September 29, 2000

PAUL E. VOGEL
ACTING VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

A. KEITH STRANGE
VICE PRESIDENT, PURCHASING AND MATERIALS

SUBJECT: Audit Report – Dedicated Christmas Air Network
(Report Number TR-AR-00-011)

This report presents results from our audit of the Dedicated Christmas Air Network. The audit provided a proposal to modify a Postal Service plan to selectively replace air routes with highway routes during the Christmas holiday surge. The proposal identified savings of nearly $41 million annually, or an estimated $204 million over 5 years, when compared to 1999 Christmas operations. The audit also revealed the Postal Service could save an additional $1.5 million annually or an estimated $7.7 million over 5 years by purchasing, rather than leasing, air cargo containers and related equipment used by the Christmas network. The report provided three recommendations to realize potential cost savings. Management generally agreed with our recommendations. However, they stated that the audit proposal to replace air routes with highway routes might require more lenient operating parameters than the Postal Service plan. Nonetheless, they agreed to further analyze the proposal for potential implementation during Christmas 2001. Management's comments and our evaluation of their comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Joseph Oliva, director, Transportation, at (703) 248-2317 or me at (703) 248-2300.

Debra S. Ritt
Acting Assistant Inspector General
for Business Operations

Attachment

cc: Anthony M. Pajunas
J. Dwight Young
John R. Gunnels

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# EXECUTIVE SUMMARY

**Introduction**

The Postal Service established a special, contractor-operated, dedicated Christmas air network to handle the surge of Priority Mail during the Christmas season. The network used air and highway transportation. During 1999, the network operated for 11 days, and during Christmas 2000, the Postal Service is planning to operate the network for 14 days. In 1999, the holiday surge cost more than $137 million. Based upon these results, the cost of Christmas 2000 operations is projected to exceed $174 million. Postal Service management requested that we assess the plan for the Christmas 2000 network to identify opportunities for cost savings.

**Results in Brief**

Our audit revealed the Postal Service could save nearly $41 million annually, or $204 million over five years, by selectively replacing air routes with highway routes. Postal Service managers wanted to reduce costs and were actively considering a plan to save $33 million dollars annually by transferring mail to highway routes and bypassing Christmas hubs. We analyzed management's plan and considered their estimated savings to be reasonable. However, we offered an alternative, which did not bypass hubs. Instead, it selectively replaced air routes between origin and hub, or hub and destination. We concluded that our plan would increase annual savings to $41 million.

Our audit also revealed that Postal Service management could save an additional $1.5 million annually, or $7.7 million over five years, by buying, rather than leasing, air cargo containers and related equipment used by the Christmas network.

**Summary of Recommendations**

We recommend the vice president, Network Operations Management, adjust the mix between air and highway transportation to coincide with demonstrated service achievement during the Christmas surge, in order to implement the air-ground mix that optimizes cost savings. We also recommend that the vice president, Purchasing and Materials, purchase required air cargo containers and related equipment. He should also perform cost analyses in support of future capital equipment lease versus purchase selections.

| | |
|---|---|
| **Summary of Management's Comments** | Management generally agreed with our recommendations. However, they stated that the audit proposal to replace air routes with highway routes is based on more lenient operating parameters than the Postal Service plan. Nonetheless, they agreed to further analyze the proposal for potential implementation during Christmas 2001. Management's comments, in their entirety, are included in Appendix C of this report. |
| **Overall Evaluation of Management's Comments** | Management's comments were responsive to our findings and recommendations, and planned actions should correct the issues identified in this report. |

# INTRODUCTION

## Background

The Postal Service established a special, contractor-operated, dedicated Christmas air network to handle the surge of Priority Mail during the Christmas season. The network, which utilizes air and highway transportation, was designed to deliver Priority Mail within service parameters and before Christmas. It has three hubs chosen for geographic and strategic significance: Ontario, California; Blytheville, Arkansas; and Indianapolis, Indiana. Network supervision was provided by Postal Service employees temporarily detailed from locations across the country. During 1999, the network operated for 11 days. During Christmas 2000, the Postal Service plans to operate the network for 14 days. The 1999 holiday surge costs more than $137 million. Based upon these results, the Christmas 2000 operations are projected to exceed $174 million for the 14-day period.

## Objective, Scope, and Methodology

The audit objective was to assess the Christmas 2000 plan to identify opportunities for cost savings.

During our audit, we visited Postal Service Headquarters and the three network hubs. We observed operations, interviewed Postal Service and contractor personnel, and performed time and mail flow studies. We also evaluated the balance between highway and air routes, performed a comparative cost analysis contrasting leased versus purchased equipment, and performed tests to ascertain the reliability of data.

We conducted our audit between November 1999 and September 2000 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings with appropriate management officials, and included their comments, where appropriate.

# AUDIT RESULTS

**Trucks Versus Planes**

The Postal Service can save nearly $41 million annually, and achieve estimated five-year savings of $204 million, by selectively replacing air routes with highway routes. During our audit, Postal Service managers stated that air carrier delays during the holiday season routinely caused Priority Mail to be delivered beyond the standard two-day window. Postal Service performance records revealed that during the Christmas surge, the two-day performance standard was not achieved 44 percent of the time. Postal management pointed out that if the Postal Service recognized one-day holiday surge delays as unavoidable, substantial savings could be captured by transferring some mail to highway routes. Consequently they analyzed various air-ground mix alternatives. As a framework for analysis, managers established the following parameters:

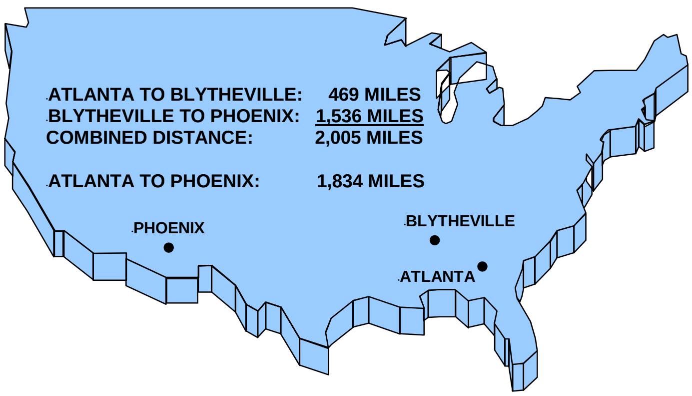
- Delivery standards, as well as delivery before Christmas, were to be considered. Selected markets would be served within a three-day instead of the traditional two-day delivery window.

- Routes under consideration for replacement service were to be less than 1,700 miles; the maximum distance that would still allow a three-day delivery window.

Management's principal alternative was to selectively move mail by truck directly from origin to destination and bypass Christmas hubs. We evaluated this plan within the parameters management established, and estimated the plan would save more than $33 million annually.

We identified an approach that does not bypass Christmas hubs but would increase savings to an estimated $41 million annually. This approach selectively replaces air routes with truck routes between origin and hub, or hub and destination.

Both management's plan and the Office of Inspector General (OIG) plan are similar in that both selectively replaced air routes with highway routes to more closely align with demonstrated service achievement during the Christmas surge. Both plans assume that costs of services provided by air carriers and trucking companies will remain at current levels. The major difference is that the OIG plan allows more air routes to be converted. For example, as shown in the figure below, the air route between Atlanta and Phoenix could not be converted under the management plan because the route is longer than 1,700 miles. However, under the OIG plan, the Blytheville hub breaks the total distance into two shorter segments and allows significant savings to be achieved, while still maintaining three-day delivery.




| PLAN | ROUTING | COST PER AIR CARGO CONTAINER | SAVINGS |
|---|---|---|---|
| **STATUS QUO** | AIR SERVICE FROM ATLANTA TO BLYTHEVILLE TO PHOENIX | $4,786 | $0 |
| **POSTAL SERVICE** | ATLANTA TO PHOENIX VIA HIGHWAY | NOT FEASIBLE UNDER MANAGEMENT DISTANCE OR TIME PARAMETERS | $0 |
| **OIG** | HIGHWAY SERVICE FROM ATLANTA TO BLYTHEVILLE THEN AIR SERVICE TO PHOENIX | $4,177 | $609 |

While the above figure provides only an illustrative example, detailed analysis of the entire network provides similar results. We discussed our plan with managers responsible for Christmas operations, who commented favorably and agreed to study specifics. The following table provides a summary comparison of the two plans. A detailed comparison is in Appendix A.

### PLAN COMPARISON

| PLAN | DELIVERY | SAVINGS |
|---|---|---|
| **STATUS QUO** | 2-3 DAYS* | $ 0 MILLION |
| **POSTAL SERVICE** | 2-3 DAYS | $33 MILLION |
| **OIG PLAN** | 2-3 DAYS | $41 MILLION |

* Postal Service performance records for the 1999 holiday surge reveal the 2-day delivery standard was not achieved 44 percent of the time.

## Recommendation

We recommend the vice president, Network Operations Management:

1. Adjust the mix between air and highway transportation to coincide with demonstrated service achievement during the Christmas surge, in order to implement the air-ground mix that optimizes cost savings.

## Management's Comments

Management agreed with our recommendation and stated that they had taken steps to more closely align transportation costs with service actually achieved during Christmas 1999. However, management indicated the air-ground mix developed by the OIG might require more lenient operating parameters than the Postal Service plan. Nonetheless, management agreed to further analyze the OIG proposal for potential implementation during Christmas 2001.

## Evaluation of Management's Comments

Management's comments were responsive to our recommendations, and planned actions should correct the issues identified in this report.

## Lease Versus Purchase of Air Cargo Containers and Related Equipment

The Postal Service can save an additional $1.5 million annually, and achieve an estimated 5-year savings of $7.7 million, by purchasing, rather than leasing, air cargo containers and dollies. A-2 containers are large containers specifically designed for loading airplanes. Dollies are large carts used to move A-2 containers while they are on the ground. In 1999, the Postal Service leased 1,266 containers and 1,679 dollies for the Christmas surge. Our audit revealed the Postal Service did not perform cost analysis in support of leasing decisions associated with Christmas operations. This analysis was not completed because the Postal Service did not have capital funds to purchase A-2 containers for the 1999 operation.

During the audit we discussed the purchase of containers with management and they began an analysis to determine potential savings. Based on our analysis, the Postal Service could save $1.5 million annually by purchasing containers and dollies. The analysis also revealed that investment risk was low because equipment life expectancy is about 15 years, while the time required to recover the investment is about 3.2 years for containers, and 5.5 years for dollies. Our analysis is discussed in Appendix B.

We acknowledge that if different model planes become more heavily used in the future, other than the Boeing 727's commonly used at this time, A-2 containers may not fully utilize the space available on those planes. These containers also may not maximize the utilization of space available on trailers, as compared to the bed-loading method. However, there are several collateral benefits to purchasing rather than leasing:

- The Postal Service does not have sufficient containers or dollies to support the surface-oriented network suggested by the OIG. If the Postal Service implemented that alternative, savings would be more substantial.

- A-2 containers owned by the Postal Service would be distinctively identified with highly visible Postal Service logos and markings—and would not be easily lost. During 1999, 51 A-2 containers were unaccounted for and represent a potential loss of more than $81,000.

- The pool of potential Christmas operations contractors is restricted to those who can provide A-2 containers. If the Postal Service owned the required containers, the pool of available contractors would be expanded and the competitive environment enhanced.

**Recommendations**

We recommend that the vice president, Purchasing and Materials:

2. Purchase required A-2 containers and dollies.

3. Perform cost analyses in support of future capital equipment lease vs. purchase selections.

**Management's Comments**

Management agreed with our recommendations. They stated that the Postal Service might benefit financially from owning containers and displaying the Postal Service logo on those containers, and agreed to perform the analysis we recommended before making the decision whether to lease or purchase air containers. In addition, they noted that the outcome might be impacted if 727 aircraft were taken out of service and replaced with newer models.

**Evaluation of Management's Comments**

Management's comments were responsive to our findings and recommendations, and planned actions should correct the issues identified in this report.

# APPENDIX A

## COST COMPARISON OF AIR-SURFACE TRANSPORTATION OPTIONS

| Cost Comparison (Millions of dollars) | Costs for 1999 | OIG Proposal (Option 1) | | USPS HQ Proposal (Option 2) | |
|---|---|---|---|---|---|
| **Period Length**[1] | 11 | 11 | 14 | 11 | 14 |
| **Cash Operating Costs CNB** | $43.3 | $26.5 | $33.8 | Analysis Performed by USPS Managers | Detailed Analysis Not Performed |
| **Cash Operating Costs CNI (less PMPC)** | 25.7 | 17.7 | 22.6 | | |
| **Cash Operating Costs CNW** | 22.3 | 17.9 | 22.8 | | |
| **Cash Operating Costs of PMPC Amendment** | 5.5 | 4.7 | 6.0 | | |
| **Cash Operating Costs of XSEGs** | 24.9 | 22.7 | 28.9 | | |
| **Other Operating Costs Including DAP** | 15.5 | 15.5 | 19.7 | | |
| **Total Operating Costs** | $137.2 | $105.0 | $133.8 | $111.0 | $141.3[2] |
| **One Year Calculated Savings** | 0 | $32.2[3] | $40.8[4] | $26.2[3] | $33.3[4] |
| **Five Year Calculated Savings** | 0 | $161.0 | $204.0 | $131.0 | $166.5 |

[1]14-days of service proposed by a Postal Service manager at Bolger Wrap-up Conference on March 2, 2000.

[2]Total costs for 14-days of service determined by multiplying total cost of 11 days of service by the ratio 14/11: Total Cost for 11 days service / 11 days x 14-days. ($111 / 11 x 14 = $141.3)

[3] Total Operating Costs '99 less Option's Expected Operating Costs.

[4]Total costs of 14-days of service (determined by multiplying total cost of '99 by the ratio 14/11: $137.2 / 11 x 14 = $174.6) less Option's Expected Operating Costs.

| Decision Matrix | Current | Option 1 | Option 2 |
|---|---|---|---|
| **Savings** | **$0** | **$40.8M** | **$33.3M** |
| **Service** | **1** | **2** | **3** |
| **Control of Mail** | **3** | **1** | **2** |
| **Flexibility** | **2** | **1** | **3** |
| **Ease of Design** | **1** | **2** | **3** |
| **Ease of Implementation** | **2** | **1** | **3** |
| **Decision:** | | **Greatest Monetary Savings and the Highest Rated.** | |

**Rating Scale:**

1 – First Preference
2 – Second Preference
3 – Third Preference

| | **Hub Blytheville** | | | |
|---|---|---|---|---|
| **Spoke** | **Location** | **A2s Daily** | **Cost of Segment**<br>**A2s X $6,097** | **Cost of Ground Trans.**<br>**A2s X $724** |
| ATL | Atlanta, GA | 18 | $109,746 | $13,032 |
| CLT | Charlotte, NC | 36 | 219,492 | 26,064 |
| DFW | Dallas, Ft. Worth, TX | 26 | 158,522 | 18,824 |
| DSM | Des Moines, IA | 11 | 67,067 | 7,964 |
| IAD | Dulles, VA | 12 | 73,164 | 8,688 |
| IAH | Houston G. Bush Intl. Airport, TX | 23 | 140,231 | 16,652 |
| JAX | Jacksonville, FL | 8 | 48,776 | 5,792 |
| MCI | Kansas City Intl Airport | 12 | 73,164 | 8,688 |
| MCO | Orlando Intl. Airport, FL | 35 | 213,395 | 25,340 |
| RIC | Rich-Williamsburg, VA | 18 | 109,746 | 13,032 |
| MSP | Minneapolis / St. Paul, MN | 11 | 67,067 | 7,964 |
| MSY | New Orleans, LA | 12 | 73,164 | 8,688 |
| OMA | Omaha, NE | 8 | 48,776 | 5,792 |
| ORD | O'Hare Intl. Airport Chicago, IL | 18 | 109,746 | 13,032 |
| SAT | San Antonio, TX | 18 | 109,746 | 13,032 |
| TPA | Tampa-St. Petersburg, FL | 18 | 109,746 | 13,032 |
| Total Cost Air Segments: | | | $1,731,548 | |
| Total Cost of Ground Transportation; | | | | $205,616 |
| Total Savings per Day:<br>Total Cost Air Segments – Total Cost Ground Trans. = | | | | $1,494,056 |
| Total Savings over 11 Days: 11 days x Total Savings per Day = | | | | $16,434,616 |
| | | | | |
| | | | | |
| Cost for Blytheville '99: | | | | $43,328,822 |
| Less Total Cost of Air Segment Being Replaced: $1,731,548 x 11 = | | | | -19,047,028 |
| Plus Cost of Replacement Ground Service:<br>Total Cost of Ground Trans. x 11 = | | | | 2,261,776 |
| Option 1: Cost for 11 Days of Service: | | | | $26,543,570 |
| | | | | |
| Cost for '99: $43,328,822 x 14/11 = | | | | $55,145,773 |
| Less Total Cost of Air Segments Being Replaced:<br>$1,731,548 x 14 = | | | | -24,241,672 |
| Plus Cost of Replacement Ground Service:<br>Total Cost of Ground. Trans. x 14 = | | | | 2,878,624 |
| Option 1: Cost for 14 Days of Service: | | | | $33,782,725 |

| | **Hub Indianapolis** | | | |
|---|---|---|---|---|
| **Spoke** | **Location** | **A2s Daily** | **Cost of Segment**<br>**A2s X $5,521** | **Cost of Ground Trans.**<br>**A2s X $724** |
| ATL | Hartfield-Atlanta Int'l Airport, GA | 18 | $99,378 | $13,032 |
| BOS | Logan Int'l Airport, Massachusetts | 12 | 66,252 | 8,688 |
| BWI | Baltimore Wash Int'l Airport, MD | 18 | 99,378 | 13,032 |
| CLT | Charlotte Douglas Int'l Airport, NC | 12 | 66,252 | 8,688 |
| EWR | Newark Int'l Airport, NJ | 8 | 44,168 | 5,792 |
| JFK | John F Kennedy Int'l Airport, NY | 12 | 66,252 | 8,688 |
| MSP | Minneapolis St. Paul, MN | 12 | 66,252 | 8,688 |
| MSP | Minneapolis St. Paul, MN | 12 | 66,252 | 8,688 |
| MSY | New Orleans Int'l Airport, LA | 18 | 99,378 | 13,032 |
| PHL | Philadelphia Int'l Airport, PA | 12 | 66,252 | 8,688 |
| ORF | Norfolk Int'l Airport, VA | 8 | 44,168 | 5,792 |
| DFW | Dallas Ft. Worth Int'l Airport, TX | 10 | 55,210 | 7,240 |
| | | Total Cost Air Segments: | $839,192 | |
| | | | Total Cost of Ground Transportation; | $110,048 |
| | | | Total Savings per Day:<br>Total Cost Air Segments – Total Cost Ground Trans. = | $729,144 |
| | | | Total Savings over 11 Days: 11 days x Total Savings per Day = | $8,020,584 |
| | | | | |
| | | | | |
| | | | Cost for '99: | $25,748,658 |
| | | | Less Total Cost of Air Segments Being Replaced: $838,192 x 11 = | -9,220,112 |
| | | | Plus Cost of Replacement Ground Service:<br>Total Cost of Ground Trans. x 11 = | 1,210,528 |
| | | | Option 1: Cost for 11 Days of Service: | $17,739,074 |
| | | | | |
| | | | Cost for '99: $25,748,658 x 14/11 = | $32,771,019 |
| | | | Less Total Cost of Air Segments Being Replaced: $838,192 x 14 = | -11,734,688 |
| | | | Plus Cost of Replacement Ground Service:<br>Total Cost of Ground Trans. x 14 = | 1,540,672 |
| | | | Option 1: Cost for 14 Days of Service: | $22,577,003 |

| | Hub Ontario | | | |
|---|---|---|---|---|
| **Spoke** | **Location** | **A2s Daily** | **Cost of Segment**<br>**A2s X $6,784** | **Cost of Ground Trans.**<br>**A2s X $724** |
| DEN | Denver Int'l Airport, CO | 12 | $81,408 | $8,688 |
| ABQ | Albuquerque Int'l Airport, NM | 12 | 81,408 | 8,688 |
| SLC | Salt Lake City, UT | 12 | 81,408 | 8,688 |
| OAK | Metro Oakland Int'l Airport, CA | 18 | 122,112 | 13,032 |
| SAN<br>DEN | San Diego Int'l Airport, CA<br>Denver Int'l Airport, CO | 12 | 81,408 | 8,688 |
| | | Total Cost Air Segments: | $447,744 | |
| | | | Total Cost of Ground Transportation; | $47,784 |
| | | | Total Savings per Day:<br>Total Cost Air Segments – Total Cost of Ground Trans. = | $399,960 |
| | | | Total Savings over 11 Days: 11 days x Total Savings per Day = | $4,399,560 |
| | | | | |
| | | | | |
| | | | Cost for '99: | $22,314,070 |
| | | | Less Total Cost of Air Segments Being Replaced: $447,744 x 11 = | -4,925,184 |
| | | | Cost of Replacement Ground Service:<br>Total Cost Ground. Trans. x 11 = | 525,624 |
| | | | Option 1: Cost for 11 Days of Service: | $17,914,510 |
| | | | | |
| | | | Cost for '99: $22,314,070 x 14/11 = | $28,399,725 |
| | | | Less Total Cost of Air Segments Being Replaced: $447,744 x 14 = | -6,268,416 |
| | | | Cost of Replacement Ground Service:<br>Total Cost Ground Trans. x 14 = | 668,976 |
| | | | Option 1: Cost for 14 Days of Service: | $22,800,285 |

| PMPC | Available Space on Emery Dayton Network | | |
|---|---|---|---|
| **Spoke** | **Location** | **Total A2s moved** | **Cost of Ground Trans.**<br>**A2s X $724** |
| BWI-MIA | Balt-Wash – Miami | 33 | $23,892 |
| DEN-PIT | Denver-Pittsburgh | 10 | 7,240 |
| IAD-MIA | Dulles-Miami | 30 | 21720 |
| MKE1-MIA | Mitchell Field, WI – Miami | 11 | 7964 |
| MSP-MCO | Minneapolis/St.Paul – Orlando | 11 | 7964 |
| MSP-EWR | Minneapolis/St.Paul - Newark | 22 | 15928 |
| MSP-JFK | Minneapolis/St.Paul – New York, NY | 11 | 7964 |
| ORD-FLL/MIA | Chicago – Ft. Lauderdale | 75 | 54300 |
| ORD-MCO/HSV | Chicago – Orlando | 9 | 6516 |
| ORD-TPA/MCO | Chicago – Tampa | 18 | 13032 |
| ORD-MCO | Chicago – Orlando | 101 | 73124 |
| | Total number of containers: | 331 | |
| | | Total Cost Ground: | $239,644 |
| | | | |
| | | Total Cost Air: $2,950 x 331 = | $976,450 |
| | | Less Total Cost Ground: | -239,644 |
| | | Savings Over Entire Period (11 days):<br>Total Cost Air – Total Cost Ground = | $736,806 |
| | | | |
| | | Savings Per Day: Savings Over Entire Period / 11days = | $66,982 |
| | | | |
| | | Cost for PMPC ’99: | $5,428,000 |
| | | Less Total Cost of Containers Being Replaced: | -976,450 |
| | | Cost of Replacement Ground Service: | 239,644 |
| | | Option 1: PMPC Cost for 11 Days of Service: | $4,691,194 |
| | | | |
| | | Option 1: PMPC Cost for 14 Days of Service:<br>Cost for 11 Days of Service x 14/11 = | $5,970,611 |

| | **Various Air Taxis** | | | | |
|---|---|---|---|---|---|
| **Spoke** | **Location** | **A2s Daily** | **Days Used** | **Cost '99** | **Cost to go ground**<br>**A2s X Days Used X $724** |
| DEN<br>BIL | Denver<br>Billings, MT | 23 | 14* | $341,754 | $233,128 |
| SEA<br>DEN | Seattle<br>Denver | 8 | 11 | 501,605 | 63,712 |
| SLC<br>IND<br>ORD<br>SLC | Salt Lake City<br>Indianapolis<br>Chicago<br>Salt Lake City | 18? | 10 | 743,838 | 130,320 |
| SLC<br>IND | Salt Lake City<br>Indianapolis | 18? | 6 | 832,495 | 78,192 |
| SLC<br>IND<br>ORD<br>SLC | Salt Lake City<br>Indianapolis<br>Chicago<br>Salt Lake City | 18? | 4 | 297,000 | 52,128 |
| Total Cost of Air Segments: | | | | $2,716,692 | |
| Total Cost of Ground Transportation: | | | | | $557,480 |
| Total Savings over '99:<br>Total Cost Air Segments – Total Cost Ground Trans. = | | | | | $2,159,212 |
| | | | | | |
| Cost for Air Taxis '99: | | | | | $24,893,290 |
| Less Total Cost of Air Segments Being Replaced: | | | | | -2,716,692 |
| Plus: Cost of Replacement Ground Service: | | | | | 557,480 |
| Option 1: Air Taxis' Cost During the 11-Day Core Period: | | | | | $22,734,078 |
| | | | | | |
| Option 1: Air Taxis' Cost Calculated for a 14-Day Core Period**:<br>Cost for 11 Days of Service x 14/11 = | | | | | $28,934,281 |

***** - Exceeds the 11-day core period for 1999 operations.
****** - Assumes Air Taxis' (XSEG) "Days Used" would vary in proportion to the season length.

# APPENDIX B

## LEASE VERSUS PURCHASE OF AIR CARGO CONTAINERS AND RELATED EQUIPMENT

| Description | Quantity | Annual Ownership Cost/Unit | Total Annual Cost | Annual Lease Cost/Unit | Total Lease Cost | Annual Savings |
|---|---|---|---|---|---|---|
| A2 Containers | 1,266 | $396 | $501,336 | $1,121 | $1,419,621 | $918,285 |
| Dollies | 1,679 | 174 | 292,060 | 541 | 908,744 | 616,684 |
| **Total** | | | | | | **$1,534,969** |

# APPENDIX C. MANAGEMENT'S COMMENTS

A/MANAGER
Network Operations Management
UNITED STATES
POSTAL SERVICE

September 29, 2000

DEBRA S. RITT

SUBJECT: Audit - Dedicated Christmas Air Network – Report TR-AR-00

Please find attached a response to the subject audit report, which assessed the effectiveness of the Dedicated Holiday Network Plan.

Your thorough evaluation of the holiday planning strategies is appreciated. The audit reveals that significant savings could be realized by 1) selectively replacing air routes with highway routes and 2) purchasing rather than leasing air cargo containers. Your recommendations are consistent with our holiday planning strategies, and some have already been incorporated into this year's plan.

We have discussed the recommendations in this report with several auditors from your office, and all of us agree that any changes that result from your work will be reflected in the December 2001 Christmas operation. It is too late in the acquisition cycle to change plans at this point in time for 2000.

Should you require additional information, please contact Tony Pajunas, manager, Logistics at (202) 268-4948.

for Paul E. Vogel

Attachment

cc: Mr. Potter
Mr. Strange
Mr. Moose
Mr. O'Reilly
Mr. Pajunas
Ms. Wesson
Mr. Young

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-7100
202-268-7206
FAX: 202-268-3331

1) **Recommendation**

**We recommend the vice president, Network Operations Management align the mix between air and highway transportation to coincide with demonstrated service achievement during the Christmas surge, in order to implement the air-ground mix that optimizes cost savings.**

**We agree with the recommendation, but not the finding.**

This year, the Postal Service has taken steps to more closely align transportation costs with service achievement during the holiday season and reduce expenses from the same period last year. It is our plan to monitor the results of this year's holiday operation, prior to requesting any expansion in the use of surface transportation for Christmas 2001. The transportation matrix submitted by the Office of the Inspector General (OIG) as an attachment to this audit may not meet the same operating parameters as the Postal Service plan. The higher savings projected in the OIG plan may be directly attributable to the more lenient operating parameters adopted by the OIG planners. We will further analyze the economic benefits of the OIG plan during the course of planning the 2001 operation.

We appreciate the work performed by the planners that resulted in the matrix that was proposed for Christmas transportation. We look forward to maintaining this beneficial working relationship as we work on transportation plans for Christmas 2001. We believe by working together and leveraging the skills of both organizations, the result will be a plan that provides service attainment while achieving the greatest savings possible.

2) **Recommendation**

**We recommend that the vice president, Purchasing and Materials purchase required A-2 containers and dollies.**

**We agree with the finding and the recommendation.**

Purchasing generally agrees that the Postal Service, if it continues with a Christmas Network of similar size and scope, may benefit financially from the ownership of airline containers. We agree we would benefit from these containers bearing the Postal Service logo. We are not sure if the costs quoted in the report as "annual cost of ownership" consist of the initial purchase price (unstated in the report) spread over the stated service file, or whether that cost also contains items such as off-season storage, maintenance and repair, and transportation costs that would be associated with positioning and de-positioning to locations served on a seasonal basis. There would also be some administrative costs associated with equipment management. After performing the recommended analysis, the decision will be made to purchase or continue leasing air containers.

**3) Recommendation**

**We recommend that the vice president, Purchase and Materials perform cost analyses in support of future capital equipment lease vs. purchase sections.**

**We agree with the finding and the recommendation.**

We agree that an analysis be performed for Christmas 2001, and that if the financial case is favorable, funding should be sought to purchase rather than lease equipment. As information, mail transportation is an expense purchase, not capital funds. As noted in your report, 727's are currently used in our dedicated fleet. Those planes are required to be replaced in the near future. Our analysis will include what the fleet may look like in the future.