



Office of Inspector General | United States Postal Service

Management Alert

Air Mail Not Moving as Assigned at the Los Angeles Terminal Handling Services

Report Number 21-201-R21 | September 16, 2021



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Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 16, 2021

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

MICHAEL L. BARBER
VICE PRESIDENT, PROCESSING AND
MAINTENANCE OPERATIONS

PETER ROUTSOLIAS
VICE PRESIDENT, TRANSPORTATION STRATEGY

A handwritten signature in cursive script that reads "Melinda M. Perez".

FROM: Melinda M. Perez
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Management Alert – Air Mail Not Moving as Assigned at the
Los Angeles Terminal Handling Services
(Report Number 21-201-R21)

This management alert presents issues identified in Air Mail Not Moving as Assigned at the Los Angeles Terminal Handling Services (THS) (Project Number 21-201-DRAFT). These issues came to our attention during our ongoing audit of *Air Mail Not Moving as Assigned* (Project Number 21-130). The objective of this management alert is to provide U.S. Postal Service officials with immediate notification of issues identified during our ongoing audit which require immediate attention and remediation.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction

While conducting site visits at the Los Angeles Terminal Handling Services (THS) for our ongoing *Air Mail Not Moving as Assigned* audit (Project Number 21-130), the U.S. Postal Service Office of Inspector General (OIG) found significant opportunities to improve the Postal Service's air carrier contract management. The purpose of this alert is to bring these issues to the Postal Service's attention and make recommendations for immediate corrective action.

The Postal Service's air transportation network costs for fiscal year (FY) 2021 were about \$3 billion, as of July 31, 2021. In FY 2020, costs totaled \$3.5 billion, an increase of about \$390 million (or 12.7 percent) over FY 2019.¹ These costs consisted of contracted services from [REDACTED], commercial airlines (CAIR), [REDACTED], supplemental charters,² and THS operations.³

To optimize cost savings and service, the Postal Service aims to allocate mail to air carriers in the following order:

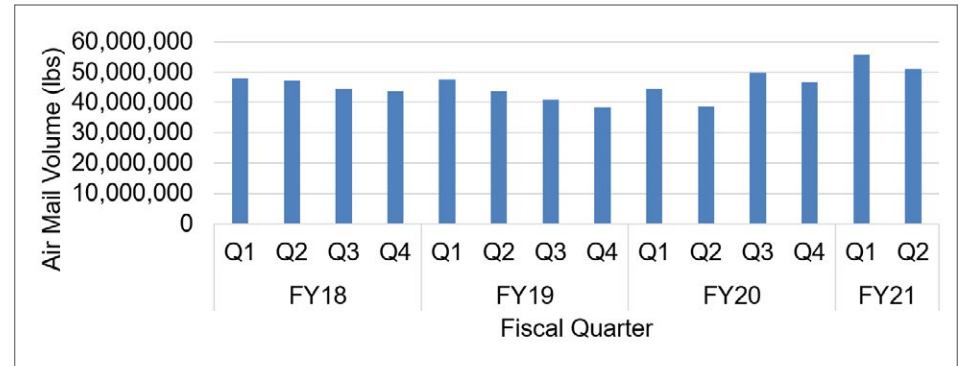
- [REDACTED], which provides limited airlift and specified destinations;
- Supplemental charters where the Postal Service is renting all or part of a private plane;
- CAIR, which is the least expensive, but the size and weight of mail is limited due to federal restrictions; and
- [REDACTED], which has the most available airlift and flies more than [REDACTED] percent of the Postal Service's mail volume and is the most expensive.

The Postal Service transports and tenders mail traveling through [REDACTED], supplemental charters, and air networks to one of 69 nationwide THS facilities.

These facilities prepare mail for its intended flight and operate as stand-alone entities; however, the Postal Service provides operational oversight. The air network relies on flight departure times to determine accurate transportation schedules, and volume arrival profiles (VAP) to support efficiency in THS operations. Specifically, a VAP details the hourly percentage of mail that Postal Service facilities are expected to deliver to the THS site and should allow THS staff enough time to prepare and tender the mail.

The Postal Service contracts with [REDACTED] in Los Angeles, CA (THS supplier) to prepare mail from 13⁴ Postal Service facilities and one commercial mailer for dispatch to [REDACTED] and [REDACTED] flights. Mail that is assigned to carriers other than [REDACTED] and [REDACTED] should be sent from those 13 facilities directly to the other airlines for dispatch and not routed through the THS supplier. During FY 2018 through FY 2021, Quarter (Q)2, the THS supplier processed about 640.2 million pounds of mail (see Figure 1).

Figure 1. Total Air Volume for Los Angeles Airport for FYs 2018-2021, Q2⁵



Source: OIG analysis of Enterprise Data Warehouse (EDW) data.

1 The Postal Service's operating expenses have been impacted by the pandemic. An increase in package volume resulted in higher air transportation costs due to lower availability of commercial air flights, and certain general pandemic-related inefficiencies in the workplace.

2 Supplemental charters include the [REDACTED] air networks. Any need for space that cannot be met by air network service providers is mitigated through ad hoc charters.

3 THS staff prepares the mail and transfers it between the Postal Service and its aviation suppliers.

4 The THS supplier receives mail from CA Processing and Distribution Centers (P&DC) in Bakersfield, Industry, Los Angeles, Margaret L. Sellers, San Bernardino, Santa Ana, Santa Barbara, and Santa Clarita. The supplier also receives mail from the Anaheim Processing and Distribution Facility, Los Angeles International Service Center, Los Angeles National Distribution Centers (NDC), Pasadena Processing Annex, and the Southern CA Surface Transfer Center.

5 Data does not include volume planned to move on the [REDACTED] Mondays after a Federal holiday, the day of floating holidays, and Thanksgiving.

We conducted this performance audit from May through September 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We analyzed Postal Service data and conducted site observations at the following facilities in CA; Los Angeles THS, Los Angeles P&DC, Industry P&DC, and Ontario THS.⁶ We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. We discussed

our observations and conclusions with management on August 20, 2021, and included their comments where appropriate.

What the OIG Found

We found that mail originating from the Los Angeles THS did not always move on the assigned air carrier. Specifically, we determined about 13.5 million out of 43.5 million pounds⁷ (31 percent) of mail that the Postal Service assigned to lower cost carriers from FY 2018 through FY 2021, Q2, was transported on the more costly [REDACTED] network (see Table 1).

Table 1. Air Mail Moved Through the Wrong Network⁸ from the Los Angeles THS (FY 2018 through FY 2021, Q2)

Carrier	FY 2018 (Pounds)	FY 2019 (Pounds)	FY 2020 (Pounds)	FY 2021 (Pounds)	Total (Pounds)
[REDACTED]		3,440,673	5,877,256	2,848,832	12,166,761
[REDACTED]	33,392	86,758	118,608	56,621	295,379
[REDACTED]	38,345	42,324	130,975	35,407	247,051
[REDACTED]				196,377	196,377
[REDACTED]	17,496	14,641	124,111	38,390	194,638
[REDACTED]	21,127	19,604	115,694	30,501	186,926
[REDACTED]			155,140		155,140
[REDACTED]	11,601	4,627	29,736	11,998	57,962
[REDACTED]	2,939	2,911	4,455	7,262	17,567
[REDACTED]				23	23
Total	124,900	3,611,538	6,555,975	3,225,411	13,517,824

Source: OIG analysis of EDW data.

⁶ We conducted our first site visit at the THS supplier and the P&DCs from May 24 to May 27, 2021. We conducted a second site visit at the THS supplier from June 28 to July 1, 2021.

⁷ The remaining mail assigned to a lower cost carrier will be covered during the ongoing audit.

⁸ Mail assigned to other air carriers that was tendered to the [REDACTED] network.

We determined the high amounts of mail transported on the more costly [REDACTED] network were caused by the Postal Service assigning more mail volume to [REDACTED] than their flights could carry, employees not following the VAP, personnel not enforcing contracted mail separations, and employees misrouting⁹ mail.

Airlines

About 12.2 million pounds (90.0 percent of the total tendered to the wrong network) of mail assigned to [REDACTED] airlines traveled through the [REDACTED] network from the Los Angeles THS site. Through site observations, interviews, and data analysis we determined the THS supplier tendered mail to [REDACTED] for three reasons.

- The Postal Service assigned more weight in Surface Air Management System (SAMS)¹⁰ than the [REDACTED] flights could carry for 223 out of 627 days (35.6 percent).¹¹ Specifically, the THS supplier prepares and dispatches mail for two regularly scheduled [REDACTED] flights traveling to FL and NY. The FL plane departs at [REDACTED] a.m., whereas the NY plane departs at [REDACTED] a.m. However, from January 29, 2019, through March 31, 2021, mail for the FL flight was over-assigned for 103 days (16.4 percent), and mail for the NY flight was over-assigned for 120 days (19.2 percent).
- Postal Service facilities that the THS supplier serviced did not follow the VAP.¹² Specifically, more mail was received between 4:00 a.m. and 5:00 a.m. than the agreed upon 2 percent.¹³ From January through March 2021, the THS supplier received anywhere from 2.7 to 19.1 percent on 12 separate occasions. The Postal Service is also required to have all [REDACTED] mail tendered to the THS supplier one hour before the intended flights. However, during our

May 2021 site visits, we observed Postal Service tendering mail from the Los Angeles P&DC and the Industry P&DC past this time, and the THS supplier confirmed this happens frequently.

- Either a Postal Service commercial mailer who drops mail at the THS supplier or the THS supplier did not properly maintain required separations between mail scheduled for [REDACTED] and [REDACTED].¹⁴ The commercial mailer is required to separate the mail between [REDACTED] and [REDACTED] and the THS supplier is required to perform additional separations for [REDACTED]. Specifically, from FY 2018 through FY 2021, Q2, the THS supplier tendered about 3 million pounds (24 percent) of mail received from the commercial mailer to [REDACTED] instead of [REDACTED].

Commercial Airlines and [REDACTED]

We found that about 1.3 million pounds (10 percent) of mail assigned to airlines other than [REDACTED] traveled through the [REDACTED] network from the Los Angeles THS site. The THS supplier is only contracted to prepare and dispatch mail for [REDACTED] and [REDACTED] flights.

During our site observations, we determined that the THS supplier received mail from the Los Angeles P&DC, but this mail should have been delivered to the Los Angeles International Airport to be tendered directly to the appropriate airlines.¹⁵ For example, we observed mail assigned to [REDACTED] and [REDACTED] but tendered to the THS supplier (see Figure 2). We also determined that the commercial mailer who drops mail at the THS supplier incorrectly included about 61,000 pounds of mail intended for air carriers that the THS supplier does not service. Instead of returning this mail to the Postal Service or the commercial mailer, the THS supplier placed it on the [REDACTED] network.

⁹ The Postal Service defines misrouted mail as mail sent from an originating facility to the wrong destinating facility.

¹⁰ SAMS uses planned route information to assign handling units to appropriate transportation. It reduces capacity overloading of the first leg in commercial air routes and is intended to decrease transportation costs by increasing the utilization of less costly surface routes without compromising on-time delivery goals.

¹¹ We used this date range because current [REDACTED] charters began January 29, 2019. Our analysis excluded December 2019 and December 2020 due to peak season conditions.

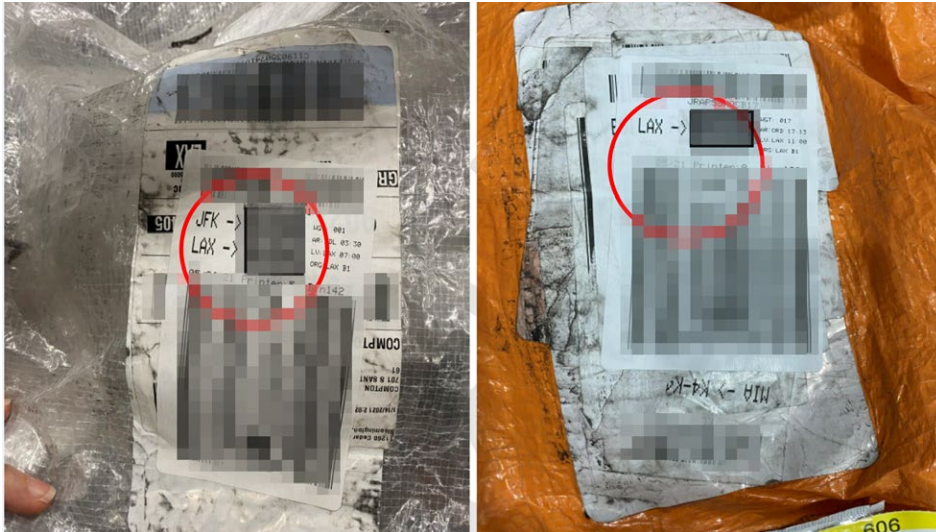
¹² Employee availability at the Postal Service facilities the Los Angeles THS services ranged from 64 to 86 percent with an average weekly employee availability of 77 percent. This may have impacted VAP percentages.

¹³ The Postal Service is expected to tender the mail to the THS supplier throughout the night and should not provide more than 2 percent of the total mail volume after 4:15 a.m.

¹⁴ Per the customer service agreement, the commercial mailer is required to sort mail between [REDACTED] and [REDACTED]. Effective August 22, 2019, the THS supplier is responsible for six additional [REDACTED] separations associated with point-to-point flights.

¹⁵ Handbook M-22, *Dispatch and Routing Policies*, July 2013, Sections 114 and 116.

Figure 2. Misrouted Mail to Los Angeles THS



Source: OIG photographs taken at the THS supplier on May 25-26, 2021. The [REDACTED] in the left picture shows mail assigned to [REDACTED] Airlines and the [REDACTED] in the right picture shows mail assigned to [REDACTED].

According to the THS contract, if the Postal Service delivers mail in error, the THS supplier is supposed to notify Postal Service management to resolve and document the occurrence. According to the THS supplier, Postal Service management verbally instructed them to tender misrouted mail to the [REDACTED] network. However, when we spoke with Postal Service management, they stated that misrouted mail should be returned to the originating processing facility. There are times when the Postal Service identifies misrouted mail that should be tendered to [REDACTED]; however, this is not regularly documented.

Conclusion

When mail is tendered to the wrong air carrier and travels through the [REDACTED] network there is a risk that the Postal Service will pay more than originally planned to transport that mail. [REDACTED] is the most expensive carrier in the air network and when the Postal Service gives [REDACTED] mail in lieu of giving it to the assigned lower cost carrier, it is at risk of paying more to move the volume and could incur additional [REDACTED] sort charges. Furthermore, any delays in the [REDACTED] network could potentially cause impacts to service. Due to multiple contributing factors,¹⁶ we conservatively estimated the potential impact of sending mail on the wrong network at the Los Angeles THS site from FY 2019, Q3, through FY 2021, Q2, was about \$9.9 million.¹⁷

Recommendation #1

We recommend, the **Vice President, Logistics**, evaluate and adjust the planned mail volume to the [REDACTED] network in the Surface Air Management System to ensure that it does not exceed the allocated space.

Recommendation #2

We recommend, the **Vice President, Logistics**, in coordination with the **Vice President, Processing and Maintenance Operations**, confirm that transportation schedules are aligned to the volume arrival profiles for the 13 Postal Service facilities that are serviced by the Los Angeles Terminal Handling Services supplier, and tender mail as planned to the supplier.

Recommendation #3

We recommend, the **Vice President, Logistics**, provide proper oversight to ensure the Los Angeles Terminal Handling Services supplier is separating the mail properly to the assigned carrier, as outlined in the contract, and document and communicate commercial mailer irregularities.

¹⁶ The contributing factors were over utilization of the [REDACTED] air network and improper separations from either the commercial mailer or the THS supplier. Additionally, we did not include the [REDACTED] mail handling fees or underutilization of CAIR in our calculation.

¹⁷ The potential impact we estimated in FY 2019, Q3-Q4, was \$2,307,874; in FY 2020, we estimated \$5,094,196; and in FY 2021 Q1-Q2, we estimated \$2,541,131.

Recommendation #4

We recommend, the **Vice President, Processing and Maintenance Operations**, in coordination with the **Vice President, Logistics**, reinforce the importance of correctly routing mail and using the assigned transportation according to Postal Service policy, and develop a formal communication plan to inform facilities when mail is misrouted.

Recommendation #5

We recommend, the **Vice President, Logistics**, in coordination with the **Vice President, Transportation Strategy**, develop and implement a formal process to hold the Terminal Handling Services supplier accountable for notifying Postal Service management when mail is misrouted and documenting the resolution in accordance with the terms of the contract.

Management's Comments

Management disagreed with recommendations 1, 4, and 5, agreed with recommendation 2, and partially disagreed with recommendation 3. Furthermore, management disagreed with the findings and methodology used to determine the monetary impact.

Regarding recommendation 1, management stated that they have a process for evaluating and adjusting the planned volume and capacity based on weight, and that the weight to cube differential is not an exact science. Management further stated that over-assigned volume is not inherently detrimental to the network, and it could be in the best interest of the Postal Service to push more volume to a lower cost carrier.

Regarding recommendation 2, management stated that transportation schedules should align with the VAP, and they agreed to ensure the THS supplier is given sufficient time to prepare the mail and meet their contractual requirements to the carrier. The target implementation date is September 24, 2021.

Regarding recommendation 3, management stated that the THS supplier is required to separate the mail based on mail placards but is not required to validate mail at the handling unit level or to validate mail prepared by the commercial mailer. Management also stated that the THS supplier should

document mail preparation irregularities and include them in their daily reports. The target implementation date is September 24, 2021.

Regarding recommendation 4, management stated there already is a mechanism in place to determine how the mail moves and whether it is tendered to the wrong network and mentioned that this information is available to all stakeholders. Management also stated that they will reinforce the importance of correctly routing mail via a service talk; however, they do not agree that a formal communication plan is needed.

Regarding recommendation 5, management stated that the OIG infers that the THS supplier is responsible for validating individual handling unit assignments. However, THS supplier validation occurs by validating the placard, not the individual handling unit.

Regarding monetary impact, management stated that the methodology used does not account for full utilization of the supplemental network and is, therefore, overstated. Management also stated that on days the supplemental aircraft is fully maximized, the remaining volume should move on the [REDACTED] network.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 2 but considers management's comments nonresponsive to recommendations 1, 3, 4, and 5 and will pursue these recommendations through the formal audit resolution process.

Regarding recommendation 1, we understand that the planned capacity is based on weight, is not an exact science, and over assignment is not detrimental to the network. We further agree that pushing more volume to a lower cost carrier could be in the best interest of the Postal Service. However, the Postal Service did not push mail volume to a lower cost carrier and, instead, used the costliest air carrier to move 13.5 million pounds of mail.

Regarding recommendation 3, as stated in the report, either a commercial mailer or the THS supplier did not maintain required separations. According to the customer service agreement, the commercial mailer is required to separate and label mail for the [REDACTED] and [REDACTED] flights. In addition, according to the

THS supplier's contract, the THS supplier is required to perform six additional separations of the [REDACTED] mail. These separations maximize space, improve service performance, and are crucial in tendering mail to the assigned network.

Regarding recommendation 4, we agree that a process exists to determine how mail volume moves through the network and whether it is tendered to the wrong network, and that the information is available to stakeholders. However, the Postal Service is not enforcing the policy and is not effectively communicating when facilities misroute mail. If the policy was effective, mail transported on the wrong network would be decreasing as opposed to increasing. Ensuring that mail moves through the network as planned and establishing a formal communication plan highlighting misrouted mail could assist the Postal Service in achieving financial sustainability and service excellence.

Regarding recommendation 5, we agree that the THS supplier is required to validate the placard; however, the THS supplier also has final responsibility for loading mail into the proper air container according to the assigned destination listed on the placard. Further, as the Postal Service mentioned in response to recommendation 3, the THS supplier should document irregularities and include them in their daily reports. Holding the THS supplier accountable for notifying Postal Service management when mail is misrouted and documenting the resolution is a contractual obligation of the THS supplier and could assist in reducing the amount of misrouted mail.

Regarding monetary impact, the OIG considers questioned costs when there is missing or incomplete documentation, or failure to follow required procedures. The Postal Service planned for 13.5 million pounds of mail to travel on a lower cost carrier and, due to the Postal Service assigning more mail volume to [REDACTED] than their flights could carry, employees not following the VAP, personnel not enforcing contracting mail separations, and employees misrouting mail, the mail traveled through the most expensive network. We took a conservative approach when calculating monetary impact. Specifically, we calculated the average cost per pound for each of the four air networks using data from FY 2019 and avoided any COVID-19 transportation complications that may have skewed the average. In addition, our calculations excluded additional mail handling fees charged by the most expensive air carrier and the cost of underutilization of the [REDACTED] network.

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.

Appendix A: Management's Comments



September 7, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Air Mail Not Moving as Assigned at the Los Angeles Terminal
Handling Services (Report Number 21-201-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the recommendation contained in the draft audit report, Management Alert – Air Mail Not Moving as Assigned at the Los Angeles Terminal Handling Services.

Management in general disagrees with the report's findings and recommendations as listed individually below. Management also disagrees with the methodology used to calculate the monetary impacts as stated below.

Recommendation #1:

We recommend, the Vice President, Logistics, evaluate and adjust the planned mail volume to the [REDACTED] network in the Surface Air Management System to ensure that it does not exceed the allocated space.

Management Response/Action Plan:

Management disagrees. We already have processes in place to evaluate and adjust the planned volume that moves on the Supplemental flights. There are variances in the conversions from cubic feet to pounds. Capacity planned in SAMS is based on weight. The weight to cube differential is not an exact science based on density and mail mix. We make adjustments by reviewing volume trends and using forecast methodology. Over assigned volume is not inherently detrimental to the network, in some cases based on the product type and density, it could be in the best interest of the postal service by pushing more volume to a lower cost carrier.

Recommendation #2:

We recommend, the Vice President, Logistics, in coordination with the Vice President, Processing and Maintenance Operations, confirm that transportation schedules are aligned to the volume arrival profiles for the 13 Postal Service facilities that are serviced by the Los Angeles Terminal Handling Services supplier, and tender mail as planned to the supplier.

Management Response/Action Plan:

Management agrees. The transportation schedules should be aligned to the VAP to ensure the adequate flow of mail to the THS Suppliers. This will ensure the THS is given sufficient time to build the mail to meet the contractual requirements to the Carrier

Target Implementation Date:

September 24, 2021

Responsible Official:

Division Directors

Recommendation #3:

We recommend, the Vice President, Logistics, provide proper oversight to ensure the Los Angeles Terminal Handling Services supplier is separating the mail properly to the assigned carrier, as outlined in the contract, and document and communicate commercial mailer irregularities.

Management Response/Action Plan:

Management partially disagrees. The THS supplier is required to make separations based on MTEL. They are not required to validate mail prep at the handling unit level. In the same vein, THS suppliers are not required to validate mailer prepared mail for proper mail prep. The supplier should however, document mail prep irregularities of mail received from the postal plants. The THS suppliers should include this on their daily reports.

Target Implementation Date:

September 24, 2021

Responsible Official:

Director, Air Cargo Network

Recommendation #4:

We recommend, the Vice President, Processing and Maintenance Operations, in coordination with the Vice President, Logistics, reinforce the importance of correctly routing mail and using the assigned transportation according to Postal Service policy, and develop a formal communication plan to inform facilities when mail is misrouted.

Management Response/Action Plan:

Management disagrees. There is already a mechanism in place to determine how assigned volume moves through the network and if it is tendered to the wrong network. This information is readily available in the IV dashboard and is accessible to all pertinent stakeholders. In addition, there is a daily report that is disseminated

to all of the responsible managers. USPS will reinforce the importance of correctly routing mail and using assigned transportation via service talk. Management does not agree that a formal communication plan is needed to inform facilities when mail is misrouted.

Recommendation #5:

We recommend, the Vice President, Logistics, in coordination with the Vice President, Transportation Strategy, develop and implement a formal process to hold the Terminal Handling Services supplier accountable for notifying Postal Service management when mail is misrouted and documenting the resolution in accordance with the terms of the contract.

Management Response/Action Plan:

Management disagrees. The OIG infers that the THS are responsible for validating individual handling unit assignments. The THS validation would occur at the mail transportation equipment (MTE) level by reviewing the Postal applied placard, not individual handling units within the MTE.

Financials and Monetary Impacts:

Management does not agree with the monetary impacts, particularly the methodology used to determine the financial impact of the supplemental network (\$9,020,955) when mail moved on the [REDACTED] network. The methodology used does not account for full utilization of the supplemental networks and therefore is highly overstated. On days when the supplemental aircraft is fully maximized, the remaining volume should move on the [REDACTED] network. The methodology used does not account for full utilization of the supplemental networks and therefore is overstated. The audit team has failed to substantiate actual monetary impact of mail moving on the wrong network based on this factor.

We also request closure on this Audit.

Robert Cintron
Digitally signed by Robert Cintron
Date: 2021.09.08 12:47:34
+0400

Robert Cintron
Vice President, Logistics

E-SIGNED by Michael.L Barber
on 2021-09-08 14:15:33 CDT

Mike L. Barber
Vice President, Processing and Maintenance Operations

E-SIGNED by PETER ROUTSOLIAS
on 2021-09-08 14:39:27 CDT

Peter Routsolias
Vice President, Transportation Strategy

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

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