



May 5, 2004

ANITA J. BIZZOTTO
SENIOR VICE PRESIDENT, CHIEF MARKETING OFFICER

PATRICK R. DONAHOE
CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT

WILLIAM P. GALLIGAN
ACTING VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report – Express Mail Operations
(Report Number NO-AR-04-008)

This report presents the results of our self-initiated review of Express Mail operations (Project Number 03YN007AC001).

The Postal Service exceeded its Express Mail service standards in FY 2003 by delivering 95 percent of Express Mail on time. However, we found over 99 percent of Express Mail packages destined to Guam and 87 percent to American Samoa did not meet established service standards. As a result, the Postal Service had a potential monetary exposure of \$376,000 if all customers requested refunds because guaranteed delivery times were not met.

The Postal Service also met its goal of properly scanning 98.8 percent of Express Mail packages for fiscal year (FY) 2003. However, during the same period two Postal Service districts accounted for nearly 10 percent of all Express Mail packages that were not properly scanned at the time of acceptance. The lack of acceptance scans may have resulted in the loss of revenue and inadequate response to customer inquiries about the status of packages. We made three recommendations to Postal Service management addressing these issues. Management generally agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General (OIG) considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is complete. This recommendation

should not be closed in the follow-up tracking system until the 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 or need additional information, please contact Robert J. Batta, Director, Network Operations - Processing, at (703) 248-2100 or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

cc: John A. Rapp
Paul E. Vogel
Alfred Iniguez
Julie F. Rios
Susan M. Duchek
Joseph K. Moore

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objectives, Scope, and Methodology	1
Prior Audit Coverage	2
Part II	
Audit Results	4
Express Mail Service Standards Not Met for Guam and American Samoa	4
Recommendations	7
Management's Comments	7
Evaluation of Management's Comments	7
Express Mail Acceptance Scanning	9
Recommendation	10
Management's Comments	10
Evaluation of Management's Comments	10
Appendix. Management's Comments	11

EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated review of Express Mail operations. Our objectives were to determine whether the Postal Service met Express Mail service standards and performed proper acceptance scans.

Results in Brief

The Postal Service exceeded its Express Mail service standards in fiscal year (FY) 2003 by delivering 95 percent of Express Mail on time. However, over 99 percent (26,026 of 26,064) of Express Mail packages destined to Guam and 87 percent (1,525 of 1,757) to American Samoa did not meet established service standards. As a result, the Postal Service had a potential monetary exposure of \$376,000 if all customers requested refunds because guaranteed delivery times were not met. In fact, as a result of this problem, the Postal Service paid over \$46,000 in refunds to just four customers from September 2002 to November 2003.

The Postal Service also met its goal of properly scanning 98.8 percent of Express Mail packages for FY 2003. However, two Postal Service districts did not scan over 70,000 Express Mail packages at the time of acceptance. As a result, the Postal Service may have lost some revenue and cannot adequately respond to customer inquiries about the status of packages.

Summary of Recommendations

We recommended Postal Service management adjust the service standard for shipments to remote areas if feasible; or, promote custom design¹ Express Mail service to customers sending Express Mail packages to Guam and American Samoa. We also recommended Postal Service management provide, if feasible, dedicated air service for Express Mail packages destined to American Samoa.

Additionally, we recommended Postal Service management establish procedures to improve acceptance scan rates to the national rate or above for the two Postal Service districts identified in this report.

¹ Express Mail custom designed service is available only on a scheduled basis between designated Postal Service facilities or other designated locations for mailable matter presented under the service agreement between the Postal Service and the mailer (Domestic Mail Manual, Issue 58, E500.4.0 Express Mail).

Summary of Management's Comments

Postal Service management generally agreed with the findings and recommendations. However, Postal Service management believes providing dedicated air service for Express Mail packages to American Samoa would be cost prohibitive and, therefore, not feasible. Management's comments, in their entirety, are included in the appendix of this report.

Overall Evaluation of Management's Comments

Management's action, taken and planned, should correct the issues identified in the report. Management's plans to promote custom design² for shipments to Guam and American Samoa which should improve service standards. Additionally, we accept Postal Service management's cost prohibited justification not to provide dedicated air service for Express Mail packages destined to American Samoa. Furthermore, the Southeast Area management's plan to reinforce acceptance procedures should improve the overall service of Express Mail.

²Express Mail custom designed service is available only on a schedule basis between designated Postal Service facilities or other designated locations for mailable matter presented under the service agreement between the Postal Service and the mailer (Domestic Mail Manual, Issue 58, E500.4.0 Express Mail).

INTRODUCTION

Background

Express Mail is an expedited mail service for documents and packages weighing up to 70 pounds. Express Mail is one of the Postal Service's guaranteed on-time delivery services, which means customers can receive a postage refund if their Express Mail package is not delivered on time.

Express Mail next-day and second-day service is accepted at designated Postal Service facilities, Express Mail collection boxes, and through pickup service. Express Mail second-day service is available for three-digit or five-digit ZIP Code destinations not listed in the Express Mail next-day service directory. According to the Postal Service's online mail directory, second-day guarantee Express Mail service is also available to American territories³ of the United States.

Express Mail is tracked from the point of acceptance to the point of delivery. To assure that the initial induction time for an Express Mail package is established, the package must be entered into the electronic information and accounting system by an acceptance scan.⁴ This initial scan by a Point-of-Service ONE system is critical because it not only establishes the time the Express Mail package enters the mail stream, but also ensures that revenue is collected from Express Mail corporate accounts and federal agency customers.

During fiscal year (FY) 2003, the Postal Service delivered approximately 55.8 million pieces of Express Mail, generating \$888 million⁵ in revenue, which is a 10.8 percent decline since FY 2000 when Express Mail generated \$996 million.

Objectives, Scope, and Methodology

Our objectives were to determine whether the Postal Service met Express Mail service standards and performed proper acceptance scans. To accomplish our objectives, we interviewed Postal Service managers and employees.

³The Postal Service provides service to the following American territories: American Samoa, Micronesia, Guam, Marshall Islands, Mariana, Puerto Rico, Palau, and the Virgin Islands.

⁴One of the scanning events for Point-of-Service ONE is to accept Express Mail and delivery confirmation pieces into the mailstream allowing the infrastructure to electronically store delivery records and to permit easy access by customers and Postal Service employees. All domestic delivery records are maintained electronically in a national database, the Product Tracking System, Handbook PO-610, Signature Capture and Electronic Record Management: Manager's Guide to Standard Operating Procedures.

⁵\$888 million represents 1.3 percent of total mail revenues for FY 2003.

We also reviewed regulations, manuals, instructions, and other supporting documentation, including Express Mail service standards and Electronic Marketing and Reporting System management reports. In addition, we analyzed Express Mail performance reports from the WEB Enterprise Information System. However, we did not establish the reliability of this data due to the limited scope of this review. Nothing came to our attention to suggest data used was unreliable. We also benchmarked with FedEx and the United Parcel Service to determine their service standards for mail destined to American territories.

We conducted this review from September 2003 through May 2004 in accordance with generally accepted government auditing standards and included 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.

Prior Audit Coverage

In January 2004, we issued a management advisory report, Express Mail Processing in the Los Angeles District (Report Number NO-MA-04-001). This review noted the Postal Service did not collect postage due from some Express Mail packages originating in the Los Angeles District. The review also found problems with missing acceptance data for some Express Mail packages. As a result, the Postal Service may have lost a projected \$185,600 in revenues from February 2002 through January 2003. In addition, the missing acceptance data made it difficult to respond to customer inquiries about the status of Express Mail packages.

We recommended Postal Service management collect postage due from unpaid Express Mail packages. To prevent recurrence, we recommended the Postal Service provided training to appropriate staff and adherence to established procedures. Postal Service management generally agreed with our findings and recommendations and recovered \$157,427 in revenue from previously unpaid Express Mail packages.

In October 1996, the General Accounting Office (GAO) issued Revenue Losses From Express Mail Accounts Have Grown (Report Number GAO/GGD-97-3). This review found

that some mailers obtained Express Mail services using invalid Express Mail Corporate Accounts, and the Postal Service did not always collect the postage due. In addition, the Postal Service accepted and delivered some Express Mail packages without recording data when accepting the packages. As a result, the Postal Service could not accurately track and report these transactions.

The GAO recommended the Postal Service determine whether Express Mail Corporate Accounts are cost effective. If the Postal Service determined the Express Mail Corporate Accounts to be necessary, the GAO recommended stronger requirements for opening accounts and managers and employees be held accountable for handling transactions in accordance with policies and procedures. Postal Service management agreed with the GAO's findings and conclusions.

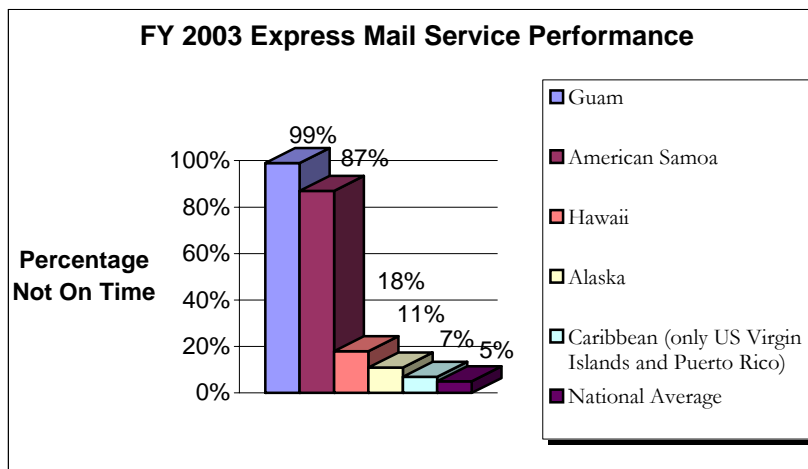
AUDIT RESULTS

Express Mail Service Standards Not Met for Guam and American Samoa

The Postal Service exceeded its FY 2003 goal⁶ by delivering 95 percent of Express Mail packages on time. However, over 99 percent (26,026 of 26,064) of Express Mail packages destined to Guam and 87 percent (1,525 of 1,757) to American Samoa did not meet established service standards.⁷ As a result, the Postal Service had a potential monetary exposure of \$376,000 if all customers requested refunds because of late receipt of Express Mail packages.

Chart A illustrates next-day and second-day Express Mail service performance for various American territories and states outside the contiguous United States for FY 2003. The chart illustrates that in FY 2003 Express Mail packages destined to Guam and American Samoa did not meet service standards.⁸

Chart A



The Postal Service offers guaranteed second-day Express Mail service to the continental United States and some remote areas (including Guam and American Samoa). If these standards are not met, the customer can request a refund as a result of late delivery.

⁶ The Postal Service's FY 2003 Express Mail service goal was to reach a 94 percent on-time delivery rate.

⁷ Data was obtained from the WEB Enterprise Information System. Since Postal Service accounting period 7 FY 2002, the WEB Enterprise Information System has been used to track Express Mail performance measures.

⁸ We evaluated the service performance for mail destined to other American territories and determined they were not significantly lower than the Postal Service's Express Mail national average of 95 percent on-time delivery, therefore, we did not deem it necessary to include them in this review.

The Postal Service did not meet its service goals to Guam because the service standards do not account for the international dateline.⁹ The international dateline impacts Express Mail packages originating in the continental United States because one day automatically elapses when crossing the dateline from east to west. Consequently, Express Mail packages destined to Guam, which have a second-day service guarantee, technically only have one day to meet the established service standard. Postal Service officials agreed the international dateline presents a challenge for on-time Express Mail delivery to Guam.

We examined Postal Service, FedEx, and the United Parcel Service delivery service standards for mail destined to Guam and American Samoa. Unlike the Postal Service, both Federal Express and the United Parcel Service¹⁰ account for the international dateline when setting their service standards. Chart B illustrates the service standards of the different entities for mail destined to Guam and American Samoa.

Chart B

American Territory	USPS			FedEx			UPS		
	Next Day	2-Day	3-Day	Next Day	2-Day	3-Day	Next Day	2-Day	3-Day
American Samoa		X				X+DL			X
Guam		X				X+DL			X

Legend:

X: represents the service guarantee day

DL: represents international dateline

In addition, service standards were not met because there were limited commercial flights to both destinations. A Postal Service official stated that before October 11, 2003, Express Mail packages were carried on commercial flights to Guam and American Samoa only when cargo space was available. However, as of mid-October 2003, the Postal Service entered into a four-year contract with Continental Airlines providing dedicated air service and cargo space for

⁹ The international dateline is an imaginary line drawn north and south through the Pacific Ocean. When it is 12:01 a.m. Sunday just west of the line, it is 12:01 a.m. Saturday just east of it.

¹⁰ The United Parcel Service accounts for the international dateline by adding one day to the two-day delivery date.

mail destined to Guam. This should address the issue of limited commercial flights to Guam.

Because of these conditions, the Postal Service had a potential monetary exposure of \$376,000 if all customers requested refunds for late receipt of packages. (See Chart C for minimum refund calculation).

Chart C

American Territory	FY 2003 Express Mail Packages Not Delivered on Time	Minimum Postage per Mailpiece	Total
Guam	26,026	\$13.65 ¹¹	\$355,254.90
American Samoa	1,525	\$13.65	\$20,816.25
Total			\$376,071.15

In fact, the Postal Service paid over \$46,000 to the following customers who received refunds for mail destined for Guam:

- From September 2002 to November 2003, a customer mailing from the Santa Ana, California, District received over \$27,000 in refunds for Express Mail packages that did not meet second-day service standards for on-time delivery.
- From March 2003 to September 2003, three customers mailing from the Los Angeles, California, District received over \$19,000 in refunds for Express Mail packages that did not meet second-day service standards for on-time delivery.

Customers that are aware the Postal Service cannot meet service standards for mail destined to Guam are potentially receiving Express Mail service without cost. In addition, by not meeting service standards it guarantees, the Postal Service advertising could be considered misleading. Consequently, this could erode consumer confidence in Postal Service products and impact on brand recognition.

¹¹ As of June 30, 2002, the minimum postage for mailing an Express Mail package from a post office to a domestic addressee was \$13.65.

Recommendation	We recommend the Senior Vice President and Chief Marketing Officer, in coordination with the Chief Operating Officer and Executive Vice President:
	<ol style="list-style-type: none"> 1. Adjust the service standard, if feasible, for shipments to remote areas; or, promote custom design¹² Express Mail service to customers sending Express Mail packages to Guam and American Samoa.
Management's Comments	Postal Service management agreed with this recommendation and has taken action to improve Express Mail service to customers sending Express Mail packages to Guam and American Samoa. The Chief Operating Officer and Chief Marketing Officer drafted a letter dated February 5, 2004, that outlined steps to promote custom design Express Mail service to Guam and American Samoa. This letter was effective March 1, 2004, and was issued to Postal Service officials ¹³ tasked with implementing this action.
Evaluation of Management's Comments	Postal Service management's comments are responsive to this recommendation. Management's actions to promote custom design for shipments to Guam and American Samoa should address the issues identified in the finding.
Recommendation	<ol style="list-style-type: none"> 2. Provide dedicated air service, if feasible, for Express Mail packages destined to American Samoa.
Management's Comments	Postal Service management generally agreed with this recommendation. Postal Service management was in the process of determining the full cost to provide dedicated air service for Express Mail packages to American Samoa. However, Postal Service management is certain the cost to implement this action would exceed projected revenue, and therefore believes this recommendation is not feasible.

¹² Express Mail custom designed service is available only on a schedule basis between designated Postal Service facilities or other designated locations for mailable matter presented under the service agreement between the Postal Service and the mailer (Domestic Mail Manual, Issue 58, E500.4.0 Express Mail).

¹³ All Vice Presidents, Area Operations; Manager, Capital Metro Operations; Managers, Operations Support; Managers, Marketing (Area); and Managers, Sales (Area); and a copy to District Managers.

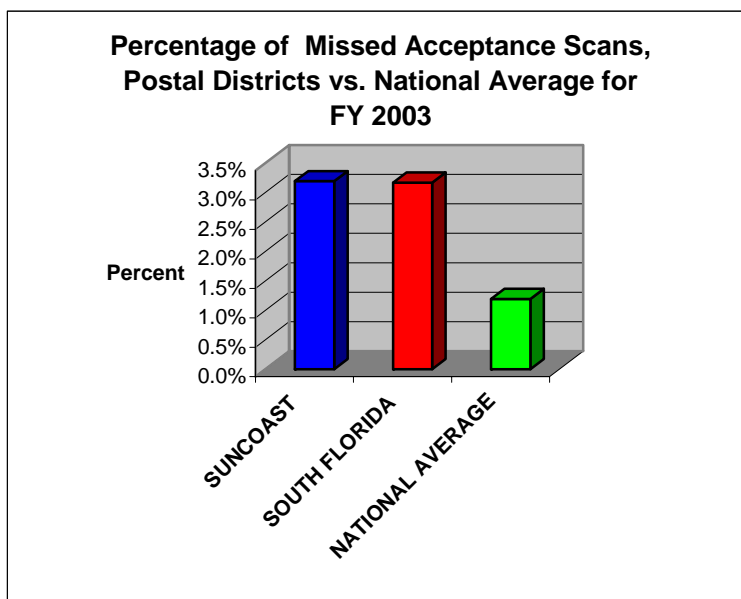
**Evaluation of
Management's
Comments**

Postal Service management concluded implementing this recommendation was cost prohibitive, and therefore does not plan corrective action. We concur with this conclusion and consider this recommendation closed.

**Express Mail
Acceptance Scanning**

The Postal Service successfully met its goal of properly scanning 98.8 percent of Express Mail packages¹⁴ for FY 2003. However, the Suncoast District did not scan 35,785 (3.2 percent)¹⁵ of its Express Mail packages at the time of acceptance, and the South Florida District failed to scan 34,526 (3.2 percent).¹⁶ These two districts' missed acceptance scan rate was more than twice the national average of 1.2 percent.¹⁷ Chart D compares FY 2003 missed acceptance scan rates.

Chart D



These two districts accounted for nearly 10 percent of all Postal Service Express Mail packages that lacked acceptance scans during the same period.

As a result of the missing acceptance scans, the Postal Service: (1) cannot adequately respond to customer inquiries

¹⁴ Express Mail packages include Express Mail corporate and federal agency accounts as well as Express Mail packages affixed postage.

¹⁵ 3.2 percent equals 35,785 of 1,122,261 Express Mail packages the Suncoast District did not scan at time of acceptance.

¹⁶ 3.2 percent equals 34,526 of 1,091,606 Express Mail packages the South Florida District did not scan at time of acceptance.

¹⁷ 1.2 percent equals 707,877 of 59,541,991 Express Mail packages the Postal Service did not scan at time of acceptance.

about the status of packages; (2) may lose revenue¹⁸ because some of the accounts have not been charged; and (3) has incomplete data to report on-time delivery rates for Express Mail.

Recommendation

We recommend the Acting Vice President, Delivery and Retail, direct the District Managers for the Suncoast and South Florida Districts to:

3. Establish procedures to improve acceptance scan rates equal to or above the national rate.

**Management's
Comments**

Postal Service management agreed with this recommendation. Southeast Area management stated that it plans to work with the South Florida and Suncoast districts to reinforce procedures for Express Mail acceptance. Southeast Area management plans to issue a letter outlining the acceptance procedures for both districts.

**Evaluation of
Management's
Comments**

Postal Service management's comments are generally responsive to this recommendation. Management's planned actions to reinforce acceptance procedures should correct the issues identified in this finding.

¹⁸ We did not determine the amount of lost revenue because Express Mail Corporate Account labels are maintained at the Postal Service unit where Express Mail labels were inducted. The Suncoast District has over 220 Postal Service units that maintain Express Mail labels, while the South Florida District has approximately 120.

APPENDIX. MANAGEMENT'S COMMENTS



April 6, 2004

KIM STROUD

SUBJECT: Transmittal of Draft Audit Report—Express Mail Operations
(Report Number NO-AR-04-DRAFT)

This is in response to your February 24 letter regarding the draft audit report for Express Mail Operations. Our responses to your recommendations are as follows:

Recommendation 1

Adjust the service standard, if feasible, for shipments to remote areas; or, promote custom design Express Mail service to customers sending Express Mail packages to Guam and American Samoa.

Response

Management agrees with the recommendation, also in a letter from Patrick Donahoe, Chief Operating Officer and Anita Bizzotto, Chief Marketing Officer, the Postal Service outlined the steps it plans to take to promote custom design to Guam and American Samoa. The letter, dated February 5, was issued to all Vice Presidents, Area Operations; Manager, Capital Metro Operations; Managers, Operations Support; Managers, Marketing (Area); and Managers, Sales (Area), with a copy to District Managers. This letter was effective March 1.

Recommendation 2

Provide dedicated air service, if feasible, for Express Mail packages destined to American Samoa.

Response

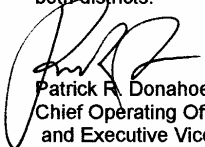
Management agrees with the spirit of the recommendation, but the Postal Service has not fully determined the cost to provide dedicated air service for Express Mail packages to American Samoa. However, management is certain the cost would exceed projected revenue. Implementing this recommendation would be cost prohibitive and, therefore, not feasible.


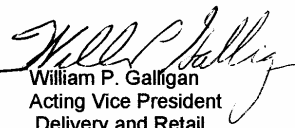
Recommendation 3

Establish procedures to improve acceptance scan rates to equal or above the national rate.

Response

Management agrees with the recommendation. The Southeast Area management team will be working with the South Florida and Suncoast Districts in reinforcing the procedures for Express Mail acceptance. The Southeast Area will issue a letter outlining the acceptance procedures for both districts.


Patrick R. Donahoe
Chief Operating Officer
and Executive Vice President

 
Anita J. Bizzotto William P. Galligan
Senior Vice President Acting Vice President
Chief Marketing Officer Delivery and Retail

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260