

Office of Inspector General | United States Postal Service

Audit Report

Air Cargo Contract Compliance

Report Number 20-127-R20 | September 30, 2020



the other may terminate this Agreement if the
thirty (30) days of written notice of same.
may have been accrued to either

Business Contract

with a business address at _____ ("Client"), with _____ a business
Contract (this "Business Contract" or this "Agreement") for the
as set forth in the statement of work (each, a "Statement of Work")
part of this Agreement, from time to time as Exhibits

SCOPE OF WORK

work to be performed by Provider under
shall exercise its best efforts to
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Highlights

Objective

Our objective was to assess contractual compliance and oversight of the U.S. Postal Service's air transportation agreement with [REDACTED] (aviation supplier or supplier). We did not review the operational aspects of these provisions, such as mail transportation efficiency.

Beginning in [REDACTED], the Postal Service entered into a contract with the aviation supplier to provide air transportation and ancillary services for moving mail to and from destinations within the contiguous 48 states and non-contiguous areas including Alaska, Hawaii, and Puerto Rico. The original agreement was effective beginning [REDACTED] and was extended through [REDACTED], for a total estimated value over this time period of \$17.6 billion.

The Postal Service's air transportation network consists of services by this aviation supplier, commercial airlines, [REDACTED], supplemental charters, and terminal handling services for combined value of about \$3.1 billion in fiscal year (FY) 2019. This supplier, the [REDACTED] in the network, transported [REDACTED] percent of the Postal Service's airmail during FY 2019.

The supplier's air transportation contract included the statement of work, attachments, and modifications. As of June 2020, there were 179 modifications, including 141 (or 79 percent) related to monthly fuel adjustments and supplemental flights. The contract included over 90 requirements and provisions. We identified 15 provisions that we deemed significant based on the following criteria: 1) impact on Postal Service cost and revenue, 2) commitment of the supplier to the service, and 3) protection of the Postal Service's interests.

These provisions were related to management planning and operational reports, volume accommodation and commitment, volume ordering processes, mail transport and scanning, performance requirements, reconciliation, payments and payment deduction, and mail protection. We shared our methodology for selecting the provisions with Postal Service management for their consideration and they offered no changes.

Although our fieldwork started after the President of the U.S. issued the National Emergency Declaration concerning the novel coronavirus disease outbreak on March 13, 2020, the results of this audit do not reflect process or operational changes that may have occurred as a result of the pandemic.

Findings

The aviation supplier complied with all 15 provisions we reviewed, including those related to volume, mail tendering, delivery performance, and scan data. However, the Postal Service did not provide sufficient oversight of protection of the mail handled by the supplier. In addition, the Postal Service continued to waive payment reductions through monthly contract modifications, even though the supplier did not always meet required delivery performance goals.

The Postal Service did not adequately monitor damaged mail. Although the Postal Service assigned a manager and staff to the aviation supplier's hub, it had not reported any damages. During our visit to one of the supplier's hubs on July 7, 2020, we observed damaged mail throughout the facilities. For example, we noticed many packages were broken open, torn, bent, or crushed. We also observed packages falling off the conveyor belts. However, we were unable to determine if the damaged packages belonged to the Postal Service since they were processed with other packages handled by the supplier and we were not allowed access to inspect individual packages.

The contract states the supplier must protect and safeguard the mail from loss, theft, and damage while it is in their custody or control. The contract also establishes liquidated damages which may be assessed against the supplier for damaged and unprotected mail.

According to Postal Service personnel, there is no process in place to monitor lost and damaged mail or to ascertain whether packages transported for the Postal Service were damaged while in the aviation supplier's custody or prior to tendering to the supplier. Further, Postal Service management personnel stated that no liquidated damages have ever been assessed against the supplier for lost or damaged mail.

Recording the damage to mail and imposing penalties on the aviation supplier for that damage would bring to the supplier's attention unsatisfactory conditions they must correct to improve the quality of mail service. In addition, damaged mail could impact customer satisfaction and result in customers filing claims to be paid by the Postal Service.

In addition, the Postal Service did not reduce payments to the supplier when it did not meet required delivery performance goals. The contract states that payment reductions will be assessed if the calculated delivery performance is less than the on-time performance goal. However, contract modifications agreed to by the Postal Service and supplier for additional mail volume transported by the supplier waived day network service and scan payment reductions if the Postal Service used charter flights.

The Postal Service suspended reconciliation of the day network delivery performance data between the aviation supplier and the Postal Service due to the waiver. Based on our review of Postal Service unreconciled summary data from October 2019 through May 2020, we found that the supplier did not meet the delivery performance goal for four of eight months, specifically from November 2019 through February 2020. The supplier's records show they met the performance goals in all eight months; however, without reconciling, the Postal Service and the supplier's own delivery data, the Postal Service would not know whether the supplier actually met performance goals.

Had the Postal Service completed the reconciliation and determined that the aviation supplier met performance goals, there would be no reduction in payment. However, since the reconciliation was not being completed to validate actual performance, there is a possibility that the supplier did not meet the goals and, thus, would be subject to payment reduction. We estimated payment reductions

could have been as high as \$5.5 million during the four months that the supplier did not meet the goals had there been no waiver in place. Without the ability to reduce payment, the Postal Service cannot hold the supplier accountable for delivery performance goals.

We previously reported this issue in FY 2019 when we found that the aviation supplier's unreconciled service performance did not meet the contractual delivery performance goals in any of the months reviewed. However, we determined there was no reduction to the payments due to the waiver created when the Postal Service orders charters from the supplier.

Based on that report's recommendations, the Postal Service communicated with the supplier in an effort to remove the contract stipulation waiving payment reductions, but the supplier would not agree with its removal until charters were significantly reduced. The Postal Service had reduced charter flights by 27 percent in FY 2019 compared to the prior year. However, the number of charter flights increased significantly starting in March 2020 during the novel coronavirus disease outbreak as the Postal Service lost mail transporting services from commercial airlines. Therefore, we are not making a recommendation regarding payment reduction at this time. We will continue to monitor the effects of charters on Postal Service operations once operations normalize.

Recommendation

We recommend management determine the sources of the damaged mail and, based on the outcome, enhance and enforce procedures for reporting and compensating the Postal Service for damaged mail caused by the aviation supplier.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 30, 2020

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

An e-signature block showing a handwritten signature "John E. Cihota" in black ink. Above the signature, it says "E-Signed by John Cihota" and "VERIFY authenticity with Sign Desktop". There is a small icon of a document with a checkmark in the top right corner of the signature box.

FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Air Cargo Contract Compliance
(Report Number 20-127-R20)

This report presents the results of our audit of the U.S. Postal Service's Air Cargo Contract Compliance.

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

Attachment

cc: Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the U.S. Postal Service's contract with [REDACTED] (aviation supplier or supplier)¹ (Project Number 20-127). Our objective was to assess contractual compliance and oversight of the air transportation agreement with the supplier. See [Appendix A](#) for additional information.

Although our fieldwork started after the President of the U.S. issued the National Emergency Declaration concerning the novel coronavirus disease outbreak on March 13, 2020, the results of this audit do not reflect process or operational changes that may have occurred as a result of the pandemic.

Background

Beginning in [REDACTED], the Postal Service entered into a contract with the aviation supplier to provide air transportation and ancillary services for mail to and from destinations within the contiguous 48 states and non-contiguous areas, including Alaska, Hawaii, and Puerto Rico. The original contract was effective from [REDACTED], through [REDACTED], and valued at \$10.6 billion. On February 22, 2017, the Postal Service extended the contract through [REDACTED]; the total agreement, including the renewal period, increased its value to \$17.4 billion. As of June 2020, there were 179 modifications, including 141 (or 79 percent) related to monthly fuel adjustments and charter modifications.

The Postal Service's air transportation network consists of services by this aviation supplier, commercial airlines, [REDACTED], supplemental charters,² and terminal handling services (THS),³ for a combined value of about \$3.1 billion in fiscal year (FY) 2019. This supplier, the [REDACTED] in the network, transported [REDACTED] percent of the Postal Service's airmail during FY 2019. Its day network operates Tuesday through Sunday, [REDACTED] and serves about 80 origins and destinations.

About 97 percent of the supplier's expenses were incurred through their day network. Its night network operates Monday through Friday, primarily for the transportation of Express Mail,⁴ and serves about 145 origins and destinations.⁵ See Table 1 for the air transportation expenses for the supplier.



AIR TRANSPORTATION EXPENSES

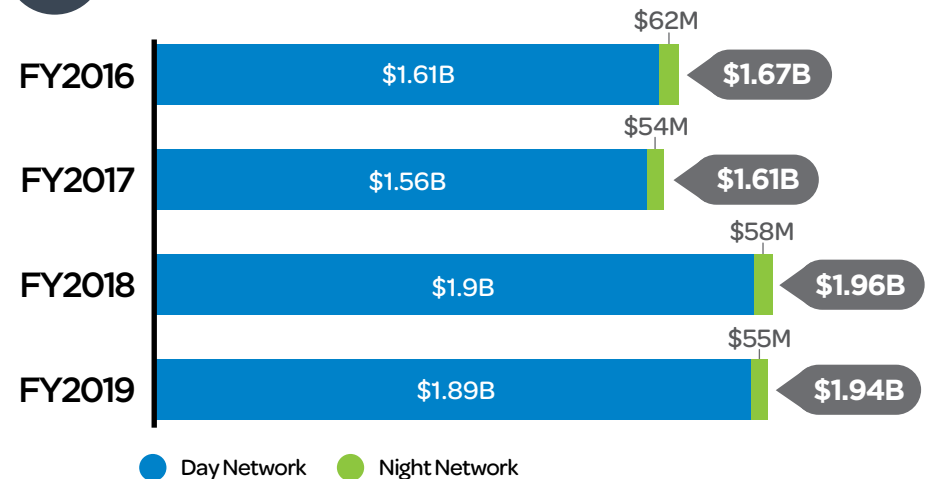


Table 1. Air Transportation Expenses for the Aviation Supplier

Network	FY 2016	FY 2017	FY 2018	FY 2019
Day Network	\$1,606,134,619	\$1,555,123,160	\$1,896,902,527	\$1,885,392,483
Night Network	61,541,404	54,423,858	58,335,285	54,907,587
Total	\$1,667,676,023	\$1,609,547,018	\$1,955,237,812	\$1,940,300,070

Source: Contract expense information provided by the Postal Service.

1 [REDACTED]
 2 Supplemental charters are charter flights provided by other air carriers such as [REDACTED]
 3 THS sites prepare mail for tendering to the supplier and supplemental charters.
 4 The Postal Service changed the name Express Mail to Priority Mail Express on July 28, [REDACTED] the air transportation contract was signed. The statement of work (SOW) refers to Express Mail.
 5 The supplier incurred the other 3 percent from their night network. Due to its immateriality, we did not include the night network in the scope of this audit.

The aviation supplier's air transportation contract included over 90 requirements and clauses (provisions). We identified 15 provisions that we deemed significant,⁶ which related to management planning and operational reports, volume accommodation and commitment, volume ordering processes, mail transport and scanning, performance requirements, reconciliation, payments and payment deduction, and mail protection.

Finding #1: Protection of the Mail

The Postal Service did not adequately monitor damaged mail. Although the Postal Service assigned a manager and staff to the aviation supplier's hub, they had not reported any damages. During our visit to one of the supplier's hubs on July 7, 2020, we observed damaged mail throughout the facilities. For example, we noticed many packages were broken open, torn, bent, or crushed. We also observed packages falling off the conveyor belts. However, we were unable to determine if the damaged packages belonged to the Postal Service since they were processed with other packages handled by the supplier and we were not allowed access to inspect individual packages. The contract⁷ states the supplier must protect and safeguard the mail from loss, theft, and damage while it is in their custody or control. The contract also establishes liquidated damages which may be assessed against the supplier for damaged and unprotected mail.

According to Postal Service personnel, there was no process in place to monitor lost and damaged mail, or to ascertain if packages transported for the Postal Service were damaged while in the aviation supplier's custody or prior to tendering to the supplier. Further, Postal Service management stated that no liquidated damages have ever been assessed against the supplier for lost or damaged mail.

Postal Service policy requires personnel to use Postal Service (PS) Form 2759, Report of Irregular Handling of Mail, to report irregularities including lost or damaged packages. However, based on inquiries with Postal Service

management, employees have never completed PS Forms 2759 at the aviation supplier's facility.

Recording the damage and imposing financial liquidated damages on the aviation supplier would bring to the supplier's attention unsatisfactory conditions they must correct to improve the quality of mail service. In addition, damaged mail could impact customer satisfaction and result in claims filed by customers and paid by the Postal Service.

Recommendation #1

We recommend the **Vice President, Logistics**, determine the source(s) of damaged mail and, based on the outcome, enhance and enforce procedures for reporting and compensating the Postal Service for damaged mail caused by the aviation supplier.

Finding #2: Delivery Performance Payment Reduction

The Postal Service did not reduce payments when the aviation supplier did not meet required delivery performance goals. The contract⁸ states that payment reductions will be assessed if the calculated delivery performance is less than the on-time performance goal. However, contract modifications agreed to by the Postal Service and supplier for additional mail volume transported by the supplier waived day network service and scan payment reductions if the Postal Service used charter flights.

According to a prior audit report,⁹ the Postal Service negotiated the language in monthly contract modifications for charter flights because it did not have alternatives for moving excess mail volume. Postal Service management explained that the aviation supplier was concerned that adding mail volume increased the risk of not making delivery performance; therefore, they did not want to be accountable and incur payment reductions for accepting additional volume. As noted in the report, the Postal Service further explained that they evaluated the business decision associated with this waiver of payment

⁶ We considered a provision to be significant based on the following criteria: 1) impact on Postal Service cost and revenue, 2) commitment of the supplier to the service, and 3) protection of the Postal Service's interests.

⁷ *Clause B-77: Protection of the Mail.*

⁸ Reduction of Payment provision.

⁹ *Management Alert – Charter Flights* (Report Number [NL-MT-19-002](#), dated September 5, 2019).

reduction for supplier charters and determined that the need to transport the mail outweighed the related risks. These risks included failing to achieve delivery performance standards for excess mail, impacting customer service satisfaction, placing Postal Service revenue at risk, and compromising the Postal Service's goodwill and branding.

The Postal Service had a process in place for reconciling delivery performance data between itself and the aviation supplier. However, the service performance reconciliation process for the day network was suspended upon implementation of the waiver of payment deduction. Based on our review of Postal Service unreconciled summary data from October 2019 through May 2020, we found that the supplier did not meet required performance goals from November 2019 through February 2020.¹⁰ Conversely, the supplier's records show they met the performance goals in all eight months; however, without the Postal Service reconciling its data and the supplier's own delivery data, the Postal Service would not know whether the supplier actually met performance goals.

If the reconciliation had occurred and determined that the aviation supplier met performance goals, there would be no reduction in payment. However, since the reconciliation was not being completed to validate actual performance, there is a possibility that the supplier did not meet their goals. We estimated payment reductions could have been as high as \$5.5 million during the four months that the supplier did not meet the goals had there been no waiver in place.¹¹ Without the ability to reduce payment, the Postal Service cannot hold the supplier accountable for not meeting delivery performance goals.

We previously reported this issue in FY 2019.¹² We found that the aviation supplier's unreconciled service performance did not meet the contractual delivery performance goals in any of the months reviewed; however, there was no reduction to payments due to the waiver in the charter modifications. We recommended the Postal Service evaluate the opportunity to remove or modify the contract stipulations waiving payment reductions; minimize charters; and track the amount of payment reductions waived.

The Postal Service communicated with the supplier in an effort to remove the contract stipulation waiving payment reductions, but the supplier would not agree to its removal until charters were significantly reduced. The Postal Service had reduced charter flights by 27 percent in FY 2019 compared to the prior year. However, the number of charter flights increased significantly starting in March 2020 during the novel coronavirus disease outbreak as the Postal Service lost mail transporting services from commercial airlines. Therefore, we are not making a recommendation regarding payment reduction at this time. We will continue to monitor the effects of charters on Postal Service operations once operations normalize.

¹⁰ We used the Postal Service's monthly average adjusted scores for our analysis. The scores were adjusted to account for circumstances that may affect the supplier's delivery performance goals such as volume over the [REDACTED] percent forecasted volume requested by the Postal Service. Actual reconciliation would be based on delivery performance of individual routes such as Los Angeles, CA, to Tampa, FL.

¹¹ Delivery performance requirements for the day network service is [REDACTED] percent except in the peak season (month of December), where it is [REDACTED] percent. Delivery scans performed between [REDACTED] late are subject to a [REDACTED] of payment, and delivery scans performed [REDACTED] late or more are subject to a [REDACTED] of payment.

¹² *Management Alert – Charter Flights*. The scope of the audit was October 2017 through April 2019.

Management's Comments

Management agreed with the recommendation and stated they would attempt to identify the root cause of damage and hold the supplier accountable using established methods. In separate correspondence, management provided standard work instructions, effective September 25, 2020, to outline the processes in accordance with contractual guidelines.

Management disagreed with the Air Cargo Network contract expense financial methodology ([Table 1](#)). They stated that a reporting gap exists between the supplier's expense and the Postal Service's financial reporting, due to differences between the contract operating cycle and the accounting cycle. Further, the contract expense data provided were before significant reconciliation adjustments. As a result, the Postal Service's information would be more appropriate and accurate.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation, and management's corrective actions should resolve the issues identified in the report. Regarding the contract expense financial methodology ([Table 1](#)), we used Postal Service financial reporting information in this report.

We evaluated the standard work instructions and agree they addressed the intent of the recommendation. We consider recommendation 1 closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The audit assessed the aviation supplier's compliance with significant provisions in the air transportation contract and Postal Service's oversight of those provisions. We did not review the operational aspects of these provisions, such as mail transportation efficiency. We reviewed the contract SOW and identified 15 significant provisions. We shared our methodology for selecting the provisions with the Postal Service management for their consideration and they offered no changes. See [Appendix B](#) for a summary of provisions reviewed.

To accomplish our objective, we:

- Interviewed applicable Postal Service personnel to understand the contract requirements, delivery performance, payment, and oversight processes.
- Verified whether the supplier provided required management and operational reports.
- Obtained and analyzed samples of volume, mail tendering, delivery performance, and scan data.
- Validated contract rates and payments.
- Reviewed reconciliation data, procedures, and approvals.
- Estimated the amount of deductions waived due the charter modifications.
- Observed mail processing at one of the supplier's hubs.

We conducted this performance audit from April through September 2020 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 September 9, 2020, and included their comments where appropriate.

We assessed the reliability of accounts payable data in the Enterprise Data Warehouse¹³ by applying logical tests and verifying invoice amounts with payments in the National Accounting Oracle Financial Application (NAOFA)-Oracle Account Payable Excellence System.¹⁴ In addition, we assessed the reliability of rates in the Surface-Air Support System¹⁵ by recalculating rates and agreeing them to contract documents. We determined that the data were sufficiently reliable for the purposes of this report.

¹³ A repository intended for all data and the central source for information on retail, financial, and operational performance. Mission critical information comes to the EDW from transactions that occurred across the mail delivery system, points-of-sale, and other sources.

¹⁴ NAOFA is a module of the accounting system which provides a comprehensive solution in a web-enabled environment, improving reporting capabilities and efficiencies, and automating data entry and collection. It is comprised of modules to include a module for accounts payable.

¹⁵ A production payment system that calculates payments and performance of vendors providing services to Logistics.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Transportation Network Optimization and Service Performance</i>	Assess opportunities to optimize the Postal Service's transportation network and meet service performance goals.	20-144-R20	6/5/2020	\$200
<i>Transportation Network Operations and Cost Optimization Practices</i>	Analyze practices and cost trends and identify risk areas within the Postal Service's transportation network.	19XG002NL000-R20	11/7/2019	\$31
<i>Management Alert-Charter Flights</i>	Provide Postal Service officials immediate notification of the issues identified during the ongoing audit.	NL-MT-19-002	9/5/2019	None

Appendix B: Summary of Provisions Reviewed

OIG Provision Reference	Provision Title	Provision Summary
1	Management Plan	The aviation supplier shall develop and maintain a current management plan for dealing with normal daily operations as well as unscheduled and unexpected events affecting the expeditious operation of the facility, including aviation and surface service failure and delays.
2	Mail Assignment and Transport - Day Network	The aviation supplier will provide flight schedules at least 30 days in advance of the operational period. ¹⁶ The Postal Service will provide up to [REDACTED] percent of outbound mail assigned to the supplier one hour before the scheduled time and the remaining percent by the scheduled time.
3	Aviation Supplier Planned Accommodation - Day Network	The aviation supplier will guarantee space to accommodate up to [REDACTED] percent of the planned capacity from each origin daily. The supplier will also accept mail from in excess of [REDACTED] percent of planned capacity on a space available basis.
4	Volume Commitment - Contract Volume Minimum - Day Network	A minimum of [REDACTED] cubic feet per operational day, averaged across six days per week, and measured across each operational period, will constitute the contract volume minimum guaranteed to be paid by the Postal Service.
5	Operating Period Volume Minimum - Day Network	If the volume, in cubic feet, is tendered by the Postal Service, as measured and calculated at the end of each operational period, is less than [REDACTED] percent of the planned capacity, the Postal Service agrees to pay for the balance of the [REDACTED] percent of the planned capacity at the end of each operational period.
6	Ordering Process - Non-Peak - Day Network	The Postal Service will submit its request for capacity to the aviation supplier, and the supplier will respond to the request, within a scheduled timeframe. [REDACTED] [REDACTED] [REDACTED]
7	Ordering Process - Peak - Day Network	The Postal Service will submit its request for capacity to the aviation supplier and the supplier will respond to the request within a scheduled timeframe. The supplier will guarantee space to accommodate up to [REDACTED] percent of planned capacity from each origin daily.
8	Operational Condition Reports	The aviation supplier shall submit reports of hub and service point operating conditions daily. Examples of daily reports include service performance reports and operation reports for departures/arrivals.

¹⁶ The operational period is a scheduled period ranging from four to five weeks as agreed to by the Postal Service and supplier.

OIG Provision Reference	Provision Title	Provision Summary
9	Scanning and Data Transmission	Scanning will be used to measure performance and serve as the basis for payment. The aviation supplier will be responsible for performing possession scan, ¹⁷ hub sort scan, ¹⁸ nest scan, ¹⁹ load scan, ²⁰ aircraft departure time, aircraft arrival time, and delivery scan ²¹ for the HU and the ULD.
10	Performance Requirements and Measurement	Mail delivery performance will be measured against the contract requirements based upon transmitted scan data. Delivery performance requirements for the day network are [REDACTED] percent during regular operational plan and [REDACTED] percent during peak.
11	Reduction of Payment	Payment reduction will be assessed if the calculated delivery performance is less than the on-time delivery performance requirement, as follow: [REDACTED] [REDACTED] [REDACTED] Mail volume over the [REDACTED] percent day network planned capacity is not subjected to payment reduction.
12	Rates and Payment General	The following scans must be completed in order to receive full payment for the day network: possession scan of all ULDs and HUs at origin, nest scan associating the HUs with the ULDs at the hub, and delivery scan of all ULDs and HUs delivered at destination. For the day network, [REDACTED] percent of the payment will be based on receipt of a delivery scan, the remaining [REDACTED] percent will be based on receiving the remaining required scans.
13	Payment Processing - Day Network - Per Cube	Invoices for transportation of HUs and ULDs will be paid by cubic foot and based on completing the required scans. A monthly fuel adjustment to the fuel line haul rate, based on the U.S. Gulf Coast prices for kerosene-type jet fuel reported by the U.S. Department of Energy, will be calculated and applied monthly.
14	Reconciliation Process	Reconciliation of scanning and payment records between the Postal Service and the aviation supplier will be conducted in a scheduled meeting attended by both parties on an operational plan generally within 90 days the end of the period.

17 Supplier scan that indicates they have accepted the volume from the Postal Service.

18 Supplier scan at their hub location.

19 Supplier scan that associates a handling unit (HU) with a unit load device (ULD). The HU is a piece of mail or a receptacle such as loose sacks, pouches, trays, flat tubs that contains multiple pieces of mail which is individually processed. The ULD is an airline container or pallet provided by the supplier.

20 Supplier scan that associates a ULD to an aircraft.

21 Supplier scan that indicates they have tendered volume to the Postal Service.

OIG Provision Reference	Provision Title	Provision Summary
15	Clause B-77: Protection of the Mail	The aviation contractor must protect and safeguard the mail from loss, theft, or damage while in their custody or control, and prevent unauthorized persons from having access to the mail. Liquidated damages may be assessed for damaged and unprotected mail.

Appendix C: Management's Comments

ROBERT CINTRON
VICE PRESIDENT
LOGISTICS



September 28, 2020

LAZERICK C. POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Air Cargo Contract Compliance
(Project Number 20-127)

Thank you for providing the Postal Service with an opportunity to review and comment on the recommendation contained in the draft audit report, Transportation Network Optimization and Service Performance. Management does not agree with the financial methodology as written in the Draft. Management does agree with the cited recommendation (Recommendation #1) as outlined below.

OIG RECOMMENDATION:

Recommendation #1:

We recommend the **Vice President, Logistics**, determine the source(s) of damaged mail and, based on the outcome, enhance and enforce procedures for reporting and compensating the Postal Service for damaged mail caused by the aviation supplier.

Management Response/Action Plan:

Management agrees with this recommendation. The Postal Service should attempt to identify the root cause of damage that occurs in the [REDACTED] and hold the Supplier accountable using established methods. Management will create Standard Work Instructions to outline the processes in accordance with the ACN contractual guidelines.

Target Implementation Date:

9/25/2020

Responsible Official:

Manager, [REDACTED]
Manager, Air Transportation Operations

475 L'ENFANT PLAZA SW RM 7011
WASHINGTON, DC 20260-7607
202 268-3250

Financials and Monetary Impacts:

We do not agree with the Air Cargo Contract Expense financial methodology. Per our discussion during the audit exit conference, a reporting gap between [REDACTED] Air Cargo Contract Expense and [REDACTED] (only) Expense on the USPS General Ledger Financial Reporting was identified. The main drivers to differentiate the two would be the contract operating cycle versus the accounting cycle. In addition, the Contract Expense data provided were before financial reconciliation adjustments. Charter expense, minimum payments, adhoc bedloads and other significant reconciliation items may drive the gaps further in between. As a result, the [REDACTED] expense summary from USPS General Ledger would be more appropriate and accurate to represent the Air Cargo Contract financials.

We also request closure on this Audit.



Robert Cintron
Vice President
Logistics

cc: Manager, Corporate Audit Response Management
Director, Air Transportation

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UNITED STATES POSTAL SERVICE

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