OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Suitability of Rail Transportation – New Jersey Network Distribution Center

Audit Report

Report Number
NO-AR-14-013

September 29, 2014

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

Opportunities exist to economically and effectively use rail to transport some Standard Mail and Package Services Mail associated with the New Jersey NDC and CDF. Management stated that rail is not a viable way to meet service standards and does not fit into its operating plans. However, we believe rail is a viable option and should be reconsidered.

Background

The U.S. Postal Service meets the majority of its long-distance surface transportation needs with highway transportation – known as highway contract routes (HCR). In 2013, the Postal Service spent more than $3.4 billion on HCRs and only about $43 million on rail. However, trends in the highway transportation industry indicate challenges in attracting qualified drivers due to driver age, pay, and work demands. According to industry leaders, rail transportation can provide benefits such as improved service, lower costs, and a smaller carbon footprint.

Our objective was to determine whether opportunities exist to economically and effectively use rail to transport Standard Mail and Package Services Mail. This report focuses on the New Jersey Network Distribution Center (NDC) and Consolidation and Deconsolidation Facility (CDF).

What The OIG Found

Opportunities exist to economically and effectively use rail to transport some Standard Mail and Package Services Mail associated with New Jersey's NDC and CDF. We found that the Postal Service can potentially lower transportation costs and help achieve its sustainability goals by converting 41 HCR trips to rail. The Postal Service uses HCRs because they provide the shortest transit times and the added assurance that all mail meets service standards. In addition, the Postal Service experienced capacity and reliability issues with rail in the past and has not fully assessed all rail options. Management stated that rail is not a viable way to meet service standards and does not fit into its operating plans.

However, we believe rail is a viable option and should be reconsidered. We estimate the Postal Service could save about $10.8 million annually by using some rail for transportation associated with the New Jersey NDC and CDF. Rail could accommodate some volume and still meet service standards, but would require expanded transit times. It would also require moving some Periodicals through the existing Surface Transfer Center network, which may add costs.

What The OIG Recommended

We recommended management conduct a cost/benefit analysis of transportation associated with the New Jersey NDC and CDF to determine if rail is more cost-effective than HCR, where service responsive, and test whether some HCR transportation can be converted to rail. In addition, we recommended management consider moving Periodicals through the established Surface Transfer Center network and changing operating plans to accommodate rail when doing so is economical and meets service standards.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 29, 2014

MEMORANDUM FOR: DAVID E. WILLIAMS, JR.
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Robert Batta
VERIFY authenticity with e-Sign

FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Suitability of Rail Transportation – New Jersey Network Distribution Center (Report Number NO-AR-14-013)

This report presents the results of our audit of the Suitability of Rail Transportation – New Jersey Network Distribution Center (Project Number 13XG034NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact James L. Ballard, director, Networking Processing and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service could save about $10.8 million annually by transporting some Standard Mail and Package Services Mail by rail (for transportation associated with the New Jersey NDC and CDF).

The Postal Service uses HCR for most of its mail transportation because it prefers the control and flexibility (in mail departure and arrival) that HCR provides and the added assurance this mail will meet service standards.

Introduction

This report presents the results of our self-initiated audit of the Suitability of Rail Transportation for the New Jersey Network Distribution Center (NDC) (Project Number 13XG034NO000). Our objective was to determine whether opportunities exist to economically and effectively use rail to transport mail within the NDC network. This report focuses on opportunities to use rail to transport mail associated with the U.S. Postal Service's New Jersey NDC and Consolidation and Deconsolidation Facility (CDF).[1] See Appendix A for additional information about this audit.

The Postal Service meets the majority of its long-distance surface transportation needs for the NDC and CDF networks with highway transportation – known as highway contract routes (HCR) – instead of railroads. In 2013, the Postal Service spent more than $3.4 billion on highway contracts – compared with only about $43 million on rail – to move mail and equipment. The Postal Service uses HCRs because they provide the shortest transit times and the added assurance that all mail meets service standards. In addition, the Postal Service experienced capacity and reliability issues with rail in the past and has not fully assessed all rail options. Management stated that rail is not a viable way to meet service standards and does not fit into the agency's operating plans.

Trends in the trucking industry indicate that it is facing challenges that may impact its ability to meet demands for service. Currently, the highway transportation industry is challenged to find and keep qualified drivers due to driver age, pay, and work demands. Further, fuel costs continue to increase and fuel surcharges are rising to the point where total fuel costs can be 50 percent of the cost for a long-distance truckload.

At the same time, industry trends show that there has been a significant increase in rail use in recent years because of improved service and infrastructure. The industry has invested over $460 billion in capital improvements since 1980 to widen tunnels, repair bridges, separate tracks, and replace intersections with underpasses and overpasses at key points to reduce congestion. The railroad industry has continued investing in its infrastructure by purchasing new equipment, building modern facilities, using double-stacking containers, and developing skilled labor. Some railroads have also worked with the Federal government to build new rail centers to improve intermodal capacity and efficiency.

According to industry leaders, rail also offers better fuel economy than HCRs. Use of rail can also reduce highway congestion and the carbon footprint. Research has shown that Postal Service competitors have expanded their use of rail by realigning their networks with the nation's railroads to cut transportation costs and greenhouse gas emissions (see Figure 1 for a comparison of advantages of rail over HCRs based on industry trends).

1 In 2010, the Postal Service started using the CDF network to consolidate NDC mail volume for transport. These facilities moved mail from shipping containers and consolidated it into trailers to reduce the number of underused outbound trips.

Figure 1. Comparison of HCR and Rail Transportation[2]

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

Conclusion

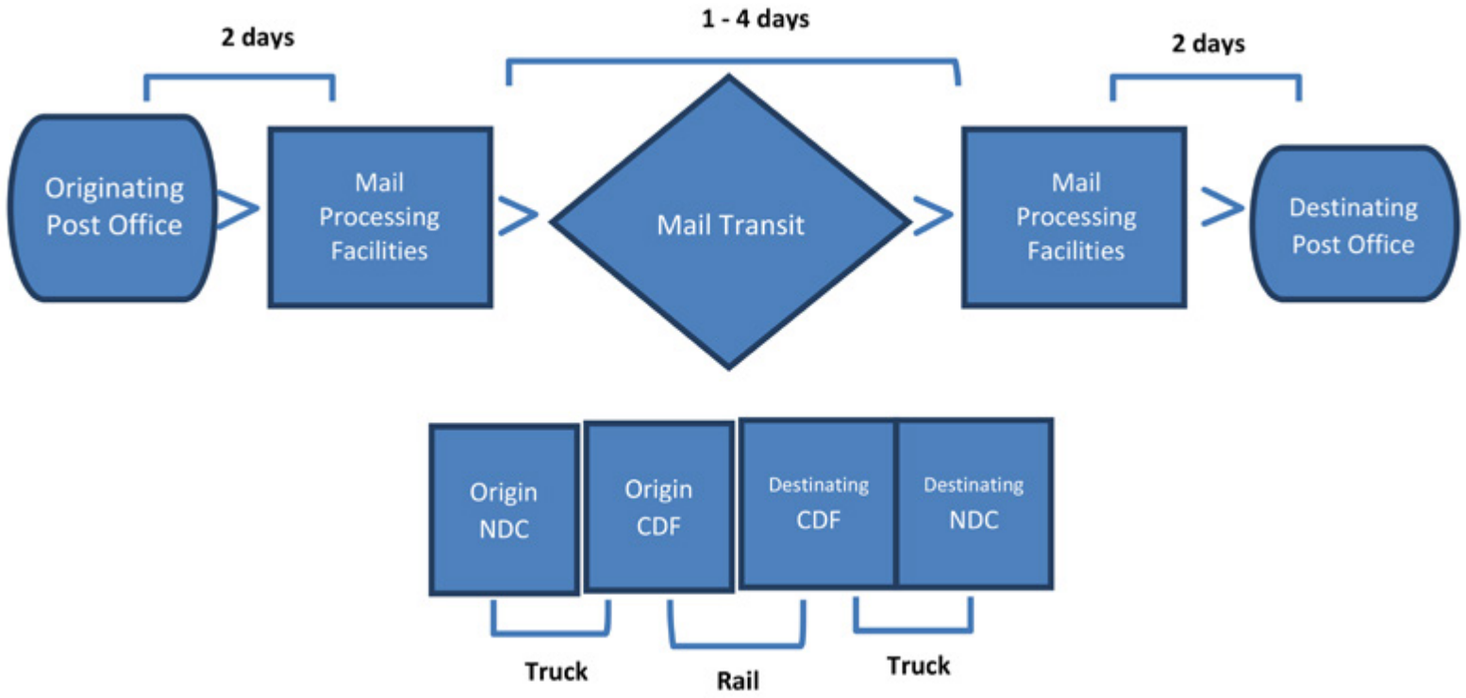
Opportunities exist to economically and effectively use rail to transport some Standard Mail and Package Services Mail associated with the New Jersey NDC and CDF. The Postal Service uses HCR for most mail transport because management:

- Has experienced significant service issues with rail in the past and prefers the control and flexibility in mail departure and arrival that HCR provide;
- Based its service standards on the use of HCRs, which have the shortest transit times, are usually more costly, and provide added assurance that all mail will meet service standards;
- Has not fully assessed rail as an alternative mode of transportation based on economic value[3]; and
- Does not believe rail is a viable option to meet service standards or fits within the Package Services Mail operational flow.

2 The arrow direction indicates whether the category increases or decreases, the green arrows indicate improvement, and the red arrows indicate less desirable costs or service.
3 The Postal Service used already established HCR transit times in its assessment of rail proposals and did not consider expanded transit times for rail.

However, we believe rail is a viable option and the Postal Service could potentially reduce transportation costs by converting 41 HCR trips[4] associated with the New Jersey NDC and CDF to rail. Specifically, we believe the Postal Service could convert 30 trips from HCR to rail and still meet service standards[5] under its existing Package Services Mail operational flow (see Figure 2). These conversions would enable the Postal Service to eliminate five HCR return trips it would no longer need since rail can accommodate one-way transportation. These two steps combined would save the Postal Service about $9.1 million in transportation costs annually. It could save an additional $1.7 million annually by changing the operating plans for the remaining 11 trips, if these changes are cost effective and enable it to meet service standards.

Figure 2. Package Services (Bulk Mail) Operational Flow



Source: OIG analysis.

Use of rail may require the Postal Service to send Periodicals through the existing Surface Transfer Center (STC) network on existing HCR transportation. The Postal Service would, however, need to evaluate whether this would be cost effective and enable it to meet its service standards. STCs are centers where First-Class Mail is consolidated for long-distance transport using HCRs to save transportation costs. In some cases, converting to rail would require modifications to existing dispatch operations for Periodicals.[6]

4 The origins and destinations include New Jersey, Atlanta, Denver, Los Angeles, Memphis, Dallas, Jacksonville, San Francisco, Des Moines, Kansas City, and Minneapolis/St. Paul.
5 The Postal Service would need to evaluate the service reliability of the recommended trips and ensure Periodicals are moved through their intended network.
6 There may be some additional costs associated with using the STC network. The Postal Service should analyze existing STC transportation and identify any additional associated costs that might offset the overall savings of using rail.

Rail Transportation – Cost-Saving Opportunities

We analyzed 67 long-distance HCRs associated with the New Jersey NDC, CDF, and STC. Based on information from two intermodal companies, we found the Postal Service could potentially reduce transportation costs by converting 41 HCR trips to rail.

We determined the Postal Service could save about $4.2 million[7] by converting 30 trips from HCR to rail without affecting existing operating plans or missing service standard targets (see Figure 3). We determined the estimated monetary savings by subtracting estimated rail costs per trip as provided by suppliers from existing HCR costs per trip considering:

- The annual HCR contract cost for selected trips;
- The quoted rail cost for selected trips;
- The frequency of HCR trips;
- Current service standards,[8] critical entry times (CET), and clearance times (CT); and
- HCR transportation needed for any day rail was not available.

For example, we determined the Postal Service currently spends $5,765,418 in HCR transportation costs annually on four trips originating from New Jersey and destined to the Los Angeles NDC. Rail pricing for the same trips totaled $2,398,587. Since the pricing the intermodal companies provided did not include rail service for mail processed on Saturday and Sunday, we included additional HCR costs totaling $1,647,262 for those days. When we compared the HCR to the rail cost, we estimated the Postal Service could save $1,719,568 annually by using rail for these trips.

Figure 3. Estimated Cost Savings From Implementing Rail Transportation

Origin	Destination	Number of Trips	Package Services Mail (Bulk Mail) Standards - Days to Deliver	Transit Days by Rail	Estimated Cost Savings for Trips That Meet Service Standards
New Jersey	Atlanta	2	6	4	$296,698
New Jersey	Denver	3	6	4	266,362
New Jersey	Des Moines	1	6	3	143,991
New Jersey	Jacksonville	4	6	2	496,162
New Jersey	Kansas City	1	6	4	363,795
New Jersey	Los Angeles	4	7	5	1,719,568
New Jersey	Minnesota	1	6	3	226,473

7 Rail transportation costs are typically less expensive but, in some instances, may be more expensive due to the level of service provided.
8 According to management, service standards were based on HCR transportation transit times, which provide the best opportunity to meet established standards. But HCR may not be the most cost effective transportation.

Origin	Destination	Number of Trips	Package Services Mail (Bulk Mail) Standards - Days to Deliver	Transit Days by Rail	Estimated Cost Savings for Trips That Meet Service Standards
New Jersey	San Francisco	3	7	5	484,193
Denver	New Jersey	2	6	4	233,355
Des Moines	New Jersey	3	6	2	190,721
Jacksonville	New Jersey	2	6	3	165,005
Los Angeles	New Jersey	4	7	5	(380,996)
Total		**30**			**$4,205,327**

Source: Intermodal companies and the Postal Service.

We also determined that converting these 30 trips to rail would eliminate the need for five HCR round trips since rail accommodates one-way transportation. Eliminating these five HCR trips would save about $4.9 million in transportation costs annually (see Figure 4).

Figure 4: Estimated Cost Savings From Eliminating Non-Essential Round-Trip Transportation

Origin	Destination	Number of Trips	Estimated Cost Savings from Eliminated Trips
Atlanta	New Jersey	2	$859,587
Los Angeles	New Jersey	3	3,997,520
Total		**5**	**$4,857,107**

Source: The Postal Service.

Further, we determined the Postal Service could save about $1.7 million more by converting 11 trips to rail and adjusting operating plans for those trips if doing so is cost effective and still meets service requirements (see Figure 5). These adjustments could include changing the CET or CT.[9]

9 In our analysis we allowed 3 hours at both the origin and destination CDF for consolidation processing. If these times are not met, the mail would, in some cases, have to travel by rail the following day.

Figure 5. Estimated Cost Savings From Adjusting Operating Plans

Origin	Destination	Number Of Trips	Postal Service Standards (Days To Deliver)	Transit Days By Rail	Estimated Cost Savings for Trips That Need Adjustments
New Jersey	Dallas	4	6	4	$1,165,014
Dallas	New Jersey	3	6	4	211,280
Denver	New Jersey	1	6	4	42,266
Jacksonville	New Jersey	1	6	4	89,271
Los Angeles	New Jersey	2	7	5	219,604
Total		**11**			**$1,727,435**

Source: Intermodal companies and the Postal Service.

Postal Service Rail Initiatives. Over the past few years, the Postal Service has conducted some limited reviews of the potential for increased use of rail to transport mail; however, these reviews did not lead to transportation changes. We identified two rail proposals Postal Service Headquarters (HQ) management reviewed and rejected. Postal Service management determined the proposals would increase transportation costs, in part because of added fees in excess of $15,000 for each leased trailer. They also found the plans would not meet the Postal Service's mail processing needs.

However, we found many of the intermodal rail companies already include trailer fees in their rates and do not charge separately for them. As for the concerns regarding mail processing, we found that the Postal Service proposals were based on a 4-day requirement for processing mail at the origin and destination when only 2 days are normally needed. Also, the Postal Service's service standards were based on HCR transportation. Management did not consider the additional transit times needed for rail in their analysis even though service standards could still possibly be met with the additional transit times. They only considered HCR transit times and determined rail was not a viable option.

Recommendation

We recommend management conduct a cost/benefit analysis of transportation costs associated with the New Jersey NDC to determine if rail is more cost-effective than HCR; test whether some HCR transportation can be converted to rail; and, consider moving Periodicals through the established STC network, and changing operating plans to accommodate rail.

We recommend the vice president, Network Operations:

1. Perform a cost/benefit analysis of transportation associated with the New Jersey Network Distribution Center and Consolidation and Deconsolidation Facility to determine if rail is more cost-effective than highway contact routes, taking into account rates from multiple intermodal providers and service performance.

2. Adjust operating plans for Standard Mail and Package Services Mail, when doing so is economical and meets service standards, to further accommodate the use of rail for trips associated with the New Jersey Network Distribution Center.

3. Consider moving Periodical Mail volume through the existing Surface Transfer Center network, if deemed appropriate based on service and cost, to ensure this mail class meets its service standards.

4. Test to determine if the Postal Service can convert some highway contract route transportation to rail where economical and service responsive for transportation associated with the New Jersey Network Distribution Center.

Management's Comments

Management disagreed with our overall finding to convert 41 HCR trips associated with the New Jersey NDC and CDF to rail, stating that it could convert only one transportation lane to rail and still meet service standards. Management did not agree with the $10.8 million in savings we identified and concluded we used flawed analysis to identify trips for conversion. Management contends that they cannot convert these trips to rail unless they also change service standards to accommodate the use of rail.

Management stated that the Postal Service analyzed rail use in October 2012 for its NDCs and determined that only one lane (New Jersey to Jacksonville) was service responsive for rail. However, management determined that implementation was not feasible at the time.

Management stated that we did not include all costs associated with use of rail over HCRs in our analysis, including transit costs to the rail provider, the cost of scanning during rail transit, the cost of changing systems associated with dispatch and routing by rail, and the rail transit costs. Management also stated that rail is designed to meet the needs of its largest customers and that rail transit times do not meet Postal Service requirements. Management further stated that they established mail processing times to meet service standards and they cannot arbitrarily change them to meet rail transportation requirements.

Management provided one reason for disagreeing with the OIG's analysis of one of the lanes, stating that using rail would not meet the Postal Service's 7-day service standard for the mail type. Management stated that the New Jersey to Atlanta lane could not be transported by rail and meet service standards since HCR total transportation time was 7 days and rail transportation would be 8 days.

Below is a summary of the management's comments to the recommendations. Management agreed with recommendations 1 and 4, but only with respect to pursuing conversion of one transportation lane to rail. Management agreed with recommendation 3 stating they have already implemented it and disagreed with recommendation 2.

Regarding recommendation 1, management stated they will solicit intermodal providers for the one lane they believe is service responsive (New Jersey to Jacksonville) and determine if it is cost effective to convert to rail from HCR. The target date for implementation is March 2015.

Regarding recommendation 2, management stated that processing times were designed to meet service standards for Standard and Package Services mail and that modifying processing times to accommodate rail transit times is not feasible.

Regarding recommendation 3, management stated that the Postal Service already transports Periodicals mail through the STC network by design and no further action is necessary.

Regarding recommendation 4, management stated they would conduct a pilot test for the one lane already identified if determined to be cost effective based on solicitation from intermodal providers in response to recommendation 1. The target implementation date is September 2015.

See Appendix B for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments minimally responsive to recommendations 1 and 4, non-responsive to recommendation 2, and responsive to recommendation 3. Further, corrective actions implemented or planned will not resolve all the issues in the report and the OIG will work with management in closing out the significant recommendations to resolve management's disagreement and concerns.

Regarding management's overall disagreement with converting 41 identified HCR trips to rail with the exception of one, we still deem our analyses, conclusions, and monetary impact valid. During the audit, the OIG performed a thorough review of possible rail implementation, considering costs the Postal Service identified in its response as lacking in our analysis. The rail quotes received included door-to-door pricing, the cost of containers, and the required time for transit and delivery to and from Postal Service facilities. In addition, the intermodal companies provide up-to-date tracking of the containers during transport as part of their pricing.

Management provided an example that transporting mail by rail is not viable because a portion of mail [the L009 and L011] would not meet service standards. Further, they stated the OIG did not consider this mail volume in their analysis. The OIG did consider this mail volume and determined this mail volume represented a small portion (about one percent) of the total mail volume transported on this particular lane. The OIG concluded that this mail could be transported through the existing STC network and still allow the Postal Service to reduce cost and meet service by transporting the remaining mail by rail.

Regarding recommendation 2, the OIG is recommending the Postal Service consider rail transit times in its operating plans. The Postal Service conducts an annual mail arrival profile, which may alter its current operating plans and it can include the possibility of using rail transportation in that analysis - which can be more cost effective and have only a minor impact on current operations. The OIG acknowledges in the report that there may be some costs associated with these changes and that a cost/benefit analysis should be performed considering any impacts on service.

The OIG considers recommendations 1 through 4 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These 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

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Background

The Postal Service's NDCs are part of a national system of 21 automated mail processing facilities linked by a transportation network dedicated to handling and moving Standard bulk mail. The Postal Service meets the majority of its long-distance surface transportation needs for NDCs and CDFs using highway transportation – known as HCRs – instead of rail. In 2013, the Postal Service spent more than $3.4 billion on highway contracts compared to about $43 million on rail.

In 2010 the Postal Service started using the CDF network to consolidate NDC mail volume for transport. There are 19 CDFs in close proximity to NDCs, nine of which only perform deconsolidation operations. These facilities take mail in shipping containers and load it into trailers to reduce the number of underused outbound trips. The mail arrives at the destinating deconsolidation center where it is unloaded back into shipping containers and then sent to the destinating NDC. The goal is to have contractors consolidate two or three HCR trips into one by better utilizing the cubic space in the trailers. These efforts also created potential opportunities to use rail, given that transport companies already consolidate and manage these loads.

Standard Bulk Mail Service Standards. Standard bulk mail refers to larger quantities of mail prepared for mailing by both mailers and the Postal Service to reduce postage costs. This mail class does not receive expedited service. Rail can accommodate the 3- to 10-day service standard for Standard bulk mail. The Postal Service standards for this class of mail are based on the use of HCR transit times, which provide additional assurance that mail will meet service standards.

Highway Transportation Challenges. Trends in the trucking industry indicate that it is facing challenges that may impact its ability to meet demands for service. Currently, the highway transportation industry is challenged to find and keep qualified drivers due to driver age, pay, and work demands. Further, fuel costs continue to rise and fuel surcharges are rising to the point where total fuel costs can be 50 percent of the cost for a long-distance truckload.

Rail Benefits and Environmental Impact. Rail companies have significantly improved their infrastructure, as well as expanded their use of intermodal transport. Rail has numerous benefits when compared to highway transportation: it can be less expensive; it uses standardized containers; and it achieves efficiencies through double-stacking. Rail improvements, which have been made due to pressure from customers, have affected both service and infrastructure. Also, rail has a much smaller carbon footprint than highway transportation.

Postal Service competitors, seeking to cut costs and reduce greenhouse gas emissions, have been expanding their use of rail by realigning their networks with railroads. By using intermodal providers, companies have multiple modes of transport (either rail, ship, or truck) and can easily transfer the goods shipped.

Using rail rather than highway transportation can also benefit the environment. For example, one industry initiative group[10] states the following facts regarding rail:

- Diverting 10 percent of national long-distance freight to rail would save over 1 billion gallons of fuel annually.
- Railroads have increased fuel efficiency to 94 percent since 1980.

10 Information presented at a July 13, 2010, Chicago Area Locomotive and Railyard meeting and taken from the Midwest Clean Diesel Initiative (MCDI) website that was linked from the Environmental Protection Agency's website. MCDI is "a voluntary program to reduce diesel emissions and diesel fuel usage in the Midwest…." Federal, state, and local governments, private companies, and non-profit organizations collaborate to create and support clean diesel coalitions that carry out actions in each state.

- One double-stacked train holds the equivalent of up to 280 truckloads.
- Trains are 2-4 times more economical than trucks in terms of fuel on a ton-per-mile basis.
- Trains have one-third the greenhouse gas emissions of trucks on a ton-per-mile basis.
- Trains are 2-3 times cleaner than trucks on a ton-per-mile basis.
- Trains consume 57 percent less energy than trucks.

Objective, Scope, and Methodology

Our objective was to determine whether opportunities exist to economically and effectively use rail to transport mail within the NDC network. This report focuses on Standard Mail and Package Services Mail for round-trip transportation routes from the New Jersey NDC and CDF back to the New Jersey Metro Area.[11] We selected this location based on its large originating mail volumes and the Postal Service's history of piloting the CDF network from New Jersey.[12] We chose the CDF network because the majority of its trucks are at maximum capacity due to efforts to consolidate mail and minimize trips. In addition, the Postal Service can control the inventory of trailers and rail cars in the CDF network. The third-party contractor that manages the CDF would handle all operations.

To meet our objective, we reviewed trips between specific origins and destinations, HCR transportation, and trailer use; and conducted site visits to the New Jersey NDC and CDF. We determined HCR costs associated with the New Jersey NDC and CDF. We obtained pricing and route information from two intermodal companies and then analyzed rail rate and schedule information. We then compared HCR costs to the rail costs calculated to identify any cost savings. In addition, we summarized the findings and discussed our results with Postal Service HQ personnel. We also held a focus group in Chicago, IL, on March 26, 2014, to discuss highway transportation issues and the benefits of rail and considered those results in our analyses.

To calculate cost savings we included trips that fit into the Postal Service's operating plan and meet current service standards, as well as CTs and CETs. To determine whether rail is a viable option, we allowed for 3 hours of mail preparation at the CDF prior to the NDC CET and 3 hours after the NDC CT. We reviewed existing surface routes that are CDF-to-CDF and existing surface routes where the origin or destination is a nearby NDC plant that could be converted to a CDF trip by using rail transportation. We could not obtain the service performance of all the trips for the quotes from the intermodal companies to ensure they meet current Postal Service standards.[13]

We relied on Postal Service computer-processed data, including the Transportation Contract Support System, and trailer utilization data from the Transportation Information Management and Evaluation System. We determined the data used were sufficiently reliable for the purposes of this report. We did not assess the reliability of any computer-generated data for the purposes of this report.

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11 Destinations more than 750 miles from New Jersey include Atlanta, GA; Chicago, IL; Dallas, TX; Denver, CO; Des Moines, IA; Jacksonville, FL; Kansas City, KS; Los Angeles, CA; Memphis, TN; Minneapolis/St. Paul, MN; Seattle, WA; St. Louis, MO; and San Francisco, CA.

12 In 2010, Network Operations began its CDF pilot (to reduce the number of HCR trips) with two NDC transportation trips. Based on its success, it subsequently expanded and continues to expand this network.

13 The Postal Service would have to coordinate efforts with potential providers to ensure that rail departures and arrivals are timely and meet Postal Service standards.

We conducted this performance audit from May 2013 through September 2014,[14] 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 finding 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 August 22, 2014, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Parallel Tracks? Lessons from the Railroad Industry	RARC-WP-12-014	8/13/2012	None
Report Results: This white paper examines parallels between the railroad industry as it moves from crisis to recovery and the Postal Service's current state of affairs. Similar to the railroad industry, the Postal Service needs to focus on three elements to recover from its financial crisis: productivity improvements, revenue generation, and cost containment.			
Strategic Advantages of Moving Mail by Rail	RARC-WP-12-013	7/16/2012	None
Report Results: This white paper found that by increasing its use of intermodal rail the Postal Service could save transportation costs, gain long-term strategic advantages, and still continue to meet existing service standards. Potential savings could be at least $100 million per year if the Postal Service used intermodal services within the NDC network.			
POSTAL SERVICE INITIATIVE: Consolidation of Mail for Transportation Between Network Distribution Centers	NL-AR-12-006	5/29/2012	$15.3
Report Results: This report found that consolidation increased mail handling time and costs but saved money overall and improved trailer utilization. Management generally agreed with our recommendations, but not our monetary impact, stating they expanded the number of consolidation lanes in February 2012 and continue pursuing additional opportunities and a 2.5:1 utilization ratio.			

14 Audit work was delayed for about 5 months due to ongoing plans by the Postal Service to test the use of rail. During that period, the OIG monitored the plans as part of the audit. The plans were subsequently abandoned by the Postal Service, and we continued audit work as initially planned in November 2013.

Appendix B. Management's Comments

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS

UNITED STATES POSTAL SERVICE

September 19, 2014

LORI LAU DILLARD, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Response – Suitability of Rail Transportation – New Jersey Network Distribution Center (Report Number NO-AR-14-Draft)

Thank you for providing the Postal Service an opportunity to review and comment on the subject draft report.

The Postal Service completed an analysis of intermodal transportation opportunities in October of 2012 for our Network Distribution Centers (NDCs). It was determined by Postal Service analysts that in all but one lane, the transit time for rail was not service responsive. This information was provided to the Office of Inspector General (OIG) during the course of this audit. At that time, the single service-responsive lane was not cost-effective to use rail transportation in lieu of highway contract route transportation. In assessing the true costs of intermodal transportation, the analysis must include the additional costs incurred such as the cost of transporting the mail to and from the rail facility, the cost of scanning and tracking the mail while transporting via rail, and the cost of modifying the transportation systems to accept rail transportation for dispatch and routing, in addition to the cost of rail transportation itself. The OIG analysis performed for this audit, as presented to the Postal Service, did not include these types of additional costs and thus does not present a true picture of the cost of rail transportation compared to highway contract routes.

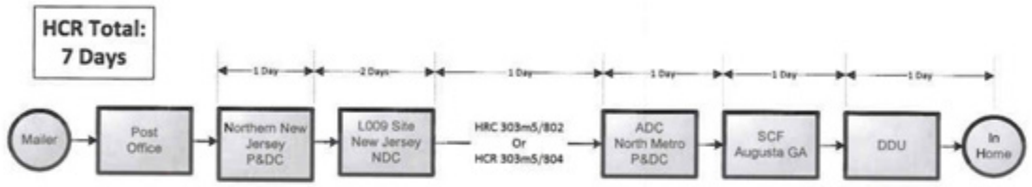
Rail service typically consolidates loads on single trains and on a day scheduled to meet the needs of its largest customers. Rail departure times in most cases do not meet Postal Service requirements. Postal Service processing and transportation requirements are set to meet service standards. Required processing times cannot be arbitrarily modified to accommodate a mode of transportation, as suggested in the audit report, without changing service standards.

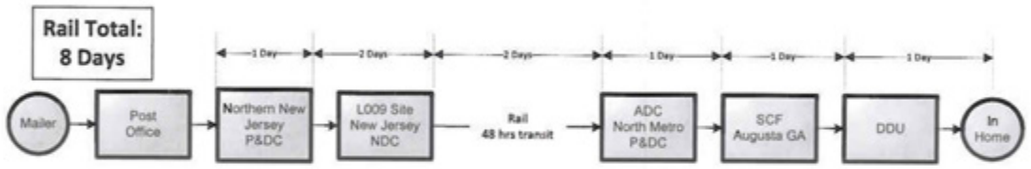
A specific example, taken from the OIG analysis included with the report and compared to current transportation, is illustrated below.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-7100
202 268-4305
FAX 202-268-3331
www.usps.com

STANDARD MAIL Example
New Jersey (074) to Atlanta (308)
Service standard: 7 days

NOTE: For both scenarios, transportation runs between New Jersey NDC and Atlanta NDC





The service standard for origin entered end-to-end Standard Mail flowing through the New Jersey NDC and the Atlanta NDC is seven days. Because of the extended transit time for rail transportation, rail service would take a minimum of eight days for Standard Mail to be delivered in this lane. The use of rail service, in all cases except one, extends the transportation time as demonstrated above. The extended rail transit times would not meet service standards and thus is not a feasible alternative to highway contract routes (HCRs). Additionally, the study performed by the OIG as presented to the Postal Service did not include the time required to transfer the mail to and from the rail station nor did it include the time to load and unload the rail cars at the rail yard. These impacts would further increase transit and delivery time for mail. Due to the extended rail transit time, transportation of mail by rail is not a service-responsive alternative to surface transportation, except in one case, based on current service standards.

The Postal Service disagrees with the identified $10.8 million annual savings offered by the OIG in the report. The savings identified by the OIG were based on the arbitrary modification of required processing times in order to account for the extended transit times associated with rail transportation. The conclusion that 30 HCR trips associated with the New Jersey NDC can be converted to rail and still meet service standards is flawed. Processing times must be set to accommodate the full spectrum of processing steps for each particular product in order to meet service standards. The modification of the required processing times to allow for extended rail transport times is not feasible unless service standards are modified. Rail transportation, except in one case, is not service-responsive, and thus the $10.8 million annual savings cannot be realized.

Recommendation 1:
Perform a cost/benefit analysis of transportation associated with the New Jersey Network Distribution Center and Consolidation and Deconsolidation Facility to determine if rail is more cost-effective than highway contact routes, taking into account rates from multiple intermodal providers and service performance.

Management Response/Action Plan:
Management agrees with this recommendation. For the one lane that was identified to be service-response (New Jersey NDC to Jacksonville NDC), the Postal Service will solicit multiple intermodal providers for rates to determine if rail would be a cost-effective alternative to highway contract routes.

Target Completion Date:
March 2015

Responsible Officials:
Manager, Logistics
Manager, Transportation Portfolio

Recommendation 2:
Adjust operating plans for Standard Mail and Package Services Mail, when doing so is economical and meets service standards, to further accommodate the use of rail for trips associated with the New Jersey Network Distribution Center.

Management Response/Action Plan:
Management disagrees with this recommendation. Processing times for Standard Mail and Package Services are specifically designed to meet service standards. Modifying the required processing times to accommodate an extended transit time expected by using rail transportation would not enable the Postal Service to meet service standards for all products in these service categories and therefore is not a feasible option.

No action will be taken to implement this recommendation.

Recommendation 3:
Consider moving Periodical Mail volume through the existing Surface Transportation Center network, if deemed appropriate based on service and cost, to ensure this mail class meets its service standards.

Management Response/Action Plan:
Management agrees with this recommendation. The Postal Service already transports Periodicals through the Surface Transfer Center (STC) network by design. Currently, origin entered Periodicals are transported on existing surface transportation, including through the existing STC network, for origin-destination pairs that have First-Class Mail surface transportation already in place.

No further action is necessary to implement this recommendation.

Recommendation 4:
Test to determine if the Postal Service can convert some highway contract route transportation to rail where economical and service responsive for transportation associated with the New Jersey Network Distribution Center.

Management Response/Action Plan:
Management agrees with this recommendation. For the one lane that was identified to be service-response (New Jersey NDC to Jacksonville NDC), the Postal Service will solicit multiple intermodal providers for rates to determine if rail would be a cost-effective alternative to highway contract routes. If rail service is deemed to be a cost-effective alternative to highway contract route, the Postal Service will conduct a pilot to test the operational feasibility of converting to rail transportation between New Jersey and Jacksonville.

Target Completion Date:
September 2015

Responsible Officials:
Manager, Logistics
Manager, Transportation Portfolio

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

David E. Williams

cc: Corporate Audit and Response Management

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