



September 29, 2010

DAVID E. WILLIAMS, JR.
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Air Networks – Federal Express
Transportation Agreement – National Analysis
(Report Number NL-AR-10-010)

This report presents the results of our self-initiated audit focusing on the Federal Express (FedEx) Transportation Agreement. The objective of our audit was to assess national issues related to processes, guidance, and oversight in implementing the FedEx Transportation Agreement and associated operations (Project Number 10XG033NL000). Our review was conducted to further address systemic or significant issues identified in our prior FedEx Transportation Agreement audits of the eight Postal Service areas. See [Appendix A](#) for additional information about this audit.

Postal Service transportation managers are required to balance service and cost in determining the best transportation mode, and FedEx transportation is usually more expensive than commercial air carrier or surface transportation. However, the FedEx contract requires that the Postal Service provide a minimum amount of mail to FedEx for transportation, and if the minimums are not met, the Postal Service pays for unused space. The Postal Service uses Terminal Handling Services (THS) contractors to prepare and load mail into containers for transport on FedEx planes. The contract also requires the Postal Service to tender certain volumes of mail to FedEx by specific times in order for the mail to be loaded on scheduled flights. The Postal Service is also required to pay FedEx for sorting mail at the Memphis hub, but the Postal Service can avoid these costs by using “bypass” containers with mail all bound for the same destination airport to bypass the sorting operations at the FedEx Memphis hub.

Conclusion

Postal Service Headquarters needs to strengthen nationwide processes, guidance, and monitoring in implementing the FedEx Transportation Agreement to ensure the most efficient and effective transportation of mail. Prior audits focusing on the FedEx Transportation Agreement in the eight Postal Service areas determined the Postal Service incurred unnecessary costs of more than \$94 million, because local officials were: improperly transporting surface mail classes on FedEx; using FedEx instead of lower cost commercial air carriers to transport First-Class Mail[®] (FCM); and not maximizing the use of by-pass containers to avoid FedEx handling charges. We determined these conditions existed because local employees were not: properly

segregating the mail during distribution operations; following air transportation mail assignment priorities; adequately identifying and separating bypass mail before sending it to THS contractors; and providing by-pass mail to THS contractors in a timely manner.

Management from the areas generally agreed with our findings and took action to address our recommendations in the prior reports. However, based on operational challenges cited by local management in their responses to our audits, and on our review of headquarters' oversight of FedEx operations, additional nationwide processes, guidance, and monitoring should be strengthened to ensure more efficient and effective operations. Specifically, we determined that headquarters' Network Operations could more effectively:

- Monitor and avoid transportation of surface mail classes on FedEx.
- Validate the accuracy of mail capacities provided by commercial carriers, ensure carriers' comply with providing the capacities, and address local officials' concerns over the ability of carriers to handle provided capacities.
- Adjust mail volume arrival profiles (VAP)¹ for THS locations, or adjust mail tender times to FedEx to ensure THS contractors have sufficient time to build planned by-pass containers.
- Reinforce existing policies and procedures for processing and assigning mail, for building by-pass containers, and for tendering mail to FedEx.

In addition, the Postal Service needs to standardize oversight at THS contract sites to monitor FedEx operations and ensure local compliance with established processes and procedures. If further action is not taken, the Postal Service could continue to incur unnecessary costs for transporting mail on FedEx instead of using cheaper transportation means, and for sometimes using FedEx to sort the mail. See [Appendix B](#) for detailed analysis.

Management Actions

Postal Service headquarters' management took steps during our audits to improve oversight of the FedEx Transportation Agreement, including:

- Sharing *Transportation Cost System/Cost and Revenue Analysis* (TRACS/CRA)² data with appropriate headquarters officials to monitor and track the volume and costs of transporting Standard, Periodicals, and Package Services mail classes transported on the FedEx Day Turn Network.

¹ VAPs are part of the THS contracts and require the Postal Service to tender specific volumes of mail to the THS contractors by certain times.

² TRACS is an origin-based, continuous, ongoing statistical sampling system designed to estimate certain elements used to associate volumes of each class of mail to the cost of the mode of transportation upon which it is dispatched.

- Holding a formal presentation to all plant managers concerning the causes and cost impacts of transporting surface mail classes on the FedEx Day Network.
- Instructing areas to begin monitoring each of their plant's sort programs to determine those not properly segregating mail classes for certain distribution operations, and set up alerts to identify non-compliance.
- Preparing instructions to provide to plants to comply with required bypass container separations prior to dispatch to THS sites.
- Beginning an in-depth review of THS VAPs to determine established arrival time feasibility and current compliance with requirements.

We recommend the vice president, Network Operations:

1. Routinely provide headquarters and area management with data, including Transportation Cost System/Cost and Revenue Analysis data, used to monitor and track the volume and additional costs for flying surface mail classes on Federal Express.
2. Work collaboratively with the areas to identify and address capacity issues, real or perceived, with commercial carriers and ensure carriers comply with stated capacities.
3. Adjust mail volume arrival profiles or Federal Express tender times where possible to ensure Terminal Handling Services contractors have time to build planned by-pass containers.
4. Reinforce existing policies and procedures, and provide additional guidance and training as necessary, for processing and assigning mail to Federal Express (FedEx), for building bypass containers, and for ensuring mail arrives at Terminal Handling Services locations to meet FedEx contract mail tender time requirements.
5. Standardize Postal Service oversight at Terminal Handling Services operations to ensure adequate on-site Postal Service representation to monitor Federal Express operations and ensure local compliance with established processes and procedures.

Management's Comments

Management generally agreed with our findings and recommendations. In addition to the measures management took during the course of this audit, including a formal presentation to all plant managers and instructions to areas to monitor their plants' sort programs, management cited additional efforts toward the prevention of the issues addressed in this report. These efforts include the development of mail history tracking system reports that are shared daily with the field to identify surface mail volume processed within a preferential mail stream; weekly teleconferences with area

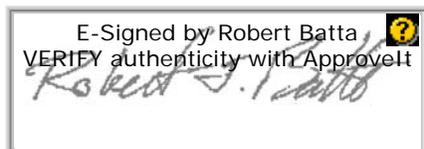
managers to address capacity issues and non-compliance with policies and procedures related to the assignment and tender of mail to FedEx; and the evaluation of an approach to standardize oversight at THS operations. In addition, management is conducting a Lean Six Sigma project to identify root causes and develop solutions that will be implemented nationally to reduce surface mail flow and identify route causes related to the failure to tender mail in accordance to the established VAPs. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations, and management's corrective actions should resolve the issues identified in the report. We will continue working with management to identify and monitor timelines for reporting results in the process of closing the significant recommendations.

The OIG considers all the recommendations 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 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.



E-Signed by Robert Batta
VERIFY authenticity with ApproveIt
Robert J. Batta

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Cindy F. Mallonee
Frank Neri
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

In January 2006, the Postal Service formalized a nationwide integrated air strategy for mail transportation and briefed the Board of Governors. Management explained that the prior network of passenger airlines was less costly, but also less reliable than other air transportation contractors such as FedEx. Under the strategy, the Postal Service intended to reduce the reliance and number of passenger airlines carrying mail; 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 was intended to 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, they discontinued most passenger airlines as domestic air transportation contractors. 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.

Postal Service officials explained that American Airlines was a passenger airline with reliable, on-time performance and was awarded a contract to continue providing service.

American Airlines jet preparing to depart at San Diego International Airport.



The FedEx Contract – On July 31, 2006, the U.S. Postal Service signed a new 7-year national agreement with FedEx to transport time sensitive mail for the Postal Service, including Express Mail®, Priority Mail®, and FCM. The new agreement specified an immediate price reduction in all contract categories and allowed the Postal Service to continue to outsource THS to contractors.

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

**FedEx jets loading
and preparing for
departure from
Newark, NJ,
May 19, 2010.**



In most cases, the Postal Service utilizes THS contractors to prepare and load mail into containers for transport on FedEx planes. The contractors used include: Cargo Force, Inc.; Evergreen-Eagle; Global Logistics Service, LLC; Integrated Airline Services, Inc.; Metro Air Service; Matheson Flight Extenders; Quantem Aviation Services, Inc.; United Parcel Service, Inc.; and Worldwide Flight Services.

The Postal Service's Network Operations headquarters group is responsible for establishing processes and providing guidance and oversight to area and local officials in implementing operations associated with the agreement. Under the FedEx contract, the Postal Service periodically negotiates with FedEx for mail transport capacity. As a contract minimum, the Postal Service pays for 95 percent of the contracted capacity regardless of whether it is used.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to assess national issues related to processes, guidance, and oversight in implementing the FedEx Transportation Agreement and associated operations. Our review was conducted to further address systemic or significant issues identified in our prior audits³ of the eight Postal Service areas.

To accomplish our objectives in this audit and in our prior audits, we interviewed officials from Postal Service Network Operations at headquarters and area offices. We also interviewed Postal Service contract officials, including officials from FedEx and several THS providers. During our work in the Postal Service areas, we visited facilities and operations including airport mail centers, THS operations, and mail processing facilities. We evaluated the types of mail transported; considered on-time service standards; analyzed alternate solutions for making the best use of surface and air networks; and observed operations.

³ The overall objective of our prior Postal Service area audits was to determine whether selected FedEx Transportation Agreement operations were effective and economical, and we issued reports addressing transportation operational issues and monetary impacts associated with each area. Postal Service managers generally agreed with our findings and recommendations and are taking corrective actions to address the issues identified.

The Postal Service outsources THS operations to contractors, who build and tender air containers to FedEx for transportation.

FedEx containers loaded by THS personnel for tender to FedEx, San Antonio, TX.



We also examined relevant documents, including:

- The Postal Service Integrated Air Strategy, dated January 9, 2006.
- The FedEx contract, dated January 10, 2001, and the extended FedEx contract, dated July 31, 2006.
- Postal Service contracts with various passenger airlines.
- Contracts with THS providers.
- Postal Service policies that govern network routing and on-time standards.

We examined computer-generated data to analyze mail volume, operational efficiency, and costs. We did not audit or comprehensively validate the data; however, the large amounts of data and its inaccessibility significantly constrained our work.

To address these data limitations, we applied alternate audit procedures. We discussed the data with Postal Service officials, managers, supervisors, employees, and contractors; we conducted source document examinations; and we observed and conducted physical inspections. We also discussed our initial findings and recommendations with senior Postal Service officials, considered their perspective, and included their comments where appropriate. We also considered area management responses to our audit reports in assessing nationwide operational issues related to the FedEx contract.

We conducted this performance audit from March through September 2010 and conducted work associated with the eight Postal Service areas from November 2005 to May 2010. This audit was conducted in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable

basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management during July and August 2010 and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We issued six reports listed below that identified similar issues for all eight Postal Service areas. We identified FedEx operational efficiency opportunities related to surface mail classes flown on FedEx, FCM flown on FedEx, and FedEx bypass container utilization. Management generally agreed with our findings and recommendations; however, management did not always agree with the total monetary impact.

Report Title	Report Number	Final Report Date	Monetary Impact ⁴ (in millions)
<i>Air Networks – Issues In the Pacific Area Associated with a Major Postal Service Customer</i>	NL-AR-08-001	11/23/2007	\$80.4
<i>Air Networks – Federal Express Transportation Agreement – Pacific Area</i>	NL-AR-08-002	2/19/2008	\$62.8
<i>Air Networks – Federal Express Transportation Agreement – Western Area</i>	NL-AR-08-008	9/29/2008	\$141.2
<i>Air Networks – Federal Express Transportation Agreement – Southwest Area</i>	NL-AR-09-002	3/3/2009	\$53.3
<i>Air Networks – Federal Express Transportation Agreement – Southeast Area</i>	NL-AR-09-007	7/31/2009	\$52.0
<i>Air Networks – Federal Express Transportation Agreement – Capital Metro, Eastern, Great Lakes, and Northeast Areas</i>	NL-AR-10-005	5/25/2010	\$205.9

⁴ Monetary impact amounts include more than \$112.7 million in unnecessary questioned costs and an estimated \$482.9 million in funds put to better use over 10 years if corrective actions are taken.

APPENDIX B: DETAILED ANALYSIS

Overall Assessment of Nationwide Operational Issues

We determined that Postal Service Headquarters needs to strengthen nationwide processes, guidance, and monitoring in implementing the FedEx Transportation Agreement. This would also help ensure the most efficient and effective transportation of mail nationwide. From our previous audits, we determined that local officials were:

- Improperly transporting surface mail classes on FedEx.
- Using FedEx instead of lower cost commercial air carriers to transport FCM.
- Not maximizing the use of by-pass containers to avoid FedEx handling charges. See [Appendix C](#) for additional information for a summary of the results of our previous audits.

Since the beginning of our audit series, the OIG has recommended that the Postal Service areas:

1. Use surface transportation to the extent possible for mail that does not require air transportation to meet Postal Service on-time standards.
2. Transport mail to the maximum extent possible using the service-responsive capacity of passenger airlines under contract with the Postal Service.
3. Sort mail into bypass containers as appropriate.

Generally, management from the areas agreed with our findings and took actions to address our recommendations. Some of the actions included consolidating the processing of originating Standard and Periodical mail into fewer sites to prevent surface mail from being flown, monitoring weekly headquarters' reports that track commercial airlift to maximize the usage of service-responsive carriers, and providing additional instruction to ensure maximization of by-pass containerization to avoid unnecessary handling charges.

Although these initiatives should have an impact on the efficiency of the selected operations we audited in the Postal Service areas, additional actions, guidance, and monitoring by Postal Service Headquarters are needed to improve compliance with the FedEx Transportation Agreement and associated transportation and distribution operations nationwide.

Monitoring Surface Mail Classes on FedEx

We determined that Postal Service Headquarters was not effectively monitoring the types of mail flown on FedEx and not routinely assessing the magnitude of surface mail classes flown on FedEx. This occurred because Postal Service officials were unfamiliar with TRACS/CRA data that relates transportation costs to specific mail classes, and officials were not using the data to assess operations. TRACS/CRA data has been primarily used for ratemaking decisions and not for monitoring the types of mail flown on FedEx. If TRACS/CRA data was provided to management and staff on a routine basis, the information could be used to monitor and track volumes of mail by type to avoid the additional cost of flying surface mail on FedEx.

The following photographs illustrate examples of surface mail classes we observed dispatched for transport on the FedEx Day Network, which should have been put on surface transportation:



Standard Mail in First Class Letter Trays and Periodicals in Flat Tubs destined for transportation on FedEx, Atlanta Processing and Distribution Center (P&DC) (February 11, 2009) and Jacksonville P&DC (February 23, 2009).

Since inception of our audit work, headquarters officials reported certain new initiatives that should lead to correction of these deficiencies. For example, the TRACS/CRA data is being timely shared with Network Operations to monitor volumes and costs of transporting surface mail classes on FedEx. Additionally, the causes and impacts of this issue have been formally presented to all plant managers so they could pursue corrective action. Also, areas have been instructed to monitor their plants' sort programs to identify those which are not properly segregating mail classes as appropriate during distribution. Although action has been taken, issues still exist, and additional monitoring is necessary to ensure continued compliance.

Commercial Air Capacity

From our prior audits, we determined that Postal Service Headquarters and area officials were not always effectively working together to validate the accuracy of mail capacities provided by commercial carriers; ensure carriers' complied with the provided capacities; address local officials' concerns over the ability of carriers to handle provided capacities; and to make adjustments to capacities when necessary. Postal Service area officials, in responding to our audit reports, cited challenges concerning the capacity offered by commercial airlines that resulted in mail being flown on FedEx at a higher cost. Some of the challenges included:

- Commercial air suppliers offering capacity that often did not match the dispatch and arrival profiles at processing facilities.
- Commercial air suppliers often overstating the capacity of their aircraft resulting in a service failure.

Area officials stated during our audit that much of the capacity offered by commercial air carriers was unavailable at times needed by the Postal Service to meet service commitments. On the other hand, headquarters' officials stated the overwhelming majority of FCM transported on FedEx has a 3-day service commitment; and therefore, the mail had an additional 24 hours or more in the transportation window. This would allow much of the mail to be carried by commercial carriers utilizing offered capacity and still meet service commitments. Headquarters' officials further stated that they are willing to provide additional routing guidance to area transportation planners to ensure mail is not unnecessarily moved on FedEx.

**Mail being loaded on
American Airlines jet at
Seattle-Tacoma
International Airport.**



Further, the Postal Service has established policies and systems for assigning mail to ensure that it moves on intended routes, based on availability, service, and cost. When conflicting issues occur, the Postal Service has procedures in place to address and correct the processes.

VAPs

We determined that headquarters officials could more effectively adjust the VAP or the tender times to FedEx to allow THS contractors sufficient time to build bypass containers. The FedEx Transportation Agreement states that the Postal Service will tender 75 percent of its containers to FedEx by 0400 hours, and the remaining 25 percent by 0500 hours. A VAP has been established by headquarters at each THS location that requires specific volumes of mail to arrive at certain time intervals. The VAPs should allow sufficient time for THS contractors to build planned by-pass containers before tendering them so as to avoid additional FedEx handling charges.

However, in some cases, the VAP results in less mail than the required 75 percent arriving at THS locations before 0400 hours, and in other cases, results in large amounts of mail arriving just before 0400 hours, making it impossible for the THS to timely build and tender all of the planned bypass containers.

Conversely, there are many locations where the FedEx airplanes depart as late as 0700 hours to 0830 hours, and the “75 percent tendered by 0400” cutoff could be adjusted to significantly later times. If the VAP and/or the FedEx tender times were adjusted, the Postal Service could avoid unnecessary handling charges by achieving their bypass goals.

As of July 2010, headquarters officials have undertaken a complete review of all VAPs to determine feasibility and measure compliance with established requirements. Additionally, instructions will be issued requiring processing plants to comply with bypass container separations before dispatch to THS sites.

THS Representation

During our audit work at the eight Postal Service areas, we determined that Postal Service representation at THS contractor sites was not standardized to ensure FedEx, THS, and Postal Service operational procedures were consistently followed. Many levels of Postal Service management and some craft employees were observed monitoring THS operations. Sometimes their presence was only for a few minutes to a couple of hours per day, and at some locations, there was no postal presence or oversight at all.

The Postal Service outsources THS operations to contractors, who build and tender air containers to FedEx for transportation.

FedEx container loaded by Matheson THS operations for tender to FedEx, Denver, CO.



We determined that Postal Service oversight at THS sites was assigned at the discretion of the local district or plant manager, and many times, to individuals with little knowledge regarding operations and contract requirements. We further determined that these conditions exist because headquarters officials have not issued any policies or requirements for standardized positions for postal representatives to work as liaisons at the THS sites. If a proficient postal presence was maintained, Headquarters could more effectively monitor FedEx-related operations and ensure local compliance with established processes and procedures to help ensure mail arrives as intended at THS locations.

Reinforcement of Policies and Procedures

Finally, we determined that headquarters officials could more effectively reinforce existing policies and procedures, as well as provide additional guidance and training as necessary, for processing and assigning mail, for building by-pass containers, and for tendering mail to FedEx. Specifically, headquarters officials should ensure that:

- Only proper mail classes are assigned and dispatched via air transportation as required by National Dispatch Instruction (Logistics Order - Standard Operating Procedure 200807).⁵
- Air containers are properly prepared and forwarded to FedEx as required by the THS contracts and detailed in the FedEx by-pass transportation matrices.
- Mail is tendered in the specified manner and on-time to local THS facilities for preparation and dispatch to FedEx for transportation as detailed in the FedEx contract.

In our audits in the eight Postal Service areas, we found that local officials were not always following established procedures. For example:

- At 48 processing facilities, we observed plant employees placing surface mail into First Class and Priority Mail containers or sacks for transportation on FedEx.

⁵ Amended by LO SOP 200901, dated March 9, 2009.

- At some facilities we observed that required bypass separations were not always being performed before mail arriving at THS sites, requiring THS employees to place bypass mail in mixed containers.
- At some THS sites, we observed and later confirmed with managers that mail routinely arrived late from local processing facilities requiring planned bypass containers to be converted to mixed containers so they could be tendered on-time to FedEx.

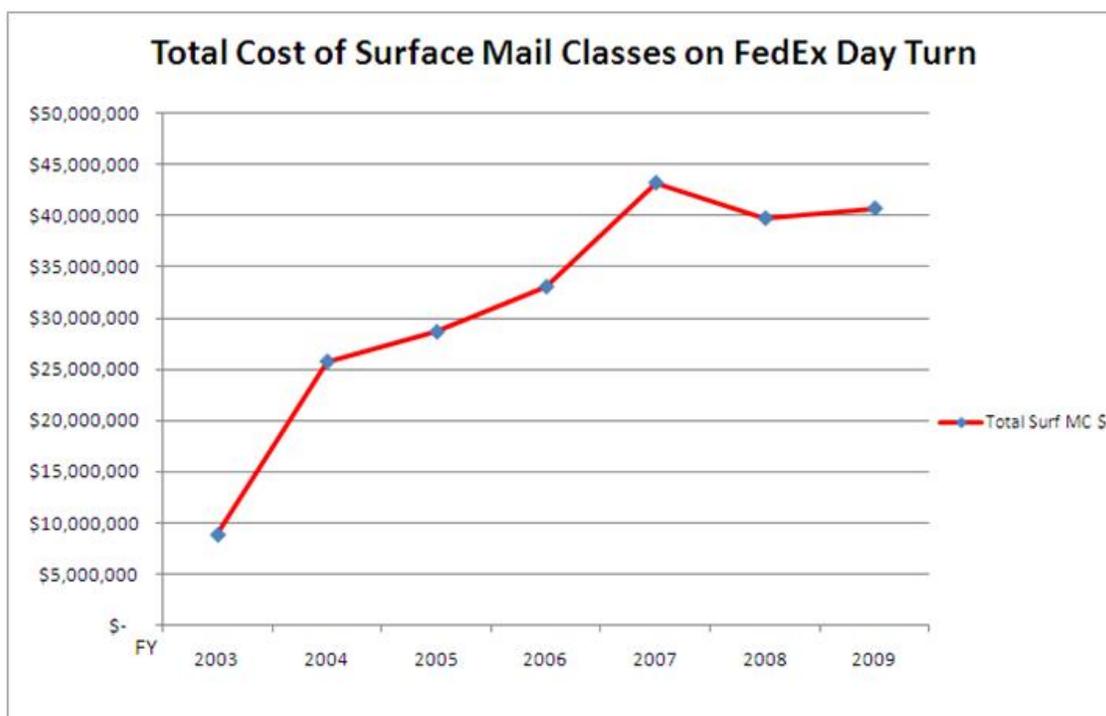
In addition, in some instances, local employees were not aware of the procedures. Because local management and staff did not always follow these established policies, procedures, and processes, the Postal Service incurred unnecessary costs.

APPENDIX C: SUMMARY OF PREVIOUS AUDIT FINDINGS

We concluded in our previous audits that the Postal Service incurred unnecessary costs, because local officials were improperly transporting surface mail classes on FedEx, using FedEx instead of lower cost commercial air carriers to transport FCM, and not maximizing the use of by-pass containers to avoid FedEx handling charges.

Surface Mail Classes on FedEx Day Turn

We identified large volumes of surface mail classes⁶ transported using the FedEx Daytime Network (Day Turn) from all eight Postal Service areas over a 2-year period using TRACS/CRA data. Postal Service policy requires transportation managers to balance service and cost. Because surface mail classes are not as time sensitive as Express, Priority, or FCM, the area transportation managers could have met the Postal Service's on-time standards by using less costly highway or rail transportation.

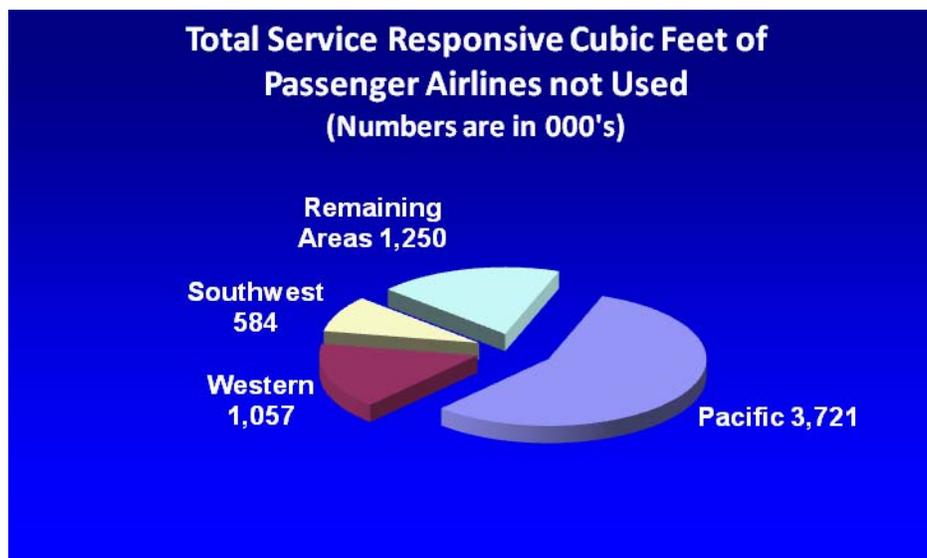


Our analysis of the areas determined that the Postal Service incurred excess costs, in part, because employees at the areas' processing plants did not properly segregate surface mail classes (Standard, Periodicals, and Package Services) from First-Class™ and Priority Mail during distribution operations.

⁶ Surface mail includes magazines, advertising, and merchandise shipped by major mailers such as publishers, catalog companies, or online retail companies.

FedEx Versus Commercial Air

We identified 6.6 million cubic feet of FCM that were transported on FedEx when less costly service-responsive capacity of passenger airlines was available in the eight Postal Service areas over a 1-year period.⁷ According to Postal Service policies, FCM is generally assigned by these priorities: surface transportation when on-time service standards can be met; passenger airlines when FedEx contract requirements have been met; and FedEx when air transportation is required and capacity on passenger airlines or other commercial carriers is not available.



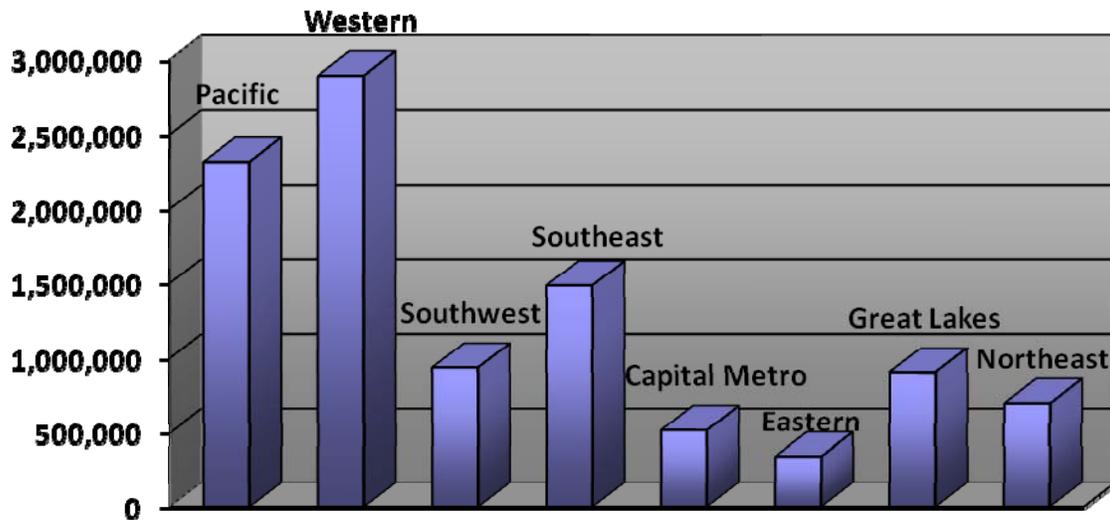
We determined from our analysis of the eight areas, the Postal Service incurred excess costs because local officials did not follow mail assignment priorities by assigning mail to less costly and available commercial air transport.

Mixed Versus Bypass Air Containers

We determined that the eight Postal Service areas incurred fees for more than 10.2 million mail bags, trays, tubs, or other mail handling units that FedEx unnecessarily sorted over a 1-year period. The Postal Service tenders mail to FedEx in both bypass and mixed containers. The FedEx matrix plan sets goals for bypass containers to be tendered to FedEx to avoid added sorting costs associated with mixed containers. Because the areas did not meet the planned bypass matrix, the Postal Service spent more than necessary to sort mail using FedEx.

⁷ Pacific Area: March 1, 2005, to February 28, 2006; Western Area: January 1, 2006, to December 31, 2006; Southwest Area: January 1, 2007, to December 31, 2007; Southeast Area October 1, 2007, to September 30, 2008; Capital Metro, Eastern, Great Lakes and Northeast Areas: May 1, 2008, to April 30, 2009. Dates apply to Mixed Versus Bypass Air Containers chart.

Handling Units Sorted by FedEx Unnecessarily



The eight areas incurred excess costs because Postal Service mail processing plants did not adequately and/or timely separate and identify bypass mail before sending it to the THS contractors.

APPENDIX C: MANAGEMENT'S COMMENTS

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS



September 28, 2010

Lucine M. Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Air Networks – Federal Express Transportation Agreement –
National Analysis (Report Number NL-AR-10-Draft)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report. The audit assessed national issues related to processes, guidance, and oversight in implementing the FedEx Transportation Agreement and associated operations.

Overall, management agrees with the recommendations provided.

Recommendation 1:

Routinely provide headquarters and area management with data, including Transportation Cost System/Cost and Revenue Analysis data, used to monitor and track the volume and additional costs for flying surface mail classes on Federal Express.

Management Response

In order to identify surface volume processed within a preferential mail stream, Network Operations has developed Mail History Tracking System reports that are shared daily with the field to pinpoint where Periodical and Standard Mail is being inadvertently sorted with outgoing First-Class Mail. In addition, a Lean Six Sigma project is currently being conducted to identify root causes and develop solutions that will be implemented nationally to reduce surface mail flow.

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

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Recommendation 2:

Work collaboratively with the areas to identify and address capacity issues, real or perceived, with commercial carriers and ensure carriers comply with stated capacities.

Management Response

Weekly telecoms with the Area Managers, Distribution Networks will be used to address capacity issues and identify solutions.

Recommendation 3:

Adjust mail volume arrival profiles or Federal Express tender times where possible to ensure Terminal Handling Services contractors have time to build planned bypass containers.

Management Response

The Volume Arrival Profiles (VAPs) are driven by the Postal Service plant operating plan and the operating schedules for the Federal Express (FedEx) network. The Terminal Handling Services (THS) is required to provide appropriate staffing to build the containers in accordance with the bypass matrix. VAPs have been adjusted when operational needs have arisen, however, the VAP must support the contractual commitments with our suppliers. A key component of maximizing the bypass containers is the processing facilities' adherence to the VAP.

Recommendation 4:

Reinforce existing policies and procedures, and provide additional guidance and training as necessary, for processing and assigning mail to Federal Express (FedEx), for building bypass containers, and for ensuring mail arrives at Terminal Handling services locations to meet FedEx contract mail tender time requirements.

Management Response

Non-compliance with policies and procedures related to assignment and tender of mail to FedEx will be addressed on scheduled telecoms with the Area Managers, Distribution Networks and the Area Managers, In-Plant Support. In order to improve the adherence to the Volume Arrival Profile, Network Operations is currently conducting a Lean Six Sigma project to determine the root causes related to failure to tender the mail in accordance with the established VAP.

- 3 -

Recommendation 5:

Standardize Postal Service oversight at Terminal Handling Services operations to ensure adequate on-site Postal Service representation to monitor Federal Express operations and ensure local compliance with established processes and procedures.

Management Response

Network Operations will evaluate an approach to standardize oversight at Terminal Handling Services operations and develop a plan by the end of Quarter II, Fiscal Year 2011.

We have reviewed the audit report and do not believe that any portion of the document requires exemption from disclosure under the Freedom of Information Act (FOIA).



David E. Williams

cc: Mr. Forte
Ms. Mallonee
Ms. Grooman
Mr. Neri
Ms. Gallagher
Corporate Audit and Response Management