



Office of Inspector General | United States Postal Service

## Audit Report

# Consolidation of Mail for the Atlanta Network Distribution Center

Report Number NL-AR-18-007 | May 18, 2018



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# Highlights

## Objective

Our objective was to assess the efficiency of the U.S. Postal Service's transportation consolidations of mail (loading, unloading, and trailer utilization) for long-distance Highway Contract Routes (HCR) at the Atlanta Network Distribution Center (NDC).

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

Per CDF Standard Operating Procedures (SOP), 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 also make changes to CDF operations with seven days' notice.

This is the fourth and final in a series of audits examining CDF operations. We reviewed operations at the Memphis, Dallas, New Jersey, Chicago, and San Francisco CDFs in previous audits. Based on a recommendation from our Chicago and San Francisco CDF audit, the Postal Service agreed to review CDF operations at all locations.

## What the OIG Found

We determined the Postal Service's consolidation of long-haul HCR trips at the Atlanta CDF was not effective. During the week of January 8, 2018, we observed that three of five trips to the Atlanta CDF did not require recontainerization. This occurred because inspection of the Atlanta CDF did not result in changes to CDF operations. The Postal Service's Standard Operating Procedures do not provide performance assessment measures, resulting in inefficient transportation of the

mail and unnecessary costs to the Postal Service. This is a consistent finding across all CDFs reviewed.

Management took corrective action to address this finding and determined that it was more cost effective for the Postal Service to bring the consolidation operations in-house for all 19 CDFs. The Postal Service plans to complete the transition by September 2018. The Postal Service estimated that the ending of the CDF contracts could result in a one-time savings of up to \$29 million.

Additionally, we found missing trailer utilization data at all 14 CDF sites reviewed for this audit. Specifically, we found that trailer utilization data was missing from about 4 to 87 percent of the time during calendar years 2016 and 2017. The Postal Service uses trailer utilization data to determine whether HCR trips are operating efficiently. Postal Service Surface Operations management identified equipment and oversight issues, as well as staffing issues at the NDCs during the transition from the Transportation Information Management Evaluation System to the Surface Visibility Web as the reasons for the missing data. As a result, the Postal Service could not evaluate long-haul HCR trailer utilization data and long-haul HCR trips were being unnecessarily sent to CDFs for bedloading and recontainerization. Insourcing CDF operations should solve the data reliability issues.

## What the OIG Recommended

Due to management's planned in-sourcing of CDF operations, we are not making any recommendations at this time, but will continue to monitor the process. We plan to conduct future audit work in this area.

# Transmittal Letter



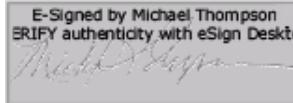
OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

May 18, 2018

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

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

LINDA MALONE  
VICE PRESIDENT, CAPITAL METRO AREA



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

**SUBJECT:** Audit Report – Consolidation of Mail for the Atlanta Network Distribution Center (Report Number NL-AR-18-007)

This report presents the results of our audit of the U.S. Postal Service's Consolidation of Mail for the Atlanta Network Distribution Center (Project Number 18XG003NL000).

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

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Consolidation of Mail for the Atlanta Network Distribution Center (Project Number 18XG003NL000). 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 Atlanta Network Distribution Center (NDC). See [Appendix A](#) for additional information about this audit.

## Background

In fiscal year (FY) 2017, the Postal Service budgeted about \$4 billion for over 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.

The Postal Service has 21 NDCs it uses to increase operational efficiency by consolidating mail processing and dispatch. At 19 of these NDCs, there are consolidation deconsolidation facilities (CDF), which are contractor-run facilities that 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. Bedloading is when mail is loaded on shuttle trailers and transported to CDFs for consolidation into a single trailer when the combined mail contents of trailers exceed the floor space of one trailer. When a CDF receives bedloaded mail 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. In FY 2017, the Postal Service spent about \$27.4 million for 19 CDFs.

CDF Standard Operating Procedures (SOP) allow the Postal Service to conduct periodic onsite inspections to assess contractor performance and determine whether modifications are necessary and to change the frequency with seven days' notice to the contractor.

This is the fourth and final in a series of audits examining CDF operations.

## Finding #1: Consolidation Deconsolidation Facility Bedloading and Recontainerization

We determined the Postal Service's deconsolidation of long-haul HCR trips at the Atlanta CDF was not effective. Specifically, we found that trips were automatically sent to the Atlanta CDF based on the contract schedule even though the trips did not require recontainerization.<sup>1</sup> This occurred because the March 2017 inspection by the Atlanta NDC's Transportation and Network Specialist (TANS) resulted in no changes to CDF operations. These unnecessary trips resulted in inefficient transportation of the mail as well as unnecessary costs to the Postal Service. This was consistent with all CDFs we have reviewed.

## Consolidation at the Atlanta Consolidation Deconsolidation Facility was not Effective

We found that NDC personnel automatically sent trips for recontainerization based on the contract. During the week of January 8, 2018, we observed that three of five trips to the Atlanta CDF did not require recontainerization (see [Table 1](#)). See [Figure 1](#) for picture of a trip that did not need recontainerization.

<sup>1</sup> The Atlanta CDF only receives mail from other CDFs and does not send mail to other CDFs. Hence, the only operation performed is recontainerization and no bedloading.

**Table 1. Observations of Atlanta Inbound Trips Unnecessarily Sent for Recontainerization**

| Origin/Destination | Trip Number | Percentage Full | Bedloaded (Y/N) |
|--------------------|-------------|-----------------|-----------------|
| Greensboro         | 801         | 85%             | N               |
| Pittsburgh         | 805         | 75%             | N               |
| New Jersey         | 802         | 100%            | Y               |
| New Jersey         | 804         | 100%            | Y               |
| Des Moines         | 801         | 90%             | N               |

Source: Site visit observations at the Atlanta CDF.

**Figure 1. Observation of an Atlanta Trip not Needing Recontainerization**



Source: OIG observation at the Atlanta CDF. This is a trailer with ample space to accommodate mail volume without having to bedload.

### Periodic Inspection Did Not Change Consolidation Deconsolidation Facility Operations

The unnecessary recontainerizations we observed at the Atlanta CDF occurred because none of the onsite inspections the Postal Service conducted resulted in changes to CDF operations. CDF SOP allow the Postal Service 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 or whether onsite inspections are mandatory. The SOP also do not provide performance assessment measures. We found that the TANS from the Atlanta NDC conducted an onsite inspection of Atlanta CDF operations in March 2017; however, the inspection resulted in no changes to CDF operations.

### Inefficient Operations and Unnecessary Costs

Unnecessary recontainerization at the Atlanta CDF resulted in inefficient transportation, as well as unnecessary contractor costs to the Postal Service. The transportation was inefficient as it entailed an extra stop to unload and reload the mail. The mail then traveled from the CDF to the NDC to be unloaded again. A contractor did the loading and unloading at the CDF, leading to unnecessary contractor costs.

## Management's Corrective Actions

The Postal Service took corrective action to address this finding based on the results of our previous CDF audits. Surface Transportation Operations management determined that insourcing all 19 currently contracted CDFs into nearby NDCs and staffing them with postal mail handlers<sup>2</sup> was more cost effective. Surface Transportation Operations identified the following reasons for in-sourcing:

- Provides transportation savings by eliminating shuttle transportation between NDCs and CDFs;
- Provides more opportunities for evaluating consolidation of long-haul trips;
- Addresses previous National Postal Mail Handler's Union grievances requesting Postal Service jobs currently at the contracted sites; and
- Addresses recent OIG audit concerns on decreasing volumes on the CDF long-haul trips.

This plan was briefed in February 2018 to area vice presidents (VP), area Managers of Operations Support (MOS), and the VP, Network Operations, all of whom approved it. The Postal Service plans to complete the transition by September 2018, and estimates the ending of the CDF contracts could result in a one-time savings of up to \$29 million.

## Finding #2: Data Reliability

We determined the Postal Service has a data reliability issue. Specifically, the CDF trip utilization data was unreliable. We found that trailer utilization data was missing about 4 to 87 percent of the time for the 14 CDF sites reviewed<sup>3</sup> during calendar years (CY) 2016 and 2017. Postal Service Surface Operations management identified equipment and oversight issues as well as staffing issues at the NDCs during the transition from Transportation Information Management Evaluation System to Surface Visibility Web as the reasons for the missing data. As a result, the Postal Service could not evaluate long-haul HCR trip utilization data and determine which trips were unnecessarily sent to the CDFs for bedloading and recontainerization. Insourcing CDF operations should solve the data reliability issues. We plan to conduct future audit work in this area.

### Trailer Utilization Data was Unreliable

The Postal Service uses trailer utilization data to determine whether HCR trips are operating efficiently and we determined this data for CYs 2016 and 2017 were unreliable. Specifically, we found that CY 2016 and 2017 trailer utilization data was missing from trips<sup>4</sup> about 4 percent to 87 percent of the time (see [Table 2](#)).

<sup>2</sup> Due to implementation of the Function 1 scheduler in February 2018, all craft personnel at insourced CDFs are considered to be mail handlers instead of the lower cost mail handler assistants. The Function 1 scheduler identifies excess employees who will be available to fill positions needed to staff the CDF program.

<sup>3</sup> We extracted data for the remaining 14 CDF sites not previously reviewed from the prior three OIG audits of this series.

<sup>4</sup> Missing trailer utilization data fields included "0", "DIV/0", and empty cells for existing trips.

**Table 2. Percentage of Missing Trailer Utilization Data by CDF Site**

| CDF Site     | 2016 Percentage of Trips with Missing Data | 2017 Percentage of Trips with Missing Data | Average Percentage of Trip Missing Data |
|--------------|--|--|---|
| Jacksonville | 0  | 8  | 4                                       |
| Bradley      | 10   | 19   | 14                                      |
| Greensboro   | 8  | 25   | 16                                      |
| Kansas City  | 11   | 27   | 19                                      |
| Pittsburgh   | 38   | 21   | 29                                      |
| Atlanta      | 18   | 42   | 30                                      |
| Seattle      | 17   | 44   | 31                                      |
| Philadelphia | 17   | 58   | 37                                      |
| Detroit      | 25   | 58   | 42                                      |
| Denver       | 19   | 84   | 51                                      |
| Cincinnati   | 32   | 78   | 55                                      |
| Minnesota    | 53   | 71   | 62                                      |
| Los Angeles  | 78   | 69   | 73                                      |
| Des Moines   | 100  | 74   | 87                                      |

Source: OIG analysis of utilization data from Electronic Data Warehouse (EDW) and Application System Reporting (ASR).

## **Issues with the Surface Visibility Web System**

Postal Service Surface Operations management identified equipment and oversight issues as well as staffing issues at the NDCs during the transition from the TIMES to the Surface Visibility Web as the reasons for the missing data. The CDF contract required the supplier to enter all trip arrivals, departures, and trailer utilization data into TIMES or another system identified by the Postal Service. However, the Postal Service did not provide the necessary equipment or proper system permissions<sup>5</sup> for entering the data. For these sites, the NDCs had agreements that their personnel would enter the data; however, the NDCs did not honor the agreements due to staffing issues. For the sites that had the proper equipment and system permissions, the Postal Service did not provide adequate oversight to ensure the data were being entered.

## **Postal Service Could not Evaluate Long-Haul Highway Contract Route Trips**

Without this data, the Postal Service has a data reliability issue and cannot evaluate whether HCR trips are being unnecessarily sent to the CDFs for bedloading and recontainerization. Trailer utilization data measures how full a trailer is, and if there is no trailer utilization data, the Postal Service cannot determine if trailers require bedloading and need to go to the CDF. This inability to evaluate HCR trips prevented the Postal Service from ensuring efficient CDF operations.

Insourcing CDF operations should solve the data reliability issues. Postal Service NDC personnel are equipped with scanners to directly scan the data into the SV system instead of entering the data manually. Additionally, unlike contractor CDF sites, the Postal Service has scanning compliance goals to monitor and measure scanning compliance; therefore, we did not look into this issue any further.

## **Management's Comments**

Management agreed with the report findings.

## **Evaluation of Management's Comments**

The OIG considers management's comments responsive.

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<sup>5</sup> The equipment consisted of a security token and the Virtual Private Network Business Solution software. Additionally, the Postal Service did not provide the contractor the appropriate security permissions within the Postal Service network.

# Appendices

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# Appendix A: Additional Information

## Scope and Methodology

Our objective was to assess the efficiency of the Postal Service's transportation consolidations of mail (loading, unloading, and trailer utilization) for long-distance HCRs at the Atlanta NDC.

To achieve our objective we:

- Interviewed Postal Service Network Operations management and obtained documentation to identify corrective actions resulting from prior audits.
- Interviewed Atlanta NDC managers to obtain information on CDF loading, unloading, and trailer utilization.
- Obtained and analyzed CY 2016 and 2017 trip utilization data for the Atlanta NDC and the 13 NDCs not previously reviewed in this audit series. We reviewed this data to determine the number of trips the NDC unnecessarily sent for bedloading and recontainerization.
- Judgmentally selected the Atlanta NDC (categorized as a Tier 1 NDC) 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 site.

- Observed CDF operations conducted the week of January 8, 2018, at the Atlanta CDF and determined the efficiency of their loading, unloading, and trailer utilization activities.
- Reviewed prior OIG and Government Accountability Office reports related to our objective.

We conducted this performance audit from December 2017 through May 2018, 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 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 18, 2018, and included their comments where appropriate.

We assessed the reliability of EDW/ASR data by validating the data to TIMES and Surface Visibility Web. We determined the data were incomplete and, therefore, not reliable for the purposes of this report (see [Finding 2](#)).

## Prior Audit Coverage

| Report Title  | Objective   | Report Number | Final Report Date | Monetary Impact<br>(in millions) |
|---|---|---------------|-------------------|----------------------------------|
| <i>Consolidation of Mail for Chicago and San Francisco Network Distribution Centers</i>                     | Assess the efficiency of the Postal Service's transportation consolidation of mail (loading, unloading, and trailer utilization) for long-haul HCRs for the Chicago and San Francisco NDCs. | NL-AR-18-002  | 10/27/2017        | \$3.1                            |
| <i>Consolidation of Mail for Dallas and New Jersey Network Distribution Centers</i>                         | Assess the efficiency of the Postal Service's transportation consolidations (loading, unloading, and trailer use) for long-haul HCRs for the Dallas and New Jersey NDCs.                    | NL-AR-17-007  | 5/15/2017         | \$6.4                            |
| <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  | 12/2/2016         | \$5.8                            |
| <i>Efficiency Review of the Cincinnati, OH, Network Distribution Center - Processing and Transportation</i> | Evaluate the efficiency of the Cincinnati, OH, NDC's mail processing and transportation operations.   | NO-AR-14-011  | 9/11/2014         | \$5.0                            |

# Appendix B: Management's Comments



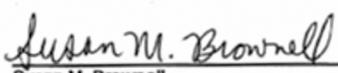
May 2, 2018

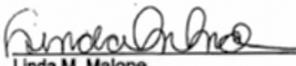
LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report- Consolidation of Mail for the Atlanta Network Distribution Center (Report Number NL-AR-18-DRAFT)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft audit report on Consolidation of Mail for the Atlanta Network Distribution Center. Management agrees with the findings noted in the audit report.

  
\_\_\_\_\_  
Robert Cintron  
Vice President, Network Operations

  
\_\_\_\_\_  
Susan M. Brownell  
Vice President, Supply Management

  
\_\_\_\_\_  
Linda M. Malone  
Vice President, Capital Metro Area Operations

cc: Manager, Corporate Audit & Response Management



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