OFFICE OF INSPECTOR GENERAL

June 26, 2001

DAVID L. SOLOMON
ACTING CHIEF OPERATING OFFICER AND
EXECUTIVE VICE PRESIDENT

SUBJECT: Transmittal of Letter Advisory Report — Interim Audit Results of FedEx Transportation Agreement (Report Number TR-LA-01-001)

During the Board of Governors' meeting on May 7, 2001, we brought to management's attention our initial audit observations about the transportation agreement between the Postal Service and FedEx. We indicated during the meeting that we would advise Postal Service management and the Board of Governors of significant issues and findings as they developed. Summarized below are some of the issues we discussed at the May meeting, additional observations, and our recommendations.

We recognize that the transportation agreement is a significant business decision for the Postal Service that has inherent financial and managerial risks. We believe our independent review adds significant value beyond those assessments provided by the external financial and legal consultants who analyzed the transportation agreement. [redacted] Our observations have been discussed with the former chief operating officer, the deputy chief counsel, and vice president, Network Operations Management.

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Lowering cost and improving service have been two of the primary reasons Postal Service management has advocated replacing the existing multi-carrier network. Based on our work to-date, [redacted]

[redacted]

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

Recommendation

We recommend the acting chief operating officer:

1. [redacted]

Management's Comments

Management agreed with the recommendation and indicated they have already [redacted]

Although management agreed with the recommendation, they disagreed with our finding on [redacted]

[redacted]

Evaluation of Management's Comments	Management's comments are responsive to the recommendation. [redacted]
Recommendation	2. [redacted]
Management's Comments	Management agreed with the recommendation and will provide OIG an updated list by June 15, 2001.
Evaluation of Management's Comments	Management's comments are responsive to the recommendation.
Recommendation	3. [redacted]
Management's Comments	Management agreed with the intent of the recommendation [redacted]
Evaluation of Management's Comments	Management's comments are not fully responsive to the recommendation. [redacted]

[redacted] Therefore, we consider this recommendation unresolved until the above actions are taken. We plan to pursue this recommendation through the formal resolution process.

The OIG considers recommendations 1 and 3 significant and, therefore, require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the audit tracking system until OIG provides written confirmation that the recommendations can be closed. Additionally, we consider recommendation 3 as unresolved and plan to pursue it through the audit resolution process. If you have any questions, please contact me on (703) 248-2300.

Debra S. Ritt

Debra S. Ritt
Assistant Inspector General for
Business Operations

cc: [redacted]

APPENDIX. MANAGEMENT'S COMMENTS

PATRICK R. DONAHOE
SENIOR VICE PRESIDENT
OPERATIONS

UNITED STATES POSTAL SERVICE

June 7, 2001

DEBRA S. RITT

SUBJECT: Transmittal of Letter Advisory Report – Interim Audit Results of FedEx Transportation Agreement (Report Number TR-LA-01-001)

The subject letter raises a number of issues that the Office of Inspector General (OIG) has regarding the transportation agreement between the United States Postal Service and FedEx, as well as making three specific recommendations. The purpose of this memo is to discuss the issues raised in the subject memo and respond to the specific IG recommendations.

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

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[redacted]

RECOMMENDATIONS:
The following is presented in response to your specific recommendations regarding what we should do with respect to the FedEx transportation agreement. Each recommendation is stated below followed by a specific response:

1. RECOMMENDATION: [redacted]

   RESPONSE: We agree with this recommendation [redacted]

2. RECOMMENDATION: [redacted]

- 3 -

RESPONSE: [redacted]

3. RECOMMENDATION: [redacted]

RESPONSE: [redacted]

In summary, I wish to thank the Office of Inspector General for their review of the USPS/FedEx contract and the helpful recommendations.

Patrick R. Donahoe