



Office of Inspector General | United States Postal Service

Audit Report

Terminal Handling Services – Southern Area

Report Number NL-AR-18-009 | July 27, 2018



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Highlights

Objective

The objective was to assess the effectiveness of the Terminal Handling Services (THS) the U.S. Postal Service uses to sort and transport mail in the Southern Area. THS suppliers load mail into FedEx air containers and deliver them to FedEx for transportation across the nation. They also transport incoming FedEx air containers to THS facilities and load mail from the containers into mail transport equipment (MTE) containers for Postal Service pick-up and delivery to designated mail processing facilities.

There are 18 THS facilities in the Southern Area and an additional 51 nationwide. The annual cost for the FedEx contract is about \$1.6 billion and the THS contracts over their contract terms total over \$361 million. This is the second in a series of audits on the effectiveness of THS. We selected the Southern Area because it had over 203 million pounds of mail processed at THS sites in fiscal year (FY) 2017, the third highest national volume.

What the OIG Found

We found that the effectiveness of Southern Area THS could be improved with better oversight of mail arrival profiles and THS contractual operations. We visited the Dallas, Miami, and Tampa THS sites and observed:

- Postal Service mail processing facilities did not always adhere to the mail volume arrival profile (VAP) for the Dallas and Miami THS sites. The VAP is a mail volume percentage sent from mail processing facilities to THS sites. The headquarters Manager of Logistics said they are aware of VAP mail arrival issues. The Postal Service in January 2018 added permanent positions to the Network Operations Control Center to improve the monitoring of mail volume in Postal Service networks and included the monitoring of the VAP. The Manager of Processing Operations said that without this action VAP performance would have been even worse. When facilities do not comply with the VAP, there is an increased likelihood that mail will miss its FedEx flight. For example, in FY 2017, almost 270,300 pounds of mail missed scheduled FedEx flights for the Dallas and Miami THS facilities because of non-

compliance with the VAP. This increases the risk of mail processing delays for the Postal Service and its customers.

- Dallas and Miami THS suppliers did not always meet the required mail delivery time to FedEx. This occurred because the Postal Service did not get the mail to the THS in a timely manner and the THS suppliers accepted mail after the cut-off time for loading full air containers. Although we observed missed delivery times, they did not result in air containers missing their FedEx flights; however, missing delivery times can increase the likelihood of missed flights.
- The Dallas THS loaded mail timely from FedEx flights into Postal Service MTE for transport to the mail processing facilities. However, the MTE remained on the dock for an excessive period of time. This occurred because the mail processing facilities did not provide necessary, timely transportation. This increases the risk of mail processing delays for the Postal Service and its customers.
- The three THS suppliers we observed did not always load mail into air containers according to THS contract requirements. The THS staff chose without Postal Service direction, to load mail based on their preference instead of contract requirements. As a result, the Postal Service paid FedEx almost \$865,000 in FY 2016, and over \$1 million in FY 2017 for unplanned mail sorting charges.

We concluded the conditions we observed occurred because the Postal Service did not have adequate THS contractual oversight. Postal Service representatives are supposed to coordinate operations, monitor performance, and ensure proper management of THS contracts. However, Postal Service staff at the Dallas, Miami, and Tampa THS facilities did not believe they had the authority to enforce contractual requirements. In addition, Postal Service Headquarters was not effectively using the performance irregularities to enforce the contract requirements. Specifically:

- THS suppliers self-reported contract performance irregularities that had liquidated damages; however, the Postal Service has not collected any liquidated damages. The Manager of Air Transportation, Category Management Center, said they currently have a THS irregularity process in place and expect to collect all outstanding liquidated damages by December 2018.
- The contract liquidated damage assessment formula for failing to load air containers is inconsistent with the liquidated damages definition. According to the contract, a liquidated damage would be assessed for all mail not loaded into air containers according to the contract. The assessment formula limits liquidated damage to mail that misses its FedEx flight. The Manager of Air Transportation, Category Management Center, indicated that the Postal Service is revising THS contracts so that the supplier requirements and liquidated damage assessment formulas agree. The target implementation date is December 2018. We are not making a recommendation on this because we have an open recommendation regarding this issue.

What the OIG Recommended

We recommended management:

- Ensure all Southern Area mail processing facilities follow their respective VAPs.



- Monitor and ensure that THS suppliers are following the THS contract for the loading of bypass and mixed mail air containers unless the Postal Service approves a deviation.



- Ensure that the THS contractual requirements are enforced.



Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

July 27, 2018

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

SHAUN E. MOSSMAN
VICE PRESIDENT, SOUTHERN AREA

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Terminal Handling Services – Southern Area
(Report Number NL-AR-18- 009)

This report presents the results of our audit of U.S. Postal Service Terminal Handling Services – Southern Area (Project Number 18XG007NL000).

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our second in a series of self-initiated audits of the U.S. Postal Service's Terminal Handling Services (THS) (Project Number 18XG007NL000). The objective of our audit was to assess the effectiveness of THS the Postal Service uses to sort and transport mail in the Southern Area. See [Appendix A](#) for additional information about this audit.

“There are 18 THS facilities in the Southern Area and an additional 51 nationwide.”

Background

The Postal Service has THS contracts with suppliers for mail handling and transportation services for the FedEx air transportation contract.¹ There are 18 THS facilities in the Southern Area and an additional 51 THS facilities nationwide with contracts totaling over \$361 million over the contract terms. The annual cost for the FedEx contract is about \$1.6 billion.

THS suppliers transport loaded air containers to FedEx for air transport across the nation and transport and unload mail from incoming FedEx air containers to the Postal Service. They separate incoming mail from the air containers and load it into Postal Service mail transport equipment (MTE) containers. After loading occurs, employees apply placards to MTE containers to identify the correct Postal Service mail processing facility. The Postal Service then picks up and delivers the containers to designated mail processing facilities.

THS suppliers are responsible for loading mail into FedEx air containers. The Postal Service uses the volume arrival profile (VAP) to show the percentage of mail to be delivered to each THS site at specific times. THS suppliers load mail going to the same location into FedEx air containers called bypass containers. Mail going to multiple locations is loaded into FedEx air containers called mixed containers. The Postal Service incurs additional charges for unplanned mail sorting by FedEx for mixed containers. The average FedEx processing charge

was about [REDACTED] for fiscal year (FY) 2016 and about [REDACTED] for FY 2017.

THS contracts contain eight irregularities, or performance failures, for which the Postal Service can assess the THS supplier liquidated damages. The liquidated damage for each irregularity has a specific calculation formula. Additionally, the THS supplier is contractually required to self-report all performance irregularities and to take corrective action when contract compliance issues are identified. The eight contract irregularities are listed in Table 1.

Table 1. Contract Irregularities by Category and Definition

Type of Irregularity	Definition
Failure to Load	A failure to accept and load mail to the aviation supplier as specified in the contract.
Failure to Deliver	A failure to deliver mail to the Postal Service designated location as specified in the contract and by the delivery time.
Mis-Routed ²	Any mail delivered to the wrong destination and/or mail placed in the wrong container.
Failure to Protect	A failure to protect and safeguard mail from depredation, rifling, inclement weather, mistreatment, or other hazard.
Failure to Protect Postal Service Equipment	A failure to protect, return, or safeguard Postal Service provided equipment.
Failure to Protect the Aviation Supplier's Air Cargo Containers	A failure to protect or safeguard the FedEx air cargo containers.
Failure to Execute Surface Visibility Scans	A failure to obtain any required Surface Visibility scans.

¹ [REDACTED]
² The contracts refer to this as "Mis-Delivered".

Type of Irregularity	Definition
Unapproved Use for Facilities	A failure to seek necessary approval by the Contracting Officer before performing “other business” or other services.

Source: Postal Service Contract Authority Management System (CAMS).

THS contracts also require that the Postal Service provide representation at the THS facility to coordinate, provide direction, monitor performance, and ensure proper management of the THS operation including on-time mail delivery to the Postal Service and FedEx.

We conducted our observations for four days each at the Dallas, Miami, and Tampa THS facilities. We selected these facilities because they were the top three THS locations for processing mail volume for FedEx air transportation in the Southern Area in FY 2017 (see Table 2).

Table 2. [Redacted]

Location	[Redacted]	[Redacted]
DALLAS, TX	13.87%	30,963,061
MIAMI, FL	14.65%	32,719,670
TAMPA, FL	11.72%	26,161,798
JACKSONVILLE, FL	7.97%	17,797,693
HOUSTON, TX	7.08%	15,806,835
AUSTIN, TX	5.38%	12,012,620
SAN ANTONIO, TX	4.78%	10,682,131
ORLANDO, FL	5.53%	12,345,037
Total		158,488,845

Source: Postal Service Enterprise Data Warehouse (EDW).

Finding #1: Postal Service Oversight

Based on our analysis and observations, we found:

- Postal Service mail processing facilities did not always adhere to the VAP for mail delivery to the THS facilities and the expected mail arrival times varied daily from the schedule. The headquarters Manager of Logistics said they are aware of VAP mail arrival issues. The Postal Service in January 2018 added permanent positions to the Network Operations Control Center to improve the monitoring of mail volume in Postal Service networks that included the VAP. The Manager of Processing Operations said that without this action VAP performance would have been even worse.
- THS suppliers did not always:
 - Meet required air container delivery time to FedEx.
 - Meet mail delivery time to the Postal Service from the FedEx flights.
 - Load mail into air containers according to THS contract requirements.

We concluded that these conditions occurred because the Postal Service did not have adequate THS contractual oversight. The staff at the Dallas, Miami, and Tampa THS facilities did not believe they had the authority to enforce the contractual requirements. In addition, Postal Service Headquarters was not effectively using performance irregularities to enforce the contract requirements. Specifically:

- THS suppliers self-reported contract performance irregularities that have liquidated damages. However, the Postal Service has not collected any liquidated damages. The Manager of Air Transportation, Category Management Center (CMC), said that they currently have a THS irregularity process in place and expect to collect all outstanding liquidated damages by December 2018.
- THS suppliers’ contract liquidated damage assessment formula for failing to load is inconsistent with the liquidated damages definition. According to the contract, a liquidated damage would be assessed for all mail not loaded into air containers according to the contract. This assessment formula limits

the liquidated damage to mail that misses the FedEx flight. The Manager of Air Transportation, CMC, indicated that the Postal Service is revising THS contracts so the supplier requirements and assessment formula agree. The targeted implementation date is December 2018. We are not making a recommendation on this because we have an open recommendation regarding this issue in our *Terminal Handling Services – Capital Metro* report (Report Number NL-AR-18-004, dated February 2, 2018).

We calculated unplanned FedEx sort costs of over \$864,000 for FY 2016, and over \$1 million for FY 2017 that the Postal Service paid. If management does not correct the oversight issues, we estimate sort costs of over \$1.2 million in FY 2018, and almost \$1.4 million in FY 2019.

Volume Arrival Profile

We found that the Postal Service was not always sending mail to the Dallas and Miami THS facilities in accordance with the VAP. Mail not arriving in accordance with the VAP could negatively impact THS operations. We reviewed and analyzed Postal Service truck logs during our site visits to determine adherence to the VAP. At the Dallas THS facility, the VAP projected that about 75 percent of mail would be delivered before 2:00 a.m. However, we determined that between 33 and 47 percent of the mail volume was arriving at the THS facility after 2:00 a.m. (see Table 3).

Table 3. Dallas THS Volume Arrival Profile During Our Week of Observations

Mail Arrival Time	VAP Percentage	February 13, 2018	February 14, 2018	February 15, 2018	February 16, 2018
11:00 p.m. - 12:00 a.m.	██████	████	████	████	████
12:01 a.m. - 1:00 a.m.	██████	████	████	████	████
1:01 a.m. - 2:00 a.m.	██████	████	████	████	████
2:01 a.m. - 3:00 a.m.	██████	████	████	████	████
3:01 a.m. - 4:00 a.m.	██████	████	████	████	████
4:01 a.m. - 5:00 a.m.	██████	████	████	████	████

Source: Truck logs provided by the Postal Service, Dallas THS contract (THS-14-IAS), and U.S. Postal Service Office of Inspector General (OIG) analysis.

At the Miami THS facility, the VAP projected that about 64 percent of the mail would be delivered before 2:00 a.m. However, we determined that between 54 and 70 percent of mail volume was arriving at the THS facility after 2:00 a.m. (see Table 4).

Table 4. Miami THS Volume Arrival Profile During Our Week of Observations

Mail Arrival Time	VAP Percentage	February 27, 2018	February 28, 2018	March 1, 2018	March 2, 2018
9.30 p.m. - 10:00 p.m.	██████	████	████	████	████
10:01 p.m. - 11:00 p.m.	██████	████	████	████	████

Mail Arrival Time	VAP Percentage	February 27, 2018	February 28, 2018	March 1, 2018	March 2, 2018
11:01 p.m. - 12:00 a.m.	██████	██████	██████	██████	██████
12:01 a.m. - 1:00 a.m.	██████	██████	██████	██████	██████
1:01 a.m. - 2:00 a.m.	██████	██████	██████	██████	██████
2:01 a.m. - 3:00 a.m.	██████	██████	██████	██████	██████
3:01 a.m. - 4:00 a.m.	██████	██████	██████	██████	██████
4:01 a.m. - 5:00 a.m.	██████	██████	██████	██████	██████
5:01 a.m. - 6:00 a.m.	██████	██████	██████	██████	██████

Source: Truck logs provided by the Postal Service, Miami THS contract (THS-16-CFI), and OIG analysis.

The headquarters Manager of Logistics said they are aware of the VAP percentage issues. The Postal Service in January 2018 added permanent positions to The Network Operations Control Center to improve the monitoring of mail volume in the Postal Service networks and including the VAP. The Manager of Processing Operations said that without this action VAP performance would have been even worse. Not following the VAP increases the likelihood that mail will miss its FedEx flight. Our review and analysis of the Logistic Condition Reporting System (LCRS) report indicated that almost 270,300 pounds of mail at the Dallas and Miami THS facilities missed the intended FedEx flights in FY 2017.

Delivery Time to FedEx

Dallas and Miami THS suppliers did not always meet the required air container delivery time to FedEx. THS suppliers are supposed to transport and deliver loaded air containers to FedEx by a specified time as outlined in the mail processing operating plan.³ At the Dallas THS facility during the week of February 12, 2018, we observed about 17 loaded air containers on transport equipment at 5:00 a.m., the expected arrival time at FedEx. These containers had not

left the facility and it takes about ten minutes to process these containers at the FedEx facility. At the Miami THS facility during the week of February 26, 2018, we observed about 13 loaded air containers leaving the facility between 7:00 and 7:28 a.m. The air containers were due at FedEx at 7:00 a.m. Although we observed missed delivery times, we did not observe air containers missing their FedEx flights. However, missed delivery times can increase the likelihood of missed flights.

These conditions occurred because the Postal Service did not send mail timely to the Dallas and Miami THS facilities and facilities' staff had to accept mail after the cut-off time to load full containers. At the Dallas facility, we observed trucks that arrived from 15 minutes to one hour after the cut-off time of 4:00 a.m. In addition, the Miami THS accepted mail from 15 to 30 minutes after the cut-off time of 5:00 a.m. Although we observed missed delivery times, we did not observe air containers missing their FedEx flights. However, missed delivery times can increase the likelihood of missed flights.

³ Operating plans provide the primary guidelines for establishing dispatch routings between mail processing facilities. They provide dock clearance times at the origin facility and incoming critical entry times at the destination facility. They also provide clearance time of each operation, information on mail classes, processing equipment, processing operations, a profile of anticipated volume and the operating frequencies at each processing facility.

Delivery Time to the Postal Service

The Dallas THS loaded mail timely from FedEx flights into Postal Service MTE for transport to the mail processing facilities. However, the MTE remained on the dock for an excessive period of time. On one day, we observed four trucks loaded with 32 MTE containers and another 225 MTE containers waiting to be transported to mail processing facilities anywhere from about 35 minutes to two hours. This caused the mail to leave after 10:00 p.m. when it was supposed to be delivered to the Postal Service by 9:00 p.m. This occurred because the Postal Service did not have enough available truck drivers at the Dallas facility to transport the mail to the Postal Service mail processing facilities. The Area Manager of Network Operations said there was a shortage of truck drivers during the time of our observations and they were in the process of hiring more.

When management does not ensure truck drivers are available to drive trucks that THS suppliers load mail onto for transport to mail processing facilities, the Postal Service is at risk of mail processing delays at mail processing facilities and to its customers.

Loading Air Containers

None of the three THS suppliers consistently loaded mail into air containers according to THS contract requirements. Suppliers are supposed to load mail into air containers that are either being sent to the same location (a bypass container) or multiple locations (a mixed container), which FedEx then sorts for its destination. Instead, THS staff choose to load mail based on their own preference, as follows:

- The Dallas THS supplier loaded bypass mail into mixed mail air containers at [REDACTED] a.m. when the cut-off time to receive mail from the Postal Service is [REDACTED] a.m.
- The Miami THS supplier loaded bypass mail into mixed mail air containers at [REDACTED] a.m. when the cut-off time to receive mail from the Postal Service is [REDACTED] a.m.

- The Tampa THS supplier loaded bypass mail into mixed mail air containers at [REDACTED] a.m. when the cut-off time to receive mail from the Postal Service is [REDACTED] a.m.

The headquarters Manager of Logistics said the Postal Service considers bypass air container usage to be efficient and cost effective when a threshold of [REDACTED] or greater of the air container is full. The Postal Service's internal guidelines⁴ state that for a bypass air container, [REDACTED] is the minimum volume required to avoid converting it to a mixed container. LCRS data for the Dallas, Miami, and Tampa THS facilities identified a large number of air containers that should not have been converted from bypass air containers to mixed air containers —1,643 in FY 2016, and 1,860 in FY 2017. This data does not include those converted air containers that were less than [REDACTED] full. This conversion results in additional costs for the Postal Service because this mail was sorted by FedEx.

THS suppliers did not always load mail into air containers as required because:

- The Dallas THS supervisor instructed employees to load mail into mixed mail containers to ensure delivery of [REDACTED] of the available mail volume to FedEx.
- Miami and Tampa THS supervisors instructed employees to load mail into mixed mail containers because they thought they would receive no more bypass mail based on historical mail volume. In addition, they wanted to maximize the capacity of the air container.

When this happens, the Postal Service incurs an additional FedEx processing charge. We determined that the Postal Service incurred additional FedEx sort costs of about \$11,000 for Dallas, Miami, and Tampa THS suppliers during our observations. These costs would have totaled almost \$865,000 in FY 2016, and over \$1 million in FY 2017 for converting bypass containers to mixed air containers. We based this on an average FedEx processing charge of about [REDACTED] for FY 2016 and [REDACTED] per piece for FY 2017 (see [Table 5](#)) given to us by the Postal Service.

⁴ The *Terminal Handling Supplier Guide* is an internal Postal Service guide to understanding THS operations.

⁵ [REDACTED]

Table 5. Additional FedEx Sort Charges

Fiscal Year	THS Facility	Number of Mailpieces	Average FedEx Sort Rate	Questioned Costs	FY Total
2016	Dallas	██████		208,981	\$864,875
	Miami	██████	██████	314,261	
	Tampa	██████		341,634	
2017	Dallas	██████		171,377	1,052,016
	Miami	██████	██████	460,964	
	Tampa	██████		419,675	
Total					\$1,916,891

Source: Postal Service, LCRS, and OIG analysis and calculations of the cost of mailpieces entering the FedEx sort.

Lack of Oversight

We concluded these conditions occurred because the Postal Service did not have adequate THS contractual oversight. Postal Service representatives are supposed to coordinate operations, monitor performance, and ensure proper management of THS contracts. However, staff at the Dallas, Miami, and Tampa THS facilities did not believe they had the authority to enforce the contractual requirements.

In addition, Postal Service Headquarters was not effectively using the performance irregularities to enforce the contract requirements. Specifically:

- THS suppliers self-reported contract performance irregularities that have liquidated damages; however, the Postal Service has not collected any liquidated damages. The Manager of Air Transportation, CMC, said they currently have a THS irregularity process in place and expect to collect all outstanding liquidated damages by December 2018.

- The contract liquidated damage assessment formula for failing to load is inconsistent with the liquidated damage definition. The contract expects the THS supplier to pay a liquidated damage for all mail not loaded into air containers according to the contract; however, contract loading requirements specify that the THS supplier unload mail from Postal Service MTE containers and scan and load it into FedEx air containers. The mail is loaded into a bypass container when it is all destined for the same location or a mixed container when it is destined for multiple locations. The liquidated damage assessment formula is based only on mail missing the FedEx flight. The CMC Manager said they are revising both the supplier requirements and assessment formula in the contract so that there is agreement. Specifically, the language and assessment formula will now include mail not accepted and loaded as specified in the contract. The Postal Service plans to finish revising contracts up for renewal by December 2018 and will include the revised language in future contracts. We are not making a recommendation on this matter because we have an open recommendation regarding this issue in our *Terminal Handling Services – Capital Metro* report (Report Number NL-AR-18-004, dated February 2, 2018).

Questioned Sort Costs

We calculated questioned costs for unplanned FedEx sort charges of almost \$865,000 for FY 2016, and over \$1 million for FY 2017 (see Table 6). If the Postal Service does not correct oversight issues, we estimate sort costs of over \$1.2 million for FY 2018, and almost \$1.4 million for FY 2019 (see Table 7).

Table 6. Questioned Costs

Fiscal Year	Description	Cost Savings
2016	FedEx Sort Cost	\$864,875
2017	FedEx Sort Cost	1,052,016
Total		\$1,916,891

Source: OIG analysis and calculation of LCRS and FedEx sort costs.

Table 7. Funds Put to Better Use

Fiscal Year	Description	Cost Savings
2018	FedEx Sort Cost	\$1,220,753
2019	FedEx Sort Cost	1,373,318
Total		\$2,594,071

Source: OIG analysis and calculation of LCRS and FedEx sort costs.

Recommendation #1

The Vice President, Southern Area, in coordination with the Vice President, Network Operations, ensure all Southern Area mail processing facilities follow their respective volume arrival profiles.

Recommendation #2

The Vice President, Southern Area, in coordination with the Vice President, Network Operations, monitor and ensure that Terminal Handling Services (THS) suppliers are following the THS contract for the loading of bypass and mixed mail air containers unless the Postal Service approves a deviation.

Recommendation #3

The Vice President, Network Operations, in coordination with the Vice President, Southern Area, ensure that Terminal Handling Services contractual requirements are enforced.

Management's Comments

Management partially agreed with the findings and recommendations and disagreed with the monetary impact. In subsequent correspondence, management clarified that they disagreed with recommendation 1 and agreed with recommendations 2 and 3.

Regarding the monetary impact, management disagreed with the assumption that each impact was solely the result of poor THS oversight and neglected daily

operational considerations. Management stated that the calculation did not take into account mail arriving prior to observations and diverted mail as a result of bedloads, air to surface, offloads, and charters which impact the VAP.

Regarding recommendation 1, management disagreed, but stated they will reinforce the importance of timely clearance and adherence to existing operating plans. However, they indicated that the use of alternative transportation impacts early VAP profile percentages. Management's target implementation date is August 2018.

Regarding recommendation 2, management agreed and stated that THS suppliers should maintain bypass containers to the maximum extent possible and the Southern Area will use all headquarters guidance available and work in conjunction with headquarters to provide THS liaison training to ensure that mail is properly handled. Management's target implementation date is September 2018.

Regarding recommendation 3, management agreed and stated that contractual requirements should be enforced. The Southern Area will work in conjunction with headquarters to ensure THS liaisons receive operations training to include the volume arrival profile and irregularities. Management's target implementation date is September 2018.

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

Evaluation of Management's Comments

The OIG does not consider management's comments responsive to the recommendations.

Regarding recommendation 1, management does not detail what will be done to ensure adherence to the VAP. For example, management could adjust VAP profiles to reflect the alternative transportation impacts.

Regarding recommendation 2, THS contractors are loading mail and converting bypass containers to mixed containers based on their own preference instead of contract requirements. Headquarters guidance, however, does not address the issue of converting containers. Therefore, management's response does not

clearly identify how a bypass container will be prevented from being converted from bypass to mixed without Postal Service approval.

Regarding recommendation 3, management outlines training they will conduct with liaisons on THS operations; however, the liaisons stated that they do not have the authority to enforce the contract. Management needs to clarify how the contract requirements will be enforced.

Regarding the monetary impact, the OIG agrees that not all converted mail containers are the result of poor THS oversight. However, during our observations, THS staff did not indicate that they were converting bypass containers based on operational considerations to include mail arriving prior to observations or diverted mail. Instead, THS staff chose, without Postal Service

direction, to load mail based on their preference instead of contract requirements. Additionally, we were conservative in our calculation by using Postal Service-provided LCRS data and the smallest ULD container size even though the majority of containers that we observed being converted were double the size.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of our audit was three of the eighteen THS facilities in the Southern Area that handled the highest volume of FedEx mail.

To achieve our objective, we:

- Extracted and analyzed mail volume data handled by the THS site in FY 2017.
- Ranked Southern Area THS sites by highest to lowest mail volume for the period October 1, 2016, through September 30, 2017.
- Judgmentally selected the top three THS facilities shown in [Table 2](#) for site observations based on the amount of mail volume processed from October 1, 2016, through September 30, 2017.
- Conducted site observations at the Dallas THS facility four days during the week of February 12, 2018; at the Miami THS facility four days during the week of February 26, 2018; and at the Tampa THS facility four days during the week of March 12, 2018, to assess the effectiveness of THS operations.
- Identified, reviewed, and evaluated Postal Service THS policies, procedures, guidelines, and operational requirements.
- Reviewed THS contracts for Dallas, Miami, and Tampa suppliers to identify contract requirements regarding level of sortation required, bed loading, and maximizing the use of unit loading devices at the three THS facilities that process

the most volume transported by FedEx in the Southern Area to determine if THS operations were conducted in accordance with the contracts.

- Analyzed and evaluated data from the Postal Service’s LCRS to determine the number of bypass mail containers loaded into mixed mail containers.
- Interviewed Postal Service managers, supervisors, and clerks to understand and discuss THS operations, including the VAP.
- Interviewed THS managers and supervisors to identify operational performance issues and contract irregularities.

We conducted this performance audit from January through July 2018, 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 on June 27, 2018, and included their comments where appropriate.

We used computer-processed data from the Postal Service’s EDW and LCRS. We assessed the reliability of computer-generated data by reviewing related documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Terminal Handling Services – Capital Metro Area</i>	Assess the effectiveness of THS used to sort and transport mail for the Postal Service in the Capital Metro Area.	NL-AR-18-004	2/2/2018	\$21

Appendix B: Management's Comments



July 16, 2018

RICK POLAND
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Terminal Handling Services – Southern Area
(Report Number NL-AR-18-DRAFT)

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft audit report, "Terminal Handling Services – Southern Area." Management partially disagrees with the findings and recommendations as outlined in the audit response and the action plans shown below.

Regarding monetary impacts identified in the audit, we disagree with the calculations, which do not account for additional factors. Table 3, Dallas THS Volume Arrival Profile does not include 100 percent of the actual mail volume. Mail arriving prior to observations assists THS with preparing bypass containers. Bed-loads, Offloads, Air to Surface, and Charters will divert available mail impacting the volume arrival profile at the THS facility and the number of mixed containers. The calculations fail to account for the differences between the Bypass Plan and the daily capability based on the actual volume arrival profile.

Regarding Questioned Cost – 2016 FedEx Sort Costs of \$864,875 – the OIG incorrectly concluded that all converted mixed containers are the result of poor THS oversight and neglected to consider the daily operational considerations which support bypass conversion which are accounted for in the THS contracts.

Regarding Questioned Cost – 2017 FedEx Sort Cost of \$1,052,016 – the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight and neglected to consider the daily operational considerations which support bypass conversion which are accounted for in the THS contracts.

Regarding Funds Put to Better Use – 2018 FedEx Sort Cost of \$1,220,753 – the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight and neglected to consider the daily operational considerations which support bypass conversion which are accounted for in the THS contracts.

Recommendation #1

We recommend the Vice President, Southern Area, in coordination with the Vice President, Network Operations, ensure all Southern Area mail processing facilities follow their respective volume arrival profiles.

Management Response/Action Plan

Southern Area partially disagrees with the recommendation. Management will reinforce the importance of timely clearance and adherence to existing Operating Plans. However, the use of

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alternative transportation, such as, offloads or bed-loads built by the USPS, and air to surface diversions will have an impact on the early hourly VAP percentages to the THS.

Target Implementation Date
August 2018

Responsible Official
Manager Operations Support, Southern Area and Manager, Processing Operations HQ

Recommendation #2
The Vice President, Southern Area, in coordination with the Vice President, Network Operations, monitor and ensure that Terminal Handling Services (THS) suppliers are following the THS contract for loading bypass and mixed mail air containers unless the Postal Service approves a deviation.

Management Response/Action Plan
Management agrees that THS suppliers should maintain bypass containers, to the maximum extent possible and consistent with bypass conversion rules and guidelines, to exclude as much mail as possible from unnecessary processing. Southern Area will utilize all guidance provided by Headquarters to assist with eliminating this issue. Southern Area will work in conjunction with Headquarters to provide training on THS oversight to the liaisons to ensure mail is being handled properly.

Target Implementation Date
September 2018

Responsible Official
Manager Network Operations, Southern Area and Manager, Air Transportation Operations, HQ

Recommendation #3
The Vice President, Network Operations, in coordination with the Vice President, Southern Area, ensure that Terminal Handling Services contractual requirements are enforced.

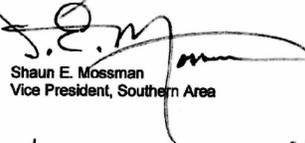
Management Response/Action Plan
Southern Area will work in conjunction with Headquarters to provide training on THS oversight to the Postal liaisons. Postal Liaisons will review and monitor THS operations, and communicate with the Headquarters Air Transportation Operations concerning Volume Arrival Profiles and Irregularities for follow up with the supplier.

Target Implementation Date
September 2018

Responsible Official
Manager, Air Transportation Operations, HQ, and Manager, Network Operations, Southern Area

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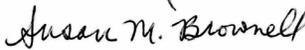
Should you have any questions, please contact Ray Vincent, Area Accounting Manager at 214-819-8649.



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