



Office of Inspector General | United States Postal Service

## Audit Report

# Consolidation of Mail for Chicago and San Francisco Network Distribution Centers

Report Number NL-AR-18-002 | October 27, 2017



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# Highlights

## Objective

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-haul Highway Contract Routes (HCR) for the Chicago and San Francisco Network Distribution Centers (NDC).

Consolidation Deconsolidation Facility (CDF) contractors provide bedloading and recontainerization services for the Postal Service at 19 NDCs. Mail is loaded on shuttle trailers and transported to CDFs for consolidation into a single trailer when the combined mail contents of trailers exceeds the floor space of one trailer. This is known as bedloading. Recontainerization occurs when CDF contractors deconsolidate inbound long-haul trailers containing bedloaded mail from other CDFs. The mail is loaded into mail transport equipment and loaded onto multiple shuttles for dispatch to the NDC.

The Postal Service can 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 make changes to CDF operations with seven days' notice.

This is the third in a series of four audits examining CDF operations.

## What the OIG found

We determined the Postal Service's consolidation of long-haul HCR trips for the Chicago and San Francisco CDFs was inefficient.

Specifically, we found that trips were automatically sent to the CDFs based on the contract schedule even though they did not require bedloading or recontainerization. During our site visit the week of May 30, 2017, we observed that 21 of the 24 trips to the Chicago CDF did not need bedloading or recontainerization. Also, during the week of June 13, 2017, we observed a total of 10 trips that did not require bedloading or recontainerization. Further, our analysis of trip utilization data from calendar years (CY) 2015 and 2016 for the Chicago and San Francisco CDFs showed an increase in trips that did not need bedloading or recontainerization.

This occurred because Postal Service Standard Operating Procedures (SOP) do not stipulate the frequency of the inspections or whether onsite inspections are mandatory. The SOP also does not provide performance assessment measures. The Postal Service last inspected Chicago CDF operations in November 2016 and July 2015, and San Francisco CDF operations in October 2016. None of the inspections resulted in trip modifications.

Based on our review of trailer utilization data, we estimated the Postal Service unnecessarily incurred contractor costs of over \$761,000 for CY 2015 and more than \$795,000 for CY 2016 at the Chicago CDF and over \$716,000 for CY 2015 and more than \$877,000 for CY 2016 at the San Francisco CDF by sending trips that did not need bedloading or recontainerization.

Additionally, we found that CY 2017 trailer utilization data were unreliable and could not be used for our analysis. The discrepancy surfaced in September 2016 after the Postal Service retired the Transportation Information Management Evaluation System (TIMES), the system used to measure utilization, and replaced it with the Surface Visibility system. We reviewed CY 2017 trailer utilization data in the Surface Visibility system and found that since CY 2016, the average trailer utilization decreased 64 percent at the Chicago CDF and 66 percent at the San Francisco CDF. We believe this is significant because the Postal Service uses trailer utilization data to determine whether HCR trips are operating efficiently. Surface Operations management acknowledged the unreliability of the data and said the cause was dock personnel not properly scanning mail equipment being loaded onto trucks. They said they are working to improve this through better scan compliance and continue to address problems as they arise during their reviews. We are not making a recommendation because management is currently working on a solution. We will continue to monitor this issue for future audit work.

## 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 Chicago and San Francisco CDFs to determine their transportation needs and modify their contracts as necessary.



# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE


October 27, 2017

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

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

JAKKI KRAGE STRAKO  
VICE PRESIDENT, GREAT LAKES AREA

LARRY MUNOZ  
VICE PRESIDENT (A), PACIFIC 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 Chicago and  
San Francisco Network Distribution Centers  
(Report Number NL-AR-18-002)

This report presents the results of our audit of the U.S. Postal Service's Consolidation of Mail for Chicago and San Francisco Network Distribution Centers (Project Number 17XG018NL000).

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: Postmaster General  
Corporate Audit Response Management  
David E. Williams, Jr.

# Results

## Introduction/Objective

This report presents the results of our audit of the consolidation of mail for Network Distribution Centers (NDC) in Chicago and San Francisco at U.S. Postal Service consolidation deconsolidation facilities (CDF) (Project Number 17XG018NL000). Our objective was to assess the efficiency of the Postal Service's transportation consolidation of mail (loading, unloading and trailer utilization) for long-distance<sup>1</sup> highway contract routes (HCR) for the Chicago and San Francisco NDCs. We selected these NDCs<sup>2</sup> using trip utilization data to identify NDCs with low outbound utilization percentages and considered the cost of having CDF contractors bedload<sup>3</sup> and recontainerize<sup>4</sup> mail at CDFs. This is the third in a series of four audits examining CDF operations. This audit addresses CDF operations associated with Tier 1 NDCs. 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 make changes to CDF operations with seven days' notice.

NDC personnel load mail on shuttle trailers and transport it to CDFs to consolidate outbound trips. Management uses CDFs to consolidate 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 deconsolidate inbound long-haul trailers from other CDFs by recontainerizing bedloaded mail into mail transport equipment and loading it onto multiple shuttles for dispatch to other NDCs.

## Background

In fiscal year (FY) 2017, the Postal Service will spend about \$4 billion for about 8,200 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.

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.

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. 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.

<sup>1</sup> Long-haul HCR trips are those going from CDF to CDF.

<sup>2</sup> The Chicago and San Francisco NDCs are categorized as Tier 1, which means they are responsible for distributing local mail, destinating Standard Mail, Periodicals, and Package Services.

<sup>3</sup> 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.

<sup>4</sup> Removing stacked mail from trailers and placing it into mail transport equipment.

## Finding #1: Chicago and San Francisco Bedloading and Recontainerization

We found that HCR contracts at both the Chicago and San Francisco NDCs as well as other CDFs were automatically sending trips for either bedloading or recontainerization based on the contract. This resulted in trips being sent unnecessarily for bedloading and recontainerization.

### Chicago Consolidation Deconsolidation Facility

We observed 10 outbound long-haul trips during the week of May 30, 2017, that departed from the Chicago CDF. None of these trips required bedloading. See Table 1.

*“We found that HCR contracts at both the Chicago and San Francisco NDCs as well as other CDFs were automatically sending trips for either bedloading or recontainerization based on the contract.”*

**Table 1. Observations of Chicago Outbound Trips Unnecessarily Sent for Bedloading**

Origin/Destination	Trip Number	Percent Full*	Bedloaded (Y/N)
Des Moines, IA	801	0%	N
Des Moines, IA	802	100%	N
Des Moines, IA	803	95%	N
Des Moines, IA	804	0%	N
Des Moines, IA	805	95%	N
Des Moines, IA	806	80%	N
Kansas City, KS THS	701	100%	N
Metro Air, PA	701	100%	N
Pittsburgh, PA NDC	832	100%	N
St. Paul, MN THS	701	100%	N

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

\*Trips that indicate a 100 percent utilization had either containers combined or pallets stacked to achieve this utilization without containing bedloaded mail.

We observed 14 inbound long-haul trips that arrived from another CDF, 11 of which did not need to be recontainerized because they were not bedloaded. Since the remaining three trips were bedloaded, they were recontainerized as required by the contract (see Table 2). See Figure 1 for picture of a trip that did not need recontainerization.

**Table 2. Observation of Inbound Trips Unnecessarily Sent for Recontainerization**

Originating CDF	Trip Number	Percent Full	Mail Recontainerized (Y/N)
Des Moines, IA	801	90%	N
Des Moines, IA	803	40%	N
Des Moines, IA	805	15%	N
Memphis, TN	702	5%	N
Metro Air, PA	1	100%	N
Metro Air, PA	3	0%	N
Metro Air, PA	9	60%	N
Metro Air, PA	702	0%	N
New Jersey, NJ	803	100%	N
New Jersey, NJ	791	90%	Y
New Jersey, NJ	6021 <sup>5</sup>	50%	Y
Southern Area, TX	3015	100%	N
Southern Area, TX	7501	100%	N
St. Paul, MN	702	100%	Y

Source: OIG analysis.

### San Francisco Consolidation Deconsolidation Facility

During the week of June 13, 2017, we observed one outbound long-haul trip that departed from the San Francisco CDF to Seattle, WA. Trip number 805 had a trailer utilization of 80 percent and did not contain bedloaded mail.

**Figure 1. Observation of a Chicago Trip Not Needing Recontainerization**



Source: OIG observation at the Chicago, IL, CDF, on June 1, 2017. This is a trailer arriving from Des Moines, IA, with ample space to accommodate mail volume without having to bedload.

We also observed nine inbound long-haul trips that arrived from other CDFs. None of the nine trips needed recontainerization because they did not contain bedloaded mail (see [Table 3](#) and [Figure 2](#)).

<sup>5</sup> Chicago CDF staff discussed this trip with the New Jersey CDF staff and requested they not send a bedloaded trailer when there is plenty of room to load the trailer using just floor space.

**Table 3. Observation of Inbound Trips Unnecessarily Sent for Recontainerization**

Origin	Trip Number	Percent Full	Mail Recontainerized (Y/N)
Dallas, TX	813	90%	N
Des Moines, IA	803	70%	N
Greensboro, NC	805	40%	N
Los Angeles, CA	822	30%	N
Memphis, TN	865	45%	N
New Jersey, NJ	816	60%	N
New Jersey, NJ	818	0%	N
Pittsburgh, PA	809	30%	N
Seattle, WA	806	65%	N

Source: OIG analysis.

**Figure 2. Observation of a San Francisco Trip not Needing Recontainerization**



Source: OIG observation at the San Francisco, CA CDF on June 15, 2017. This trip from the Los Angeles, CA, CDF arrived at 30 percent full and did not need recontainerization.

## Periodic Inspections

The unneeded consolidations we observed at the Chicago and San Francisco CDFs occurred because none of the onsite inspections conducted by Postal Service HQ resulted in changes to CDF operations. CDF Standard Operating Procedures (SOP) allow the Postal Service the right to conduct periodic operational inspections on a scheduled or unscheduled basis to ensure contract compliance. However, the SOP does not mandate or clarify the frequency of onsite inspections. We found that Surface Operations personnel from Postal Service HQ conducted onsite inspections of Chicago CDF operations in November 2016, San Francisco CDF operations in October 2016, and Chicago CDF operations in July 2015.

## Trip Utilization Analysis

CDF contractors, per the Postal Service contract, are required to bedload and recontainerize mail volume for optimal use of trailer capacity. The number of unnecessary trips sent to the Chicago and San Francisco CDFs increased in calendar years (CY) 2015 and 2016. Specifically, our analysis of trip utilization data showed that outbound long-haul HCR trips unnecessarily sent to the Chicago CDF for bedloading increased from about 56 percent in 2015 to about 61 percent in 2016 (see [Table 4](#)).



**Table 4. Chicago Outbound HCR Trips Unnecessarily Sent for Bedloading**

Destinating CDF	CY 2015			CY 2016		
	Total Outbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading	Total Outbound Trips	# of Trips Not Needing Bedloading	% Not Needing Bedloading
Pittsburgh	269	232	86.36%	301	272	90.28%
Philadelphia	306	217	70.83%	311	217	69.86%
Kansas City	282	166	58.82%	362	302	83.33%
Des Moines	1,820	924	50.79%	2,067	1,090	52.72%
St Paul	304	130	42.86%	363	184	50.65%
<b>Totals</b>	<b>2,981</b>	<b>1,669</b>	<b>55.99%</b>	<b>3,404</b>	<b>2,065</b>	<b>60.66%</b>

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

Our analysis<sup>6</sup> of trip utilization data showed no change in inbound long-haul HCR trips unnecessarily sent to the Chicago CDF for recontainerization, which was about 61 percent for both 2015 and 2016 (see Table 5).

**Table 5. Chicago Inbound Trips Unnecessarily Sent for Recontainerization**

Originating NDC	CY 2015			CY 2016		
	Total Inbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization	Total Inbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization
New Jersey	305	66	21.62%	231	63	27.27%
Memphis	305	305	100.00%	308	308	100.00%
South Area	591	352	59.59%	615	465	75.69%
Des Moines	851	645	75.83%	969	578	59.65%

<sup>6</sup> 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 to be unnecessary and not in need of bedloading or recontainerization. We did not include the shuttle trips in our analysis.

Originating NDC	CY 2015			CY 2016		
	Total Inbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization	Total Inbound Trips	# of Trips Not Needing Recontainerization	% Not Needing Recontainerization
St Paul	301	133	44.29%	365	204	55.95%
Philadelphia	306	116	37.84%	312	77	24.59%
<b>Totals</b>	<b>2,659</b>	<b>1,617</b>	<b>60.81%</b>	<b>2,800</b>	<b>1,695</b>	<b>60.54%</b>

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

Our analysis of trip utilization data for San Francisco outbound long-haul HCR trips to Seattle, WA, showed that 381 of 593 trips, or 64.24 percent, were unnecessarily sent to the San Francisco CDF for bedloading in CY 2015. In CY 2016, we found that 453 of 598 trips, or 75.69 percent, were sent unnecessarily for bedloading.

Our analysis of trip utilization data showed San Francisco inbound long-haul HCR trips unnecessarily sent to the CDF for recontainerization increased from about 66 percent in 2015 to about 81 percent in 2016 (see [Table 6](#)).

**Table 6. San Francisco Inbound Trips Unnecessarily Sent for Recontainerization**

Originating NDC	CY2015			CY 2016		
	Inbound Trips	# of trips Not Needing Recontainerization	% Not Needing Recontainerization	Inbound Trips	# of trips Not Needing Recontainerization	% Not Needing Recontainerization
Pittsburgh	329	263	80.00%	352	323	91.67%
Des Moines	338	217	64.29%	350	267	76.19%
Los Angeles	1,016	525	51.68%	1,026	745	72.61%
Greensboro	302	186	61.64%	300	230	76.71%
Dallas	306	281	91.67%	312	303	97.22%
Memphis	204	170	83.33%	204	195	95.83%
<b>Totals</b>	<b>2,495</b>	<b>1,642</b>	<b>65.81%</b>	<b>2,544</b>	<b>2,063</b>	<b>81.09%</b>

Source: OIG analysis and 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 \$761,065 in CY 2015 and \$795,881 in 2016 at the Chicago CDF for a total of \$1.56 million; and \$716,064 in CY 2015 and \$877,102 in CY 2016 at the San Francisco CDF for a total of \$1.59 million. This occurred because the Postal Service automatically sent 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. See [Figure 3](#) for a picture of containers employees at the NDC can consolidate. The Chicago and San Francisco NDCs have available resources, such as dedicated docks and mail handlers, to send trips directly to the destinating NDC.

**Figure 3. Observation of Containers at the Chicago CDF That Can Be Consolidated**



Source: OIG observation at the Chicago, IL, CDF, on May 31, 2017. Postal pack received at the Chicago CDF with minimal volume. CDF employees consolidate these containers to improve truck utilization. NDC personnel can do the consolidation instead of sending it to the CDF.

### **Data Reliability**

We extracted trailer utilization data from the Enterprise Data Warehouse (EDW) for January through June 2017 and determined the CY 2017 data are unreliable. The Chicago CDF had an average trailer utilization decrease of 63.86 percent from CY 2016 to CY 2017 for all trips. Specifically, inbound utilization between 2016 and 2017 decreased by 64.07 percent ([Table 7](#)) and outbound utilization decreased by 63.65 percent ([Table 8](#)).



**Table 7. Chicago Inbound Comparison of CY 2016 and CY 2017 Trailer Utilization Data**

Site	Number of Trips	2016 Utilization*	Number of Trips*	2017 Utilization*	Difference
Des Moines, IA	480	87.62%	484	23.29%	64.33%
Memphis, TN	154	13.12%	150	1.42%	11.70%
New Jersey, NJ	153	94.20%	—	—	94.20%
Philadelphia, PA	154	95.56%	126	—	95.56%
Southern Area, TX	307	73.63%	214	22.34%	51.29%
St. Paul, MN	182	90.66%	181	23.35%	67.31%
<b>Total</b>	<b>1,430</b>	<b>75.80%</b>	<b>1,155</b>	<b>11.73%</b>	<b>64.07%</b>

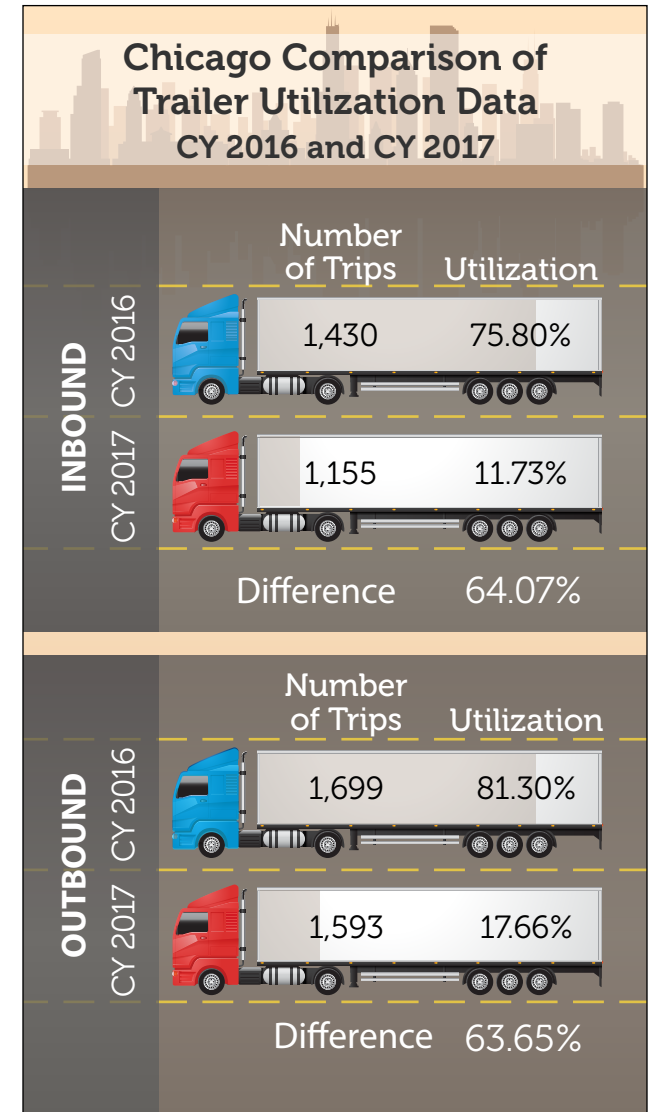
Source: OIG analysis of EDW data for January through June for CYs 2016 and 2017. \*There was no trip/utilization data available in EDW for Philadelphia or New Jersey.

**Table 8. Chicago Outbound Comparison of CY 2016 and CY 2017 Trailer Utilization Data**

Site	Number of Trips	2016 Utilization	Number of Trips	2017 Utilization*	Difference
Des Moines, IA	1,028	83.26%	990	22.80%	60.46%
Kansas City, KS	182	82.35%	178	20.73%	61.62%
Philadelphia, PA	155	89.07%	153	23.98%	65.09%
Pittsburgh, PA	152	70.16%	121	20.77%	49.39%
St. Paul, MN	182	81.67%	151	—	81.67%
<b>Total</b>	<b>1,699</b>	<b>81.30%</b>	<b>1,593</b>	<b>17.66%</b>	<b>63.65%</b>

Source: OIG analysis of EDW data for January through June for CYs 2016 and 2017. \*There was no utilization data available in EDW for St. Paul.

The San Francisco CDF had an average trailer utilization decrease of 66.26 percent from CY 2016 to CY 2017 for all trips. Specifically, inbound utilization between 2016 and 2017 decreased by 64.85 percent (Table 9) and outbound utilization decreased by 67.68 percent (Table 10).



**Table 9. San Francisco Inbound Comparison of CY 2016 and CY 2017 Trailer Utilization Data**

Site	Number of Trips	2016 Utilization	Number of Trips	2017 Utilization	Difference
Dallas, TX	155	78.89%	154	26.34%	52.55%
Des Moines, IA	204	84.89%	177	—	84.89%
Greensboro, NC	147	85.78%	154	28.43%	57.35%
Los Angeles, CA	511	80.81%	484	—	80.81%
Memphis, TN	99	69.64%	103	—	69.64%
Pittsburgh, PA	173	65.72%	179	21.88%	43.84%
<b>Total</b>	<b>1,289</b>	<b>77.62%</b>	<b>1,251</b>	<b>12.78%</b>	<b>64.85%</b>

Source: OIG analysis of EDW data for January through June for CYs 2016 and 2017. \*There was no utilization data available in EDW for Des Moines, Los Angeles, or Memphis.

**Table 10. San Francisco Outbound Comparison of CY 2016 and CY 2017 Trailer Utilization Data**

Site	Number of Trips	2016 Utilization	Number of Trips	2017 Utilization	Difference
Seattle, WA	300	88.41%	304	20.73%	67.68%

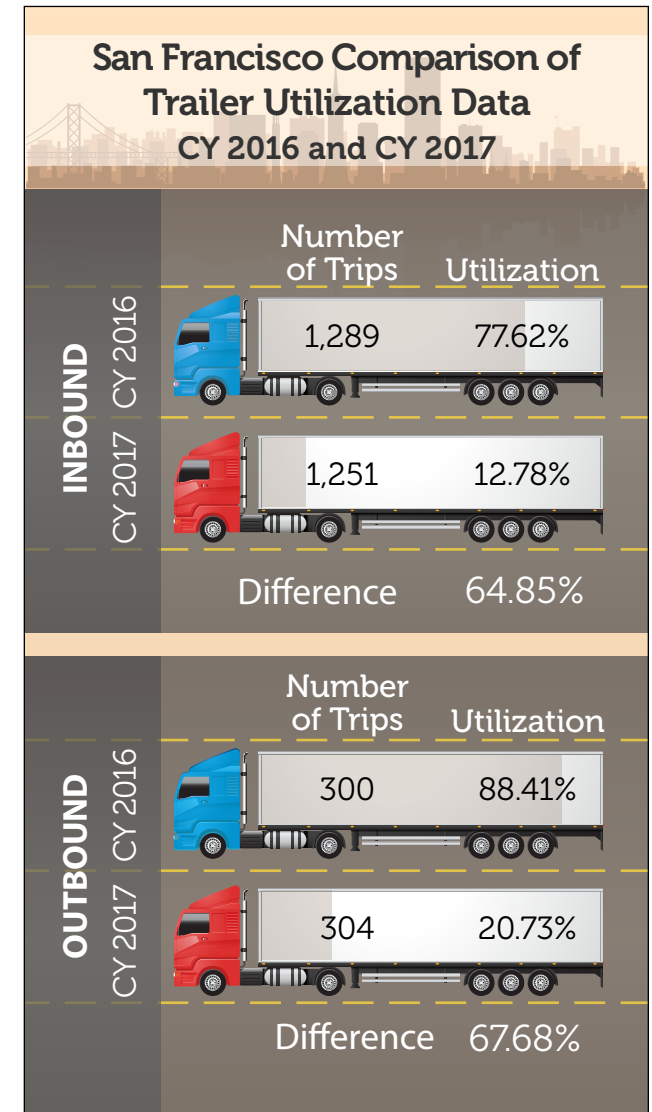
Source: OIG analysis of EDW data for January through June for CYs 2016 and 2017.

***“The unreliable data is significant because the Postal Service uses utilization data to determine whether HCR trips are operating efficiently.”***

The unreliable data is significant because the Postal Service uses utilization data to determine whether HCR trips are operating efficiently. The discrepancy surfaced in September 2016 after the Postal Service retired TIMES, the system it used to measure utilization, and

replaced it exclusively with Surface Visibility.

Surface Operations management acknowledged the unreliability of the data and said the cause was dock personnel not properly scanning mail equipment they were loading onto trucks. To improve scan compliance, Surface Operations reviews trailer utilization data to determine



if opportunities exist for consolidation or elimination of underutilized trips. When Surface Operations identifies a trip with low utilization, the transportation specialist informs the facility the trip will be removed unless they can provide support that it is still needed. If facility management can provide supporting documentation<sup>7</sup> that the trip is necessary, it will not be not eliminated.

Because of these observations, the data were deemed unreliable and alternative measures could not be performed to compensate for the data weaknesses at this time. We did not use CY 2017 utilization data during our analysis for this audit. Our audit only focused on Chicago and San Francisco data from CY 2015 and CY 2016. We will follow up on the resolution of the 2017 utilization data, although we will not be making a specific recommendation at this time.

**Recommendation #1:**

**Vice President, Network Operations, in coordination with the Vice President, Great Lakes Area,** and the acting Vice President, Pacific Area, should 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.

**Recommendation #2:**

**Vice President, Network Operations, in coordination with the Vice Presidents, Supply Management and Great Lakes Area,** and the acting Vice President, Pacific Area, should evaluate Chicago and San Francisco Consolidation Deconsolidation Facilities to determine their transportation needs and modify the contracts as necessary.

## Management's Comments

Management agrees with recommendations 1 and 2 as outlined in our report; however, they partially disagree with the finding and monetary impact.

Management disagrees with the assumption that the Postal Service is losing money because not every trailer is bedloaded at the CDF. Management believes they are still saving money by consolidating trips at the CDF, but acknowledges that volume has decreased at NDCs and they plan to evaluate all CDFs to determine the best path forward. The analysis and decision should be complete by January 2018.

Regarding the monetary impact, management disagrees because they believe that comparing an insourced operation to one done by a contractor is a savings opportunity rather than a questioned cost.

Regarding recommendation 1, management agreed stating that in conjunction with their review of CDF operations, they will update all SOP if they decide to continue CDF operations. Management's target implementation date is January 2018.

Regarding recommendation 2, management agreed and indicated they will review all CDF operations. Management's target implementation date is January 2018. See [Appendix B](#) for management's comments in their entirety.

<sup>7</sup> Postal Service Form 5398, Transportation Performance Record, indicates trip activity and transported volume.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1 and 2 and corrective action should resolve the issue we identified in the report.

The OIG believes the Postal Service is losing money with the CDF. While the Postal Service is achieving savings with the CDF contractors consolidating trips, we believe that NDC personnel can perform these functions, thereby eliminating the need for contractors to consolidate trips when bedloading or recontainerization are not necessary. CDF headquarters SOP allows for cancellation or modification of CDF operations with a seven-day notice; therefore, the Postal Service is paying a contractor for a service that its employees could perform when it does not modify a contract.

Regarding the monetary impact, we believe the OIG's characterization is accurate. Questioned costs are defined as "unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, and contract. May be recoverable or unrecoverable and usually a result of historical events." The OIG analyzed data from CYs 2015 and 2016 to form our monetary impact savings for this report and is questioning those costs because they are historic; however, the OIG agrees there is an opportunity for savings.

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



# Appendices

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# Appendix A: Additional Information

## 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 Chicago and San Francisco NDCs.

To achieve our objective we:

- Interviewed Chicago and San Francisco NDC managers to obtain information on CDF loading, unloading, and trailer utilization.
- Obtained and analyzed trip utilization data for the Chicago and San Francisco NDCs for CYs 2015, 2016, and 2017 to determine the number of trips the NDC unnecessarily sent for bedloading and recontainerization.
- Judgmentally selected the Chicago and San Francisco NDCs (categorized as Tier 1 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 conducted the week of May 30, 2017, at the Chicago CDF and the week of June 13, 2017, at the San Francisco CDF and determined the efficiency of their loading, unloading, and trailer utilization activities.
- Calculated savings for outbound and inbound long-haul trips for the Chicago and San Francisco 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 did not include shuttle trips in our analysis.

- Reviewed prior OIG and Government Accountability Office reports related to our objective.

We conducted this performance audit from May through October 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 October 2, 2017, and included their comments where appropriate.

We assessed the reliability of data by comparing the results of our observations to data in TIMES, the 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 for CY 2015 and CY 2016 were sufficiently reliable for the purpose of this audit. However, we determined that the CY 2017 data was not reliable and did not use it for this audit. We discussed the reliability issue with Surface Operations management and they are working on a solution.

## Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Consolidation of Mail for Transportation Dallas – New Jersey Network Distribution Center</i>	Assess the efficiency of the Postal Service’s transportation consolidations (loading, unloading, and trailer use) for long-haul HCRs at the Dallas and New Jersey NDCs.	NL-AR-17-007	5/15/2017	\$10.4
<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 use) for long-haul HCRs at the Memphis NDC.	NL-AR-17-001	12/6/2016	\$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

# Appendix B: Management's Comments



October 19, 2017

LORI LAU DILLARD

**SUBJECT: Consolidation of Mail for Chicago and San Francisco Network  
Distribution Centers (Report Number NL-AR-18-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 Chicago and San Francisco Network Distribution Centers (NDCs)." Management agrees in part with the recommendations as written; however, we disagree partially with the basic assumption of the report as well as the monetary impact associated with the draft report. Clarification regarding management's disagreement with the findings and claimed monetary impact is discussed below.

Management disagrees with the general assumption of the report that the Postal Service is losing money because we are not bed-loading every trailer at the Consolidation/Deconsolidation Facilities (CDFs). While it is true that the need to bedload has been reduced, the Postal Service is still saving money by consolidating trips out of the CDF. Reducing two or more partially loaded trailers whether it is bed-loaded or roll-on still produces savings for the USPS. The basic flaw in the OIG's savings assumption is based on comparing essentially an insourced operation as opposed to using the CDF. While that could potentially be viewed as an opportunity savings, it definitely is not a questioned cost. Consequently, management disagrees with the claimed monetary impact.

Management has been aware, as you have pointed out in this and previous reports, that the volume between NDCs is dropping. With that in mind, we are in the process of evaluating all CDFs, not just these CDFs audited, to determine the best path forward. We expect this analysis and decision to be made by the end of January 2018.

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 Presidents of Supply Chain Management, Great Lakes Area and acting Vice President of the Pacific 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 trips.

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**Management Response Recommendation 1:**

Management agrees with this recommendation. In conjunction with our review of the CDF operations, if we decide to continue with any of the CDFs, we will update all SOPS related to the CDF operations.

**Target Implementation Date:**

January 2018

**Responsible Official:**

Acting Manager, Surface Transportation Operations

**Recommendation 2:**

Evaluate Chicago and San Francisco Consolidation/Deconsolidation Facilities to determine their transportation needs and modify the contract as necessary.

**Management Response Recommendation 2:**

Management agrees with this recommendation. As mentioned above, management will be analyzing our CDF network to determine what changes are needed to react to the declining volumes in these lanes. This decision will be made by January 2018.

**Target Implementation Date:**

January 2018

**Responsible Official:**

Acting Manager, Surface Transportation Operations

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



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