



February 19, 2008

MICHAEL J. DALEY  
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Air Networks – Federal Express Transportation Agreement –  
Pacific Area (Report Number NL-AR-08-002)

This report is one in a series of reports from our nationwide audit of the FedEx mail transportation agreements. The objectives of our nationwide audit are to determine whether operations are effective and to identify opportunities to save money. This report focuses on the Pacific Area (Project Number 06XG005NL000).

We concluded that during fiscal years (FY) 2005 and 2006, the Pacific Area incurred about \$17.8 million in unnecessary costs because they used expensive FedEx transportation to move mail that could have been moved on low-priced surface transportation or on less costly passenger airlines. The Postal Service also paid FedEx to sort mail when they could have avoided those costs by sorting the mail or properly preparing it for transport before giving it to FedEx. The Pacific Area has an opportunity to save the Postal Service about \$45 million over the next 10 years by not using FedEx to transport mail that could be transported on surface networks; by transporting First-Class Mail<sup>®</sup> on passenger airlines when passenger airline capacity is available; and where possible, by sorting the mail before giving it to FedEx to avoid their sorting charges, and then timely providing it to FedEx. We made three recommendations associated with our findings. We will report \$17,756,411 in questioned costs, and \$45,031,871 in funds put to better use in our *Semiannual Report to Congress*.

Management agreed with all of our recommendations, but explained that because of data limitations, including data complexity, they could not validate our monetary findings at this time. We understand the issues associated with data complexity, and have agreed to share all of our data and analytical methodology with management. In response, management agreed to continue working with us in the context of our standard audit procedure for closing significant recommendations.

The U.S. Postal Service Office of Inspector General (OIG) considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. The recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Joe Oliva, Director, Transportation, or me at (703) 248-2100.

E-Signed by Colleen McAntee   
VERIFY authenticity with Approve!  
*C. McAntee*

Colleen A. McAntee  
Deputy Assistant Inspector General  
for Mission Operations

#### Attachments

cc: Patrick R. Donahoe  
William P. Galligan  
Anthony M. Pajunas  
Susan M. Brownell  
Cindy F. Mallonee  
Katherine S. Banks

## INTRODUCTION

### Background

In January 2006, Postal Service management formalized a nationwide integrated air strategy and briefed the Board of Governors about this strategy. Management explained that even though passenger airlines were less costly than other air transportation contractors such as Federal Express (FedEx), passenger airlines were not as reliable as the Postal Service needed them to be. Under the strategy, the Postal Service intended to reduce reliance on passenger airlines; expand existing air transportation with FedEx and other air cargo carriers; and where possible, shift mail moved by air to less costly ground transportation. Officials emphasized that the integrated air strategy would increase air carriers' on-time performance, create air network redundancy, improve flexibility, enhance security, and reduce costs by making contracting more competitive and allowing the Postal Service to eliminate infrastructure.

Passenger Airlines – On June 30, 2006, when the Postal Service's transportation contracts with passenger airlines expired without renewal, it discontinued most passenger airlines as domestic air transportation contractors and asked only selected airlines to continue. On September 29, 2006, the Postal Service announced new air transportation contracts with select passenger airlines. The Vice President, Network Operations, explained that by relying on passenger airlines with established records of performance, the new contracts would help achieve on-time delivery and provide higher levels of service.

On July 31, 2006, the Postal Service signed a new 7-year air transportation agreement with FedEx.

The air container pictured in the foreground is designed to fit onto FedEx aircraft.

The Postal Service currently uses terminal handling services (THS) contractors to load mail into FedEx air containers.



FedEx – On August 2, 2006, the Postal Service announced that it had truncated its original 2001 FedEx contract and

signed a new 7-year agreement. The agreement specified an immediate price reduction in all contract categories and allowed the Postal Service to continue outsourcing THS. The Postal Service transportation network currently uses THS contractors to prepare mail for FedEx. The contractor for all Pacific Area THS operations is Evergreen Aviation Ground Logistics Enterprises, Inc. Under THS contract provisions, Evergreen places mail in air containers FedEx provides.

Under the FedEx contract, the Postal Service periodically negotiates with FedEx for mail transport capacity and as a contract minimum, the Postal Service must use 95 percent of that contracted capacity or pay for it anyway.

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**Objectives, Scope,  
and Methodology**

This is one in a series of reports from our nationwide audit of the FedEx transportation agreement. The objectives of our nationwide audit are to determine whether operations are effective and to identify opportunities to save money. This report focuses on FedEx operations in the Pacific Area.

To accomplish our objectives, we visited various facilities and operations in the Pacific Area, including airport mail centers (AMCs), THS operations, and mail processing facilities in Los Angeles, Oakland, Ontario, Sacramento, San Diego, and San Francisco, California.

We interviewed officials from Postal Service Network Operations, the Pacific Area, and local facilities. We also interviewed Postal Service contractors, including FedEx and Evergreen officials. We evaluated the type of mail carried, considered on-time service standards, analyzed alternate surface and air network optimization solutions, and observed and photographed operations. We also examined relevant documents, including:

- The Postal Service Integrated Air Strategy, dated January 9, 2006.
- The original FedEx contract, dated January 10, 2001; and the extended FedEx contract, dated July 31, 2006.
- Postal Service contracts with passenger airlines.

- Contracts with THS contractors.
- Postal Service policies governing network routing and on-time standards.

We examined computer-generated data to analyze mail volume, operational efficiency, and cost. We did not audit or comprehensively validate the data; however, data magnitude and accessibility significantly constrained our work.

Our analysis included data from fiscal years (FY) 2005 and 2006. However, we included audit steps during 2007 fieldwork to confirm that conditions identified by FYs 2005 and 2006 data analysis still existed. These audit steps included: (1) discussion with Postal Service officials, managers, supervisors, employees, and contractors; (2) examination of source documents; and (3) observation and physical inspection. We also discussed our initial findings and recommendations with senior Postal Service officials throughout our audit, considered their perspective, and included their comments where appropriate.

We conducted work associated with this performance audit from March 2006 through February 2008 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 audit work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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**Prior Audit Coverage**

Our audit report, *Air Networks – Issues in the Pacific Area Associated with a Major Postal Service Customer* (Report Number NL-AR-08-001, dated November 23, 2007), concluded that reduced reliance on commercial airlines, the transition from commercial airlines to FedEx, and unique circumstances in the Pacific Area delayed mail and caused unanticipated expenditures. Our audit also concluded that Postal Service Network Operations officials, contracting officials, and Pacific Area transportation managers reacted rapidly and appropriately to mitigate and correct conditions.

Some issues in our prior report are related to this report, and we took care not to duplicate issues. In addition, we did not duplicate monetary findings from our previous report.

## AUDIT RESULTS

### **Pacific Area FedEx Operations**

During FYs 2005 and 2006, the Pacific Area incurred about \$17.8 million in unnecessary costs because they used FedEx to move mail that could have been moved on inexpensive surface transportation or on less costly passenger airlines. The Postal Service also paid FedEx to sort mail when they could have avoided fees by sorting the mail or properly preparing it for transport before giving it to FedEx. The unnecessary costs are summarized in Table 1 below.

**Table 1. Unnecessary Costs for FYs 2005 – 2006**

Cost Category	Cost in Millions
Cost to transport surface mail on FedEx.	\$9.2
Excess cost of First-Class Mail® that could have been flown on less costly passenger airlines.	5.5
Avoidable sorting costs at the FedEx Memphis hub.	<u>3.1</u>
<b>Total</b>	<b>\$17.8</b>

The Pacific Area has an opportunity to save the Postal Service about \$45 million during the next 10 years by not using FedEx to transport mail that could be moved on less costly surface networks; by transporting First-Class Mail on passenger airlines when FedEx contract minimums have been met and passenger airline capacity is available; and where possible, by avoiding FedEx sorting charges. The cost avoidances are summarized in Table 2 below.

**Table 2. Cost Avoidance\***

Potential Cost Avoidance	\$ Millions
Moving surface mail on less costly surface transportation.	\$29.8
Avoiding FedEx sorting charges by maximizing plans to avoid the charges and pursuing additional opportunities to further reduce the charges.	10.2
Using commercial passenger airlines to move First-Class Mail when capacity exists and FedEx contract minimums have already been met.	<u>5.0</u>
<b>Total</b>	<b>\$45.0</b>

\* Standard OIG practice for calculations of this type employs a 10-year cash flow methodology, discounted to present value by applying factors published by Postal Service Headquarters Finance.

Flying Surface Mail on FedEx

Computer data for FYs 2005 and 2006 identified large volumes of surface mail transported on FedEx from origins in the Pacific Area to destinations across the country. Postal Service policy requires transportation managers to

Catalogs in Priority Mail™ sacks for transport by FedEx.

Catalogs or other pieces of Standard Mail are not as time-sensitive as Express, Priority or First-Class Mail. Transporting Standard Mail on FedEx is unnecessarily costly.

San Bernardino Processing and Distribution Center (P&DC), November 14, 2006.



balance service and cost. Because surface mail is not as time-sensitive as Express, Priority or First-Class Mail, Pacific Area transportation managers could have moved it on highway or rail transportation and still have met Postal Service on-time standards. Transporting surface mail on FedEx instead of less costly rail or highway transportation cost the Postal Service about \$9.2 million more than necessary as depicted in the chart below:

**Table 3. Excess Cost of Transporting Surface Mail on FedEx FYs 2005 and 2006**

Fiscal Year	Periodicals	Standard Mail	Packages or Parcels	Total Cost in Millions
2005	\$715,297	\$1,294,798	\$2,264,742	\$4,274,837
2006	<u>902,021</u>	<u>1,295,770</u>	<u>2,710,262</u>	<u>4,908,053</u>
Total	\$1,617,318	\$2,590,568	\$4,975,004	\$9,182,890

Note: Information extracted from Postal Service computer data. See Appendix A for additional details.

The Pacific Area was transporting surface mail on FedEx and incurring excess costs for the Postal Service, in part

because area processing plant employees were not properly separating mail for transportation. For example, as shown in Appendix A, during our site visits to processing plants in Los Angeles, Long Beach, Oakland, San Diego,

This Parcel Post package is designed for consumers to return merchandise to retailers or distributors. Parcel Post is not as time-sensitive as Express, Priority, or First-Class Mail, and transportation managers should move it economically on surface transportation.

Here, a Parcel Post package is being loaded into a Priority Mail sack for transportation on FedEx.

San Bernardino P&DC, November 14, 2006.



San Francisco, San Bernardino, and Sacramento, California, we observed plant employees loading surface mail into First-Class Mail and Priority Mail containers or sacks for transport by FedEx. We could not determine all the reasons why plant employees were preparing surface mail for transport on FedEx. However, if the Pacific Area stopped flying mail on FedEx when that mail could be moved on less costly surface networks, the Postal Service could lower overall FedEx lift requirements and save about \$29.8 million.

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FedEx versus Passenger Airlines

During the period March 1, 2005, through February 28, 2006, the Postal Service incurred \$5.5 million in unnecessary costs to move 3.7 million cubic feet of First-Class Mail on FedEx from origins in the Pacific Area. The excess costs were incurred because Pacific Area transportation managers could have met FedEx contract

minimums and moved additional mail in available capacity on less costly passenger airlines. See Table 4 below.

**Table 4. Available Unused Capacity on Passenger Airlines  
 Analysis of the Pacific Area – March 1, 2005, through February 28, 2006**

Pacific Area Origin	Unused Passenger Airline Capacity in Cubic Feet	Excess Costs
Honolulu	20,726	\$20,508
Las Vegas*	317,484	448,832
Los Angeles	1,103,736	1,537,214
Oakland	265,958	412,188
Ontario	33,471	59,896
Phoenix*	636,865	1,012,176
Reno*	2,249	3,914
San Diego	294,972	477,396
San Francisco	547,477	914,121
Sacramento	497,575	634,508
<b>Total</b>	<b>3,720,513</b>	<b>\$5,520,753</b>

\* Las Vegas, Phoenix, and Reno became part of the Western Area on April 1, 2006.

Postal Service transportation managers explained that transportation on FedEx is the most costly method, passenger airlines are less costly, and surface transportation is the least costly. They explained that the priority for assigning First-Class Mail generally follows these criteria:

- Surface transportation when distances allow that method to meet on-time standards.
- Passenger airlines because these carriers provide the least costly air transportation.
- FedEx when air transportation is required and capacity on passenger airlines or other commercial carriers is not available.

For First-Class Mail that requires air transportation, Postal Service processing plants assign the mail to air carriers before dispatching the mail to airports. During our site visits to THS operations at airports in Los Angeles, Oakland, Ontario, San Diego, San Francisco, and Sacramento, we observed First-Class Mail arriving from processing plants routinely assigned to FedEx when FedEx contract minimums had already been met and capacity on less costly passenger airlines was available. Senior Postal Service

officials explained that because of performance concerns with passenger airlines, their integrated air strategy was intended to reduce reliance on passenger airlines and increase reliance on FedEx. However, in response to our inquiries during the audit, local transportation managers did not cite passenger airline reliability as a reason why they were not assigning First-Class Mail in excess of FedEx contract minimums to available capacity on passenger airlines.

Using FedEx after contract minimums are met is more costly than moving mail on passenger airlines. Pacific Area transportation managers have an opportunity to meet on-time standards and still save about \$5 million if they maximize the reliable capacity on the select passenger airlines currently under Postal Service contract as domestic air transportation contractors.

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Mixed versus Bypass  
Air Containers

During the period March 1, 2005, through February 28, 2006, the Pacific Area unnecessarily spent about \$3.1 million to have FedEx sort mail at the FedEx Memphis hub. The Postal Service tenders mail to FedEx in both bypass and mixed containers.

- Bypass containers hold mail bound for the same destination airport. Consequently, when they arrive at the FedEx hub, the containers can bypass the FedEx sort operation and be transferred directly to planes departing the hub for final destination airports. Bypass containers move through the FedEx hub at no additional cost to the Postal Service.
- Mixed containers hold mail bound for various destination airports. Consequently, when they arrive at the FedEx hub, FedEx must open the containers, remove the mail, and sort it before loading it onto departing planes. The Postal Service is required to pay FedEx for sorting mail at the FedEx hub.

The Postal Service contract with FedEx established sorting fees that FedEx charged the Postal Service for sorting mail. During the analysis period, FedEx charged the Postal Service between [REDACTED] and [REDACTED] for sorting each sack, tub, tray, or similar mail handling unit. Sorting mail in one of the largest FedEx air containers could have cost more than

\$700 because those containers hold up to 550 First-Class Mail letter trays.

**An AMJ is FedEx's largest air container. Here a mixed AMJ is about to be unloaded at the FedEx Memphis hub sort operation, April 20, 2005.**



Evergreen, the Postal Service contractor for all THS operations in the Pacific Area, loads FedEx air containers for transport on FedEx. For many valid operational reasons, Evergreen cannot always load mail into bypass containers and must put the mail in mixed containers. To balance service and cost, the Postal Service establishes goals for bypass and mixed containers. Our analysis of the Pacific Area for the period March 1, 2005, through February 28, 2006, concluded that the Pacific Area rarely met bypass goals. For example, during Quarter 4, FY 2005, Pacific Area THS operations had a 58 percent bypass goal, allowing Evergreen to “build” 42 percent mixed containers. However, during this period, the Pacific Area achieved only a 45.5 percent bypass average.

Since Pacific Area operations did not meet bypass container goals, the Postal Service spent more money than necessary to sort mail at the FedEx Memphis hub. Our analysis of FedEx scan data for the period identified more than 2.3 million mail bags, trays, tubs, or other mail handling units that FedEx sorted unnecessarily. As a result, the Postal Service paid FedEx about \$3.1 million more than needed. Postal Service contract provisions with FedEx state that the Postal Service must pay the full FedEx price

for every air container, whether the container is full or not. Postal Service contract provisions with THS contractors require Postal Service processing plants to sort mail for bypass before transporting the mail to airports, and the

**FedEx freight and U.S. mail going through the FedEx Memphis hub sort operation, April 20, 2005.**

**FedEx charges the Postal Service for handling every sack, tub, tray, or other mail handling unit.**

**Note that U.S. mail packages, Priority Mail sacks, and an overturned tub are going thorough the sort operation commingled with FedEx freight.**



same contract provisions state that THS employees are not required to separate mixed mail so it can be loaded into bypass containers.

Finally, Postal Service policy and THS contracts require processing plants to dispatch mail requiring FedEx transportation in time for THS contractors to properly load it into FedEx containers. Pacific Area THS operations did not meet bypass goals, and the Postal Service incurred unnecessary costs to sort mail at the FedEx hub because Postal Service mail processing plants did not:

- Completely separate and identify bypass mail before sending it to airports.
- Dispatch mail to airports in time for THS contractors to place the mail in bypass containers. For example, THS officials stated that the [REDACTED] P&DC routinely transported mail late to Los Angeles, and during our site visit to Los Angles, we observed [REDACTED] P&DC mail arriving late. When we advised local officials, they confirmed that late mail transportation from the P&DC to the airport was a routine condition.

Because Postal Service processing plants did not properly prepare bypass mail or dispatch mail to airports on time, THS contractors received insufficient bypass mail to fill all planned bypass containers, and in order to fill FedEx air containers to contract capacity, converted many planned bypass containers to mixed containers. As a result, the Postal Service paid FedEx to sort mail that should have bypassed the FedEx sort operation. However, if Pacific Area processing plants properly separate bypass mail and dispatch mail to airports on time, the Postal Service could avoid about \$10.2 million in unnecessary sorting costs

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**Implementation and  
Audit Exit Conference**

On December 6, 2007, we met with the Vice President, Pacific Area Operations, and senior Pacific Area officials. In addition, on December 20, 2007, we met with the Pacific Area Distribution Networks Manager and members of her staff. During our meetings, we shared an informal copy of our draft report, discussed our preliminary findings and recommendations, and solicited feedback. The officials agreed with our recommendations and discussed various actions they could take or had already taken to address the issues we identified. We also discussed the complexity and reliability of Postal Service data, our analytical methodology, and the steps we took to compensate for data constraints. The officials expressed concern that they would not be able to quickly validate our analytical methodology, volume estimates, or resulting calculations of monetary impact. We agreed to share all the information our analysis was based on, and management agreed to continue working with us to facilitate understanding and achieve savings for the Postal Service.

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**Recommendation**

We recommend the Vice President, Pacific Area Operations:

1. Use surface transportation to move mail that does not require air transportation to meet Postal Service on-time standards.

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**Management's  
Comments**

Management agreed with our recommendation. They stated they would follow Headquarters Network Operations policies, guidelines, and instructions to ensure the air network was used only for mail that requires air transportation, and not for periodicals, standard mail, or

other surface mail classes. Management also stated that as part of their corrective efforts, they would review variance documents and take countermeasures as appropriate, and would establish the process no later than March 31, 2008.

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<b>Recommendation</b>	2. When transporting mail that requires air transportation to meet on-time standards, maximize the capacity of passenger airlines currently under contract with the Postal Service as domestic air transportation contractors.
<b>Management's Comments</b>	Management agreed with our recommendation. They stated that in their efforts to maximize the commercial air network, they had already initiated several daily reports to measure and communicate the volume of unauthorized mail assigned and dispatched to FedEx.
<b>Recommendation</b>	3. Maximize the use of bypass containers by using bypass sorting as much as possible at processing plants and by dispatching mail to airports in time for terminal handling service contractors to load it into bypass containers.
<b>Management's Comments</b>	Management agreed with our recommendation. They stated they were already actively pursuing that objective, had established a bypass to a mixed container metric, and routinely discussed the metric in daily telephone conferences and at regularly scheduled strategy sessions with each district. Management also stated they had already conducted FedEx and terminal handling service contract training for the Postal Service representatives located at each terminal handling service sight, in order to enhance understanding of those contracts.
<b>Additional Management Comments</b>	Management agreed that that there were savings to be captured, but stipulated they could not validate monetary impact at this time. Regarding the movement of surface mail on FedEx, management explained that the field did not have access to all necessary computerized data, and consequently would have to develop alternative countermeasures to reduce volumes and quantify potential savings. Management also explained that at this time, they could not validate the savings opportunities associated with maximizing the use of bypass containers.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive to all of our recommendations. Management actions taken or planned should correct the issues we identified. Regarding management's comments on our monetary impact estimates, we understand the issues associated with data accessibility and complexity, and we have agreed to share all of our data and analytical methodology with management. In response, management has agreed to continue working with us to maximize savings for the Postal Service. We will continue to pursue this ongoing dialog regarding potential savings in the context of our standard audit procedure for closing significant recommendations.

## APPENDIX A. PACIFIC AREA – SURFACE MAIL CLASSES ON FEDEX FYS 2005-2006

Postal Facility	From TRANSPORTATION COST SYSTEM (TRACS) Sampling			Observed by OIG	TRACS Data by Quarter									
	Periodicals	Standard Mail	Package Services		FY 2005				FY 2006					
					Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4		
Phoenix AMC	X	X	X											
Phoenix Logistics & Distribution Center (L&DC)	X	X	X											
Phoenix Annex	X	X	X	X										
Las Vegas AMC			X											
Las Vegas P&DC	X	X	X											
Reno Airport Mail Facility	X	X	X											
Reno P&DC	X	X	X											
Honolulu AMC	X	X	X											
Honolulu P&DC	X	X	X											
Los Angeles AMC	X	X	X											
Los Angeles P&DC	X	X	X											
LA International Service Center			X											
Long Beach P&DC	X	X	X	X										
Pasadena P&DC			X											
Santa Clarita P&DC	X	X	X											
Oxnard Processing & Distribution Facility (P&DF)	X	X	X											
Santa Barbara P&DC	X	X	X											
Bakersfield P&DC			X											
Ontario AMC	X	X	X											
Industry P&DC	X	X	X											
San Bernardino P&DC	X	X	X	X										
Santa Ana P&DC	X	X	X											
Anaheim P&DF			X											
San Diego AMC	X	X	X											
Midway P&DF	X	X	X	X										
Margaret L Sellers P&DC	X	X	X	X										
San Francisco AMC	X	X	X											
San Francisco P&DC	X	X	X											
North Bay Priority Annex			X											
Oakland AMC	X	X	X											
Oakland P&DC	X	X	X	X										
Oakland Priority Annex			X	X										
San Jose P&DC	X	X	X											
Sacramento AMC - P&DC	X	X	X	X										
Stockton P&DC	X	X	X											

\* During OIG on-site observations at these plants, Surface Mail Classes were found in the mail dispatched for transport via FedEx.  
 OIG did not attempt to visit all of the Postal facilities in this list.  
 Surface mail classes were found dispatched to FedEx at all facilities where OIG conducted site observations.

## APPENDIX B. MANAGEMENT'S COMMENTS

MICHAEL J. DALEY  
VICE PRESIDENT, PACIFIC AREA OPERATIONS



February 11, 2008

LUCINE M. WILLIS  
DIRECTOR, AUDIT REPORTING (A)  
USPS OFFICE OF INSPECTOR GENERAL  
1735 NORTH LYNN STREET  
ARLINGTON, VA 22209-2020

SUBJECT: Air Networks – Federal Express – Pacific Area  
(Report Number NL-AR-08-Draft)

Pacific Area agrees with the OIG recommendations provided in this DRAFT Audit Report that specifically outlines opportunities to balance both cost and service with respect to the air network that provides transportation for the movement of preferential mail on the FedEx and Commercial Air networks.

**Recommendation #1:** *Use surface transportation to move mail that does not require air transportation to meet Postal Service on-time standards (i.e. Periodicals, Standard and Parcels that are non-preferential).*

We are in agreement with this recommendation and as stated, we will adhere to and follow the established HQ Network Operations policies, guidelines and instructions to ensure that both FedEx and the commercial air network are used to transport only preferential mail and not products such as periodical, standard and parcels. In our efforts to correct this, Pacific Area will review and distribute variance documents and implement appropriate countermeasures. We expect this process to be established prior to the end of PQII, March 31, 2008.

**Recommendation #2:** *When transporting mail that requires air transportation to meet on-time standards, maximize the capacity of passenger airlines currently under contract with the Postal Service as domestic air transportation contractors.*

We agree with the OIG findings that the Pacific Area should maximize the commercial air network for all first-class destinations that are not designed to fly on FedEx or UPS provided the respective air carriers meet the USPS on-time service expectations. In our efforts to reduce the volumes flown on FedEx where opportunities exist on UPS or CAIR, we have initiated several daily reports to measure and communicate the volume of unauthorized mail assigned and dispatched to FedEx. (Attach 1)

11255 RANCHO CARMEL DR  
SAN DIEGO CA 92197-0100  
858-674-3100  
FAX: 858-674-3101  
www.usps.com

**Recommendation #3:** *Maximize the use of bypass containers by using bypass sorting as much as possible at processing plants and by dispatching mail to airports in time for terminal handling service contractors to load it into bypass containers.*

The Pacific Area is in agreement that we need to meet the planned bypass containers where we have sufficient volume to maximize the capacity to the bypass destinations. We are actively pursuing the reduction of converting bypass containers to mixed containers. A critical component of accomplishing this objective is to improve the arrival profiles into the THS from all feeder plants.

- The Area has established a bypass to mixed container metric that we have already started to measure by origin airport. This metric is discussed on our daily teleconferences and at regularly scheduled strategy sessions with each district.
- The Area conducted training with the field in PQI to enhance the knowledge and understanding of the FedEx and THS contracts with the USPS representatives assigned to each THS site. (See Attach 2 – Training Sign-up Sheets)

Monetary impact:

While we are in agreement that there are savings to be captured, we cannot specifically validate all of the OIG data at this time especially with respect to the amount of non-preferential volumes that are moved on the FedEx network. Without a passive system to collect this information and given that the field does not have access to TRACS data, we will have to develop alternative countermeasures to reduce these volumes and quantify the potential savings. We also cannot specifically validate that the savings opportunities identified for bypass container maximization at this time. We acknowledge that the Arizona and Nevada-Sierra district data was removed from your calculations.

We consider the information in this response releasable under the Freedom of Information Act (FOIA).



Michael J. Daley

Attachments

cc: William P. Galligan  
Anthony M. Pajunas  
Susan M. Brownell  
Coleen A. McAntee  
Cynthia Mallonee  
Donna Jewett  
Lynn A. Forness  
Drew T. Aliperto  
Evelyn J. Murphy

**Air Networks - Federal Express Transportation Agreement - Pacific Area Operations**

**NL-AR-08-002**

**HNL CAIR Utilization / Missed Opportunity Report**

Date: Tuesday, 02/05/08

First Class		Reasons for Under Utilization										
USPS Origin	USPS Dest	Pounds Allocated on CAIR	Actual Volume Assigned to CAIR	% Utilization on CAIR	CAIR Available Capacity	Volume for this Destination Assigned on FDX	Missed Opportunity	Lack of Volume	THS Staffing	Late Assignment	Ground Delay/ Early Cut-off	Comments
HNL	ATL	0	0		0	0	0					
	BDL	0	0		0	10	0					
	BOS	200	0	0%	200	0	0	X				
	BWI	0	0		0	0	0					
	CLE	0	0		0	0	0					
	CLT	0	0		0	0	0					
	CMH	250	0	0%	250	0	0	X				
	DEN	1,354	0	0%	1,354	0	0	X				
	DFW	16,750	0	0%	16,750	0	0	X				
	DTW	0	0		0	0	0					
	EWR	13,456	0	0%	13,456	0	0	X				
	FLL	0	0		0	0	0					
	IAD	117	0	0%	117	14	14					
	IAH	4,000	0	0%	4,000	0	0	X				
	IND	0	0		0	0	0					
	LAS	4,000	0	0%	4,000	0	0	X				
	LAX	12,500	0	0%	12,500	0	0	X				
	MCI	500	0	0%	500	0	0	X				
	MCO	0	0		0	0	0					
	MIA	500	0	0%	500	0	0	X				
	MSP	0	0		0	0	0					
	MSY	0	0		0	6	0					
	OAK	0	0		0	0	0					
	OMA	250	0	0%	250	0	0	X				
	ORD	3,161	0	0%	3,161	0	0	X				
	PHL	0	0		0	0	0					
	PHX	2,060	0	0%	2,060	0	0	X				
	PIT	500	0	0%	500	0	0	X				
	RSW	0	0		0	0	0					
	SAT	0	0		0	0	0					
	SEA	14,000	0	0%	14,000	0	0	X				
	SFO	600	0	0%	600	0	0	X				
	STL	750	0	0%	750	0	0	X				
	TPA		0		0	0	0					
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