OFFICE OF INSPECTOR GENERAL

September 27, 2001

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

SUBJECT: Management Advisory Report – Interim Audit Results of Security Risks Associated with the FedEx Transportation Agreement (Report Number TR-MA-01-003)

This management advisory is the third interim report on the preliminary results of our ongoing audit, which you requested, of the FedEx transportation agreement (Project Number 01NR008TR000). This report addresses security risks associated with the transportation agreement. The Office of Inspector General (OIG) is continuing to independently test the reasonableness of Postal Service assumptions underlying the projected costs and savings that will be incurred under the FedEx transportation agreement. As we previously indicated, we will advise Postal Service management and the Board of Governors of significant issues and findings as they develop.

Results in Brief

[redacted] (b)(3)

Background

On January 10, 2001, the Postal Service signed a 7-year transportation agreement with FedEx for $6.3 billion to provide integrated, nationwide air delivery of Priority Mail, Express Mail, and First-Class Mail. Under the transportation agreement, FedEx will provide approximately 3.5 million pounds of air delivery capacity every day starting in late August 2001. The Postal Service states the

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transportation agreement will provide solid service, delivery predictability, and achieve cost reductions with a stable and strong financial service provider.

The Postal Service currently uses five separate dedicated networks operated by a number of air cargo service providers and the Air Systems Contract with commercial airlines to provide air delivery for mail. Based on existing provider financial stability, aircraft fleet profile, and historical service, the Postal Service has concluded that continuing with the existing air delivery arrangements may lead to service degradation and unacceptable future cost increases.

Objectives, Scope, and Methodology

Our audit objectives were to assess the: (1) reasonableness of anticipated costs savings, (2) reasonableness of anticipated service improvement, and (3) risks associated with the agreement. This report addresses security risks. In determining the reasonableness of security risks we reviewed and compared the FedEx transportation agreement to Postal Service requirements and similar transportation agreements.

This audit is ongoing and is being conducted in accordance with generally accepted government auditing standards, and includes such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Security

[redacted] The Postal Service's Administrative Support Manual - 13 (ASM)[1] indicates the Postal Inspection Service is responsible for the protection of the mail, and plant and personnel security. The Postal Inspection Service is directly responsible for the protection of the Postal Service from criminal or other conduct that would undermine the safe and efficient movement of the mail or undermine efficiency or integrity.

(b)(3)

[1] Administrative Support Manual 13, dated July 1999, and updated with Postal Bulletin Revisions through January 11, 2001.

In addition, the sanctity of the mail is a hallmark of the Postal Service.

(b)(3)

[redacted]

Table 1: Comparison of Security Provisions Between the FedEx and Other Transportation Agreements

ASM-13 Requirements	[redacted]				
Personnel Screening	[redacted]				
Facility Security	[redacted]				
Mail Security	[redacted]				
Access Badge(s)	[redacted]				
Safety Reviews/Security Surveys	[redacted]				

[redacted]

[redacted]

(b)(3)

[redacted]

Recommendation	We recommend the vice president, Network Operations Management, should request the vice president, General Counsel, to: [redacted]
Management's Comments	Management, in their initial response of August 24, 2001, indicated they would make a bona fide effort [redacted] In a subsequent letter dated September 24, 2001, management indicated [redacted]
Evaluation of Management's Comments	Management's comments are responsive to the recommendation. However, we remain [redacted]

[6] January 10, 2001, Postal Service/FedEx Transportation Agreement.

[redacted] (b)(3)

The OIG considers the recommendation significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until OIG provides written confirmation that the recommendation can be closed. We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact me at (703) 248-2300.

Debra S. Ritt

Debra S. Ritt
Assistant Inspector General for
Audit

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APPENDIX. MANAGEMENT'S COMMENTS

PAUL E. VOGEL
VICE PRESIDENT, NETWORK
OPERATIONS MANAGEMENT

UNITED STATES
POSTAL SERVICE

August 24, 2001

DEBRA S. RITT

SUBJECT: Draft Management Advisory –
Interim Audit Results of FedEx Transportation Agreement -
Security Risks Associated with the FedEx Transportation Agreement (August 14, 2001)
(Report Number TR-MA-01-DRAFT)

This responds to the above-referenced interim audit. We share the Office of Inspector General's (OIG) concern for the security of the mail. We believe that FedEx provides outstanding protection for all items that are entrusted to it. Indeed, FedEx's reputation as a quality and secure transportation company was a primary reason we entered into the Transportation Agreement. As [redacted]

(b)(3)

The draft OIG report concludes with the following recommendation:

> *"The vice president, Network Operations Management should request the vice president, General Counsel, to:*
>
> [redacted]

Notwithstanding the above discussion, we certainly understand and appreciate the OIG's concern for the security of the mail. [redacted]

Paul Vogel

cc: Mr. Donahoe
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Mr. Strange

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PAUL E. VOGEL
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UNITED STATES POSTAL SERVICE

September 24, 2001

DEBRA S. RITT

SUBJECT: Draft Management Advisory – Interim Audit Results of FedEx Transportation Agreement - Security Risks Associated with the FedEx Transportation Agreement (August 14, 2001) (Report Number TR-MA-01)

This is to update our August 24, 2001 response to the above-referenced interim audit. Subsequent to our response, [redacted] (b)(3)

Paul Vogel

cc: Ms. Gibbons
Mr. Weaver

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