

June 30, 2000

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VICE PRESIDENT, PURCHASING AND MATERIALS

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MANAGEMENT

SUBJECT: Priority Mail Processing Center Network 1999  
Christmas Operation  
(Report Number DA-MA-00-002)

This management advisory report presents the results of our review of the Priority Mail Processing Center Network 1999 Christmas operations (Project Number 00PA015DA000). The objective of our review was to evaluate whether capacity problems encountered during the previous Christmas seasons were still occurring.

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**Results in Brief**

The performance of the Priority Mail Processing Center Network's 1999 Christmas operations had improved over operations in 1998. However, problems with network airlift and processing capacity experienced in previous years still existed. As in previous years, the Postal Service processed and transported some Priority Mail in lieu of the Priority Mail Processing Center Network contractor. We offered two suggestions to correct the issues identified in this report. Management agreed with our suggestions and the actions taken or planned should address the issues identified in this report.

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**Background**

In April 1997 the Postal Service awarded a \$1.7 billion, five-year contract to establish a pilot network of ten Priority Mail processing centers on the East coast of the United States. Five of the ten sites were operational by December 1997, and the remaining five sites were activated by June 1998. This pilot network was established to

determine if removing the processing of Priority Mail from the processing and distribution centers would improve delivery scores.

The contractor is required to transport mail between the Priority Mail processing centers and the Postal Service Priority Mail area distribution centers. Dedicated/designated airlift<sup>1</sup> and commercial air/surface transportation are used by the contractor to transport Priority Mail.

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**Prior Audit Coverage**

Our review of 1998 Christmas operations planning<sup>2</sup> identified two areas where a high potential for problems existed:

- Facility capacity at Nashua Priority Mail Processing Center.
- Airlift capacity serving the Nashua, Rochester, Springfield, and Jacksonville Priority Mail Processing Centers.

We also issued a report in September 1999 entitled Priority Mail Processing Center Network (DA-AR-99-001). In that report, we disclosed that Priority Mail processed through the network cost 23 percent more than Priority Mail processed by the Postal Service without a network. In addition, we found that the Priority Mail Processing Center Network was not meeting overall delivery rate goals referenced in the contract. We provided management six recommendations to control costs, capture savings, and improve performance. Management generally agreed with our recommendations and planned actions addressed the issues presented.

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**Objective, Scope, and Methodology**

Our objective was to determine whether capacity problems encountered during previous Christmas operations were still occurring.

To complete the objective, we reviewed documents and reports relating to the 1998 and 1999 Priority Mail processing center Christmas operations. We interviewed Postal Service Headquarters and pertinent area officials, technical liaisons, and the independent auditors. We visited all ten of the Priority Mail processing center facilities,

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<sup>1</sup> Dedicated/designated airlift is transportation provided on the contractor's aircraft.

<sup>2</sup> Priority Mail Network-Christmas Plan 1998, (Report Number DA-LA-99-001), dated November 24, 1998.

including annexes and cross docks. We also contacted Postal Service officials at 8 processing and distribution centers and 26 airport mail centers/facilities.

This review was conducted between December 1999 and May 2000 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

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### **Airlift Capacity**

We found performance during the 1999 Christmas season improved over 1998. However, 1999 Christmas season operations continued to be impacted by insufficient processing and airlift capability similar to that reported by the Priority Mail Processing Center Network 1998 PMPC Christmas Operations Assessment.

During the 1999 Christmas season, the network experienced problems with airlift capacity. In particular, airlift delays were caused by the refusal of commercial airlines to accept or transport Priority Mail. The reasons for refusal included delayed delivery of mail to the airlines and airport backlogs of mail. Delays were also reported at transfer points due to airlift capacity limitations and misrouting of mail.

Due to airlift issues, the Postal Service repossessed 1.07 million pounds of Priority Mail at 12 airports and rerouted it via commercial airlift or surface carrier contracts. Included in this amount was over 140,000 pounds of mail the network refused or misrouted. Table I summarizes the amount and location of the mail the Postal Service reported as repossessed during the 1999 Christmas season.

**TABLE I**  
**1999 Christmas Season**  
**Delayed Priority Mail Repossessed by the Postal Service<sup>3</sup>**

<b>Airport</b>	<b>Weight in Pounds</b>
Chicago	386,621
Philadelphia	218,473
Atlanta	105,647
Minneapolis	81,853
Dayton	80,329
Dallas	51,446
Phoenix	41,855
Seattle	39,490
Pittsburgh	34,300
Denver	18,485
Detroit	8,449
Jacksonville	4,575
<b>Total</b>	<b>1,071,523</b>

As a result of repossessing Priority Mail, the Postal Service may have incurred additional transportation costs. Although estimates of these costs were not available at the time of our review, the Priority Mail network program manager indicated the Postal Service would determine its costs for transporting repossessed Priority Mail and bill the contractor. However, while the Postal Service indicated it planned to recover its costs, it had not yet billed the contractor for mail repossessed during the 1998 Christmas season. According to the contracting officer, the Postal Service had not billed the contractor for 1998 because of ongoing negotiations over additional reimbursement sought by the contractor for 1999 operations. However, we believe any postponement of cost recovery beyond the ongoing negotiations is inappropriate.

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**Capability to Handle  
Christmas Volume**

Since 1997, the Postal Service Priority Mail Processing Center Network has diverted mail to Postal Service facilities for processing and distribution. While the Priority Mail network's 1999 Christmas plan established that mail volumes exceeding the networks capacity would be processed by the Postal Service, the diversion of mail was not budgeted for by local facilities. During the 1999 Christmas season, 7.7 million pieces of Priority Mail were

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<sup>3</sup> OIG developed Table I using PS Forms 2734-A (Air Transportation Pay and Routing Adjustment) prepared by the airmail centers/facilities.

diverted to postal facilities, increasing Postal Service costs by approximately \$1.8 million. Table II presents these estimated costs to process by area.

**TABLE II**  
**1999 Christmas Season**  
**Impact of Priority Mail Diversion on Postal Service Areas**

Area	Number of Pieces (000 Omitted)	Total Cost
Allegheny	3,793	\$749,698
New York Metro	414	65,790
Northeast	3,000	906,300
Southeast	533	101,596
<b>Total</b>	<b>7,740</b>	<b>\$ 1,823,384</b>

Postal Service area officials tracked the cost of the diverted volume during the prior Christmas seasons and requested reimbursement from Postal Service Headquarters. While a \$1.18 million budget adjustment was planned for the 1997 Christmas season, area officials indicated no adjustment was made for the 1998 Christmas season. The manager of the Priority Mail Processing Center Network considered reimbursement for the processing of diverted Priority Mail the responsibility of Postal Service Headquarters Finance because the activity is an expense for which the contractor receives no compensation.

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**Suggestion**

1. We suggest the vice president, Purchasing and Materials, ensure that the Postal Service is reimbursed for costs associated with repossessed Priority Mail during the 1998 and 1999 Christmas seasons as part of the settlement of the current contractor's claims.

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**Management's  
Comments**

Management agreed with the suggestion. The Postal Service Contracting Officer for the Priority Mail Processing Center contract recommended that the cost associated with repossessed Priority Mail during the 1998 and 1999 Christmas seasons be treated as part of the final settlement of the current contractor's claims.

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**Suggestion**

2. We suggest the vice president, Network Operations Management ensure that Historical data on diverted network costs be provided to Postal Service facilities so that they can plan and budget for diverted network Priority Mail.

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**Management's  
Comments**

We agree with the suggestion. For this year we will again plan volume diversions in concert with the Areas, Plants, and Districts as a countermeasure to the capacity shortfalls we expect this December. This planning will consider not only the historical record but projections of this coming season's volume as well.

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**Evaluation of  
Management's  
Comments**

Management's actions taken and planned are responsive to our suggestions.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Tracy A. LaPoint, director, Developmental, or me at (703) 248-2300.

Richard F. Chambers  
Deputy Inspector General

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## APPENDIX. MANAGEMENT'S COMMENTS



June 23, 2000

NORMAN B. HANCOCK  
ASSISTANT INSPECTOR GENERAL FOR e-BUSINESS

SUBJECT: Draft Management Advisory – Priority Mail Processing Center Network 1999  
Christmas Operations  
(Report Number DA-MA-00-DRAFT)

This replies to your memorandum of June 5, 2000, which provides a copy of a draft report, as captioned above, concerning the 1999 Holiday Season operations of the Priority Mail Network. Your memorandum asks us: (1) to identify any portions of the draft report which we believe may contain proprietary or other business information that may be exempt from disclosure under the Freedom of Information Act (FOIA) and (2) to provide a written response to the observations and suggestions in the draft report.

The June 5 draft report in our view does not contain proprietary or other information that may be exempt from disclosure under FOIA. If, however, the draft should be revised in light of the comments provided below, we would appreciate a further opportunity to comment on whether any such revised draft contains any information which in our view should not be publicly disclosed.

As to the observations and suggestions in the report itself, we offer the following comments.

### Airlift Capacity Section

In this section, the draft report states that, "... 1999 Christmas season operations continued to be impacted by insufficient processing and airlift capability similar to that reported by the Priority Mail Processing Center Network 1998 PMPC Christmas Operations Assessment." It further states that "In particular, airlift delays were caused by the refusal of commercial airlines to accept or transport Priority Mail. The reasons for refusal included delayed delivery of mail to the airlines and airport backlogs of mail. Delays were also reported at transfer points due to airlift capacity limitations and misrouting of mail." More specific information as to the causes of such refusals would be helpful to correct these problems when they are noted in future reports.

The report further states that "Due to airlift issues, the Postal Service repossessed 1.07 million pounds of Priority Mail at 12 airports and rerouted it via commercial airlift or surface carrier contracts." To place this figure into perspective, the 1.07 million pounds of repossessed mail represents 1.95% of the 54.92 million pounds of Priority Mail that the contractor processed and transported during the relevant time period -- FY 1999 AP 4 -- that originated in the PMPC service area and destined in the rest of the country outside of the PMPC service area. This is not to minimize the 1.07 million pounds, nor the additional transportation cost to the USPS that repossession of such mail may entail. It does, however, offer a reasonable way to quantify the severity of the problem that the PMPC contractor and the USPS both have with respect to the reliability of commercial airlines in performing mail transportation services during the holiday mailing season.

### Suggestions Section

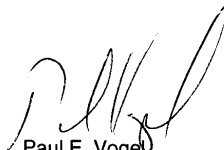
We agree with the draft report's first suggestion that the Postal Service obtain reimbursement for the costs associated with repossessed Priority Mail during the 1998 and 1999 holiday mailing

seasons. We understand that the USPS Contracting Officer for the PMPC contract recommended that the cost associated with repossessed Priority Mail during the 1998 and 1999 Christmas seasons be treated as part of the final settlement of the current contractor's claims; and we concur with that suggestion. No specific corrective action is required since we do not plan on postponing cost recovery beyond the on-going negotiations or litigation with the PMPC contractor.

We also agree with the draft report's second suggestion, that historical data on diverted network costs be provided to local postal facilities to enable them to predict future mail diversions. Planned diversions were agreed to with the Areas prior to the holiday season, through a process that began in February 1999, and concluded in late summer. Further, as you note in your report, the Area offices record and track volume diversions by location, so the raw data is available as it is generated. For this year, we will again plan volume diversions in concert with the Areas, Plants, and Districts as a countermeasure to the capacity shortfalls we expect this December. Such planning will consider not only the historical record, but projections of this coming season's volume as well.

Based on our conversations with your staff members, we want to be sure that our response to the advisory is not misunderstood. The underlying cause of the problems covered in the report is the intractable annual scarcity of processing capacity and commercial air transportation during the holiday season in the face of an overwhelming but short-lived volume surge during the critical two weeks in December. Until these problems can be successfully managed or mitigated, the holiday season will continue to be the challenge that it has been in the past.

We appreciate the opportunity to comment on this draft Management Advisory, and hope that you will find our comments helpful.

  
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Acting Vice President  
Network Operations Management

  
Keith Strange  
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**Major Contributors to** [REDACTED]  
**This Report**