

Effectiveness of Planning Mail Capacity on Air Transportation

AUDIT REPORT

Report Number 23-095-R24 | November 30, 2023



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Highlights

Background

As part of its Delivering for America 10-year strategic plan, dated March 2021, the U.S. Postal Service plans to capitalize on the strength of its surface network and lower costs by reducing its reliance on air transportation. However, the Postal Service spent about \$3.5 billion on air transportation costs in fiscal year (FY) 2022, an increase of about \$106 million (or 3 percent) compared to FY 2021. The Postal Service has opportunities to reduce costs by better planning air capacity. For example, the Postal Service must pay the aviation supplier for [REDACTED] percent of the planned weight capacity, even if the amount of mail tendered is less than this amount. Better planning could help the Postal Service reduce air transportation costs and further support its strategic plan.

What We Did

Our objective was to evaluate the U.S. Postal Service's effectiveness in planning air capacity on specific lanes (pair of originating and destinating air stops). We analyzed Postal Service air weight data for the specific lanes planned to one aviation supplier for ten operating periods starting January 1, 2022, and ending May 26, 2023.

What We Found

The Postal Service did not accurately plan air weight capacity on the specific lanes for the aviation supplier we reviewed. Specifically, six of nine operating periods (about 67 percent) within our scope had actual mail weight that was less than the minimum [REDACTED] percent of planned air weight capacity for mail sent to the aviation supplier. As a result, the Postal Service paid the aviation supplier about \$25.7 million annually for unused capacity because it did not meet the minimum weight requirement.

Additionally, the Postal Service did not reconcile minimum air weight commitments using its own calculation of actual weight tendered to the aviation supplier. Rather, it used the weight provided by the aviation supplier without verifying its accuracy. This occurred because procedures have not been updated and do not contain methods for validating data received from the aviation supplier, which could result in unnecessary transportation costs to the Postal Service.

Recommendations

We made four recommendations to management that included developing a process to confirm future transportation changes are incorporated into the forecast model, reissuing guidance for tendering mail, and updating the instructions and reassessing or redefining the responsibilities for the reconciliation process.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

November 30, 2023

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

CARA GREENE
VICE PRESIDENT, CONTROLLER

Mary H. Lloyd

FROM: Mary Lloyd
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Effectiveness of Planning Mail Capacity on Air
Transportation (Report Number 23-095-R24)

This report presents the results of our audit of Effectiveness of Planning Mail Capacity on Air Transportation.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management
Chief Logistics Officer

Results

Introduction/Objective

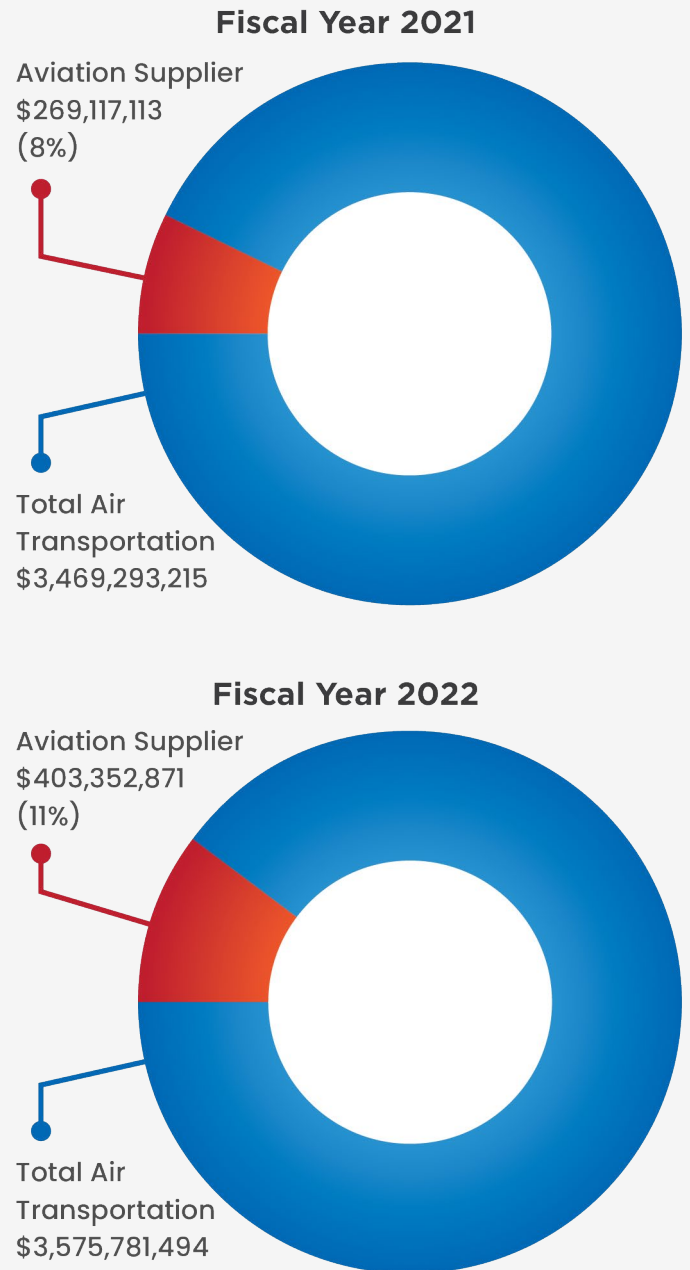
This report presents the results of our self-initiated audit of the Effectiveness of Planning Mail Capacity on Air Transportation (Project Number 23-095). Our objective was to evaluate the U.S. Postal Service's effectiveness in planning air capacity on specific lanes (a pair of originating and destinating air stops). See [Appendix A](#) for additional information about this audit.

Background

As part of its 10-year strategic plan, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, dated March 2021, the Postal Service plans to capitalize on the strength of its surface network and lower costs by reducing its reliance on air transportation. However, the Postal Service spent about \$3.5 billion on air transportation costs in fiscal year (FY) 2022, an increase of about \$106 million (or 3 percent) compared to FY 2021. These costs consisted of contracted air transportation services for moving mail to and from destinations within the United States.

To accomplish our objective, we reviewed the air weight planned to specific lanes for one aviation supplier. The Postal Service paid this supplier about \$269 million (which constituted about 8 percent of its total expenditures) in FY 2021 and \$403 million (or about 11 percent of the total expenditures) in FY 2022 (see Figure 1). This was an increase of about \$134 million, or 50 percent for that one supplier, from FY 2021 to FY 2022.

Figure 1. Percent of Selected Aviation Supplier Costs to Total Air Transportation Costs



Source: OIG analysis of Enterprise Data Warehouse.

Air operations are centralized at Postal Service Headquarters and managed by Logistics, which includes the Air Network Modeling (ANM) and Air Transportation Operations (ATO) teams. The ANM team manages the air network by forecasting mail volume demand and assigning mail volume to an aviation supplier for each operating period.¹ The ANM team uses a forecasting model to estimate and allocate the mail volume to be transported by the aviation supplier. The ATO team works with the ANM team during the forecasting process and manages the day-to-day operations of the air network. This audit included review of ten operating periods starting January 1, 2022, and ending May 26, 2023 – or operating periods [REDACTED] through [REDACTED] (see Table 1).

Table 1. Operating Periods Reviewed

Operating Period	Start Date	End Date
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Source: Contract Authoring and Management System.

When planning for air capacity, the ATO team provides a request for capacity (in pounds)² to the aviation supplier 190 calendar days prior to the beginning of an operating period. The aviation supplier has a specified timeline and format that the Postal Service must use to submit its request for the planned weight capacity (see Figure 2). Once finalized, the Postal Service is unable to make additional modifications to the capacity request.

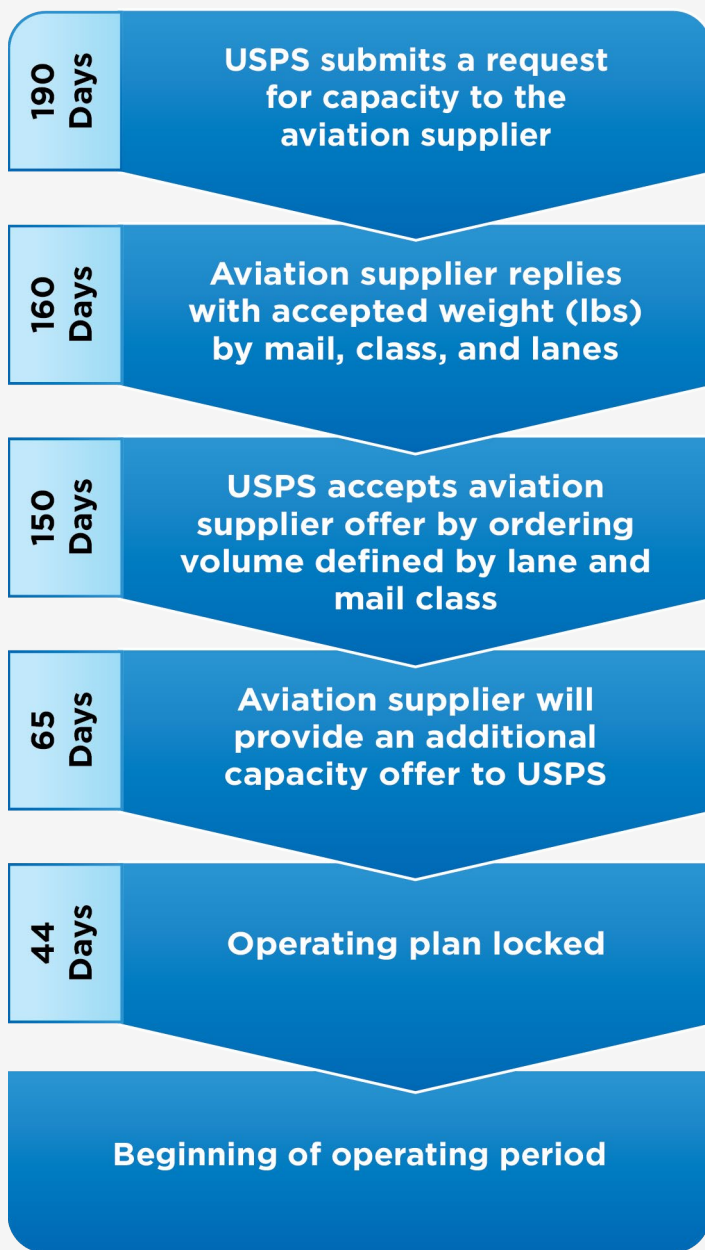
1 Operating periods can range from 30 to 90 days and can vary based on the Postal Service's ordering process and ordered services.

2 [REDACTED]

3 [REDACTED]

4 The drop-off, at an origin service point, of mail assigned by the Postal Service to the aviation supplier.

Figure 2. USPS-Aviation Supplier Submission Timeline in Days



Source: Contract Authoring and Management System.

Under the terms of the contract,³ if the capacity of mail tendered⁴ to the aviation supplier is less than [REDACTED] percent of the planned weight capacity, the Postal Service is still required to pay for [REDACTED] percent of the planned weight capacity (referred to as minimums).

At the end of each operating period, payments are due to the aviation supplier when the Postal Service does not meet its minimums. The Postal Service and the aviation supplier will meet no more than 60 days after an operating period (or a timeframe as agreed upon by both parties) to reconcile the actual weight capacity. As part of the reconciliation process, the Surface Air Support System⁵ support team sends scan data to the Postal Service transportation contract analyst to perform the reconciliation between Postal Service and aviation supplier data.

In June 2022, the U.S. Postal Service Office of Inspector General (OIG) issued a report titled, *Changes in the Usage of the Modes of Transportation*,⁶ in which we found the Postal Service did not always execute its decision-making process timely for the proposed changes to shift mail from air to surface transportation. In the prior audit, we recommended management develop a standard operating procedure (SOP) to include guidance,

roles and responsibilities for tasks, and timelines associated with planned mode changes for transitioning mail from air to surface. While the Postal Service developed an SOP to address the prior recommendation, this audit determined whether the Postal Service has improved its processes through our review of a selected aviation supplier.

Finding #1: Forecasting and Tendering of Planned Air Weight Capacity

The Postal Service has an opportunity to improve its planning and tendering of air weight capacity to the selected aviation supplier. The Postal Service tendered less than the planned air weight capacity for mail sent to the aviation supplier for six of the nine⁷ operating periods (about 67 percent) we reviewed (see Table 2). As a result, the Postal Service paid the aviation supplier unnecessary costs when its contractual [redacted] percent minimums were not met.

Table 2. Air Weight Capacity Percentage

Operating Period	Planned Air Weight (Pounds)	Actual Air Weight Capacity (Pounds)	Percentage of Actual Air Weight Capacity to Planned
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

Source: OIG analysis of the Logistics Contract Management System.

5 The Surface Air Support System calculates payments and performance for aviation suppliers.
 6 *Changes in the Usage of the Modes of Transportation*, Report Number 21-260-R22, dated June 21, 2022.
 7 Our audit scope included operating periods starting January 1, 2022, (operating period [redacted]) through May 26, 2023, (operating period [redacted]). However, as of November 2023, the Postal Service had not completed its reconciliation for operating period [redacted].

Forecasting of Surface Mail to Air Network

The Postal Service planned about [REDACTED] pounds of air weight for the 10 operating periods to be tendered to the aviation supplier. However, this forecasted amount was too high, as about [REDACTED] pounds of the [REDACTED] pounds were intended to move on the surface network (see Table 3). While the overall percentage of mail incorrectly planned from the surface network to the air network was small, this contributed to the Postal Service not meeting the [REDACTED] percent minimum weight capacity as contractually established.

Tendering Assigned⁸ Mail to Aviation Supplier

For the 10 operating periods dated January 1, 2022, through May 26, 2023, the Postal Service assigned about [REDACTED] pounds of mail to the aviation supplier. The total assigned weight ([REDACTED] pounds) for the 10 operating periods fell short of [REDACTED] percent of the [REDACTED] pounds – or [REDACTED] pounds – by approximately [REDACTED] pounds, or [REDACTED] percent. Further, of the [REDACTED] pounds assigned, about [REDACTED] pounds ([REDACTED] percent) was not tendered to the aviation supplier (see Table 4). This further contributed to the Postal Service not meeting the [REDACTED] percent minimum weight capacity.

Table 3. Incorrectly Planned Surface Mail to the Air Network

Operating Period	Planned Air Weight (Pounds)	Surface Mail Incorrectly Planned to the Air Network	
		Pounds	Percent
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: OIG analysis of the Logistics Contract Management System and Enterprise Data Warehouse.

⁸ Mail designated by the Postal Service to be transported by a specific supplier.

aviation supplier in the official reconciliation without verifying its accuracy.

This occurred because the transportation contract analyst did not have updated standard procedures to guide the reconciliation process. While the Postal Service developed aviation supplier reconciliation procedures in 2017, the procedures have not been updated and do not contain a process for validating data received from the aviation supplier.

Additionally, the transportation contract analyst we interviewed did not understand their duties and responsibilities associated with the aviation supplier reconciliation process. As defined in the job description for a transportation contract analyst, the analyst should perform the contract reconciliation process for aviation suppliers, validate the data with cross-functional managers, and escalate to a lead when discrepancies are identified. However, the transportation contract analyst said that they understood their role to be more administrative. They explained that they receive air volume data from the Surface Air Support System group and the aviation supplier, and that they manually input the data into a spreadsheet, without any knowledge of the calculations.

“To capitalize on the strength of its surface network and lower costs by reducing its reliance on air transportation, the Postal Service implemented several strategies to achieve more efficient operations.”

When the Postal Service relies on the aviation supplier's data, there is a risk that the aviation supplier has an error in the calculations that is not validated by the Postal Service during the reconciliation process. In the future, this could result in material differences and unnecessary transportation costs to the Postal Service.

Recommendation #3

We recommend the **Vice President, Controller**, in coordination with the **Vice President, Logistics**, update the official standard work instructions for the aviation supplier reconciliation process, including validation of aviation supplier data against Postal Service data for all components of the reconciliation.

Recommendation #4

We recommend the **Vice President, Controller**, in coordination with the **Vice President, Logistics**, reassess and/or redefine the duties and responsibilities for Postal Service employees involved in the reconciliation process, and communicate to all affected employees.

Looking Forward

To capitalize on the strength of its surface network and lower costs by reducing its reliance on air transportation, the Postal Service implemented several strategies to achieve more efficient operations. These strategies are key to accomplishing the Postal Service's 10-year plan to achieve financial sustainability. Although the Postal Service expects cost savings by reducing dependence on air transportation and optimizing its ground transportation network, the Postal Service will need to ensure greater accuracy as it plans air weight capacity and tenders mail to its aviation suppliers. Improvements in these areas could help the Postal Service mitigate unnecessary financial obligations to aviation suppliers and further support its Delivering for America plan.

Management's Comments

Management generally agreed with findings 1 and 2; disagreed with recommendation 1; and agreed with recommendations 2, 3, and 4; and agreed with the monetary impact. See [Appendix B](#) for management's comments in their entirety.

Regarding recommendation 1, management stated the Air Network Modeling team already has a process in place that incorporates any known mode changes into their air capacity planning. Management noted that in four out of 10 operating periods (operating periods [REDACTED]), significantly impacted by air to surface mode changes, there was a known impact and strategic decision to move forward with the air to surface changes during that time. Management subsequently provided standard

operating procedures that include a process to communicate and confirm future air to surface transportation changes are incorporated into the forecast model when planning air weight capacity.

Regarding recommendation 2, management stated they will issue a biannual service talk to all Logistics field employees reiterating the importance of tendering mail to the assigned aviation supplier. The target implementation date is December 31, 2023

Regarding recommendation 3, management stated the corporate accounting team is reviewing its reconciliation processes to ensure Postal Service data is used for all components of its reconciliations. The corporate accounting team will update its standard operating procedures to explicitly require the use of Postal Service data for reconciliation purposes and provide the necessary guidance for obtaining this data. The target implementation date is February 2024.

Regarding recommendation 4, management stated the corporate accounting team will include a section within its updated standard operating procedures to explicitly define the roles and responsibilities for all Postal Service employees involved in the reconciliation process. The target implementation date is February 2024.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations, and corrective actions should resolve the issues identified in the report. Because management has taken corrective action to resolve recommendation 1, we are closing recommendation 1 with the issuance of this report.

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.

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Appendix A: Additional Information

Scope and Methodology

The scope of this audit was to review the planned air capacity transported by a selected aviation supplier starting with operating period [REDACTED] (January 1, 2022) through operating period [REDACTED] (May 26, 2023). To accomplish our objective, we:

- Identified, reviewed, and evaluated Postal Service air transportation planning, strategies, policies, procedures, and responsibilities.
- Interviewed Postal Service officials on air capacity planning strategies, challenges, and results.
- Reviewed Postal Service initiatives, which may impact the air network.
- Reviewed the Postal Service's contract with the aviation supplier to determine the aviation supplier's responsibilities for transporting mail by air. Specifically:
 - Ordering process (including timeline).
 - Volume commitments.
 - Relevant rates (including price per pound).
 - Reconciliation process.
- Collected and analyzed Postal Service air volume data for the aviation supplier for operating periods [REDACTED] (January 1, 2022) through operating period [REDACTED] (May 26, 2023).
- Reviewed the aviation supplier's reconciliation of air volume payments and calculated the total costs (minimums) incurred.

We conducted this performance audit from June 2023 through November 2023, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence

obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 7, 2023, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the contracted air transportation services for moving mail and internal control structure to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following three components were significant to our audit objective:

- Control Activities;
- Information and Communication; and
- Monitoring Activities.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to information, communication, and monitoring activities that were significant within the context of our objective. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of air volume data in the Enterprise Data Warehouse, Logistics Contract Management System, and Logistics Ordering Agreement systems by performing tests for data completeness, reasonableness, accuracy, and validity. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Changes in the Usage of the Modes of Transportation</i>	Our objective was to evaluate the Postal Service's plan to change modes of transportation for First-Class Mail.	21-260-R22	6/21/2022	\$258.4

Appendix B: Management's Comments



November 16, 2023

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Effectiveness of Planning Mail Capacity on Air Transportation (Report Number 23-095-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report, *Effectiveness of Planning Mail Capacity on Air Transportation*.

Management agrees that shifting volumes from air to surface had *some* impact on the utilization and minimums with the air carrier focused on in the report. The report implies the shift of volume from air to surface was the primary root cause behind the monetary impact, however, the "Assigned Not Tendered" volume contributed to over 80% of the issue. Over the 10 operating periods reviewed (approximately 15 months), surface volume planned in the air network was [REDACTED] of the total, or [REDACTED]. On the other hand, volume assigned and not tendered was [REDACTED] of volume assigned, or [REDACTED] for the same period.

Management agrees that USPS paid the aviation supplier \$31.5M in minimums during the period under review.

Management also agrees that the minimum component of its reconciliations was calculated based on data provided by the aviation supplier based on outdated reconciliation procedures. However, the minimum component is just one of many components included in these reconciliations. Other components used internally sourced data and were not reliant on data provided by the aviation supplier.

Following are our comments on each of the four recommendations.

Recommendation 1:

We recommend the **Vice President, Logistics**, develop a process to communicate and confirm that future air to surface transportation changes are incorporated into the forecast model when planning air weight capacity.

Management Response/Action Plan:

Management disagrees with this recommendation.

The Air Network Modeling team has a process to incorporate any known mode

changes into their air capacity planning. In the 4 out of 10 operating periods significantly impacted by air to surface mode changes [REDACTED], there was a known impact and strategic decision to move forward with the air to surface changes during that time.

Target Implementation Date:

N/A

Responsible Official:

N/A

Recommendation 2:

We recommend the **Vice President, Logistics**, reissue guidance and conduct periodic training to reiterate the importance of tendering mail to the assigned aviation supplier.

Management Response/Action Plan:

Management agrees with this recommendation. Management will issue a biannual service talk to all Logistics field employees reiterating the importance of tendering mail to the assigned aviation supplier.

Target Implementation Date:

12/31/2023

Responsible Official:

Sr. Dir Air Logistics

Recommendation 3:

We recommend the **Vice President Controller, in coordination with the Vice President Logistics**, update the official standard work instructions for the aviation supplier reconciliation process, including validation of aviation supplier data against Postal Service data for all components of the reconciliation.

Management Response/Action Plan:

Management agrees with this recommendation. The Corporate Accounting team within the Vice President, Controller organization is reviewing its reconciliation processes to ensure Postal Service data is used for all components of its reconciliations. The Corporate Accounting team will update its standard operating procedures to explicitly require the use of Postal Service data for reconciliation purposes and provide the necessary guidance for obtaining this data.

Target Implementation Date:

February 2024

Responsible Official:

Executive Manager, Corporate Accounting

Recommendation 4:

We recommend the **Vice President Controller, in coordination with the Vice President, Logistics**, reassess and/or redefine the duties and responsibilities for Postal Service employees involved in the reconciliation process, and communicate to all affected employees.

Management Response/Action Plan:

Management agrees with this recommendation. The Corporate Accounting team will include a section within its updated standard operating procedures to explicitly define the roles and responsibilities for all Postal Service employees involved in the reconciliation process.

Target Implementation Date:

February 2024

Responsible Official:

Executive Manager, Corporate Accounting

Robert
Cintron

Digitally signed by
Robert Cintron
Date: 2023.11.16
11:03:05 -05'00'

Robert Cintron
Vice President, Logistics

E-SIGNED by CARA.M.GREENE
on 2023-11-16 16:31:25 EST

Cara M. Greene
Vice President, Controller

cc: *Corporate Audit Response Management*

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