

Office of Inspector General | United States Postal Service

Audit Report

Terminal Handling Services – Capital Metro Area

Report Number NL-AR-18-004 | February 2, 2018



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Highlights

Objective

The objective of our audit was to assess the effectiveness of the Terminal Handling Services (THS) used to sort and transport mail for the U.S. Postal Service in the Capital Metro Area.

The Postal Service uses THS suppliers to load mail into FedEx air containers and deliver them to FedEx for transportation across the nation. THS suppliers also transport incoming FedEx air containers to THS facilities and load mail from the containers into mail transport equipment containers for Postal Service pick-up and delivery to designated mail processing facilities.

There are eight THS facilities in the Capital Metro Area and an additional 61 nationwide. The annual cost for the FedEx contract is about \$1.6 billion and THS contracts over their contract terms total over \$361 million.

What the OIG Found

We found that the effectiveness of the Capital Metro Area THS could be improved with better Postal Service oversight of mail arrival profiles and THS contractual operations.

During our Atlanta, Baltimore, and Charlotte site visits we observed:

- Postal Service mail processing facilities did not always adhere to the mail volume arrival profile (VAP) for the three THS sites. The VAP is a predetermined 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 and are establishing national control centers to monitor processed mail volumes to ensure compliance with the VAP. When facilities do not comply with the VAP, there is an increased likelihood that mail will miss its FedEx flight. As an example, in fiscal year (FY) 2017, almost 29,000 pounds of mail missed scheduled FedEx flights for the Atlanta, Baltimore, and Charlotte THS facilities because of non-compliance with VAP. This increases the risk of mail processing delays for the Postal Service and its customers.
- Atlanta and Charlotte THS suppliers did not always meet the required mail delivery time to FedEx. This occurred because of a lack of adequate THS staffing and mail not always being loaded into air containers in a timely manner. 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 Atlanta THS did not always meet delivery time to the Postal Service for mail coming from FedEx flights. This occurred because the mail processing facilities did not provide the necessary transportation in a timely manner. 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 the THS contract. The THS staff decided, without Postal Service direction, to load mail based on their preference instead of by contract requirement. As a result, the Postal Service paid FedEx for unplanned mail sorting charges. In FYs 2016 and 2017, the same THS suppliers caused the Postal Service to pay unplanned mail sorting charges of over \$430,000 and over \$372,000, respectively.
- The Baltimore THS supplier incorrectly sorted incoming packages and sacks from FedEx during our site observations. This occurred because the Baltimore THS staff did not use placards to identify the correct containers. Our analysis showed about 14,000 out of over 312,000 mailpieces were sent to the wrong mail processing facilities during our observations, which results in additional transportation for the Postal Service to retrieve and deliver the mail to the intended mail processing facility.

We concluded that 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, the Postal Service staff at the Atlanta, Baltimore, and Charlotte THS facilities did not know what authority they had to enforce the contract and had minimal understanding of THS operations.
- THS suppliers self-reported contract performance irregularities that have liquidated damages. However, the Postal Service has not collected any monetary damages. In 2017, the Atlanta, Baltimore, and Charlotte THS suppliers reported four irregularities totaling over \$3,600 that were not collected. The Manager of Air Transportation told us they are finalizing an automated THS supplier irregularity tracking and collection process but have not determined an implementation date.
- 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. The assessment formula limits the liquidated damage to only mail that misses the FedEx flight.

Based on the THS contract, we estimated liquidated damages for failure to load and mis-routed mail that were never charged to the THS supplier and owed to the

Postal Service could be over \$5.1 million for FY 2016, and over \$4.3 million for FY 2017 for the Atlanta, Baltimore, and Charlotte THS suppliers. If management does not correct the oversight issues, we estimated sorting costs and liquidated damages of over \$5.2 million in FY 2018 and over \$5.4 million in FY 2019.

What the OIG Recommended

We recommended management:

- Resolve mail processing facilities' lack of adherence to the VAP for all Capital Metro Area mail processing facilities.
- Ensure that THS suppliers are not loading bypass mail into mixed mail air containers without approval at all Capital Metro Area mail processing facilities.
- Ensure the Baltimore THS supplier is using the required mail transport equipment container placards.
- Develop and implement a training program for all THS on-site Postal Service representatives to ensure they understand their contractual authority.
- Resolve the conflict between the failure to load contract requirement and the liquidated damage assessment formula, finalize the automated THS supplier irregularity collection process, and determine and collect all outstanding contractual liquidated damages.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

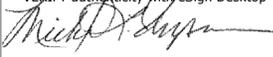
February 2, 2018

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

LINDA M. MALONE
VICE PRESIDENT, CAPITAL METRO AREA OPERATIONS

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop

A handwritten signature of Michael L. Thompson is displayed within a rectangular box. The signature is in black ink and appears to read "Michael L. Thompson".

FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Terminal Handling Services – Capital Metro
Area (Report Number NL-AR-18-004)

This report presents the results of our audit of the Terminal Handling Services – Capital Metro Area (Project Number 17XG021NL000).

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

Attachment

cc: Postmaster General
Corporate Audit Response Management
Chief Operating Officer and Executive Vice President

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's Terminal Handling Services (THS) in the Capital Metro Area (Project Number 17XG021NL000). The objective of our audit was to assess the effectiveness of the THS the Postal Service uses to sort and transport mail in the Capital Metro Area. See [Appendix A](#) for additional information about this audit.

Background

The Postal Service has THS contracts with suppliers for mail handling and transportation services for the FedEx air transportation contract.¹ There are eight THS facilities in the Capital Metro Area with contracts totaling about \$28 million over the contract term. There are an additional 61 THS facilities nationwide with contracts totaling over \$333 million, over the contract terms. The annual cost for the FedEx contract is about \$1.6 billion.

THS suppliers are contractually responsible for loading mail that is delivered to them by the Postal Service into FedEx air containers. A volume arrival profile (VAP) is used by the Postal Service to show the percentage of mail to be delivered to each THS site at specific times. Based on the VAP, the 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 when unplanned mail has to be sorted by FedEx. The additional charge is based upon a tier rate system. The average FedEx processing charge was about [REDACTED] for FY 2016 and [REDACTED] for FY 2017.

THS suppliers transport loaded air containers to FedEx for air transport across the nation and transport and unload mail from incoming FedEx air containers

“There are eight THS facilities in the Capital Metro Area with contracts totaling about \$28 million over the contract term.”

to the Postal Service. They separate the incoming mail from the air containers and load it into Postal Service mail transport equipment (MTE) containers. After loading occurs, placards are applied to MTE containers to identify the correct Postal Service mail processing facility. The MTE containers are then picked up by the Postal Service and delivered to designated mail processing facilities.

The 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.

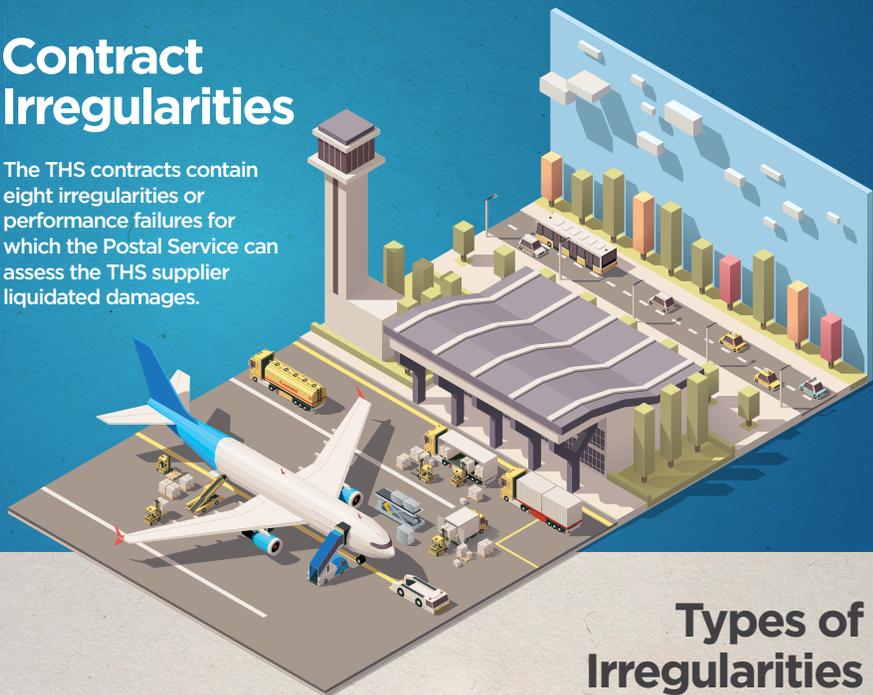
Table 1. Contract Irregularities by Category and Description

| Type of Irregularity | Description |
|---|--|
| 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."

Contract Irregularities

The THS contracts contain eight irregularities or performance failures for which the Postal Service can assess the THS supplier liquidated damages.



Types of Irregularities



Failure to Load



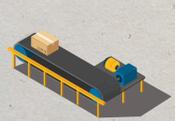
Failure to Deliver



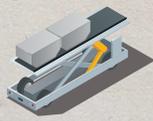
Mis-Routed



Failure to Protect



Failure to Protect USPS Equipment



Failure to Protect the Aviation Supplier's Air Cargo Containers



Failure to Execute Surface Visibility Scans



Unapproved Use for Facilities

Type of Irregularity

Description

Unapproved Use for Facilities

A failure to seek necessary approval by the CO before performing "other business" or other services.

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

THS contracts also require that the Postal Service will 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 at the Atlanta THS facility for five days and at the Baltimore and Charlotte THS facilities for four days each. We selected the THS facilities because they were FY 2017's top three locations for processing mail volume for FedEx air transportation in the Capital Metro Area (see Table 2).

Table 2. FY 2017 Total Volume Processed by THS Facility

| Location | | |
|----------------|--------|-------------------|
| CHARLOTTE, NC | 22.18% | 20,334,141 |
| BALTIMORE, MD | 17.53% | 16,070,777 |
| ATLANTA, GA | 17.24% | 15,809,984 |
| GREENSBORO, NC | 11.81% | 10,828,528 |
| DULLES, VA | 9.74% | 8,932,654 |
| RALEIGH, NC | 9.74% | 8,925,324 |
| RICHMOND, VA | 8.15% | 7,474,468 |
| NORFOLK, VA | 3.60% | 3,304,746 |
| Total | | 91,680,622 |

Source: Postal Service; Enterprise Data Warehouse (EDW).

Finding #1: Postal Service Oversight

Based on our analysis and observations, we found:

- The 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 THS suppliers did not always:
 - Meet required air container delivery time to FedEx.
 - Meet mail delivery time to the Postal Service from FedEx flights.
 - Load mail into air containers according to THS contract requirements.
 - Sort packages and containers into the correct MTE containers.

We concluded that these conditions occurred because the Postal Service did not have adequate THS contractual oversight. Postal Service staff at the Atlanta, Baltimore, and Charlotte THS facilities did not know what authority they had to enforce the contract and had minimal knowledge about THS operations, even though Postal Service THS representatives are supposed to coordinate operations, monitor performance, and ensure proper management.

THS suppliers self-reported contract performance irregularities that had liquidated damages; however, the Postal Service has not developed a system for tracking and collecting these damages. The Manager of Air Transportation told us that an automated THS supplier irregularity collection process is being finalized, but an implementation date has not been determined.

Additionally, the failure to load contract requirement and the liquidated damage assessment formula do not agree. According to the contract, a liquidated damage would be assessed for all mail not loaded into air containers. The liquidated damage assessment formula limits the liquidated damage to the same mail missing the FedEx flight.

Based on the THS contract, we estimate the liquidated damages for failure to load and the mis-routed mail that were never charged to the THS supplier, and owed to the Postal Service could be over \$5.1 million for FY 2016, and over \$4.3 million for 2017 for the Atlanta, Baltimore and Charlotte THS suppliers. We also calculated unplanned FedEx sort costs of over \$430,000 for FY 2016 and over \$372,000 for FY 2017 that the Postal Service paid. If the oversight issues are not corrected, we estimated sort costs and liquidated damages of over \$5.2 million in FY 2018 and over \$5.4 million in FY 2019.

In 2017, the Atlanta, Baltimore and Charlotte THS suppliers reported four irregularities totaling over \$3,600. However, the Postal Service did not charge the THS suppliers for these irregularities. The Manager of Air Transportation Category Management Center (CMC) said they are in the process of collecting these liquidated damages.

Volume Arrival Profiles

We found that the Postal Service was not always sending mail to the Atlanta, Baltimore, and Charlotte THS facilities in accordance with the VAP. We reviewed and analyzed the Postal Service truck logs during our three site visits to determine adherence to the VAP. At the Atlanta THS facility, the VAP projected that about 67 percent of mail would be delivered before 2:00 a.m. However, we determined that between 54 to 75 percent of the mail volume was arriving at the THS facility after 2:00 a.m. (see [Table 3](#)).

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

| Mail ArrivalTime | 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. |
|------------------|-------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| VAP Percentage | █ | █ | █ | █ | █ | █ |
| July 11, 2017 | █ | █ | █ | █ | █ | █ |
| July 12, 2017 | █ | █ | █ | █ | █ | █ |
| July 13, 2017 | █ | █ | █ | █ | █ | █ |
| July 14, 2017 | █ | █ | █ | █ | █ | █ |
| July 15, 2017 | █ | █ | █ | █ | █ | █ |

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

At the Baltimore THS facility, the VAP projected that about 61 percent of the mail would be delivered before 2:00 a.m. We determined that between 52 and 70 percent of the mail volume arrived at the THS facility after 2:00 a.m. (see Table 4).

Table 4. Baltimore THS Volume Arrival Profile During Our Week of Observation

| Mail ArrivalTime | 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. |
|------------------|-------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| VAP Percentage | █ | █ | █ | █ | █ | █ |
| August 8, 2017 | █ | █ | █ | █ | █ | █ |
| August 9, 2017 | █ | █ | █ | █ | █ | █ |
| August 10, 2017 | █ | █ | █ | █ | █ | █ |
| August 11, 2017 | █ | █ | █ | █ | █ | █ |

Source: Truck logs provided by the Postal Service, Baltimore THS contract (THS-14-MAS), and OIG analysis.

At the Charlotte THS facility, the VAP projected that about 65 percent of the mail would be arriving before 3:00 a.m. We identified between 60 and 69 percent of the mail volume arrived at the THS facility after 3:00 a.m. (see Table 5).

Table 5. Charlotte THS Volume Arrival Profile During Our Week of Observation

| Mail Arrival Time | 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. |
|-------------------|-------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| VAP Percentage | ■ | ■ | ■ | ■ | ■ | ■ |
| July 25, 2017 | ■ | ■ | ■ | ■ | ■ | ■ |
| July 26, 2017 | ■ | ■ | ■ | ■ | ■ | ■ |
| July 27, 2017 | ■ | ■ | ■ | ■ | ■ | ■ |
| July 28, 2017 | ■ | ■ | ■ | ■ | ■ | ■ |

Source: Truck logs provided by the Postal Service, Charlotte THS contract (THS-14-MFE), and OIG analysis.

The headquarters Manager of Logistics said they were aware of the VAP percentage issues and are in the process of establishing national control centers to monitor processed mail volumes to ensure the VAP percentages are met. When the VAP is not followed, it increases the likelihood that mail will miss its FedEx flight. The Logistic Condition Reporting System (LCRS) report indicated that almost 29,000 pounds of mail missed the intended FedEx flights for fiscal year (FY) 2017 at the Atlanta, Baltimore, and Charlotte THS facilities. The headquarters Manager of Logistics agreed with the LCRS report that this occurred because the Postal Service did not follow the VAP.

Delivery Time to FedEx

The Atlanta and Charlotte 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 During the week of July 10, 2017, at the Atlanta THS facility, we observed about 36 loaded air containers⁴ on trucks at 5:30 a.m., the expected arrival time at FedEx. These trucks had not yet left the THS facility

which was more than 15 minutes away from the FedEx facility. During the week of July 24, 2017, at the Charlotte THS facility, we observed about 15 loaded air containers leaving the THS facility between the hours of 6:30 a.m. and 7:00 a.m. The air containers were due at FedEx at 6:30 a.m.

The delayed delivery time to FedEx occurred because of a lack of adequate THS staffing when mail was available and air containers were not loaded in a timely manner. At the Atlanta THS facility, mail was available to be loaded, but initially there were not enough employees to begin loading the air containers because of staggered THS employee start times. The Charlotte THS facility used two employee shifts that began at 1:00 a.m. and 2:00 a.m., but the THS employees did not begin loading air containers until an hour after their start time. The hour delay in starting work contributed to the delay in delivery of the air containers to FedEx. 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.

⁴ Each truck could fit six air containers, depending on the size. The majority of the unit loading devices used at the facility were AMJs which hold 7,000 pounds of mail; the smallest is an AKE, which holds 3,500 pounds. The sizes varied.

Delivery Time to the Postal Service

The Atlanta THS supplier did not always meet the delivery time to the Postal Service for mail coming from FedEx flights. On one day, we observed four trucks loaded with 60 MTE containers and another 33 MTE containers waiting to be transported to mail processing facilities for about 45 minutes to two hours. This caused the mail to leave no earlier than 10:00 p.m. when it was supposed to be delivered to the Postal Service by 8:45 p.m. This occurred because the Postal Service did not provide enough trailers or have enough drivers at the THS facility to transport the mail to the Postal Service mail processing facilities. The local transportation manager stated that this was not a normal occurrence, and did not know why this occurred during our observations. The manager in August 2017 set up a process to deliver five trailers a day to the THS facility.

When Postal Service management does not ensure drivers and trailers are available for THS suppliers to load mail being sent to mail processing facilities, the Postal Service is at risk of mail processing delays at mail processing facilities and finally to its customers.

Loading Air Containers

All three of the THS suppliers did not always load mail into air containers according to the 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 before its final destination. Instead, the THS staff decided to load mail based on their own preference.

We observed the Atlanta and Charlotte THS suppliers loading bypass mail into mixed air containers prior to receiving all of the bypass mail from Postal Service mail processing facilities.

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

- The Charlotte THS supplier loaded bypass mail into mixed mail air containers at [REDACTED] when the cut-off time to receive mail from the Postal Service was [REDACTED].
- The Baltimore THS supplier established a local standard of loading mail from bypass mail containers with [REDACTED] capacity into mixed mail air containers. We observed this every day while at the Baltimore THS facility.

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 more of the air container is full. The Postal Service's internal guidelines⁵ state that for a bypass air container, [REDACTED] is the minimum volume required to avoid converting a bypass container to a mixed container. The LCRS data for the Atlanta, Baltimore, and Charlotte THS facilities identified an additional 817 air containers that should not have been converted from bypass air containers to mixed air containers in FY 2016 and 659 air containers in FY 2017. This data does not include the number of air containers converted that were less than [REDACTED] full. This conversion results in additional costs for the Postal Service because this mail has to be sorted by FedEx.

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

- The Atlanta THS supplier instructed its employees to load mail into mixed mail containers to ensure delivery of [REDACTED] of the available mail volume to FedEx.
- The Baltimore THS supplier did not load all containers to maximize the capacity of the air container.
- The Charlotte THS supplier decided to accept mail after the established cut-off time, which caused the supplier to load mail into mixed mail containers to meet time constraints.

⁵ The *Terminal Handling Supplier Guide* is a Postal Service internal guide to understanding THS operations.

When this occurs, the Postal Service incurs an additional FedEx processing charge. We determined that the Postal Service incurred additional FedEx sort costs of about \$2,800 for the Atlanta, Baltimore, and Charlotte THS suppliers during our observations. These costs would have totaled an estimated \$430,069 in FY 2016 and \$372,730 in FY 2017 for converting bypass containers to mixed. We based this on a Postal Service-provided, average FedEx processing charge of about [REDACTED] for FY 2016 and [REDACTED] per piece for FY 2017 (see Table 6).

Table 6. Additional FedEx Sort Charges

| Fiscal Year | THS Facility | No. of Mailpieces | Average FedEx Sort Rate | Questioned Costs | Fiscal Year Total |
|--------------|--------------|-------------------|-------------------------|------------------|-------------------|
| 2016 | Atlanta | [REDACTED] | [REDACTED] | \$186,346 | \$430,069 |
| | Baltimore | [REDACTED] | | \$222,246 | |
| | Charlotte | [REDACTED] | | \$19,477 | |
| 2017 | Atlanta | [REDACTED] | [REDACTED] | \$121,038 | 372,730 |
| | Baltimore | [REDACTED] | | \$222,846 | |
| | Charlotte | [REDACTED] | | \$28,846 | |
| Total | | | | \$802,799 | |

Source: Postal Service, Web End of Run (WebEOR), and OIG analysis and calculations of the cost of mailpieces entering the FedEx sort.

Mis-Routed Mail

The Baltimore THS supplier incorrectly sorted packages and sacks in all the containers we observed during our observations the week of August 7, 2017. Our analysis of the WebEOR report during that same week showed about 14,000 of over 312,000 mailpieces were sent to the wrong processing facilities. The Linthicum, MD, mail facility was impacted the most with about 10,000 mis-routed mailpieces; the other eight mail processing facilities had between 22 and 890

mis-routed mailpieces. The failure of Baltimore THS employees to use placards to identify the correct Postal Service facility for each container caused the mis-routed mail.

It is the responsibility of THS suppliers to ensure that employees place placards on all containers. The Postal Service provides placard templates and THS suppliers are to reproduce them as needed.

Additionally, our analysis showed that between FY 2015 and FY 2017, the Baltimore THS facility sent the Postal Service about 3.5 million incorrectly sorted packages and sacks.

Lack of Oversight

We concluded these conditions occurred because the Postal Service did not have adequate THS contractual oversight. The contract provides for Postal Service representation at THS facilities to coordinate, direct, monitor performance, and ensure proper management. The Postal Service staff at the Atlanta, Baltimore, and Charlotte THS facilities did not know what authority they had to enforce the contract and had minimal knowledge of THS operations.

THS suppliers are required to self-report contract performance irregularities that have liquidated damages; however, the Postal Service has not developed a system to collect these damages. The Manager of Air Transportation told us they are finalizing an automated THS supplier irregularity collection process but have not determined an implementation date.

Additionally, 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, the contract loading requirements are for the THS supplier to unload mail from Postal Service MTE containers and scan and load it into FedEx air containers. The mail is either loaded into an air container where all the mail is destined for the same location (a bypass container) or where the mail is destined for multiple locations (a mixed container). The liquidated damage assessment formula is based only on mail missing the FedEx flight.

Liquidated Damages for Performance Irregularities and Other Damages

Based on the THS contract formulas, we estimate the Atlanta, Baltimore, and Charlotte THS suppliers' that were never charged to the THS supplier, and owed to the Postal Service could be over \$5.1 million for FY 2016 and over \$4.3 million for 2017. We also calculated questioned costs for the unplanned FedEx sort charges of over \$430,000 for FY 2016 and over \$372,000 for FY 2017 (see Table 7). If the Postal Service does not correct oversight issues, we estimate sort costs and liquidated damages of over \$5.2 million for FY 2018, and over \$5.4 million for FY 2019 (see Table 8).

Table 7. Questioned Costs

| Fiscal Year | Description | Cost Savings | Fiscal Year Total |
|--------------|-----------------|--------------|---------------------|
| 2016 | Failure to Load | \$241,790 | \$5,602,457 |
| | Mis-Routed | \$4,930,598 | |
| | FedEx Sort Cost | \$430,069 | |
| 2017 | Failure to Load | \$190,851 | 4,737,102 |
| | Mis-Routed | \$4,173,521 | |
| | FedEx Sort Cost | \$372,730 | |
| Total | | | \$10,339,559 |

Source: OIG analysis and calculations of EDW, LCRS, WebEOR, and FedEx sort costs.

“In 2017, the Atlanta, Baltimore, and Charlotte THS suppliers reported four irregularities.”

Table 8. Funds Put to Better Use

| Fiscal Year | Description | Cost Savings | Fiscal Year Total |
|--------------|-----------------|--------------|---------------------|
| 2018 | Failure to Load | \$386,101 | \$5,228,613 |
| | Mis-Routed | \$4,001,433 | |
| | FedEx Sort Cost | \$841,079 | |
| 2019 | Failure to Load | \$474,395 | 5,439,843 |
| | Mis-Routed | \$3,883,873 | |
| | FedEx Sort Cost | \$1,081,575 | |
| Total | | | \$10,668,456 |

Source: OIG analysis and calculations of EDW, LCRS, WebEOR, and FedEx sort costs.

In 2017, the Atlanta, Baltimore, and Charlotte THS suppliers reported four irregularities. We calculated over \$3,600 not collected by the Postal Service. The Manager of Air Transportation CMC said they are in the process of collecting these liquidated damages.

Recommendation #1

The Vice President, Capital Metro Area, in coordination with the Vice President, Network Operations, *resolve mail processing facilities' lack of adherence to the volume arrival profile for all Capital Metro Area mail processing facilities.*

Recommendation #2

The Vice President, Capital Metro Area, in coordination with the Vice President, Network Operations, *ensure that terminal handling services suppliers are not loading bypass mail into mixed mail air containers without approval at all Capital Metro Area mail processing facilities.*

Recommendation #3

The Vice President, Capital Metro Area, *ensure the Baltimore terminal handling services supplier is using the required mail transport equipment container placards.*

Recommendation #4

The Vice President, Network Operations, in coordination with the Vice President, Capital Metro Area, *develop and implement a training program for all on-site terminal handling services Postal Service representatives to ensure they understand their contractual authority.*

Recommendation #5

The Vice President, Network Operations, in coordination with the Vice President, Supply Management, *resolve the conflict between the failure to load contract requirement and the liquidated damages assessment formula, finalize the automated terminal handling services supplier irregularity collection process, and determine and collect all outstanding contractual liquidated damages.*

Management's Comments

Management agreed with the findings and recommendations, but disagreed with the monetary impact.

Regarding the monetary impact, management disagreed with the assumption that each impact was solely the result of THS personnel.

Regarding recommendation 1, management agreed and will reinforce the importance of timely clearance and adherence to existing operating plans. Management's target implementation date is March 2018.

Regarding recommendation 2, management agreed and will use all guidance provided to eliminate the issue contingent on implementation of recommendation 4. Management's target implementation date is September 2018.

Regarding recommendation 3, management agreed and will ensure they provide the correct placards to the Baltimore THS daily and report compliance to the Manager, Air Transportation Operations. Management's target implementation date is June 2018.

Regarding recommendation 4, management agreed and will deploy a training program for liaisons and Postal Service representatives to outline their monitoring and reporting roles and responsibilities. Management's target implementation date is September 2018.

Regarding recommendation 5, management agreed and will clarify the contractual language regarding the failure to load contract requirement. Management has also implemented a THS irregularity collection process and is collecting all outstanding contractual liquidated damages. Management will provide documentation for the identified revenue loss once all contractual liquidated damages have been validated and payment received. Management's target implementation date is December 2018.

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

Evaluation of Management's Comments

The OIG considers management's comments to all recommendations to be responsive and the corrective actions should resolve the issues identified in the report.

Regarding the monetary impact, the OIG agrees that not all converted mail containers are the result of poor THS oversight. However, our approach to the Failure to Load and FedEx Sort calculations takes this into consideration. We used 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.

The OIG also agrees that the THS is not solely responsible for all mis-routed mail. We believe our calculations are a fair assessment. We used the amount of mis-routed mail of about 4.51 percent of total machine processed mail. During our meeting on October 25, 2017 with Postal Service management, they agreed this was a reasonable assessment.

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 eight THS facilities in the Capital Metro 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 the Capital Metro 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 highest volume of mail processed from October 1, 2016, through September 30, 2017.
- Conducted site observations at the Atlanta, GA, THS facility five days during the week of July 10, 2017; at the Baltimore, MD, THS facility four days during the week of August 7, 2017; and at the Charlotte, NC, THS facility four days during the week of July 24, 2017 to assess the effectiveness of THS operations.
- Identified, reviewed, and evaluated Postal Service THS policies, procedures, guidelines, and operational requirements.
- Reviewed THS contracts for the Atlanta, Baltimore, and Charlotte suppliers to identify contract requirements such as the 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 within the Capital Metro Area to determine if THS operations were conducted in accordance with the contracts.

- Analyzed and evaluated data from the Postal Service's EDW, WebEOR, CAMS, SASS, and LCRS to determine tender scan time, mail sorted to specific bins, and 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 any operational performance issues and contract irregularities.

We conducted this performance audit from June 2017 through February 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 objectives. 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 December 7, 2017, and included their comments where appropriate.

We used computer processed data from the following Postal Service applications; EDW, WebEOR, CAMS, SASS, 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

The OIG did not identify any prior audits or reviews within the last five years related to the objective of this audit.

Appendix B: Management's Comments



January 26, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – Terminal Handling Services – Capital Metro 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 – Capital Metro Area." Management does agree with the findings noted in the audit report including the suppliers' poor adherence to certain terms of the contracts. Management agrees with the recommendations as outlined in the audit response per the action plans shown below.

Regarding the monetary impacts identified in the audit, we disagree with the calculations made as each assumes that all mail indicated for each impact was solely the result of THS personnel.

Regarding Questioned Costs – Failure to Load in the amount of \$432,641, the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight. In some cases when volume is light it is necessary to convert containers.

Regarding Questioned Costs – FedEx Sort costs in the amount of \$802,799, the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight.

Regarding Questioned Costs – Misrouted in the amount of \$9,104,119, the OIG incorrectly assumed THS is responsible for all missorted mail. Missorted mail at destination found in the incoming sort cannot be absolutely attributed to a THS sort irregularity.

Regarding Funds Put to Better Use – THS Irregularities in the amount of \$8,745,802, the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight. In some cases when volume is light it is necessary to convert containers.

Regarding Funds Put to Better Use – FedEx Sort Costs in the amount of \$1,922,654, the OIG incorrectly assumed that all converted mixed containers are the result of poor THS oversight. In some cases when volume is light it is necessary to convert containers.

Regarding Revenue Loss in the amount of \$3,637, at the time of the audit this amount was due to the Postal Service and had not been assessed but currently we are in the process of assessing and collecting this amount.

Recommendation #1

We recommend the Vice President, Capital Metro Area, in coordination with the Vice President, Network Operations resolve mail processing facilities' lack of adherence to the volume arrival profile for all Capital Metro Area mail processing facilities.

Management Response/Action Plan

Capital Metro management agrees with this recommendation and will reinforce the importance of timely clearance and adherence to existing Operating Plans.

Target Implementation Date

March 2018

Responsible Official

Manager Operations Support, Capital Metro Area

Recommendation #2

We recommend the Vice President, Capital Metro Area, in coordination with the Vice President, Network Operations, ensure that terminal handling services suppliers are not loading bypass mail into mixed mail air containers without approval at all Capital Metro Area mail processing facilities.

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. Capital Metro Area will utilize all guidance provided to assist with eliminating this issue, contingent on implementation of recommendation #4.

Target Implementation Date

September 2018

Responsible Official

Manager Network Operations, Capital Metro Area

Recommendation #3

We recommend the Vice President, Capital Metro Area, ensure the Baltimore terminal handling services supplier is using the required mail transport equipment container placards.

Management Response/Action Plan

Management agrees that required placards are important and should be used by the THS personnel. The Capital Metro Area will ensure the BWI THS is provided the correct placards on a daily basis as well as reporting THS compliance regarding proper placard use to Manager, Air Transportation Operations.

Target Implementation Date

June 2018

Responsible Official

Senior Plant Manager, Baltimore District

Recommendation #4

We recommend the Vice President, Network Operations, in coordination with the Vice President, Capital Metro Area, develop and implement a training program for all on-site terminal handling services Postal Service representatives to ensure they understand their contractual authority.

Management Response/Action Plan

Management agrees with the recommendation and will deploy a training program for liaisons and postal service representatives which outlines their roles and responsibilities in monitoring the THS supplier on site performance and the proper communication channels for reporting any issues to headquarters.

Target Implementation Date

September 2018

Responsible Official

Manager, Air Transportation Operations

Recommendation #5

We recommend the Vice President, Network Operations, in coordination with the Vice President, Supply Management, resolve the conflict between the failure to load contract requirement and the penalty assessment formula, finalize the automated terminal handling services supplier irregularity collection process, and determine and collect all outstanding contractual penalties.

Management Response/Action Plan

We agree with the recommendation and will clarify the contractual language regarding the failure to load contract requirement. The THS irregularity collection process has been implemented and the Postal Service is currently collecting all outstanding contractual penalties. Documentation for the revenue loss identified in this audit will be supplied once all have been verified as valid and payment received to the maximum extent possible.

Target Implementation Date

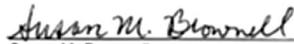
December 2018

Responsible Official

Manager, Air Transportation Operations



Robert Cintron
Vice President, Network Operations



Susan M. Brownell
Vice President, Supply Management


for

Linda M. Malone
Vice President, Capital Metro Area Operations

cc: Manager, Corporate Audit & Response Management



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