



March 19, 2009

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SUBJECT: Audit Report – U.S. Virgin Islands Delayed Mail –
Transportation Issues (Report Number NL-AR-09-003)

This report presents the results of a Congressional request to review mail service to the U.S. Virgin Islands (USVI) (Project Number 08XG032NL000). This report focuses on mail transportation and associated logistics processes. Our objective was to determine if the U.S. Postal Service transported mail in a timely manner to the USVI. See [Appendix A](#) for additional information about this audit.

Conclusion

The Postal Service did not always transport mail in a timely manner to the USVI, resulting in mail delays, service degradation, and customer complaints. We found that:

- For Periodicals, Package Services, and Standard Mail® classes, some prescribed surface transportation modes and schedules did not allow achievement of service standards.
- There was not always sufficient commercial air capacity for First-Class Mail® and Priority Mail®.
- There was excessive mail handling, underutilized transportation container capacity, and inadequate mail tracking.
- Local air transportation within the USVI was not always reliable.

The Postal Service could improve mail timeliness to the USVI by adjusting transportation modes, schedules, and capacities where possible; fully utilizing transportation containers; and addressing other transportation process deficiencies.

We also noted other issues on service standards and mail security (see the “Other Matters” section in the report).

Inadequate Transportation Modes, Schedules, and Capacity

We concluded surface transportation modes and schedules were sometimes inadequate for transporting Periodicals, Package Services, and Standard Mail to the USVI in order to meet service standards. This occurred because management could not always obtain the most effective transportation due to transportation costs and mail class transportation modes specified in the Postal Service’s *Dispatch and Routing Policies* and *National Dispatch Instructions*.

Further, some First-Class and Priority Mail could not be transported as scheduled on contracted air transportation because the Postal Service did not have enough commercial air lift in Miami, FL, to handle the volume. As a result, some of this mail was not delivered timely to USVI customers. While mail delivery was impacted, we acknowledge the challenges management faced, and the efforts it undertook, in balancing service and cost, and in obtaining sufficient lift given volume fluctuations, forward contract planning requirements, and contract volume commitments.

The Postal Service has an opportunity to improve the timeliness of mail service by adjusting air transportation capacities where possible. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations and the Vice President, Network Operations:

1. Continue to monitor transportation of mail to the U.S. Virgin Islands to ensure the Postal Service transports mail timely and meets established service standards.
2. Review surface transportation mail modes and schedules for Periodicals, Package Services, and Standard Mail to the U.S. Virgin Islands to ensure they meet service standards and make adjustments as necessary considering logistics policies, service, and cost.
3. Review and revise air transportation modes and capacities as necessary to the U.S. Virgin Islands for First-Class and Priority Mail and obtain adequate capacity to ensure it meets service standards. This should include continuing to actively pursue volume shifts among providers to reduce rollover in Miami, FL; obtain the most economical, service-responsive transportation; and reduce overall costs.

Management's Comments

New York Metro and Southeast Area management agreed with the finding and recommendations. The areas worked cooperatively to take extensive corrective actions, which included increased internal controls, new or revised methods of monitoring, and verification and process improvements. Both areas stated they are working proactively and cooperatively with Headquarters Network Operations, which they anticipate will produce effective results.

Headquarters Network Operations management stated they are conducting an analysis to determine the feasibility of routing all mainland Priority Mail directly through Memphis, TN, to San Juan, Puerto Rico (PR) for distribution and transportation to St. Thomas and St. Croix, USVI. Management stated that this review is a direct result of the U.S. Postal Service Office of Inspector General (OIG) audit, and if the routing can be accomplished, management believes they can improve service and save money by completely removing Miami, FL, from the network flow. Management believes this is a reasonable approach because distribution equipment at San Juan, PR is more efficient now than when the current labeling list instructions and routings were put in place. Management's comments, in their entirety, are included in [Appendix D](#).

Excessive Mail Handling

Postal Service facilities at key mail concentration points were excessively looping mail, reworking mail, and making improper separations, which contributed to mail delays. This occurred because the Postal Service did not clearly establish and monitor processes for correctly handling and transporting USVI mail. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations:

4. Review and revise mail transportation and distribution processes to the U.S. Virgin Islands and oversee key transportation concentration point operations to ensure minimal handling of mail.

Management's Comments

Management agreed with the finding and recommendation. Caribbean District and Jacksonville Bulk Mail Center (BMC) officials held several meetings and implemented new or revised processes at the Jacksonville BMC to correct and improve sort plans, eliminate excessive mail handling, and improve mail arrival and dispatch profiles. In addition, New York Metro Area management, in coordination with Headquarters Network Operations, agreed to reevaluate the Priority Mail concentration point plan in Miami, FL, to determine they can reduce rerouting of mail to the USVI through San Juan, PR, which would reduce excess handling.

The Southeast Area reviewed and revised its processes. The Jacksonville, FL, Processing and Distribution Center (P&DC) changed sort and separation plans at the facility effective November 24, 2008, reducing mail processing time and improving service for the Caribbean District.

Underutilized Mail Transportation Container Capacity and Inadequate Tracking

We identified some unused capacity in sea containers used to transport Periodicals, Package Services, and Standard Mail from Jacksonville, FL, to San Juan, PR, that contained mail for the USVI, resulting in transportation delays and unnecessary costs. This occurred because of insufficient oversight in the container preparation process, including mail handling, packing, and shipping. We estimate the Postal Service could improve service by increasing overall container cubic feet utilization by 5 percent, resulting in savings of approximately \$248,000 a year,¹ or about \$495,300 over 2 years.

We also determined the Postal Service did not adequately track shipments of mail on sea vessels, impacting mail timeliness. This occurred because of insufficient coordination and communication between Postal Service officials at the origination and destination locations and insufficient knowledge regarding the capabilities of the Postal Service's Transportation Information Management Evaluation System (TIMES).² See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, New York Metro Area Operations, with direct authority and oversight from the Vice President, Southeast Area Operations:³

5. Maximize sea container capacity out of Jacksonville, FL, to help reduce transportation costs.
6. Adequately monitor, track, and control shipments of sea containers on a first-in first-out basis.
7. Ensure management fully trains staff on the capabilities of Postal Service transportation systems.

Management's Comments

Management agreed with our findings, recommendations, and monetary impacts. Regarding container capacity, New York Metro Area management stated they discussed the container capacity issue with the Southeast Area to ensure that

¹ Estimate based on saving one container out of 20 (or two per week) at 2008 price levels.

² The official tracking system the Postal Service uses to manage its surface transportation operations.

³ The Vice President, Southeast Area Operations, controls transportation processes at Postal Service facilities in Jacksonville and Miami, FL, to the USVI. Therefore, direction from the New York Metro Area management on transportation from these facilities to the USVI can be carried out only with authority from Southeast Area management.

containers from Jacksonville, FL, to San Juan, PR, and the USVI are maximized. They also plan to work closely with the Caribbean District to ensure maximization of containers from San Juan, PR, to the USVI. Southeast Area management agreed to continue to monitor all data surrounding the sea containers out of Jacksonville, FL, to ensure maximum utilization. The Southeast Area also agreed that the savings related to utilization could be achieved.

Regarding container monitoring, tracking, and controls, the New York Metro Area stated the Caribbean District will use TIMES to enter their load information and confirm all arrival loads using the system, and stated they shared these plans with the Southeast Area. Management also stated they will work with the Caribbean District to locally reimplement yard management-type reporting to continually track the containers. The Southeast Area has requested that Headquarters Network Operations – Transportation Field Support issue policy on the proper procedure for dispatch and receipt of mail using TIMES when dealing with offshore facilities, and stated they will continue to work with headquarters to implement a proper procedure.

Finally, both the New York Metro and Southeast Areas have agreed that staff should be trained or retrained on all capabilities of TIMES. The New York Metro Area stated that they provided refresher training to employees at facilities in Puerto Rico in August 2008 and will expand the training to the USVI with an estimated completion date of March 31, 2009. They stated they will continue to provide refresher training on a semiannual basis.

Local Contractor Performance

We determined that air transportation in the USVI was not always reliable, impacting mail timeliness. This occurred because contractor performance needed more oversight. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Vice President, New York Metro Area Operations, work with the Vice President, Network Operations, as necessary, to:

8. Ensure air contractors within the U.S. Virgin Islands adhere to established schedules.

Management's Comments

Management agreed with our finding and recommendation. Management stated that the Caribbean District, in collaboration with Headquarters Network Operations, has increased both carrier performance monitoring and their review of irregularities, and is more formally addressing issues with the supplier.

Other Matters

Service Standard Comparison - We determined the established delivery service standards for the USVI were comparable to a similar U.S. territory, Guam. Our review of the Postal Service's National Service Standards showed that it actually takes longer to get mail from the continental U.S. to Guam than to the USVI, but the additional time is due to the unique characteristics of, and the added distance to, Guam.

Mail Security - We determined that staff coverage at the St. Thomas Air Transfer Office was not adequate to provide oversight of mail during transportation. As a result, mail was sometimes left unsecured. See [Appendix B](#) for our detailed analysis of these topics.

We recommend the Vice President, New York Metro Area Operations, work with the Vice President, Southeast Area Operations, and Vice President, Network Operations, as necessary, to:

9. Provide adequate staff scheduling at the St. Thomas Air Transfer Office to ensure mail is secure at all times.

Management's Comments

Management agreed with our finding and recommendation. Management stated that they will provide mail security at the facility, with oversight by a Postal Service ramp clerk, and will ensure staffing and scheduling at the facility to manage and monitor mail received from air carriers.

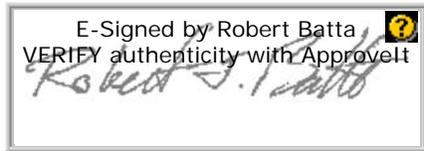
Evaluation of Management's Comments

The OIG considers management's comments responsive to the finding and recommendation, and management's corrective actions should resolve the issues identified in the report.

The OIG considers recommendations 1 through 5 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.

We will report \$495,340 of monetary impact as funds put to better use in our *Semiannual Report to Congress*.

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



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for Mission Operations

Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Caribbean District manages Postal Service operations in the USVI, which is part of the New York Metro Area. In managing operations, the New York Metro Area also relies on direction from the Vice President, Southeast Area Operations, to oversee transportation to the USVI through Jacksonville and Miami, FL. The USVI consists primarily of three islands covering about 134 square miles: St. Thomas, St. Croix, and St. John. The islands are about 90 miles from Puerto Rico and 1,100 miles from Florida. The population of the USVI is a little over 100,000 people.

The location and geographical dispersion of the USVI creates service challenges for the Postal Service. The Postal Service’s established delivery service standards for the USVI vary by mail type as shown in Chart 1 below. See [Appendix C](#) for a geographical breakdown of service standards to the USVI.

Chart 1 – Delivery Service Standards for USVI

Mail Type	From the U.S. Mainland (Days)	From Puerto Rico to USVI and Within the USVI (Days)
First-Class	4	2
Priority	3	1
Periodicals	8 – 12	3
Standard	9 – 13	4
Package Services	7 - 12	3

Mail Transportation for the USVI – In attempting to meet established delivery service standards to and within the USVI, the Postal Service has adopted a complex transportation network based on mail type, considering service and cost. The majority of Express®, Priority, and First-Class Mail travels by air transportation from the mainland to San Juan, PR, on Federal Express (FedEx), United Parcel Service (UPS), and commercial airlines for onward transportation to the USVI on local contract air carriers. In addition, the Postal Service first transports some Priority Mail⁴ to a key concentration point in Miami, FL, prior to going to the USVI on commercial air,⁵ either directly or through San Juan, PR.

Periodicals, Standard, and Package Services mail travels on surface transportation to a key concentration point in Jacksonville, FL, and then in containers on sea vessels to the USVI, either directly or through San Juan, PR. Sea vessels leave Jacksonville, FL, once a week to the USVI and twice a week to San Juan, PR.

⁴ From origins in ZIP Codes 270-999, per the National Distribution and Labeling List.

⁵ At the time of our review, American Airlines was carrying Priority Mail from Miami, FL, to the USVI.

**Contracted sea vessel
delivering mail containers to
the San Juan, PR, seaport in
July 2008.**

**Vessels to San Juan, PR,
leave from Jacksonville, FL,
twice a week and contain
mail destined for USVI.**



To move Express, Priority, and First-Class Mail between San Juan, PR, and the USVI, the Postal Service uses local contract air carriers. However, there are no contract air carrier services directly between the islands of St. Thomas/St. John and St. Croix. In addition, there is a barge service once a week to transport surface mail classes from San Juan, PR, directly to St. Thomas/St. John and St. Croix.

Service Concerns – In a letter dated May 1, 2008, Congressional representative to the USVI, Donna Christensen, along with Congressman Danny K. Davis, requested the OIG to conduct a review of mail service to the USVI. The request raised transportation concerns about delayed Priority and First-Class Mail, Periodicals, and parcels, as well as incidents of missing mail that had gone on for several years without a significant effort by the Postal Service to address them. The request also raised concerns over the established delivery service standards for the USVI as compared to the U.S. mainland.

OBJECTIVE, SCOPE, AND METHODOLOGY

This report is one in a series presenting the results of the OIG's work in response to the Congressional request and focuses on mail transportation and associated logistics processes. Our objective was to determine if the Postal Service transported mail timely to the USVI.

We interviewed Postal Service officials from the New York Metro Area Operations office, Southeast Area Operations office, Headquarters Network Operations, and the Caribbean District. We observed operations and interviewed Postal Service officials and contractors at the following locations.

- Jacksonville BMC, P&DC, and other facilities at that location.
- Miami Logistics and Distribution Center (L&DC) and other facilities at that location.
- San Juan P&DC, Detached Mail Distribution Unit, and Airport Mail Facility.

- St. Thomas and St. Croix Air Transfer Offices and various other facilities and post offices in the USVI.

We also met with the USVI Congressional Delegate's liaison officials in St. Thomas and St. Croix to discuss issues and concerns.



Sea container with mail destined for Puerto Rico and the USVI being unloaded at the San Juan, PR, seaport on July 11, 2008.

We reviewed mail transportation records and contracts for air, highway, and sea vessels. We examined Postal Service computer-generated data of mail shipments and used the data to analyze transported mail volumes; however, we did not comprehensively validate or audit the data. We reviewed air and surface contracts and capacities. We reviewed mail service standards to the USVI and analyzed and compared the standards to established air and surface transportation modes, schedules, and capacities. We also compared USVI service standards to those of Guam, a U.S. territory similar to the USVI.

We conducted this performance audit from May 2008 through March 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We discussed our observations and conclusions with management officials on December 11, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Our report titled *Impact of Transportation on Chicago District Performance* (Report Number NL-AR-07-008, dated September 28, 2007) concluded that neither local transportation nor nationwide network transportation issues were “root causes” or significant contributors to Chicago District performance challenges. However, we also concluded that transportation was not efficient or cost-effective and that transportation issues were potentially causing inaccurate and understated mail counts. Specifically,

we identified unnecessary extra trips that could have been consolidated, significant data weaknesses, inadequate communication and planning, and inaccurate reporting of mail in trailers awaiting transport. We recommended that management analyze transportation requirements, apply any excess transportation resources to other critical needs, improve transportation planning, and improve data collection by properly training and supervising employees. Management agreed with our recommendations and their response laid out various initiatives, plans, and actions to address the recommendations.

APPENDIX B: DETAILED ANALYSIS

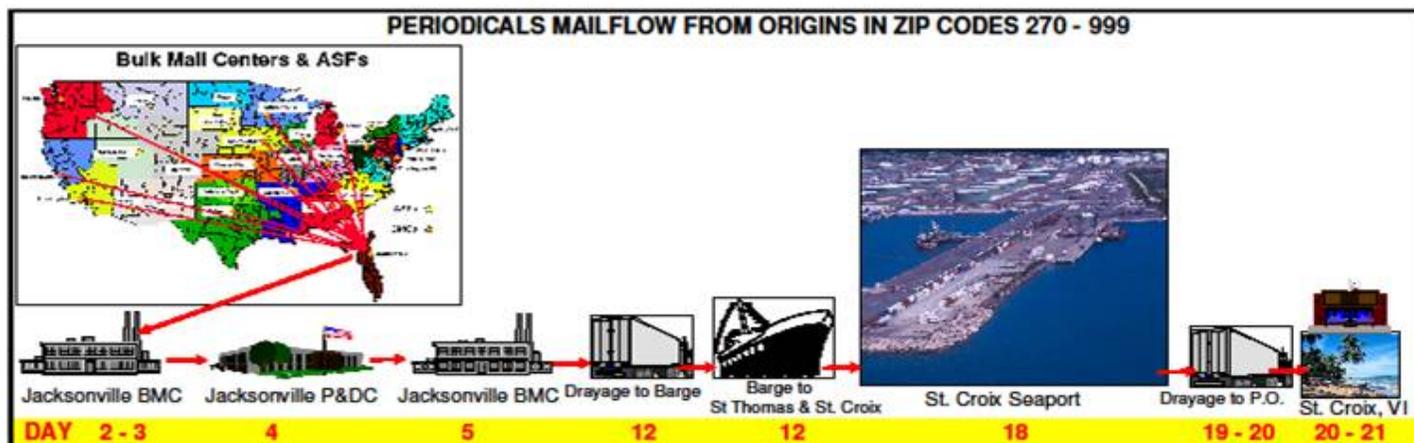
Inadequate Transportation Modes, Schedules, and Capacity

Surface transportation modes and schedules to the USVI for Periodicals, Package Services, and Standard Mail classes were not adequate to ensure mail met service standards. This occurred because the Postal Service could not always obtain the most effective transportation due to costs and mail class transportation requirements specified in Postal Service Handbook M-22, *Dispatch and Routing Policies*, and Logistics Orders' *National Dispatch Instructions*. In addition, management had not reconciled the current transportation modes and capacities with published service standards or monitored modal performance.

For these mail classes, the Postal Service established delivery standards (see [Appendix C](#)) of between 7 and 13 days to the USVI (depending on origin location in the continental U.S.) and uses a combination of highway and maritime surface transportation in attempting to meet the standards. Specifically, the Postal Service moves mail by highway contract routes to the Jacksonville BMC, then prepares and transports it by sea vessel to the USVI, either directly or via San Juan, PR. However, in analyzing the modes, schedules, and capacities, we determined mail could take as long as 21 days to reach its destination, depending on location and the day of the week it is mailed. For example:

- A Parcel Post package mailed from Spokane, WA, to St. Croix, USVI, could take as many as 21 days to deliver, 9 days more than the service standard of 12 days.
- A Periodical package mailed from San Francisco, CA, to St. Croix, USVI, could also take as many as 21 days to deliver (see Figure 1 depicting mail flow), 10 days more than the service standard of 11 days.

Figure 1 – Periodical Mail Flow to USVI



Further, some First-Class and Priority Mail could not be transported as scheduled on contracted air transportation because the Postal Service did not have enough commercial air lift in Miami, FL, to handle the volume. As a result, some of this mail was not delivered timely to USVI customers. While mail delivery was impacted, we acknowledge the challenges management faced, and the efforts it undertook, in balancing service and cost, and in obtaining sufficient lift given volume fluctuations, required forward planning, and contract volume commitments.

We determined that limited commercial air capacity⁶ for transporting Priority Mail out of Miami, FL,⁷ to the USVI resulted in daily mail rollover. This rollover required some mail diversion to other commercial air or back through the FedEx hub to San Juan, PR, for final transport to the USVI, via local air transportation cargo carriers.⁸ This process added mail handling time and costs, since the mail was handled several times – in Miami, FL, in San Juan, PR, and in Memphis, TN – and additional air contract transportation was necessary from San Juan, PR, to the USVI.

Excessive Mail Handling

Staff at Postal Service facilities at key mail concentration points contributed to mail delays to the USVI by improperly labeling mail, resulting in excessively looping mail, reworking mail, and making improper separations. This occurred because Postal Service officials did not clearly establish and monitor processes that ensured correct handling and transporting of USVI mail. For example, officials at the Jacksonville P&DC did not ensure the correct separations of Periodicals and Standard Mail bound for the USVI. We also observed other issues while at the facility indicating that Postal Service operations upstream were not properly distributing and dispatching mail bound for the USVI. We observed:

- Mail from Denver, CO, incorrectly sent to the Jacksonville BMC for processing. The mail should have been sent to the Jacksonville P&DC and had to be rerouted from the BMC.
- Priority Mail in a Parcel Post container destined for the USVI. These mail types have different service standards and transportation modes.
- A sack of irregular Parcel Post mail from Greensboro, NC, labeled for San Juan, PR, but the sack contained only USVI mail. The sack should have been properly labeled according to the National Distribution Labeling List⁹ to avoid

⁶ Daily commercial airline capacity was approximately 3,000 pounds for St. Thomas and 2,000 pounds for St. Croix.

⁷ Miami L&DC is the concentration point for Priority Mail originating from ZIP Codes 270-999 (i.e., North Carolina to Alaska) for destinations in Puerto Rico and the USVI. ZIP Codes 010-269 forward Priority Mail to San Juan, PR, for distribution.

⁸ We attempted to identify the volume of this rollover mail but determined the Postal Service was not identifying or tracking it.

⁹ The National Distribution and Labeling List provides routing information for each mail class.

delays in processing at postal facilities in San Juan, PR, prior to transportation to the USVI.

During our observations at the Jacksonville BMC, we also noted that some parcels for St. John were incorrectly loaded in a sea container bound for St. Croix instead of St. Thomas. This occurred because an overhead placard mistakenly showed the wrong ZIP Code range.



This picture depicts transportation process inefficiencies for mail destined to the USVI.

The picture shows a placard for mail going to St. Croix, yet improperly includes mail for St. John.

St. John's mail should be sent to St. Thomas.

A June 19, 2008, memorandum providing transportation routing instructions from Jacksonville BMC In-Plant Support contained a similar error instructing that St. John's mail be routed to St. Croix instead of St. Thomas. In addition, as stated previously, due to limited commercial air capacity, mail sometimes has to be rerouted through San Juan, PR, prior to going to the USVI. This rerouting requires additional handling, sorting, and tagging processes and adds time to transportation.

Although management corrected some of these issues during our fieldwork, we found inadequate guidance on processes and insufficient monitoring of transportation and logistics processes at key concentration points, especially in Jacksonville, FL.

Underutilized Mail Transportation Container Capacity and Inadequate Tracking

We identified unused capacity in sea containers used to transport Periodicals, Package Services, and Standard Mail from Jacksonville, FL, to San Juan, PR, and the USVI, resulting in transportation delays and unnecessary costs. This occurred because of insufficient oversight in the container preparation process, including mail handling, packing, and shipping. For example, during our observations, we noted the Postal Service was not fully utilizing large cardboard containers and not stacking palletized mail in the sea transportation containers.

Based on our analysis of sea containers shipped from Jacksonville, FL, to San Juan, PR, and the USVI, we believe the Postal Service could increase overall container cubic feet utilization by 5 percent and reduce the number of containers shipped to San Juan, PR, by at least 104 a year. At an average cost of about \$2,380 per container, this

would result in transportation cost savings of approximately \$247,670 a year,¹⁰ or about \$495,340 over 2 years.



**Underutilized sea containers at Jacksonville, FL, seaport
July 2008.**

We also found the Postal Service did not adequately track shipments of mail on sea vessels, impacting mail timeliness. This occurred for two reasons. First, there was insufficient coordination and communication between Postal Service officials at the origination and destination locations. Second, transportation officials in Jacksonville, FL, were not using TIMES to track mail on sea vessels because they were not aware of these specific system capabilities. Instead, officials used a manual process that did not provide for real time management of the mail shipments.

Our analysis of one contractor's sea shipments from the Jacksonville BMC to St. Thomas and St. Croix for the period of June 2007 through June 2008 determined management could improve the timeliness of sea container sealing and unsealing (loading and unloading). For example, even though the transportation contractor performed as required and the transit time from the Jacksonville BMC to these destinations was from 6 to 7 days, the average days from the container being sealed to unsealed was 10 days, and the longest delay from container seal date to unsealed (unloading) date was 24 days.

An analysis of actual transit times from January through June 2008 for sea containers from the Jacksonville BMC to San Juan, PR (also containing mail for USVI) found similar results. The transit time for 104 of these containers¹¹ exceeded the reasonable, optimum transit time of 4 days by 4 to 10 days. Of the 104, we noted the following:

- 55 sea containers were 8 days in transit – 4 days over optimum.
- 26 sea containers were 9 days in transit – 5 days over optimum.
- 22 sea containers were 10 days in transit – 6 days over optimum.
- One sea container was over 10 days in transit – more than 6 days over optimum.

¹⁰ Estimate based on saving one container out of 20 (or two per week) at 2008 price levels.

¹¹ These 104 containers constituted 14.23 percent of the total sea containers for the period.

We believe using TIMES would have allowed the destinating Postal Service facility to acknowledge receipt of containers in real time, provide records/data the Postal Service could easily monitor to ensure timely transit and unloading, and avoid further mail delays to the USVI.

Local Contractor Performance

We observed that contractors hired to transport mail by air between San Juan, PR, and the USVI were not always reliable, which sometimes impacted mail timeliness. This occurred because of management inattention to contractor performance. For example, our observations and analysis of records at airport facilities in San Juan, PR, St. Thomas, and St. Croix identified 32 incidents of irregular activity among contractors for the period January 1 to July 17, 2008. The majority of these irregularities (24) were for failure to notify Postal Service officials of inaccurate flight schedules and eight were for failure to load at the flight's origin, meaning that transportation was not available or on-time for those flights.

In addition, San Juan Airport Mail Facility officials confirmed that one contractor has had issues with the Federal Aviation Administration, which had grounded their fleet in the past, including twice during our review. The Postal Service has a contingency plan if these flights are grounded, so we are not making a recommendation in this area.

Pictured at right is a Four Star Airplane used to transport mail from San Juan, PR, to the USVI.

We identified issues with the performance of contract carriers between San Juan, PR, and the USVI that could impact timely mail service.



Other Matters

Service Standard Comparison – We determined that the established delivery service standards for the USVI were comparable to a similar U.S. territory, Guam.¹² Our review of the Postal Service's National Service Standards showed that more time is allowed to deliver mail from the continental U.S. to Guam than to the USVI. The additional time the service standards allow is because Guam is substantially further away from the continental U.S. For example, the transit time for ships carrying mail is 9 days longer to

¹² We selected Guam because it has similar geographical characteristics as the USVI and it provides the Postal Service with similar transportation challenges. For example, Guam receives much of its Standard and Periodicals mail from the San Francisco BMC and other mail from Hawaii, similar to how the USVI receives mail from the Jacksonville BMC and Puerto Rico.

Guam from San Francisco, CA, than it is to the USVI from Jacksonville, FL. We noted the following average deviations in comparing the two service standards.

Mail Type	Deviation – Guam vs. USVI
Priority Mail	Same
First-Class Mail	1 day longer to Guam
Periodicals Mail	2.58 days longer to Guam
Standard Mail	2.57 days longer to Guam
Package Services	1.58 days longer to Guam

Given their unique characteristics and the added distance to Guam, we believe the standards for the two territories are comparable.

Mail Security – We determined that mail was routinely left unsecured and exposed to the elements at the St. Thomas Air Transfer Office (about 4 hours each day) due to inadequate staffing at the facility. The Postal Service manager responsible for this facility stated that the office was working under a split shift, and closed approximately 4 hours every morning to conserve labor hours.

On July 14, 2008, we visited the St. Thomas Air Transfer Office and observed the facility was closed during the morning.

Mail routinely sits outside the facility on the airport property with no Postal Service-provided security.



Management Actions During our Audit

During our audit, the Postal Service began addressing some of the reported issues. For example, management shifted air transportation volumes among contractors to reduce rollover of mail at FedEx. In addition, local management upgraded some surface mail types to air transportation to improve timeliness and took action at the Jacksonville BMC to improve mail sorting processes for USVI mail. In addition, New York Metro Area management stated that in response to our preliminary findings they:

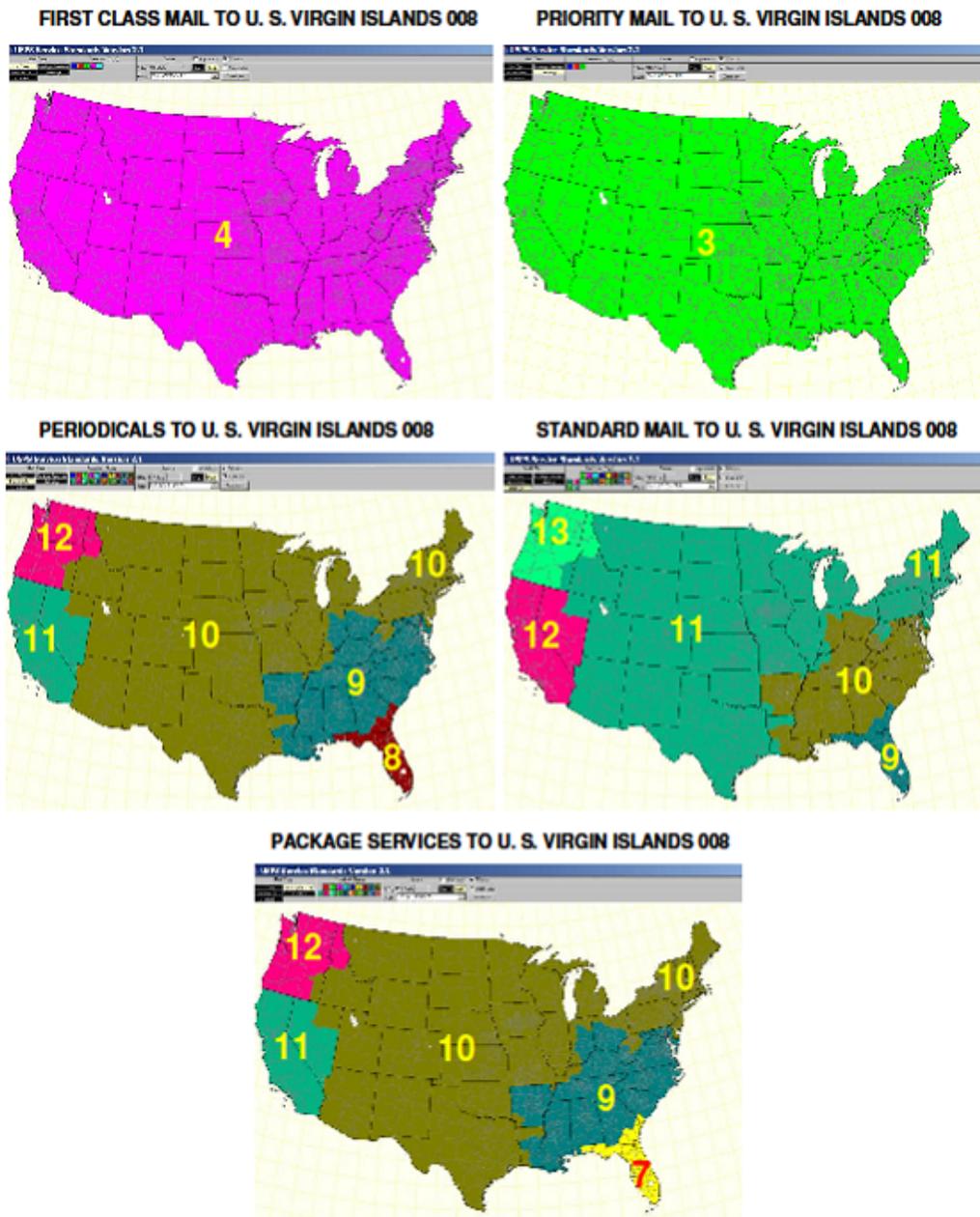
- Established new controls to monitor transportation and processes at concentration/consolidation points.

- Requested assistance from Headquarters Network Operations on reviewing transportation modes for surface mail classes in conjunction with service standards requirements.
- Continued working with headquarters to reduce volume on FedEx and increase volume on UPS where possible and to increase the Transportation Security Administration Canine program.
- Collaborated with the Southeast Area, Caribbean District, and concentration points in Florida to improve dispatch procedures and sort plans.
- Worked with the Jacksonville BMC manager to review sea container utilization and implement necessary improvements.
- Improved tracking and control of sea containers in TIMES to San Juan, PR, and made plans for similar improvements in tracking mail directly to the USVI.
- Increased USVI air contractor performance monitoring.
- Reviewed staff scheduling at the St. Thomas Air Transfer Office to ensure mail security.

We appreciate management's timely actions and acknowledge that these actions helped address some of the transportation timeliness issues identified in this report.

APPENDIX C: SERVICE STANDARDS FROM U.S. MAINLAND TO USVI¹³

USPS SERVICE STANDARDS



¹³ The numbers depicted in yellow/red represent the maximum number of days allowed for mail to reach the USVI from the respective origins and meet established service standards.

APPENDIX D: MANAGEMENT'S COMMENTS

DAVID M. PATTERSON
ACTING VICE-PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



January 27, 2009

LUCINE M WILLIS
DIRECTOR OF AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Draft Audit Report – U. S. Virgin Islands Delayed Mail - Transportation
Issues (Report Number NL-AR-09-DRAFT)

With regard to the requested response to the \$7,728,296 in funds put to better use, we offer the following:

\$7,232,955 of this appears in Appendix D calculations of potential savings. Contracting of air lift is the sole responsibility of HQ Network Operations, Shared Networks. The Southeast Area cannot speak to the Appendix D calculations.

The balance of the \$7,728,296 is reflected in Recommendation 5/6. This amount - \$495,300 – is a two-year amount of savings by increasing container utilization 5%. As stated in our response, we do not believe this to be an achievable number while protecting our service standards to our customers in the Caribbean District.

The Southeast Area response to the nine recommendations of your audit report dated January 16, 2009, NL-AR-09-DRAFT is addressed below:

Recommendation #1: Continue to monitor transportation to ensure the Postal Service transports mail timely and meets established service standards.

The Southeast Area agrees with this recommendation, and it has been completed. The Southeast Area has implemented changes with the Jacksonville BMC and Miami P&DC as far as: changing our SPBS sort program, sack sorter separations, and adding a tie-out time in our Distribution Table Management System (DTMS) to ensure service meets standards. The monitoring becomes a routine weekly event reviewed by the Network Operations Specialist for North Florida. All mail classes and types are reviewed for accuracy weekly.

Recommendation #2: Review surface transportation mail modes and schedules for Periodicals, Package Services, and Standard Mail to the U. S. Virgin Islands to ensure that they meet service standards and make adjustments as necessary, considering logistics policies, service and cost.

The Southeast Area agrees with this recommendation, and it has been completed.

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The Southeast Area reviewed each of the product routings and schedules. As the ship schedule is firmly established, our routings to it consist of two dispatches per week. These two dispatches provide service responsive routings for each mail type cited above.

Recommendation #3: Review and revise air mail transportation modes and capacities to the U. S. Virgin Islands for First-Class and Priority Mail, and obtain adequate capacity to ensure it meets service standards. This should include continuing to actively pursue volume shifts among providers to obtain the most economical, service-responsive transportation and reducing overall costs.

The Southeast Area agrees with this recommendation, and is working with HQ Network Operations group to ensure sufficient FedEx, United Parcel Service (UPS) and Commercial air (CAIR) lift is available to the U. S. Virgin Islands. Consistent availability of lift will greatly reduce or eliminate delays and overflow volumes. The current plan for the U. S. Virgin Islands (STT/STX) once it reaches capacity is to flow it to San Juan (SJU) for further routing on Alternate Methods of Transportation (AMOT – Air Taxi). The Southeast Area has already implemented changes by adding a tie-out in the Distribution Table Management System (DTMS) that automatically has STT and STX to flow to SJU once capacities are met.

Recommendation #4: Review and revise mail transportation and distribution processes to the U. S. Virgin Islands, and oversee key transportation concentration point operations to ensure minimal handling of mail.

The Southeast Area agrees to review and revise mail transportation and distribution processes to the U. S. Virgin Islands. This has been completed.

The Jacksonville BMC has participated in three telecons with the Caribbean District, beginning in early October.

At the request of the Caribbean District, the Jacksonville BMC took the following actions:

1. Changed SPBS sort program effective November 24, 2008 by isolating and dispatching separately to St. Thomas (STT) and St. Croix (STX).
2. Change sack sorter separations effective November, 24, 2008, consolidating all SCFs as well as separating 3-digit and 5-digit bundles for both Periodicals and standard sacks (4 separations - total unchanged).

These changes resulted in reduced processing times for Jacksonville and service improvement opportunities for the Caribbean District.

Request to oversee key transportation concentration point operations falls to the NY Metro Area.

Recommendation #5 and #6: Ensure the Postal Service maximizes sea container capacity out of Jacksonville, FL and reduces transportation costs. Ensure the Postal

Service adequately monitors, tracks and controls shipments of sea containers on a first-out basis.

The Southeast Area agrees with the recommendation. We will continue to monitor all data surrounding the sea containers out of Jacksonville BMC to ensure maximum utilization.

The audit refers to an increase of 5% utilization, which it asserts will result in a savings of \$248,000 a year.

This recommendation, as indicated by the pictures in Appendix B, shows underutilized cardboard boxes in one picture and letter tray pallets in the other. On the day of sailing, containers are pulled whether they are full or not. This is the only day they are pulled less than full. They are dispatched with whatever mail is available in order to meet service commitments, as the ship sails but once a week to STT and STX. We understand that this review was conducted on the day of sailing.

Recommendation #7: Ensure management fully trains staff on capabilities of Postal Service systems.

The Southeast Area fully agrees that our staffs should be trained on all capabilities of Postal Service Systems within their required job functions.

Specific to the identified issue, however, we disagree that the current process is inadequate. We have enlisted HQ Transportation Field Support to weigh in on the tracking methods that should be used nationwide. Our analysis shows no other sites utilizing TIMES for this tracking; therefore, a national guideline has been requested.

The Jacksonville BMC management team uses a manual process (Excel spreadsheet) to track the sea containers to San Juan. Once loaded, these documents are faxed to the destination, and verification of receipt is required and tracked for reconciliation of each shipment.

Additionally, the Southeast Area determined TIMES does not accept water routings and, therefore, the procedures outlined in the report cannot be accomplished with the current software restrictions.

Upon review of the current process, we see no inadequacies that may affect mail timelines.

Recommendation #8: Ensure air contractors among the U. S. Virgin Islands adhere to established schedules.

The specific action required by this recommendation is with the New York Metro Area and HQ Network Operations.

Recommendation #9: Provide adequate scheduling at the St. Thomas Air Transfer Office to ensure mail is secure at all times.

The specific action required by this recommendation is with the New York Metro Area.

We do not believe there is any Freedom of Information Act exempt information in the draft report or our response.

Please let us know if you require any further information.


David M. Patterson

cc: Katherine S. Banks, Manager, Corporate Audit and Response Management
David J. McClelland, A/Area Manager, Operations Support
Mary J. Mahnke, A/Manager, Distribution Networks

DAVID M. PATTERSON
ACTING VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



February 13, 2009

LUCINE M WILLIS
DIRECTOR OF AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Addendum - Draft Audit Report – U. S. Virgin Islands Delayed Mail –
Transportation Issues (Report Number NL-AR-09-DRAFT)

Below is the Southeast Area's addendum to our previous response on January 27, 2009 regarding monetary savings and Recommendation #7.

The balance of the \$7,728,296 is reflected in Recommendation 5 & 6. This projected savings amount of \$495,300 is a two year amount of savings by increasing the sea container utilization by 5%. After further review of the data and discussion with the Jacksonville BMC, we believe that proper loading of containers will reduce the under-utilized sea containers reviewed at the time of this audit; therefore these savings could possibly be achieved.

Recommendation #7: After further review of the data and documentation, we agree that there were delays due to the process currently in use at the Jacksonville BMC. We have requested HQ Transportation Field Support to issue a National Routing Policy on the proper procedure for dispatch and receipt of mail using TIMES when dealing with offshore facilities. We currently have two contractors' that provide us with transportation every other month to Puerto Rico and one contractor to the U.S. Virgin Island. We will continue to work with HQ to implement a proper procedure that will work with TIMES so that timely dispatch and receipt will be available.

Please let us know if you require any further information.


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VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



January 28, 2009

Lucine M. Willis
Director, Audit Operations
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SUBJECT: Response to Draft Audit Report – U.S. Virgin Islands Delayed Mail -
Transportation Issues (Report Number NL-AR-09-DRAFT)

The following are the New York Metro Area's responses to the recommendations contained in the subject draft audit report:

Recommendation #1: The Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations, and the Vice President, Network Operations, continue to monitor transportation to ensure the Postal Service transports mail timely and meets established service standards.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

We will work closely with the Southeast Area and HQ Network Operations to ensure that we continue to use and monitor the most effective and service-responsive transportation modes within the transportation cost parameters that have been corporately established. In those instances where the transportation mode is contributing to service degradation, we will elevate our concerns to HQ Network Operations for a logistics solution.

The New York Metro Area has taken the following management actions in response to the initial OIG advisories highlighted during the course of the audit:

- Worked with the Southeast Area and HQ Network Operations in October to implement controls to correct the air transport volume overflow problem at Miami (MIA) for St. Thomas (STT) and St. Croix (STX). This overflow was contributing to delivery service failures in the USVI. Additional air lift options from SJU to STT/STX have been put in place to relieve MIA.
- The New York Metro Area has improved the method of addressing contract irregularities by the Alternate Method of Transportation (AMOT) air cargo suppliers. The irregularities had been a contributing factor to delivery service failures in the U.S. Virgin Islands. Individual irregularities are now given more intense review and are addressed in a more formal manner with the supplier. Greater emphasis has been given to ensure that the irregularity documentation process is properly followed.

The actions above have contributed to improved service performance from the AMOT suppliers. At the OIG Exit Conference in December, it was noted there had been no significant service failure irregularities since the OIG completed their audit.

Recommendation #2: The Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations, and the Vice President, Network Operations, review surface transportation mail modes and schedules for Periodicals, Package Services, and Standard Mail to the U.S. Virgin Islands to ensure they meet service standards and make adjustments as necessary considering logistics policies, service, and cost.

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New York Metro Area Response:

The New York Metro Area agrees with this intent of this recommendation.

We will work with the Southeast Area and HQ Network Operations to review the existing highway surface transportation network and mail make up to determine if there are any potential changes that could be made to improve the mail flow into the JAX BMC for Periodicals, Package Services, and Standard Mail classes for the Caribbean District.

Since the Postal Service has no control over the industry-established Caribbean maritime schedules and frequency of sailings, the Postal Service is unable to effect any changes to reduce transit times. However, we have worked closely with the Southeast Area on areas within their direct control that improved the use of maritime transportation.

- Both Areas have improved the mail make up and dispatch profiles at JAX and San Juan, which has resulted in eliminating unnecessary re-handlings and delays. For example, Puerto Rico has eliminated bedloading of mail into the sea containers for JAX BMC.
- Jacksonville has changed their SPBS sort plan to isolate and dispatch separately to St. Thomas and St. Croix. These actions have resulted in reducing the overall transit time from origin mail receipt to final mile delivery.
- The New York and New Jersey Logistics and Distribution Centers are now isolating and tailgating parcel packages for Puerto Rico and the U.S. Virgin Islands on the direct HCR service to JAX BMC. This will allow for immediate cross-docking onto the appropriate respective sea containers at JAX and should lead to an earlier arrival at destination. Previously these volumes were commingled with the rest of the JAX BMC service area mail volumes for induction at the BMC.

To address the OIG findings of mail possibly taking as long as 21 days to reach its final destination (even if all mail processing, dispatch, and transportation targets are met), we will work with HQ to determine if it is feasible to obtain more effective, but much costlier, transportation modes. We will advise the OIG of our findings by March 15, 2009.

Recommendation #3: The Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations, and the Vice President, Network Operations, review and revise air mail transportation modes and capacities to the U.S. Virgin Islands for First-Class and Priority Mail and obtain adequate capacity to ensure it meets service standards. This should include continuing to actively pursue volume shifts among providers to obtain the most economical, service-responsive transportation and reducing overall costs.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

The New York Metro Area and the Southeast Area will continue to work with HQ Network Operations to improve service-responsive commercial air, UPS, and FedEx airlift to San Juan and the U.S. Virgin Islands.

The following management actions have been taken to date:

- As outlined above, volume cap controls have been implemented at MIA to eliminate the rollover volumes for the U.S. Virgin Islands. AMOT service from SJU to the USVI has been increased as an offset.
- In addition, both Areas are working with HQ to increase UPS lift from various origins and, where possible, to look at increasing the Transportation Security Administration's canine program. FedEx, at HQ's direction, has also been redirecting rollover Puerto Rico volume from the MEM to BQN (see

Attachment # 1) and then trucking to SJU to greatly reduce or eliminate the rollover volumes at the MEM Hub for SJU.

These actions were previously discussed at the Exit Conference and were included as management actions to-date in the OIG draft report.

We will continue to expand upon the above options and will give the OIG a status of successful actions by March 15, 2009.

Recommendation #4: The Vice President, New York Metro Area Operations, in coordination with the Vice President, Southeast Area Operations, review and revise mail transportation and distribution processes to the U.S. Virgin Islands and oversee key transportation concentration point operations to ensure minimal handling of mail.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

We have been advised by the Southeast Area that the JAX BMC has corrected the sort irregularity noted by the OIG of incorrectly loaded parcels for St. Croix (ZIPs 00830-39) that should have been routed to St. Thomas.

In addition, as previously noted, the JAX BMC is no longer commingling St. Thomas and St. Croix in their SPBS operation. That volume is now being correctly dispatched in separate sea containers for St. Thomas and St. Croix. This sort plan change has improved the delivery times into the USVI by a minimum of one week. It has also eliminated unnecessary re-handlings and delays at San Juan.

In addition, we have been advised by the Southeast Area that the Jacksonville P&DC has made the necessary sort changes for Periodicals and Standard mail bound for the USVI.

As reported to the OIG in our response to the processing portion of the audit, the Caribbean District and the JAX BMC have held three MeetingPlace telecons to implement new sort and dispatch changes that eliminated unnecessary re-handlings and improved volume arrival profiles at both San Juan and Jacksonville (see attached minutes of MeetingPlace - Attachment #2). We will schedule other telecons to monitor progress and make further adjustments.

As for the final concern raised by the OIG, both Areas will reevaluate the recently implemented plan coordinated with HQ Network Operations of volume capping Priority air transport volumes at MIA for STT/STX, with the remaining volumes transferring through SJU. We will advise the OIG by March 15, 2009 of the results of our review and of any changes that will be made to the plan.

Recommendation #5: The Vice President, New York Metro Area Operations, with direct authority and oversight from the Vice President, Southeast Area Operations, maximize sea container capacity out of Jacksonville, FL, to help reduce transportation costs.

New York Metro Area Response:

Although the specific action required by this recommendation is with the Southeast Area, the New York Metro Area agrees with the intent of this recommendation.

We have discussed this issue with the Southeast Area, and they have committed to monitor TIMES data to ensure maximum utilization of all sea containers where possible.

In addition, the New York Metro Area will work closely with the Caribbean District to ensure that they work toward maximization, where practical, of all capacity in sea containers of mail and MTE loads from San Juan.

Recommendation #6: The Vice President, New York Metro Area Operations, with direct authority and oversight from the Vice President, Southeast Area Operations, adequately monitors, tracks, and controls shipments of sea containers on a first-in, first-out basis.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

The New York Metro Area will use a TIMES tracking approach by entering the necessary transportation and contract information through the Transportation Contract Support System (TCSS), which populates the National Air and Surface System (NASS), finally downloading into TIMES. The Caribbean District will use TIMES to enter their origin load information and confirm all arrival loads. We have shared this information with the Southeast Area.

In addition, we will work with the Caribbean District to locally re-implement a Yard Management-type reporting system to continually track the sea containers within the DMDU yard after their arrival from the pier. This would ensure a first-in/first-out process, where practical.

Recommendation #7: The Vice President, New York Metro Area Operations, with direct authority and oversight from the Vice President, Southeast Area Operations, ensure management fully trains staff on the capabilities of Postal Service transportation systems.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

The Caribbean District gave TIMES refresher training in August 2008 to appropriate craft employees at the Catano DMDU Annex, the San Juan P&DC, and the San Juan AMF. They will expand this training to the USVI and complete before March 31, 2009.

The Caribbean District has also committed to provide continuous refresher training on a semi-annual basis to all craft and EAS employees involved with TIMES activities.

Recommendation #8: The Vice President, New York Metro Area Operations, work with the Vice President, Southeast Area Operations, and Vice President, Network Operations, as necessary, to ensure air contractors within the U.S. Virgin Islands adhere to established schedules.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

As noted as Management Actions and Observations to date in the OIG draft audit report, the Caribbean District, in collaboration with HQ Network Operations and HQ Supply Management, has increased USVI air contractor performance monitoring. The individual irregularities are now given more intense review and are addressed in a more formal manner with the supplier. For example:

- The Caribbean Senior Plant Manager advised the NYMADNO Caribbean Branch and the DNO main office via email on 9/17, 10/3, 10/11, 10/15 and 10/16 of related irregularities.
- Immediate follow-up was initiated with the AMOT Suppliers, HQ Network Operations, and HQ Supply Management.
- All problems were corrected. There have been no recent significant service-impacting irregularities since October.
- The New York Metro DNO Caribbean Branch, in collaboration with HQ Network Operations and HQ Supply Management, has developed a contingency plan in the event of Prime Supplier failure. A

backup supplier contract is in place to move the at-risk volumes, in a service-responsive manner, when failures occur.

Finally, greater emphasis has been given to ensure that the irregularity documentation process (via PS Form 2759) is properly followed. When the AMOT carriers do not perform, they do not get paid. The contractual stipulations regarding supplier late delivery scans and corresponding reduction in payment will be strictly enforced (i.e. 25% payment reduction for scans up to one hour late delivery; 50% reduction payment for scans beyond one hour late delivery).

The New York Metro Area will continue to collaborate with HQ Network Operations and HQ Supply Management as necessary.

Recommendation #9: The Vice President, New York Metro Area Operations, work with the Vice President, Southeast Area Operations, and Vice President, Network Operations, as necessary to provide adequate staff scheduling at the St. Thomas Air Transfer Office to ensure mail is secure at all times.

New York Metro Area Response:

The New York Metro Area agrees with this recommendation.

As noted as Management Actions and Observations to date in the OIG draft audit report, management has reviewed scheduling at the St. Thomas air transfer office to ensure mail security. The NY DNO Caribbean Branch has made arrangements to put a trailer on the ramp to function as a holding pen for mail that has arrived and ensure better security of the mail. It will be monitored by a ramp clerk.

The Caribbean District will take the lead to ensure that St. Thomas has adequate staffing and scheduling to manage and monitor mail received from the AMOTs and commercial air carriers.

We do not believe there is any Freedom of Information Act exempt information in the draft report or our response.

Please let us know if you require any further information.



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March 13, 2009

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SUBJECT: U.S. Virgin Islands Delayed Mail – Transportation Issues
(Report Number NL-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Management agrees with the Office of Inspector General (OIG) recommendation.

Recommendation 3: Review and revise air transportation modes and capacities as necessary to the U.S. Virgin Islands for First-Class and Priority Mail and obtain adequate capacity to ensure it meets service standards. This should include continuing to actively pursue volume shifts among providers to reduce rollover in Miami, FL, and obtain the most economical, service-responsive transportation and reduce overall costs.

Response: We are currently conducting an analysis to determine if it would be feasible to route all mainland Priority Mail directly through Memphis to Puerto Rico for distribution and transportation to St. Thomas and St. Croix. This review is a direct result of the OIG audit. If we can accomplish the stated objective, we believe we can improve service and save money by completely taking Miami out of the network flow. We think that this is a reasonable approach because Puerto Rico has more efficient distribution equipment than it did when the current labeling list instructions and routings were put in place. We believe that this alternative approach meets the intent of the OIG recommendation.



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