the USPS still achieves the objective of reducing one Long Haul HCR trip from the New Jersey NDC to the Los Angeles NDC by using the CDF approach.

Considering the HCR rate of \$4.17 per mile on HCR-900Y0, a distance of 2,790 miles between the New Jersey and the Los Angeles CDFs during 363 days per year, the resulting savings for each reduced trip between these O/D pair New Jersey/Los Angeles equals \$4,223,250 per year. Conversely, eliminating an established lane between these O/D pairs and making the mail flow on direct trips between the corresponding New Jersey and Los Angeles NDCs would cost the USPS the \$4,223,250 additional dollar amount per year. Management therefore disagrees with the claimed monetary impact.

The USPS provides the following responses to the recommendations listed in the draft audit report.

We recommend the vice president, Network Operations, in coordination with the vice president, Supply Management, the vice president, Southern Area, and the vice president, Northeast Area:

Recommendation 1:

Update Postal Service Headquarters standard operating procedures to clarify the frequency of inspections and establish standards to assess the need for consolidation deconsolidation facility trips.

Management Response to Recommendation 1:

Management disagrees with this recommendation. The current language on the Headquarters consolidation deconsolidation Facilities SOP reads as follows: The Postal Service reserves the right to conduct periodic operational inspections on a scheduled or unscheduled basis to ensure contract compliance, assess contractor performance and determine if modifications are necessary. Management believes that USPS inspections to suppliers CDF facilities on a schedule or unscheduled basis serve the best purpose for assessing operational effectiveness and contract compliance without the supplier's staging their operations for regularly pre-established reviews.

Target Implementation Date:

In Place

Responsible Official:

Manager, Surface Transportation Operations, USPS HQ

Recommendation 2:

Evaluate the Dallas and New Jersey consolidation deconsolidation facilities to determine transportation needs and modify the contracts as necessary.

Management Response to Recommendation 2:

Management agrees with this recommendation. Headquarters will review the operations at the Dallas and New Jersey consolidation deconsolidation facilities to evaluate current needs and determine if contract modifications are necessary.

Target Implementation Date:

August 31, 2017

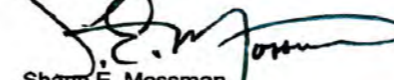
Responsible Official:

Manager, Surface Transportation Operations, USPS HQ

If you have any questions about this response, please contact Brent Raney at
(202)268-6431



Robert Cintron
Vice President
Network Operations



Shaun E. Mossman
Vice President
Southern Area



Edward F. Phelan, JR
Vice President
Northeast Area



FOR Susan M. Brownell
Vice President
Supply Management

cc: Manager, Corporate Audit Response Management



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1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100