



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

Domestic Air Mail Irregularities

Audit Report

September 28, 2012

Report Number FT-AR-12-015



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HIGHLIGHTS

September 28, 2012

Domestic Air Mail Irregularities

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BACKGROUND:

Irregularities occur when air carrier personnel fail to protect or safeguard the mail from, for example, inclement weather, loss, destruction, or other hazards while in the control or custody of air carriers. The U.S. Postal Service's commercial air contract addresses domestic air mail irregularities and states that liquidated damages will be assessed for damaged or unprotected mail. Postal Service personnel at commercial air stops record irregularities when they occur and transportation personnel adjudicate the irregularities or approve them for further processing. If approved, a penalty is assessed and the amount paid to the air carrier for transporting mail is reduced.

The Postal Service paid about \$194 million for transporting mail from October 1, 2010, through May 31, 2012, but only paid about \$44,000 in claims over nearly the same time period. The objective was to determine whether domestic air mail irregularities processing was effective.

WHAT THE OIG FOUND:

Domestic air mail irregularities processing was not effective. Specifically, management did not monitor whether recording problems existed or whether claim deductions were calculated accurately. Also, Postal Service personnel did not always record irregularities for adjudication and

assess applicable penalties when they occurred. Further, management did not accurately calculate domestic air mail irregularity penalty amounts.

In addition to network and personnel changes, these issues occurred because management did not consider this program a high priority and did not obtain data necessary to monitor the process. Also, comprehensive written procedures for processing domestic air mail irregularities did not exist and penalty amounts were automatically calculated based on outdated contract data. As a result, Postal Service personnel did not always assess or correctly assess penalties to air carriers, and the air carriers were not always held accountable for safeguarding the mail. We were not able to determine the reasonableness of the \$44,000 of irregularity claims processed.

WHAT THE OIG RECOMMENDED:

We recommended management implement a process to readily obtain data to monitor whether recording problems exist or claim deductions were calculated accurately. We also recommended implementing procedures for processing irregularities, and providing all airports the means to report irregularities and verifying functionality on a regular basis.

[Link to review the entire report.](#)



September 28, 2012

MEMORANDUM FOR: MARY T. TAYLOR
MANAGER, AIR TRANSPORTATION OPERATIONS

ANGELA P. CANFIELD
MANAGER, DETROIT TRANSPORTATION AND
NETWORKS

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". A small yellow question mark icon is visible in the top right corner of the box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – Domestic Air Mail Irregularities
(Report Number FT-AR-12-015)

This report presents the results of our audit of Domestic Air Mail Irregularities (Project Number 12BM004FT002).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.

Attachments

cc: Stephen J. Masse
David E. Williams, Jr.
Jacqueline K. Strako
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of domestic air mail irregularities (Project Number 12BM004FT002). We identified these issues during our audit of the fiscal year (FY) 2012 U.S. Postal Service Financial Statements – St. Louis Accounting Services. The objective was to determine whether domestic air mail irregularities processing was effective. This audit was self-initiated and addressed financial risk. See [Appendix A](#) for additional information about this audit.

Irregularities occur when air carrier personnel fail to protect the mail. This includes failure to protect or safeguard the mail from inclement weather, loss, destruction, or other hazards while in the control or custody of air carriers. The commercial air contract¹ addresses domestic air mail irregularities and states that liquidated damages will be assessed for damaged or unprotected mail. Postal Service personnel at commercial air stops² are responsible for recording irregularities when they occur. Personnel create a Postal Service (PS) Form 2759, Report of Irregular Handling of Mail, in the Surface Air Support System (SASS) Mobile application for adjudication and penalty assessment, as applicable.³ Once recorded, transportation personnel adjudicate the irregularities. If the irregularity is approved, a penalty is assessed and the amount paid to the air carrier for transporting the mail is reduced.

SASS Mobile is an online application for recording and adjudicating air carrier irregularity events. It is a component of SASS, a system that calculates payments made to air carriers. Both of these applications are maintained by a third-party contractor for the Postal Service. Also, SASS does not produce any reports. All data are transmitted to the Enterprise Data Warehouse for reporting purposes.

Irregularity claims processed in FY 2011 through April 19, 2012, totaled \$43,700. Although the value of these claims is not material, it is the only means the Postal Service has to hold air carriers responsible for safeguarding the mail. In FY 2011, the Postal Service paid commercial carriers about \$117 million for handling and transporting mail. In FY 2012, through May 31, 2012, that amount was about \$77 million.

¹ Contract CAIR-11, *Air Transportation for Domestic Mail*, dated October 1, 2011. This contract governs commercial air transportation services for domestic mail.

² Air stops (or commercial airports) are points of shipment tender or delivery of mail.

³ The adjudication of irregularities provides an official decision to further process and, as applicable, assess a penalty regarding the incident submitted on PS Form 2759.

Conclusion

Domestic air mail irregularities processing was not effective. Specifically:

- Management did not monitor whether recording problems existed or whether claim deductions were calculated accurately.
- When irregularities occurred, Postal Service personnel did not always record them in SASS Mobile for adjudication and assess applicable penalties, as required.
- Management did not accurately calculate domestic air mail irregularity penalty amounts.

This occurred because management did not consider monitoring domestic air mail irregularities to be a high priority. Rather, management advised that, due to contract maturities, most irregularities once captured through this process are now captured through air carrier performance measures (for example, failure to submit scanned data in a timely manner) in the new contract. Also, theft of mail is governed by the U.S. Postal Inspection Service or the U.S. Postal Service Office of Inspector General (OIG). They also advised there have been network and personnel changes.⁴

Best practices⁵ suggest the attitude and philosophy of management can have a profound effect on internal controls. Activities need to be established to monitor performance measures and indicators. These controls should be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.

As a result, Postal Service personnel are not always assessing or correctly assessing penalties to air carriers nor are the air carriers always held accountable for safeguarding the mail.

Oversight

Management did not adequately oversee the domestic air mail irregularities process. Specifically, management did not monitor whether recording problems existed or whether claim deductions were calculated accurately. Further, management could not readily obtain FYs 2011 and 2012 summary or detailed transaction data related to domestic air mail irregularity deductions when we requested the information. Initially, personnel advised that if they request summary or detailed transaction data related to irregularities deductions from the third-party contractor that maintains the SASS Mobile application, they would incur additional costs. After conclusion of our fieldwork, they learned they could obtain some payment data independently without cost.

⁴ Postal Service closed air mail centers.

⁵ *Standards for Internal Control in the Federal Government*, dated November 1999.

According to Postal Service policy,⁶ performance monitoring procedures are to be established to ensure compliance with contract requirements. These procedures serve as a guideline for identifying mishandlings and other service failures that affect the delivery or security of the mail.

Recording Irregularities

When irregularities occur, Postal Service field personnel did not always record them in SASS Mobile for adjudication and penalty assessment, as applicable. We judgmentally sampled 12 of 58 commercial air stops⁷ and verbally contacted personnel to determine whether they recorded irregularities. We found that:

- Personnel at five air stops⁸ advised they reported irregularities on a regular basis.
- At the Dallas air stop, personnel advised that if irregularities occurred they would report them; however, they have not had any irregularities since their commercial air mail volume has declined.
- At the Dulles air stop, personnel said they have not had any irregularities in the recent past because they work so well with the air carrier.
- At the Detroit air stop, personnel said they had 14 irregularities in FY 2012; however, they no longer have access to the SASS Mobile application to report them.⁹
- Personnel at the remaining four air stops¹⁰ advised they do not report irregularities.

These issues occurred because the Postal Service did not have comprehensive written procedures for processing domestic air mail irregularities. The Postal Service had procedures for the SASS Mobile application¹¹ used to record mail irregularities. However, it did not have comprehensive procedures for processing domestic air mail irregularities at air stops or for subsequently adjudicating them.

According to Postal Service policy,¹² procedures are to be established to ensure compliance with contract requirements. These procedures serve as a guideline for identifying mishandlings and other service failures that affect the delivery or security of the mail. According to the current commercial air contract implemented in October 2011, failure to protect or safeguard the mail shall be reported to the air carrier via issuance of a PS Form 2759 or its successor system within 24 hours, causing liquidated damages

⁶ *Postal Operations Manual*, Chapter 5 - Mail Transportation, Section 52 - Air Transportation Service, paragraph 524, Performance Monitoring, July 2002.

⁷ Postal Service personnel provided a list of air stops. We did not confirm the completeness of this information.

⁸ Las Vegas, Philadelphia, Salt Lake City, Chicago, and New York.

⁹ To date these irregularities have not been reported.

¹⁰ St. Louis, Los Angeles, San Francisco and Baltimore commercial air mail stops.

¹¹ *MRR and IMTS Application User Guide – Mobile Repossession and Reassignment/Irregular Mail Tracking System*, Version 1.3, updated June 23, 2005.

¹² *Postal Operations Manual*, Chapter 5, paragraph 524.

to be assessed. Also, according to Postal Service policy, performance monitoring procedures are to be established to ensure compliance with contract requirements.

Penalty Calculation

Domestic air mail irregularity penalty amounts were not accurately calculated. Because we could not validate penalty amounts for two judgmentally selected irregularities, Postal Service personnel explained their methodology for the calculation. Further review of the explanation disclosed that:

- The automated penalty calculation included a \$50 charge per piece and a \$50 charge per equipment type. However, based on contract requirements, the \$50 charge should be based only on handling unit.¹³
- Automated penalty amounts were limited to \$75.¹⁴ We did not find a contract provision limiting penalty amounts.
- An administrative fee of \$25 was automatically added to all automated penalty amounts. The contract allows administrative fees only when mail was totally destroyed or unsalvageable.

This occurred because penalty amounts were automatically calculated based on information entered into the Logistics Contract Management System (LCMS)¹⁵ under the old contract, effective November 1, 2008, rather than the new contract, effective October 2011. As a result of our audit, management updated LCMS information to align with current contract requirements.

Recommendations

We recommend the manager, Air Transportation Operations:

1. Develop and implement a process to readily obtain information from the Surface Air Support System (SASS) and SASS Mobile in order to adequately monitor whether recording problems exist and whether claim deductions are calculated accurately.
2. Develop and implement procedures that address the entire process for processing domestic air mail irregularities, including field reporting, adjudication, and monitoring.
3. Provide all commercial air stops the necessary access to Surface Air Support System Mobile to report domestic air mail irregularities and verify functionality on a regular basis.

¹³ Trays, sacks, flat tubs, or outsides (a piece not enclosed in a container), as well as other mail transport equipment such as rolling stock and wire containers.

¹⁴ Excluding the administrative fee.

¹⁵ LCMS is a web-based software application that contains contract details used to calculate pay and/or performance.

We recommend the manager, Air Transportation Operations, direct the manager, Detroit Transportation and Networks, to:

4. Process the domestic air mail irregularities identified in this audit.

Management's Comments

Management generally agreed with all four recommendations. For recommendation 1, although they do not believe the audit clarifies the error in the calculation of claim deductions, beginning January 1, 2013, management stated they will conduct quarterly audits of information in SASS and SASS Mobile to identify recording problems.

Regarding recommendation 2, management stated they will revise standard operating procedures for domestic air mail irregularity reporting and distribute them to appropriate personnel by January 31, 2013.

Further, for recommendation 3, management stated that by January 31, 2013, all commercial air stops staffed with ramp clerks will have access to SASS Mobile, and they will establish a process to monitor functionality.

Finally, for recommendation 4, management stated they will obtain necessary access to SASS mobile for Detroit, MI employees and provide training as needed by November 1 2012. In addition, discussion with management subsequent to receipt of the comments disclosed they plan to record all irregularities identified during the audit.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. Although the OIG continues to believe all commercial air stops should have access to SASS Mobile, ramp clerks are in the best position to identify irregularities, so we believe management's alternate action meets the intent of the recommendation.

Appendix A: Additional Information

Background

The Postal Service contracts with commercial air carriers for transportation of domestic mail. The commercial air contract¹⁶ includes a clause that addresses domestic air mail irregularities.¹⁷ Prior to FY 2011, the contract included irregularities for failure to dispatch mail, failure to submit scanned data in a timely manner, failure to safeguard or protect mail, and theft of mail. Currently, only failure to safeguard or protect mail is governed by the domestic air mail irregularities process.¹⁸

Failure to safeguard or protect mail occurs when, for example, air carrier personnel leave mail outside during inclement weather, drop mail, or leave mail unattended. Postal Service personnel at commercial air stops are responsible for recording these irregularities when they occur. Once recorded, transportation personnel adjudicate the irregularities. If the irregularity is approved, the amount paid to the air carrier for transporting the mail is reduced.

Objective, Scope, and Methodology

Our objective was to determine whether domestic air mail irregularities processing was effective. To accomplish our objective we:

- Coordinated with headquarters, area, and field personnel to obtain an understanding of the process.
- Contacted Postal Service personnel at commercial air mail stops regarding their understanding of the irregularities process and whether the process was in place.
- Made inquiries to obtain policies and procedures for field-level processes and the adjudication process and to obtain inventory of devices used in the irregularities process.
- Extracted and analyzed transactions from SASS Mobile for the period October 2010 through March 2012.¹⁹

We conducted this audit from April through September 2012 in accordance with generally accepted government auditing standards and included such tests of internal

¹⁶ The current contract is CAIR-11, *Air Transportation for Domestic Mail*, dated October 1, 2011. There are currently five commercial air carriers participating in the contract: Delta, Sun Country, Continental, U.S. Airways, and United.

¹⁷ Irregularity claims processed in FYs 2011 and 2012, as of April 19, 2012, were \$25,850 and \$17,250, respectively. Although the value of these claims is not material, it is the only means the Postal Service has to hold air carriers responsible for safeguarding the mail.

¹⁸ Failure to dispatch mail and failure to submit scanned data in a timely manner are governed by performance goals incorporated in the contract. Theft of mail is governed by the Postal Inspection Service or the OIG.

¹⁹ We extracted and analyzed transactions made from September 30, 2006, to March 31, 2012. However, the scope of this audit included transactions from October 2010 to March 2012 only.

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 August 28, 2012, and included their comments where appropriate.

We relied on computer-generated data from SASS. We assessed the reliability of that system's data by tracing selected adjudicated claims to source records and to payment data in the general ledger. We determined that the data were sufficiently reliable for the purposes of this report.

[Prior Audit Coverage](#)

There were no prior audit reports pertaining to domestic air mail irregularities.

Appendix B: Management's Comments

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS



September 25, 2012

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Response - Domestic Air Mail Irregularities
(Report Number FT-AR-12-DRAFT)

Thank you for the opportunity to respond to the recommendations contained in the Discussion Draft Audit Report – Domestic Air Mail Irregularities – Draft Report Number FT-AR-12. Management will address each recommendation separately below.

Recommendation 1:

Develop and implement a process to readily obtain information from the Surface Air Support System (SASS) and SASS Mobile in order to adequately monitor whether recording problems exist and whether claim deductions are calculated accurately.

Management Response/Action Plan:

Management agrees with the audit recommendation. The audit does not clarify the error in the calculation of claim deductions, however quarterly audits to monitor information in SASS and SASS Mobile to identify recording problems will be conducted.

Target Implementation Date:

Beginning in Quarter 2 FY2013 and ongoing

Responsible Officials:

Manager, Air Transportation Operations

Recommendation 2:

Develop and implement procedures that address the entire process for processing domestic air mail irregularities, including field reporting, adjudication, and monitoring.

Management Response/Action Plan:

Management agrees with the audit recommendation. Standard Operating Procedures for the domestic air mail irregularity reporting process will be revised and distributed to the area Managers, Operations Support and the Managers, Network Operations.

Target Implementation Date:

January 2013

Responsible Officials:

Manager, Air Transportation Operations

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.

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Recommendation 3:

Provide all commercial air stops the necessary access to Surface Air Support System Mobile to report domestic air mail irregularities and verify functionality on a regular basis.

Management Response/Action Plan:

Management agrees in part with the audit recommendation. All commercial air stops, *staffed with Ramp Clerks*, will have the necessary access to SASS Mobile and process in place to monitor functionality.

Target Implementation Date:

January 2013

Responsible Officials:

Manager, Air Transportation Operations



David E. Williams

cc: Mr. Masse
Ms. Krage-Strako
Ms. Mallonee
Ms. Taylor
Corporate Audit and Response Management

JACQUELINE KRAGE STRAKO
VICE PRESIDENT, OPERATIONS
GREAT LAKES AREA



September 26, 2012

LUCINE M. WILLIS
DIRECTOR AUDIT OPERATIONS

SUBJECT: OIG DRAFT AUDIT REPORT – Domestic Air Mail Irregularities
Detroit Air Mail Operations
(Report Number – FT-AR-12-DRAFT)

In response to the OIG Draft Audit Report – Domestic Air Mail Irregularities – Detroit MI Air Mail Operations - (Report Number – NL-AR-12-DRAFT), the Great Lakes Area is in agreement with the findings.

Recommendation #1: We recommend the manager, Air Transportation Operations, direct the manager, Detroit Transportation and Networks, to:

4. Process the domestic air mail irregularities identified in this audit.

Management Response: The Great Lakes Area is in agreement with the recommendation to record airline irregularities in the SASS Mobile system.

The Great Lakes Area will work in conjunction with HQ Air Transportation to implement the following two solutions:

1. Obtain access to the Surface Air Support System Mobile (SASS Mobile) access for Detroit MI employees.
2. Provide training for the Detroit MI employees who do not know how to enter the irregularities in the SASS Mobile system.

Target Implementation Date: November 1, 2012

Responsible Official: Mark R. Conway, Area Manager, Network Operations

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

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- 2 -

If you have any questions pertaining to the above, please contact Mark Conway, Manager, Network Operations, Great Lakes Area, at 630-539-4803.



Jacqueline Krage Strako

cc: Steven J. Masse
David E. Williams, Jr.
Manager, Corporate Audit Response Management