



**OFFICE OF  
INSPECTOR GENERAL**  
UNITED STATES POSTAL SERVICE

**Consolidation  
of Mail for  
Transportation  
- Memphis  
Network  
Distribution  
Center**

**Audit Report**

Report Number  
NL-AR-17-001

December 2, 2016





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

### Background

As of June 1, 2016, the U.S. Postal Service had over 8,300 highway contract routes (HCR). HCR contracts are competitive fixed-price contracts the Postal Service awards to contractors to transport mail between post offices, network distribution centers (NDC), and other designated stops.

The Postal Service has 21 NDCs it uses to increase operational efficiency by consolidating mail processing and dispatch. In addition, at 19 of the NDCs there are also consolidation deconsolidation facilities (CDF). The CDFs originated from a fiscal year (FY) 2010 pilot that used contractors to combine the contents of two or more NDC trailers of mail into one when the combined mail contents of the trailers exceed 100 percent.

CDF contractors remove mail from containers and load it back onto the trailer in a process known as bed-loading. The goal is to maximize cubic space use, increase operational efficiency, and reduce transportation costs. The Postal Service spends over \$20 million annually for the 19 CDF contractors. During the pilot, the Postal Service intended to save about 30 percent of HCR costs by using the CDF.

We selected the Memphis NDC to review based on its number of transportation lanes, its geographical location, and prior OIG audit work.

Our objective was to assess the efficiency of consolidating mail (loading, unloading, and trailer utilization) for long-distance HCRs at the Memphis NDC.

### What the OIG Found

We determined the Postal Service's consolidation (loading, unloading and trailer utilization) of HCRs at the Memphis NDC is not efficient.

We found NDC personnel were automatically sending trucks to the CDF, even when they could have consolidated the mail at the NDC because the combined mail contents of the trailers did not exceed 100 percent.

Specifically, during our Memphis NDC site visit, we identified 36 of 38 trucks, or 95 percent, that were sent to the CDF although they did not require any consolidation because the trailer utilization did not exceed 100 percent.

The remaining two trucks, or 5 percent, were paired with other trailers, bringing the consolidated trailer utilization above 100 percent. Postal Service personnel correctly sent these trailers to the CDF for bed-loading.

The unnecessary consolidation activities occurred because Memphis NDC Standard Operating Procedures do not provide specific instructions for when to send trucks to





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## UNITED STATES POSTAL SERVICE

the CDF. Additionally, there was no on-site Postal Service manager at the CDF to monitor consolidations. Memphis NDC managers are currently in another building and only make site visits when requested by the CDF contractor.

NDC management was not aware of Postal Service Headquarters' CDF Network's Standard Operating Procedures, which provides specific instructions for on-site reviews and modifications.

Consequently, the Postal Service paid the Memphis CDF contractor over \$4,700 for 36 trips that did not need bed-loading. Based on our review of trailer utilization data for FYs 2014 through 2015 and FY 2016, Quarters 1 through 3, we estimated the Postal Service could have avoided about \$1.1 million annually in contractor costs if NDC personnel had consolidated mail when utilization was less than 100 percent.

Additionally, our analyses showed a decrease in the number of trips requiring the CDF to bed-load or re-containerize mail. We estimated the Postal Service could put about \$1.25 million to better use annually in FYs 2017 through 2018 by re-evaluating the need for the CDF contract.

### **What the OIG Recommended**

We recommended management update the NDC SOP to include specific instructions for sending HCR trucks to the CDF for consolidations; implement Postal Service Headquarters' CDF Network's SOP, which provides instructions on site reviews and modification decisions; and re-evaluate the need for the CDF and modify the contract accordingly in coordination with Postal Service Headquarters and the area office.

# Transmittal Letter



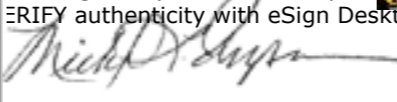
OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

December 2, 2016

**MEMORANDUM FOR:** ROBERT CINTRON  
VICE PRESIDENT, NETWORK OPERATIONS

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

JOSHUA D. COLIN  
VICE PRESIDENT, EASTERN AREA

E-Signed by Michael, Thompson  
VERIFY authenticity with eSign Desktop  


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

**SUBJECT:** Audit Report – Consolidation of Mail for Transportation –  
Memphis Network Distribution Center  
(Report Number NL-AR-17-001)

This report presents the results of our audit of the U.S. Postal Service's Consolidation of Mail for Transportation – Memphis Network Distribution Center (Project Number 16XG029NL000).

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

Attachment

cc: Corporate Audit and Response Management

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# Findings

## Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's Consolidation of Mail for Transportation – Memphis Network Distribution Center (NDC) (Project Number 16XG029NL000). Our objective was to assess the efficiency of the Postal Service's transportation consolidations of mail (loading, unloading and trailer utilization) for long-distance highway contract routes (HCR) at the Memphis NDC. We judgmentally selected the Memphis NDC based on its number of transportation lanes, its geographical location, and prior U.S. Postal Service Office of Inspector General (OIG) audit work. This is one in a series of reports on the consolidation of mail at NDCs. See [Appendix A](#) for additional information about this audit.

As of June 1, 2016, the Postal Service had over 8,300 HCRs. The HCR contracts are competitive fixed-price contracts the Postal Service awards to contractors to transport mail between post offices, NDCs, and other designated stops.

The Postal Service has 21 NDCs it uses to consolidate mail processing and dispatch to increase operational efficiency. In addition, at 19 of the NDCs there are also consolidation deconsolidation facilities (CDF).<sup>1</sup> The CDFs originated from a fiscal year (FY) 2010 pilot that used contractors to combine the contents of two or more NDC trailers of mail into one when the combined mail contents of the trailers exceed 100 percent.

CDF contractors remove mail from containers and load it back onto the trailer in a process known as bed-loading. The goal was to maximize the use of trailers' cubic space, increase operational efficiency, and reduce transportation costs. The Postal Service spends over \$20 million annually for the 19 CDF contractors. During the pilot, the Postal Service intended to save about 30 percent of HCR costs for trips sent to the CDF.

## Summary

We determined the Postal Service's consolidation (loading, unloading, and trailer utilization) of HCRs at the Memphis NDC is not efficient.

We found NDC personnel were automatically sending trucks to the CDF, even when they could consolidate the trucks' mail at the NDC because the combined mail contents of the trailers did not exceed 100 percent.

Specifically, during our Memphis NDC site visit, we identified 36 of 38 trucks, or 95 percent, that were sent to the CDF although they did not require any consolidation because their trailer utilization did not exceed 100 percent.

The remaining two trucks, or 5 percent, were paired with other trailers, bringing the consolidated trailer utilization above 100 percent. Postal Service personnel correctly sent these trailers to the CDF for bed-loading.

The unnecessary consolidation activities occurred because Memphis NDC Standard Operating Procedures (SOP) do not provide specific instructions for when to send trucks to the CDF. Additionally, there was no on-site Postal Service manager at the CDF to monitor consolidations. Memphis NDC managers are currently in another building and only make site visits when requested by the CDF contractor.

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<sup>1</sup> When the combined mail contents of the trailers exceed 100 percent, CDF contractors remove the mail from containers and load it back onto the trailer, a process referred to as "bed-loading." CDF contractors bed-load trailers to make the mail fit onto one trailer.

***NDC management was not aware of the Postal Service Headquarters' CDF Network's SOP, which provide specific instructions for on-site reviews and modifications.***

NDC management was not aware of the Postal Service Headquarters' CDF Network's SOP, which provide specific instructions for on-site reviews and modifications.

Consequently, the Postal Service paid the Memphis CDF contractor over \$4,700 for 36 trips that did not need bed-loading. Based on our review of trailer utilization data for FYs 2014 and 2015 and Quarters (Q) 1 through 3 of FY 2016, we estimated the Postal Service could have avoided about \$1.1 million in contractor costs annual if NDC personnel had consolidated mail when utilization was less than 100 percent.

Additionally, our analyses showed a decrease in the number of trips requiring the CDF to bed-load or re-containerize mail. We estimate the Postal Service could put about \$1.25 million in funds to better use annually in FYs 2017 through 2018 by re-evaluating the need for the CDF contract.

### **Consolidation of Mail for Transportation – Memphis Network Distribution Center**

NDC management automatically sent HCR trucks to the CDF for contractor consolidation activities without determining whether it was necessary. We observed trucks from 38 HCR trips at the Memphis NDC during the week of June 27, 2016. Thirty-six of those trucks, or 95 percent, were sent to the CDF even though they did not require bed-loading because the consolidated utilization of the trailers was less than 100 percent. For example, the CDF contractor combined trip numbers 3364 (45 percent full) and 3632 (5 percent full) for trip number 713 and combined trip numbers 2512 (10 percent full) and 2502 (25 percent full) for trip number 823. CDF contractors unloaded containers of mail from the trucks, scanned the mail barcodes, and combined the mail back onto one truck for transport.

Based on trailer usage and available resources such as dedicated dock doors and mail handlers, NDC personnel could perform the consolidation when trailer usage is less than 100 percent. The NDC has assigned dedicated dock doors for HCR trips where trailers can remain until all advanced dispatch<sup>2</sup> of mail is processed. All remaining mail could be placed on the facility's dispatch of value (DOV)<sup>3</sup> trip. In addition, NDC management stated they have sent extra trips directly to their destinations and bypassed CDF consolidation activities during heavy mailing seasons.

The remaining two of 38 trucks, or 5 percent, were paired with other trailers, bringing consolidated trailer utilization above 100 percent. Postal Service personnel correctly sent these trucks to the CDF for bed-loading. For example, the CDF contractor combined trip numbers 3301 (55 percent full), 3362 (30 percent full), and 3303 (20 percent full) for trip number 863; and combined trip numbers 2511 (90 percent full), 2501 (65 percent full), and 3304 (55 percent full) for trip number 841. CDF contractors unloaded containers of mail from the trucks, scanned the mail barcodes, and combined the mail back onto one truck for transportation, which involved bed-loading.

Further analysis indicates that Memphis NDC Outbound HCR trips needing CDF bed-loading during FYs 2014 through 2016, decreased from about 8 percent to less than 1 percent (see [Table 1](#)).

<sup>2</sup> Advanced dispatches prevent excessive mail volumes from arriving all at once at or near critical entry times. The advanced dispatch departs the origin facility prior to the clearance time and arrives at the destination facility prior to the critical entry time.

<sup>3</sup> DOV is the initial dispatch routing after the origin facility clearance time that will arrive at the destination facility to meet the respective critical entry time in order to meet service commitments.

**Table 1. Memphis NDC Outbound HCR Trips Needing Bed-Loading FYs 2014 through 2016**

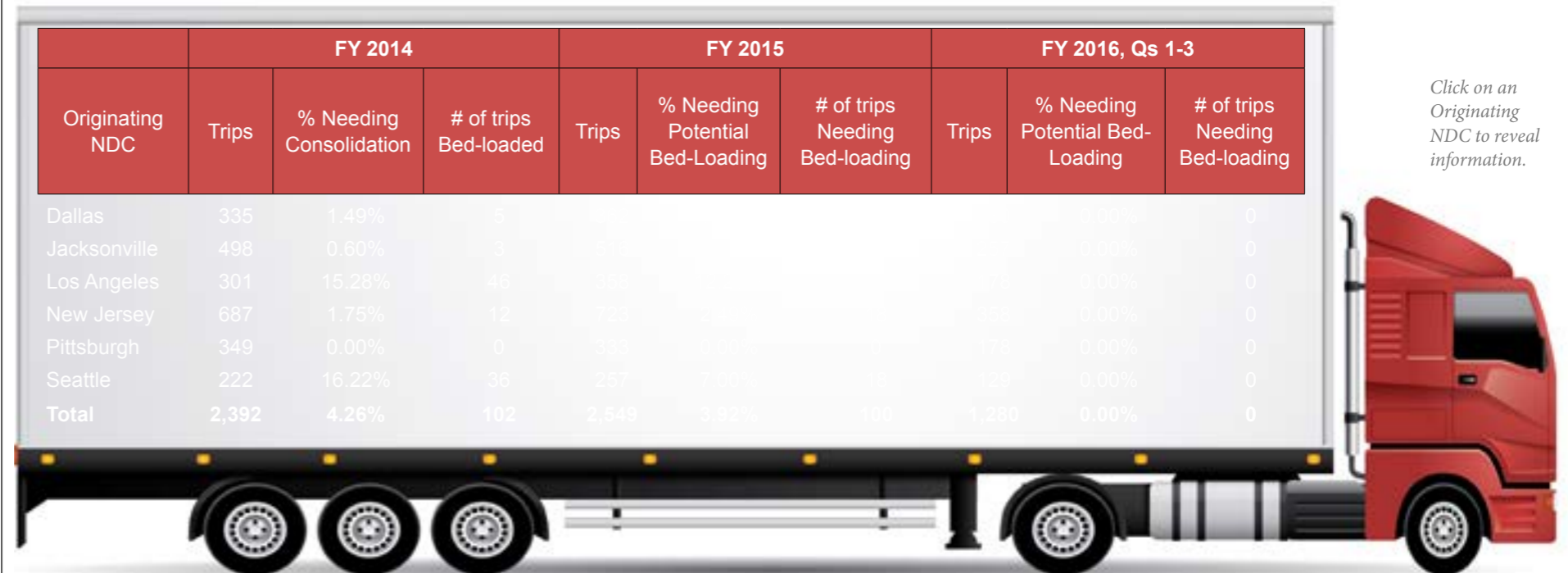


Destinating NDC	FY 2014			FY 2015			FY 2016, Qs 1-3		
	Trips	% Consolidated	# of Trips Bed- loaded	Trips	% Consolidated	# of Trips Bed- loaded	Trips	% Consolidated	# of Trips Bed- loaded
Cincinnati	257	0.00%	0	12	0.00%	0	148	0.00%	0
Dallas	350	0.00%	0	0	0.00%	0	182	0.55%	1
Denver	252	0.00%	0	0	0.00%	0	124	0.00%	0
Jacksonville	607	0.00%	0	0	0.00%	0	248	0.00%	0
Los Angeles	301	15.28%	46	358	15.28%	46	146	0.00%	0
New Jersey	710	4.07%	12	723	1.43%	3	349	0.00%	0
Pittsburg	356	0.00%	0	333	0.58%	2	174	0.00%	0
San Francisco	203	10.84%	10	189	3.02%	6	97	0.00%	0
Seattle	258	3.88%	10	253	0.79%	2	124	0.00%	0
<b>Total</b>	<b>3,234</b>	<b>8.23%</b>	<b>266</b>	<b>3,209</b>	<b>3.46%</b>	<b>111</b>	<b>1,592</b>	<b>0.06%</b>	<b>1</b>

Source: OIG analysis based on data from the Transportation Information Management Evaluation System (TIMES).

In addition, OIG analysis of Inbound HCR trips from other NDCs that required CDF contractors to re-containerize mail because the trips arrived with bed-loaded mail on them went from a high of 4.26 percent in FY 2014 to a low of zero percent in FY 2016 year-to-date (see Table 2).

**Table 2. Memphis CDF Inbound HCR Trips Needing CDF Mail Containerizing FYs 2014 through 2016**



Originating NDC	FY 2014			FY 2015			FY 2016, Qs 1-3		
	Trips	% Needing Consolidation	# of trips Bed-loaded	Trips	% Needing Potential Bed-Loading	# of trips Needing Bed-loading	Trips	% Needing Potential Bed-Loading	# of trips Needing Bed-loading
Dallas	335	1.49%	5	352	0.00%	0	358	0.00%	0
Jacksonville	498	0.60%	3	515	0.00%	0	248	0.00%	0
Los Angeles	301	15.28%	46	358	15.28%	46	146	0.00%	0
New Jersey	687	1.75%	12	723	2.07%	3	349	0.00%	0
Pittsburgh	349	0.00%	0	333	0.00%	0	178	0.00%	0
Seattle	222	16.22%	36	257	7.00%	18	129	0.00%	0
<b>Total</b>	<b>2,392</b>	<b>4.26%</b>	<b>102</b>	<b>2,549</b>	<b>3.92%</b>	<b>100</b>	<b>1,280</b>	<b>0.00%</b>	<b>0</b>

Source: OIG analysis based on data from TIMES.



The unnecessary consolidation activities occurred because the Memphis NDC SOP does not provide specific instructions for mail consolidations, including when to send trucks to the CDF. Additionally, there was no on-site Postal Service manager at the CDF to monitor consolidation activities. Memphis NDC management is currently located in another building and only makes site visits when CDF contractors request it. NDC management was not aware of the Postal Service Headquarters' CDF Network's SOP, which has instructions for on-site reviews and modifications. The October 2015 SOP states that 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.

We estimated the Postal Service paid CDF contractors over \$4,700 for unnecessary consolidation activities on the 36 trucks with trailer utilization averaging less than 100 percent. Based on our analysis of trailer utilization data for FYs 2014 and 2015 and FY 2016, Qs 1 through 3, we estimated the Postal Service could have avoided about \$3.3 million in contractor costs if NDC personnel performed the consolidations when usage was less than 100 percent. Additionally, our analyses showed a decrease in the number of trips requiring the CDF to bed-load or re-containerize mail. We estimated about \$2.5 million in funds that could be put to better use in FYs 2017 through 2018 by re-evaluating the need for the CDF contract.

# Recommendations

***We recommend management update the NDC SOP; implement Postal Service Headquarters' CDF Network's SOP; and re-evaluate the need for the CDF and modify the contract accordingly.***

We recommend the vice president, Eastern Area:

1. Update the Memphis Network Distribution Center's Standard Operating Procedures to include specific instructions on when highway contract route trucks are sent to consolidation deconsolidation facilities for consolidation activities.
2. Implement the Postal Service Headquarters' Consolidation Deconsolidation Facility Network's Standard Operating Procedures, which provides instructions on site reviews and modification decisions.

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

3. Re-evaluate the need for the Memphis consolidation deconsolidation facilities and modify the contract accordingly.

## Management's Comments

Management disagreed with the findings and monetary impact, but agreed with the recommendations.

Management disagrees that dock personnel should decide whether to send trailers to the CDF on a daily basis because it would be impractical to make daily modifications to shuttle transportation, long-haul transportation, and CDF staffing. Management stated that HCR contracts are fixed-price and have pre-established departing and arriving stops and CDF contracts are fixed with established schedules.

Management disagrees that there are unnecessary consolidation activities due to the Memphis NDC SOP not providing instructions because the HCRs depart on fixed departure schedules and it is not up to NDC platform personnel to assess if and when to conduct schedule adjustments. Further, management disagrees that there is no on-site management because the CDF is co-located with the Memphis Surface Transfer Center (STC). The STC/CDF has a postal manager, a network specialist, and five surface transportation coordinators on-site.

Management disagrees with the monetary impact because it is based on the CDF not being in operation for 96 percent of the trips that did not need to go to the CDF. Management stated that savings were captured despite no bed-loading requirement.

Regarding recommendation 1, management agreed and stated that they would update the Memphis NDC SOP to include specific instructions regarding the launching of trucks to the CDF. However, management stated that the instructions would explicitly tell NDC personnel to launch the shuttles as scheduled. The target implementation date is March 31, 2017.

Regarding recommendation 2, management agreed and stated that they would reissue the CDF SOP and review it with the appropriate Executive Administrative Schedule (EAS) managers. The target implementation date is March 31, 2017.

Regarding recommendation 3, management agreed and stated that they would re-evaluate the need for the CDF contract, include an assessment of the need for the existing lanes, and explore the possibility of having different rates during low volume periods when bed-loading is not needed. The target implementation date is June 30, 2017.

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

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

Management believes that it is impractical for dock personnel to decide daily on whether to send trailers to the CDF because the CDF and HCR contracts are fixed.

First, we are not recommending that dock personnel make any decisions; local management needs to determine who would make such decisions. Second, Statement of Work Section 2.8, Frequency of Operations, states that management has the right to cancel or modify the frequency of operations with a 7-day notice to the supplier. The contract also has a per job price for consolidation and deconsolidation activities. Based on our analyses of over 2 years' worth of trailer usage data at Memphis, there was a significant decline in the number of trips needed for CDF bed-loading. This trailer usage data is available and management could use it to make decisions about CDF operations. Despite management's disagreement with the finding, they agreed to re-evaluate the contract and modify it accordingly as part of recommendation 3.

Management disagreed that there is no on-site management and stated that Memphis STC/CDF has a Postal Service manager, a network specialist, and five surface transportation coordinators on-site. The OIG acknowledged in the report that there was a supervisor; however, the supervisor was not at the CDF, but domiciled at the STC. The supervisor told the OIG, as noted in this report, that he visits the CDF only when the CDF contractor requests it.

Management disagreed with the monetary impact because the OIG based it on the CDF not being in operation for 96 percent of the trips that did not need to go to the CDF. We believe our analysis is reasonable because we based it on our observation results, review of over 2 years of trailer usage data, and our discussions with Eastern Area networks analysts. Further, management's agreement to re-evaluate and modify the need for the contract should result in savings related to the reduced need for CDF operations.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1, 2, and 3 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.

# Appendices

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## Appendix A: Additional Information

### Background

As of June 1, 2016, the Postal Service had over 8,300 HCRs with a projected FY 2016 cost of about \$3 billion. 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 annual cost of HCR transportation between NDCs is about \$579 million, or 19 percent, of the \$3 billion.

The Postal Service has 21 NDCs to consolidate mail processing and dispatch to increase operational efficiency. At 19 of the NDCs, there are CDFs.<sup>4</sup> In FY 2010, the Postal Service piloted a bed-loading program for consolidating two or more trailers into one using the CDFs. Postal Service NDC staff load outbound mail on trailers for transportation to CDFs for consolidation. NDC staff members also unload inbound mail from the CDF for processing and delivery. In some instances, Postal Service vehicles and employees are used to shuttle the trailers to and from the CDF. The consolidation of mail makes better use of the cubic space in trailers, helps increase operational efficiency, and reduces transportation costs. NDC management oversees CDF activities. The Postal Service spends over \$20 million annually on NDC CDF contracts. During the pilot, the Postal Service intended to save about 30 percent of the HCR costs for trips sent to the CDF.

### Objective, Scope, and Methodology

Our objective was to assess the efficiency of the Postal Service's transportation consolidations (loading, unloading, and trailer use) for long-distance HCRs at the Memphis NDC. The scope of the audit was FYs 2014 and 2015 and FY 2016, Qs 1 through 3. To achieve our objective we:

- Visited Postal Service Headquarters and interviewed personnel involved with consolidating mail for long-haul HCR trips at NDCs.
- Reviewed prior audit reports of the Risk Analysis and Research Center and Government Accountability Office related to the subject matter.
- Obtained usage data for Memphis NDC for FYs 2014 and 2015 and FY 2016, Qs 1 through 3.<sup>5</sup> We also obtained data for the number of trips, trailer use, and transportation for handling mail. We judgmentally selected the Memphis NDC based on the number of its originating and designating lanes, its geographical location, and prior OIG audit work.
- Observed CDF operations at the Memphis NDC and determined efficiency of the loading, unloading, and trailer utilization activities.

We conducted this performance audit from May through December 2016, 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 finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on October 31, 2016, and included their comments where appropriate.

<sup>4</sup> When the combined mail contents of the trailers exceed 100 percent, CDF contractors remove the mail from containers and load it back onto the trailer, a process referred to as "bed-loading." CDF contractors bed-load trailers to make the mail fit onto one trailer.

<sup>5</sup> For FY 2014, we used federal fiscal year data pulled from the Enterprise Data Warehouse. For 2015 and 2016, we used calendar year data pulled from TIMES.

We did not attest to the reliability of any computer-generated data for the purposes of this report. We did assess the reliability of the data in terms of monitoring the progress of the consolidation of mail for transportation by reviewing existing information about the data and the system that produced it. We also interviewed NDC managers knowledgeable about the data. Based on our analysis and interviews, we believe the data overall is reliable for the purposes of monitoring the progress of the consolidation of mail for transportation.

### Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Efficiency Review of the Chicago, IL Network Distribution Center – Operations and Transportation</i>	Evaluate the efficiency of the Chicago, IL, NDC’s mail processing and transportation operations.	<a href="#">NO-AR-15-003</a>	1/22/2015	\$5.6
<i>Efficiency Review of the Cincinnati, OH, Network Distribution Center</i>	Evaluate the efficiency of the Cincinnati, OH, NDC’s mail processing and transportation operations.	<a href="#">NO-AR-14-011</a>	9/11/2014	\$5.0

## Appendix B: Management's Comments



November 28, 2016

LORI LAU DILLARD

**SUBJECT:** Consolidation of Mail for Transportation - Memphis Network  
Distribution Center (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 Transportation - Memphis Network Distribution Center. Management agrees with the recommendations as written, but disagrees in part with the findings and monetary impact associated with the draft report. Clarification regarding management's agreement or disagreement with select findings and aspects of the claimed monetary impact is discussed below.

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 (NDC), 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, the suppliers operating the Consolidation and Deconsolidation Facilities (CDFs) also have fixed-price contracts awarded by the Postal Service to prepare consolidation and deconsolidation jobs according to established schedules. These CDF jobs are 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 OIG suggestion that dock personnel make a decision on a daily basis whether or not to send the trailers to the consolidation facility. It would be impractical to expect the shuttle transportation, long haul transportation and CDF staffing to be modified on a daily basis. If the mail for the CDF shuttles were to be held at the NDC for consolidation, it would cause the shuttle runs to depart without mail as a result of their contractually stipulated departing transportation schedules, or the trip would have to be canceled. In addition, the CDF suppliers would find themselves staffed to work on the scheduled consolidation jobs without mail available to perform the contracted job.

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Washington DC 20000

Furthermore, the long-haul HCR trip scheduled to leave from the CDF to a remote destination would leave on schedule but without mail, requiring the NDC to schedule an extra trip for the mail that was held at the NDC to be transported directly to the destination.

Management disagrees with the finding that there is unnecessary consolidation activity because Memphis NDC Standard Operating Procedures do not provide specific instruction for when to send trucks to the CDF. The HCR trucks depart according to the fixed departure schedules. PVS trips also depart according to schedule. It is not up to the NDC platform personnel to assess if and when to conduct schedule adjustments for transportation contracts or PVS runs for the scheduled shuttles.

The USPS disagrees with the findings indicating there was no on-site Postal Service manager at the CDF to monitor consolidations and that Memphis NDC managers are in another building, only making site visits when requested by the CDF contractor. The Memphis CDF happens to be co-located on the same campus with the Memphis Surface Transfer Center (STC) on Burma Road. The Memphis STC/CDF has a postal manager, plus one network specialist and five surface transfer coordinators on-site. All of them are Postal Executive & Administrative Schedule (EAS) personnel. In addition, the USPS reserves the contractual 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. Postal personnel conducting these inspections include personnel from the NDC, Area Office, and Headquarters.

Management disagrees with the monetary impact finding that there are \$3.3M in questioned costs and \$2.5M in funds put to better use. In essence, the OIG is calculating the expenses that would not have occurred had the CDF not been in operation (calculations were based off 96% of the trips not being needed). Management does not agree with the 96% calculation nor does it agree that all these expenses can be captured by shutting down the CDF. Savings were captured by consolidating trips even though they were not all bedloaded. Suggestions about having flexibility in the contract to not pay for bedloaded trips will be explored as we move forward.

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

We recommend the vice president, Eastern Area:

**Recommendation 1:**

Update the Memphis Network Distribution Center's Standard Operating Procedures to include specific instructions on when highway contract route trucks are sent to consolidation deconsolidation facilities for consolidation activities.



**Management Response Recommendation 1:**

Management agrees with this recommendation. The Memphis NDC SOP will be updated to include specific instructions regarding the launching of trucks to the consolidation facility. However, the instructions will explicitly tell the NDC personnel to launch the PVS and HCR shuttles as scheduled. Leaving it up to the NDC platform personnel as outlined in the draft audit report is not operationally practical.

**Target Implementation Date:**

March 2017

**Responsible Official:**

Manager, Eastern Area Network Operations

**Recommendation 2:**

Implement the Postal Service Headquarters' Consolidation Deconsolidation Facility Network's Standard Operating Procedures, which provides instructions on site reviews and modification decisions.

**Management Response Recommendation 2:**

Management agrees with this recommendation. The SOP Consolidation Deconsolidation document from Headquarters will be reissued to the CDF Facility and will be reviewed during a WebEx with the appropriate EAS managers.

**Target Implementation Date:**

March 2017

**Responsible Official:**

Manager, Eastern Area Network Operations

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

**Recommendation 3:**

Re-evaluate the need for the Memphis consolidation deconsolidation facilities and modify the contract accordingly.

**Management Response Recommendation 3:**

Management agrees with this recommendation. The USPS will re-evaluate the need for the CDF contract. This evaluation will also include the assessment of the need for the existing lanes, with the objective of their reduction or identifying additional volumes to fill the bedloads. In addition, we will explore possibility of

having different rates during low volume periods when bedloads are not needed. The contract will be modified if appropriate based on this evaluation.

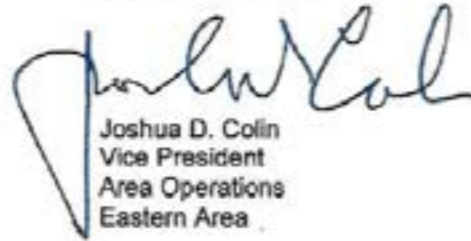
**Target Implementation Date:**  
June 2017

**Responsible Official:**  
Manager, Surface Transportation, Network Operations

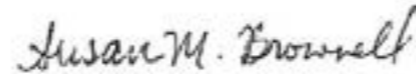
If you have any questions about this response, please contact Brent Raney at (202) 268-6431.



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