



December 6, 2010

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

SUBJECT: Management Advisory – Surface Mail Classes on Air
Transportation Networks (Report Number NL-MA-11-001)

This report presents the results of our self-initiated review of Surface Mail Classes on Air Transportation Networks. The objectives were to determine whether opportunities exist to limit surface mail classes on air transportation networks and to identify related cost savings opportunities (Project Number 10XG041NL000). This report focuses on transportation involving Federal Express (FedEx) Night-Turn,¹ commercial air carrier (CAIR), United Parcel Service (UPS), and Christmas air transportation networks. This review addresses financial risk. See [Appendix A](#) for additional information about this review.

Postal Service policy requires transportation managers to balance service and cost in determining the best transportation mode to move mail. Typically, air transportation is more expensive than surface transportation; and surface mail classes, including Standard Mail®, Periodical, and Package Services, are not as time sensitive as Express Mail®, Priority Mail®, or First-Class Mail® (FCM). Therefore, transportation managers should generally assign the surface mail types to less costly highway or rail transportation as long as the Postal Service can still meet on-time delivery standards.

Conclusion

The Postal Service used several air transportation networks² instead of cheaper, space available ground transportation to move Standard, Periodical, and Package Services mail classes. This resulted in unnecessary spending of about \$22.7 million over two years, or about \$12.1 million in fiscal year (FY) 2008 and \$10.6 million in FY 2009. We determined through prior audit work in the eight Postal Service areas³ that weak controls existed when segregating mail allowing use of these air networks. Also, our previous work showed Headquarters management was not always effectively monitoring the types of mail transported on air networks. By ensuring the use of ground transportation for moving surface mail classes, the Postal Service could save about \$50 million over 10 years. See [Appendix B](#) for our detailed analysis of this topic.

¹ We previously reported on surface mail classes on FedEx Day-Turn operations in our FedEx Transportation Agreement audits covering the eight Postal Service areas.

² The FedEx Night-Turn, CAIR, UPS, and Christmas air transportation networks.

³ Our prior work was related to FedEx Day-Turn operations, but the systemic issues we identified related to mail processing and impacted all air networks.

Management Action

As a result of this review and our prior related audits of the FedEx Day-Turn network, management has taken steps that can be expanded to other air networks. These corrective actions include:

- Sharing of Transportation Cost System/Cost and Revenue Analysis (TRACS/CRA)⁴ data with appropriate headquarters officials in an effort to monitor and track the volume and costs of transporting Standard, Periodicals, and Package Services mail classes transported on the FedEx Day-Turn Network.
- Holding a formal presentation to all plant managers concerning the causes and cost impacts of transporting surface mail classes on the FedEx Day-Turn 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.

We recommend the vice president, Network Operations:

1. Verify that actions already taken related to minimizing surface mail classes on the FedEx Day-Turn network are applied to other air networks to ensure transportation managers use surface transportation, instead of the Federal Express Night-Turn, commercial air carrier, United Parcel Service, and Christmas air transportation networks to move surface mail types where possible.
2. Routinely provide headquarters and area management with data, including Transportation Cost System/Cost and Revenue Analysis data, to monitor and track the volume and avoid additional costs for flying surface mail classes on the Federal Express Night-Turn, commercial air carrier, United Parcel Service, and Christmas air transportation networks.
3. Reinforce existing policies and procedures for the processing and assigning of mail to air and surface transportation.

⁴ 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.

Management's Comments

Management generally agreed with our findings and recommendations. Overall, management stated in their response that actions already implemented as noted in the Management Action section of this report should begin to show positive results by the end of Quarter 1, FY 2011. These actions apply to all recommendations.

For recommendations 2 and 3, additional corrective actions were stated that enhance the measures management put in place during the course of this review. Network Operations developed mail history tracking reports, which they share daily with the field to pinpoint where Standard and Periodical mail classes are being improperly sorted with FCM. Scheduled teleconferences addressing policy non-compliance with the field have been implemented along with a new Lean Six Sigma project to identify root causes and solutions to reduce surface mail flown nationally. The Lean Six Sigma project began October 2010 and will continue through February 2011. Process improvements will be developed and implemented by September 2011.

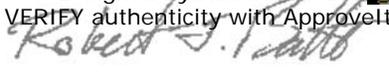
Management stated their corrective actions should produce positive results that will reduce or eliminate their exposure to any funds needlessly expended. In addition, management agreed with the reported monetary impacts. See [Appendix E](#) for management's comments in their entirety.

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. For clarification on recommendation 1, management did not fully fix the problem when it implemented a system in 2006 as referred to in management's comments. While we acknowledge the system helps prevent surface mail from flying on the air networks, it could be, and was, overridden. Thus, recommendation 1 addresses the root cause of the issue. 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 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
Deputy Assistant Inspector General
for Mission Operations

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

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Generally transportation of Postal Service mail by air is more expensive than using surface transportation, and Postal Service policy requires transportation managers to balance service and cost in determining the best transportation mode. The transportation modes for specific mail types are prescribed in national dispatch instructions. Typically, surface transportation is used to transport Standard, Periodicals, and Package Services mail classes, and air transportation is reserved for mail classes with more stringent service standards, including FCM, Priority Mail, and Express Mail.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether opportunities exist to limit surface mail classes on air transportation networks and to identify related cost savings opportunities. This review focused on surface mail flown on the FedEx Night-Turn, UPS, CAIR, and Christmas air transportation networks for FYs 2008 and 2009. We conducted prior audits addressing this issue, but the recommendations made in those audits applied to operations specifically associated with the FedEx Day-Turn Network (see Prior Audit Coverage section) rather than to other air networks. We are making similar recommendations in this report that can be applied to other air transportation networks.

To determine whether opportunities existed to limit surface mail classes on these air transportation networks, we interviewed officials from Postal Service Network Operations at headquarters.⁵ We evaluated the types of mail being transported on air networks; considered on-time service standards; analyzed systemic causes for the improper movement of mail; and analyzed alternate solutions for making the best use of surface and air networks. We relied on our prior work related to the FedEx Day-Turn operations in identifying causes, since the systemic causes for surface mail being transported on that network also apply to the air networks covered in this review. Therefore, we determined that additional facility site visits were not necessary for this review.

To identify any related cost savings, we examined and analyzed relevant documents including:

- TRACS/CRA data
- Postal Service policies that govern network routing and on-time standards

⁵ During our previous work on FedEx Day-Turn operations, we interviewed officials from area offices, and Postal Service contract officials, including officials from FedEx, UPS, and several THS providers. We also visited facilities and operations including airport mail centers, THS operations, and mail processing facilities. Additionally, we observed and photographed certain operations.

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

To address these data limitations, we applied alternate procedures. We discussed the data with Postal Service officials, managers, supervisors, employees and contractors. We conducted source document examinations and discussed our initial findings and recommendations with senior Postal Service officials and considered their perspective. We also considered the results of observations and physical inspections, as well as area management responses, in our prior audit work in assessing systemic, nationwide operational issues related to surface mail classes transported by air networks.

**Air container of Postal Service
mail being loaded on UPS aircraft
in San Juan, PR
September 13, 2008**



We conducted this performance review from July 2010 through December 2010 in accordance with the *Quality Standards for Inspections*.⁶ We discussed our observations and conclusions with management officials on August 31, 2010 and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We issued five reports, listed in the chart that follows, each of which identified surface mail being improperly flown on the FedEx Day-Turn network in all Postal Service areas. The audits identified systemic causes for the movement of surface mail on the FedEx Day-Turn network. Management generally agreed with our findings and recommendations.

⁶ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, The Inspector General Act of 1978 as amended by the IG Reform Act of 2008 created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

Report Title	Report Number	Final Report Date	Related Monetary Impact ⁷
<i>Air Networks – Federal Express Transportation Agreement – Pacific Area</i>	NL-AR-08-002	2/19/2008	\$39.0 million
<i>Air Networks – Federal Express Transportation Agreement – Western Area</i>	NL-AR-08-008	9/29/2008	\$103.4 million
<i>Air Networks – Federal Express Transportation Agreement – Southwest Area</i>	NL-AR-09-002	3/3/2009	\$42.9 million
<i>Air Networks – Federal Express Transportation Agreement – Southeast Area</i>	NL-AR-09-007	7/31/2009	\$39.5 million
<i>Air Networks – Federal Express Transportation Agreement – Capital Metro, Eastern, Great Lakes, and Northeast Areas</i>	NL-AR-10-005	5/25/2010	\$170.4 million

⁷ Related monetary impact amounts for this finding within these reports include over \$75.6 million in unnecessary questioned costs and an estimated \$319.5 million in funds put to better use over ten years if corrective actions are taken concerning the surface mail classes flown on the FedEx Day-Turn network.

APPENDIX B: DETAILED ANALYSIS

Transporting Surface Mail Classes on Air Networks other than FedEx Day-Turn

We concluded the Postal Service used air transportation instead of cheaper, space available ground transportation to move large volumes of Standard, Periodicals, and Package Services mail classes.⁸ The air networks used to fly this mail included the FedEx Night-Turn, CAIR, UPS, and Christmas air transportation. By doing so, the Postal Service spent about \$22.7 million more than necessary over two years, or about \$12.1 million in FY 2008 and \$10.6 million in 2009, as shown in Table 1.

Table 1. Excess Costs of Transporting Surface Mail Classes on FedEx Night-Turn, UPS, CAIR, and Christmas air networks during FYs 2008 and 2009

Fiscal Year	Periodicals	Standard Mail	Package Services	Total Cost
2008	\$5,117,968	\$5,948,148	\$1,057,868	\$12,123,984
2009	\$3,799,349	\$5,714,682	\$1,083,476	\$10,597,507
Totals	\$8,917,317	\$11,662,831	\$2,141,344	\$22,721,491

Note: We extracted information from Postal Service TRACS/CRA data. All numbers are rounded. For more details, see Appendix D.

This occurred because Postal Service employees at the origin processing plants did not properly segregate surface mail classes from FCM and Priority Mail during distribution and processing operations.

376 pieces of Standard Mail in a FCM letter tray dispatched from West Palm Beach, FL to Chicago, IL via commercial air transportation



We also determined that headquarters was not effectively monitoring the types of mail transported on these air networks and that Postal Service officials at headquarters and the area level did not routinely assess the magnitude of surface mail classes transported by air. Furthermore, Postal Service officials were unfamiliar with TRACS/CRA data that relates transportation costs to specific mail classes and were not

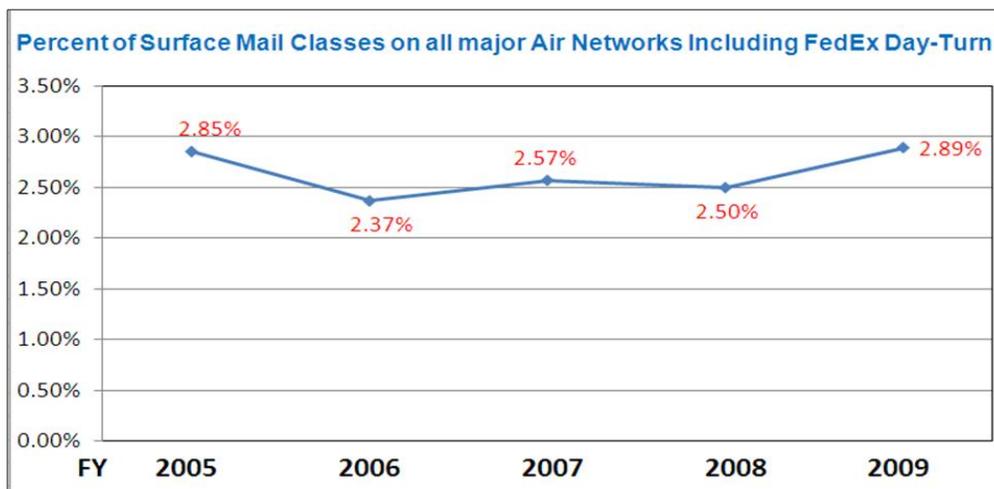
⁸ Through prior audit work in the eight Postal Service Areas, we determined that systemic issues existed that resulted in surface mail types being flown on the FedEx Day-Turn network as well as all air networks. Specifically, Postal Service employees at the origin processing plants did not properly segregate surface mail classes from FCM and Priority Mail during distribution operations.

using the data to assess operations. The TRACS/CRA data is primarily used for ratemaking decisions and not for monitoring the types of mail transported by air. We concluded that if TRACS 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 air networks.



FCM Flat Tub to Sacramento, CA (SMF) with 7 Periodicals, 8 Presort Standard, 1 non-profit, 1 Bound Printed Matter, and 1 Media Mail from AFSM 100 North Metro Processing & Distribution Center for transport on UPS

Moreover, we found either steady or increasing surface mail volume on the air transportation networks. We recognize that overall mail volume has decreased since FY 2006; however, the volumes of surface mail classes transported on air networks have not significantly declined. In fact, the surface mail class percentage of the total volume transported by air increased in FYs 2007 and 2009 from FY 2006 levels as shown in the following chart.



By using ground transportation for these surface mail classes rather than air transportation, we estimate the Postal Service could save about \$50 million over 10 years.

APPENDIX C: MONETARY IMPACTS

Finding	Impact Category	Amount
Surface Mail Classes on Air Networks	Unrecoverable Questioned Costs ⁹	\$22,721,491
Surface Mail Classes on Air Networks	Funds Put to Better Use ¹⁰	\$50,031,865 ¹¹
Total		\$72,753,356

⁹ Unrecoverable Questioned Costs are costs that are unnecessary, unreasonable, or an alleged violation of law or regulation – in this case, unnecessary.

¹⁰ Funds that could be used more efficiently by implementing recommended actions.

¹¹ The \$50 million in projected Funds Put to Better Use, shown above, was calculated using a formula for future years that takes into consideration the rapid volume decline of all mail in the U.S. Postal Service from FY 2006 through FY 2009.

**APPENDIX D: DETAILS OF UNRECOVERABLE QUESTIONED COSTS
(UNNECESSARY COSTS) BY AIR NETWORK**

Transporting Surface Mail Classes on Air Networks

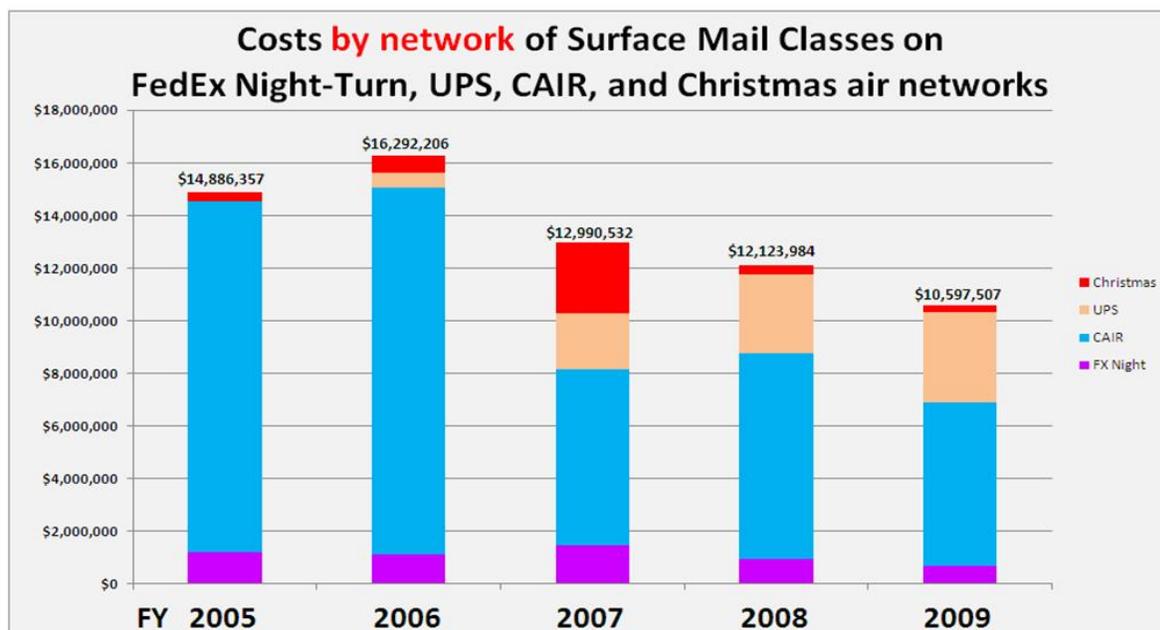
Expanded Table 1.

Excess Costs of Transporting Surface Mail Classes on FedEx Night-Turn, UPS, CAIR, and Christmas Air Networks during FYs 2008 and 2009

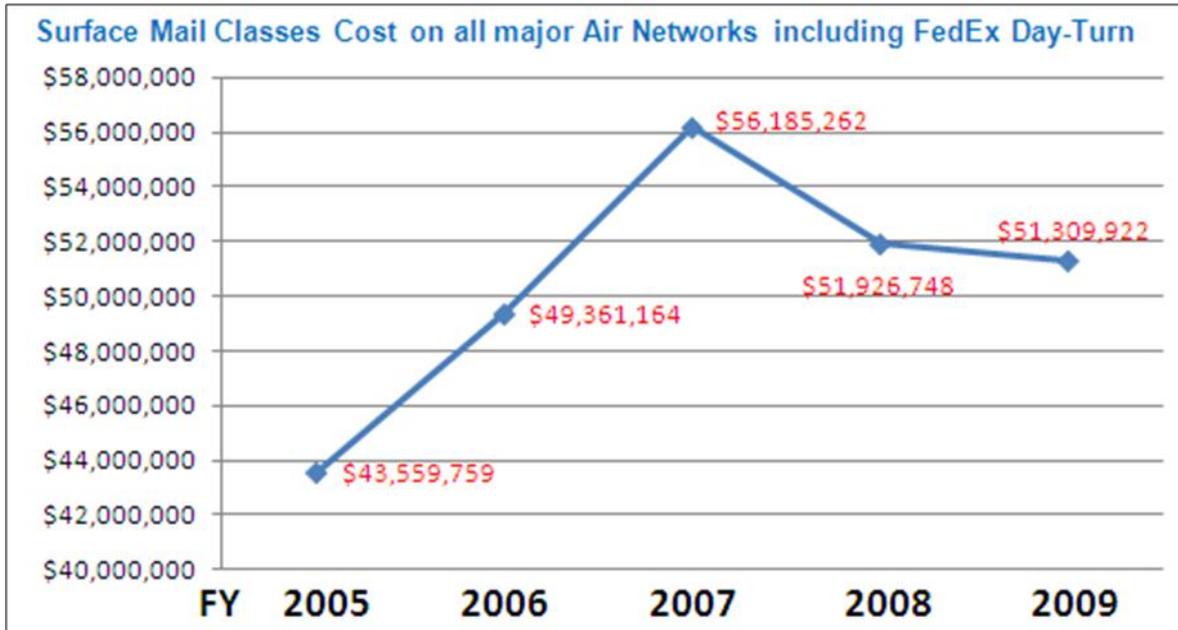
Fiscal Year	Network	Periodicals	Standard Mail	Package Services	Total Cost
2008	Christmas	\$131,922	\$138,177	\$94,201	\$364,300
	UPS	1,254,724	1,457,977	275,331	2,988,033
	CAIR	3,449,072	3,702,354	686,978	7,838,404
	FedEx Night-Turn	282,250	649,640	1,357	933,247
	Totals	\$5,117,968	\$5,948,148	\$1,057,868	\$12,123,984
2009	Christmas	\$85,141	\$62,591	\$126,727	\$274,459
	UPS	1,204,791	1,879,000	331,733	3,415,524
	CAIR	2,290,100	3,334,760	597,528	6,222,388
	FedEx Night-Turn	219,316	438,331	27,488	685,136
	Totals	\$3,799,349	\$5,714,682	\$1,083,476	\$10,597,507
Totals		\$8,917,317	\$11,662,831	\$2,141,344	\$22,721,491

Note: We extracted information from Postal Service cost and revenue analysis data. All numbers are rounded.

Trend of Costs by Air Network



Trend of Total Costs of all Air Networks, including FedEx Day-Turn



APPENDIX E: MANAGEMENT'S COMMENTS

DAVID E. WILLIAMS
Vice President, Network Operations



November 12, 2010

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Amended Response to Surface Mail Classes on Air Transportation
Networks Audit (Report Number NL- MA-10-Draft)

Management is providing an amended response to our response dated
September 28.

Overall, management agrees with the recommendations provided and as stated
in the draft report, management has implemented corrective actions. These
corrective actions include:

- Sharing of Transportation Cost System/Cost and Revenue Analysis data
with the appropriate headquarters official in an effort to monitor and track
the volume and costs of transporting Standard, Periodicals, and Package
Services mail classes transported on the FedEx Day Turn Network.
- Holding a formal presentation to all plant managers concerning the causes
and cost impacts of transporting surface mail classes on the FedEx Day
Turn.
- 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.

Management Response/Action Plan:

All three corrective actions were implemented in September, July, and July
respectively and we expect to begin seeing results of these actions by the end of
Quarter I, fiscal year 2011.

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Recommendation 1:

Ensure transportation managers use surface transportation, instead of the Federal Express Night Turn, commercial air carrier, United Parcel Service, and Christmas air transportation networks to move surface mail types where possible.

Management Response/Action Plan:

The Transportation Mode Matrix (TMM) locks down surface lanes requiring the field to override in order to assign the mail to an air network. TMM was implemented in November 2006 and has significantly reduced surface volume assigned to air transportation.

Responsible Official:

Manager, Logistics

Recommendation 2:

Routinely provide headquarters and area management with data, including Transportation Cost System/Cost and Revenue Analysis data, to monitor and track the volume and avoid additional costs for flying surface mail classes on the Federal Express Night Turn, commercial air carrier, United Parcel Service, and Christmas air transportation networks.

Management Response/Action Plan:

See Management Actions in draft report and additional comments provided in amended 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.

Target Implementation Date

Lean Six Sigma Project study started in October and will continue through February 2011. Process improvements will be developed and implemented by September 2011.

Responsible Official:

Manager, Processing Operations

Recommendation 3:

Reinforce existing policies and procedures for the processing and assigning of mail to air and surface transportation.

- 3 -

Management Response/Action Plan:

Non-compliance with policies and procedures related to processing and assignment of mail to air suppliers will be addressed on scheduled telecoms with the Area Managers, Distribution Networks and the Area Managers, In-Plant Support.

Target Implementation Date:

Non-compliance policies and procedures were included in the October Distribution Networks managers' monthly telecom and with the In-Plant Support managers during the June bi-monthly tele.com. This information will continue to be addressed during future regular scheduled meetings.

Responsible Official:

Manager, Processing Operations; Manager, Logistics

Overall management does not disagree with the Funds Put To Better Use (FPTBU) in the report or the questioned cost.

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



David E. Williams

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