



Office of Inspector General | United States Postal Service

Audit Report

Changes in the Usage of the Modes of Transportation

Report Number 21-260-R22 | June 21, 2022



Table of Contents

Cover	
Highlights.....	1
Background.....	1
What We Did	1
What We Found.....	1
Recommendation.....	1
Transmittal Letter	2
Results.....	3
Introduction/Objective	3
Background.....	3
Finding Summary	4
Finding #1: Air to Surface Mode Changes.....	4
Recommendation #1.....	6
Management's Comments.....	6
Evaluation of Management's Comments	6
Appendices	8
Appendix A: Additional Information.....	9
Scope and Methodology.....	9
Prior Audit Coverage.....	9
Appendix B: Management's Comments.....	10
Contact Information	12

Highlights

Background

To meet its customers' demands and needs, the U.S. Postal Service addressed its financial and operational challenges by developing its Ten-Year Plan — *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (the Plan). The Plan establishes strategies for achieving financial sustainability and service excellence and outlines the development of a new operating model to help improve service through strategies aligned to the changing needs of its customers.

What We Did

Our objective was to evaluate the Postal Service's plan to change modes of transportation for First-Class Mail.

What We Found

We found that the Postal Service has an opportunity to improve the management of one of the Plan's major initiatives to restructure the Postal Service transportation network by shifting First-Class Mail from air to surface transportation. Specifically, the Postal Service did not always execute its decision-making process for the proposed mode changes to shift First-Class Mail from air to surface transportation in a timely manner. For example, during peak season, the Postal Service implemented mode changes approximately 131 and 62 days after it contractually finalized air volume needs with [REDACTED] and [REDACTED], respectively. As a result, the OIG determined that the Postal Service paid \$258,420 in minimum penalties associated with the air to surface mode changes during the month of December 2021.

“The Postal Service has an opportunity to improve the management of one of the Plan’s major initiatives by shifting First-Class Mail from air to surface transportation.”

Recommendation

We recommended management develop a standard operating procedure to include guidance for transitioning First-Class Mail from air to surface transportation to ensure mode changes are timed with air volume requirement submissions to [REDACTED] and [REDACTED]. At a minimum, this guidance should include roles and responsibilities for tasks and timelines associated with planned mode changes.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 21, 2022

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

Mary H. Lloyd

FROM: Mary Lloyd
Acting Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Changes in the Usage of the Modes of
Transportation (Report Number 21-260-R22)

This report presents the results of our audit of Changes in the Usage of the Modes of Transportation.

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the changes in usage of the modes of transportation (Project Number 21-260). Our objective was to evaluate the U.S. Postal Service's plan to change modes of transportation for First-Class Mail. See [Appendix A](#) for additional information about this audit.

Background

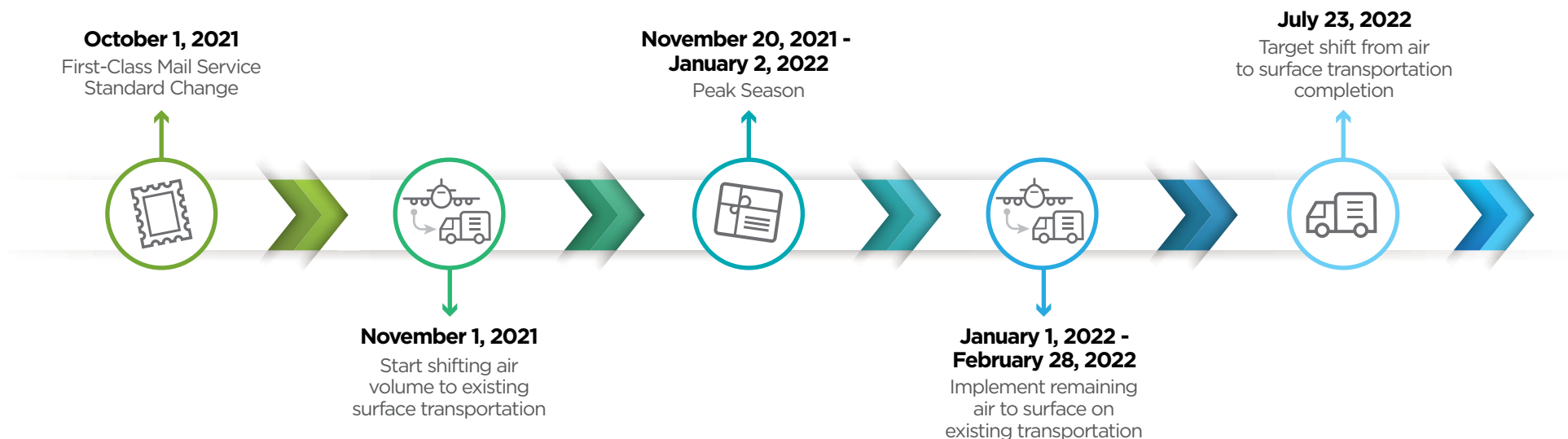
To meet its customers' demands and needs, the U.S. Postal Service addressed its financial and operational challenges by developing its Ten-Year Plan — *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*¹ (the Plan). The Plan establishes strategies for achieving financial sustainability and service excellence and outlines the

development of a new operating model to help improve service through strategies aligned to the changing needs of its customers.

One of the major initiatives in the Plan is to restructure the Postal Service transportation network by shifting First-Class Mail from air to surface transportation. On October 1, 2021, the Postal Service modified existing service standards² for First-Class Mail Letters and Flats from a 1-to-3-day service standard to a 1-to-5-day service standard within the continental U.S.

The changes to the service standards enabled the Postal Service to plan the shift of 43 percent of First-Class Mail, which is typically transported via air, to surface transportation. See Figure 1 which illustrates Postal Service timelines for air to surface transportation changes.

Figure 1. Postal Service Timeline for Shifting First-Class Mail From Air Transportation to Surface Transportation



Source: USPS PowerPoint presentation of Service Standard Change Implementation, dated December 13, 2021.

¹ Delivering for America is Postal Service's plan to transform the Postal Service from an organization in financial and operational crisis to one that is self-sustaining and high performing, dated March 23, 2021.
² The stated delivery performance goal for a mail class or product.

The Air Network Modeling (ANM) and Air Transportation Operations (ATO) teams play an integral part of the air network forecasting process. The ANM team manages the air network by forecasting mail volume, using an air forecast model to estimate air volume demand and assign mail volume. The ATO team works with the ANM team during the forecasting process and manages the day-to-day operations of the air network.

Finding Summary

We found that the Postal Service has an opportunity to improve management of one of the Plan's major initiatives to restructure the Postal Service transportation network by shifting First-Class Mail from air to surface transportation.

Finding #1: Air to Surface Mode Changes

We found that the Postal Service did not always execute its decision-making process for the proposed mode changes to shift First-Class Mail from air to surface transportation in a timely manner. Specifically, during peak season,³ the Postal Service implemented mode changes approximately 131 and 62 days after it contractually finalized air volume needs with [REDACTED] and [REDACTED], respectively.

During the air transportation planning process for peak season, the Postal Service follows contractually obligated timelines for identifying and executing air transportation across the network. Specifically, ATO and ANM coordinate to identify and submit air

“During peak season, the Postal Service implemented mode changes approximately 131 and 62 days after it contractually finalized air volume needs with [REDACTED] and [REDACTED], respectively.”

volume requests to each carrier about five to six months prior to the beginning of an operating period.⁴ The Postal Service's air volume planning process typically includes a complex evaluation of:

- Expected growth factors relating to air mail volume fluctuations;
- Historical air mail volumes relating to changes in origin/destination lanes;⁵
- Capacity of each air carrier for all origin/destination lanes and day of week;
- Air carrier rates for each mail class; and
- Regulations such as Transportation Security Administration screening⁶ limitations.

It is critical for all of these metrics and factors to be as accurate as possible prior to finalizing contractual obligations with [REDACTED] and [REDACTED] because, once finalized, the Postal Service is unable to make additional contractual modifications to the volume request. ATO then ensures that all mail is assigned and transported according to contractually obligated air volume requests.

The Postal Service was aware of the October 2021 service standard changes as early as March 2021, when the Plan was published. Management had the opportunity to decrease air volume needs prior to finalizing contractual air volumes in June and August 2021 for [REDACTED] and [REDACTED], respectively. Instead, during the 2021 peak season operating period, the Postal Service made air to surface mode changes after the Postal Service finalized air mail volumes with both [REDACTED] and [REDACTED] (see Table 1).

³ The Postal Service's Peak Season lasts about eight weeks, starting on or around Thanksgiving Day in November and ending on or around Martin Luther King, Jr. Day in January. During Peak Season, the Postal Service must plan to handle significant additional mail and package volumes.

⁴ An operating period consists of approximately a 4–5-week period.

⁵ Origin/Destination lanes refer to where mail processing begins (origin) and where the mail is destined to be delivered (destination).

⁶ Mail that is greater than 16 ounces must be screened by an authorized and approved screening company before being flown on commercial airlines.

Table 1. Postal Service Air Transportation Planning Process for Peak Season Operating Period

Operating Period	11/20/2021 – 12/30/2021	11/29/2021 – 1/2/2022
USPS Submitted Air Volume Requests	5/14/2021	7/2/2021
USPS Finalized [REDACTED] Air Volume	6/23/2021	8/31/2021
Air to Surface Mode Change	11/1/2021	11/1/2021
Untimely Implementation (in days)	131	62

Source: U.S. Postal Service Office of Inspector General (OIG) analysis of Postal Service Air to Surface data.

Per contract terms, the Postal Service agreed to provide a minimum of [REDACTED] and [REDACTED] of the finalized air volume to [REDACTED] and [REDACTED] respectively. For example, if the Postal Service agrees to transport [REDACTED] of mail volume to [REDACTED] during an operating period, it will be obligated to pay for [REDACTED] of mail regardless of the actual air mail volume transported by [REDACTED].

During the operating period, the directors for Air Logistics and Surface Logistics may approve mode changes as necessary⁷ to meet the minimum air volume thresholds. The Postal Service started shifting First-Class Mail from air to surface transportation by incrementally moving a determined number of air lanes to surface transportation each week in November 2021. Table 2 provides an overview of cumulative air to surface lane changes along with associated volume that were implemented from November 1 through November 29, 2021.

⁷ The Postal Service makes transportation mode changes in a system called Distribution Table Management System.

Table 2. Air to Surface Changes Made to the Air Network in November 2021

ATO Approved Implementation Date	Number of Air to Surface Lane Changes	Average Daily Volume Shifted (cubic feet)
11/1/2021 to 11/15/2021	[REDACTED]	[REDACTED]
Week of 11/15/2021	[REDACTED]	[REDACTED]
Week of 11/22/2021	[REDACTED]	[REDACTED]
Week of 11/29/2021	[REDACTED]	[REDACTED]
Cumulative Total	[REDACTED]	[REDACTED]

Source: OIG analysis of Postal Service Air to Surface Tracking Sheet.

The air mail volume associated with these changes contributed to but was not the driving factor of the Postal Service's ability to meet minimum volumes in December 2021 for [REDACTED] and [REDACTED]. The Postal Service planned for [REDACTED] to transport First-Class Mail on [REDACTED] of the [REDACTED] lanes. For the remaining [REDACTED] lanes, the Postal Service did not plan for [REDACTED] to transport any First-Class Mail for the peak period. As a result, in December 2021, the Postal Service achieved only [REDACTED] and [REDACTED] of its finalized air volumes for First-Class Mail transported by [REDACTED] and [REDACTED], respectively, falling short of their contractual commitments.

“In December 2021, the Postal Service achieved only [REDACTED] and [REDACTED] of its finalized air volumes for First-Class Mail transported by [REDACTED] and [REDACTED], respectively.”

This occurred because the Standard Operating Procedure (SOP)⁸ does not clearly define the Postal Service's roles and responsibilities and the timelines associated with executing mode changes from air to surface transportation at the headquarters level. However, for Quarter 3, FY 2022, the Postal Service created an Excel spreadsheet titled "Air to Surface Conversion Tasks" outlining all tasks to be completed for upcoming mode changes. This document tasks the ANM team to "Review lanes and incorporate air to surface shift into demand". As such, the Postal Service acknowledged that the mode changes — to shift First-Class Mail from air to surface — should be included in the model when it is developed. Further, the spreadsheet includes roles, responsibilities, and timelines for all parties involved in the proposed mode changes to shift First-Class Mail. This type of information would be beneficial to incorporate into an SOP for continuity purposes and for future large-scale air to surface mode changes.

Without an SOP that provides guidance for timely transitioning of First-Class Mail with the air volume requirement submissions to [REDACTED] and [REDACTED], the Postal Service runs the risk of not implementing changes in a timely manner and incurring contractual penalties for not meeting minimum thresholds. Had the Postal Service included the shift of [REDACTED] lanes into its initial air volume request to both [REDACTED] and [REDACTED], it would not have incurred additional penalties. In December 2021, the Postal Service incurred about \$19.9 million in total penalties for both [REDACTED] and [REDACTED], \$258,420 of which the OIG identified as minimum penalties associated with air to surface mode changes.

Recommendation #1

We recommend the **Vice President, Logistics**, develop a standard operating procedure to include guidance for transitioning First-Class Mail from air to surface transportation to ensure mode changes are timed with air volume requirement submissions to [REDACTED] and [REDACTED]. At minimum, this guidance should include roles and responsibilities for tasks and timelines associated with planned mode changes.

Management's Comments

Management generally agreed with the finding and agreed with the recommendation and monetary impact. See [Appendix B](#) for management's comments in their entirety.

However, management disagreed that the shift of some First-Class Mail from air to surface during peak season resulted in the Postal Service achieving only [REDACTED] and [REDACTED] of its finalized air volume for [REDACTED] and [REDACTED], respectively. Management also disagreed this occurred because the SOP did not clearly define roles, responsibilities, and timelines associated with executing mode changes. According to management, the key driver to not achieving air volume minimums was the decrease in volume compared to the same period in the prior year, which were well below projections.

Regarding recommendation 1, management stated that the existing policy was appended with roles and responsibilities for addressing larger-scale mode shifts associated with the service standard change. The target implementation date is June 30, 2022.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report and corrective actions should resolve the issues.

Regarding management's disagreement with why the Postal Service did not meet its air volume minimums, we stated in our report that the Postal Service did not plan appropriately for the shift of mail volume from air to surface transportation, and these changes contributed to, but was not the driving factor, for the Postal Service not meeting its minimum volumes in December 2021. Also, we found this occurred because the SOP did not clearly define the Postal Service's roles, responsibilities, and timelines associated with executing mode changes from air to surface transportation.

⁸ SOP for Distribution Table Management System Mode Changes dated November 6, 2020.

Regarding recommendation 1, the Postal Service provided evidence that it added guidance to its SOP for transitioning First-Class Mail from air to surface transportation to ensure mode changes are timed with air volume submissions to [REDACTED] and [REDACTED]. This included adding roles and responsibilities for tasks and timelines associated with planned mode changes. Consequently, we are closing the recommendation with issuance of this report.

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information.....	9
Scope and Methodology	9
Prior Audit Coverage	9
Appendix B: Management’s Comments.....	10

Appendix A: Additional Information

Scope and Methodology

Our scope was a nationwide review of Postal Service's change in modes of transportation from air mail to surface transportation in FY 2022.

To achieve our objective, we completed the following:

- Identified and reviewed [REDACTED] and [REDACTED] air contracts to determine the requirements and contractual obligations.
- Interviewed all relevant Postal Air Transportation Operations officials to gain an understanding of their roles and responsibilities.
- Analyzed FYs 2021 and 2022 Air Network Modeling results to include actual and plan First-Class Mail volumes to be carried by [REDACTED] and [REDACTED]
- Reviewed [REDACTED] and [REDACTED] reconciliation data for FYs 2021 and 2022.
- Analyzed FY 2022 mode matrix changes.

We conducted this performance audit from November 2021 through June 2022 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 May 27, 2022 and included their comments where appropriate.

We assessed the reliability of planned versus actual data for [REDACTED] and [REDACTED] and Postal Service's First-Class Mail data by interviewing the Postal Service officials and testing for completeness, accuracy, and validity. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify prior audits or reviews related to the objective of this audit within the last five years.

Appendix B: Management's Comments



June 10, 2022

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Changes in the Usage of the Modes of
Transportation (Report Number 21-260-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings and recommendations contained in the draft audit report, *Changes in the Usage of the Modes of Transportation*.

Management agrees with the OIG findings that the decision to shift some First-Class mail from Air to Surface during Peak Season marginally contributed to the minimums paid to [REDACTED]. We do, however, need to emphasize that planning to shift some First-Class mail from Air to Surface was not a key driver impacting minimums with the [REDACTED] network. The Air to Surface lanes impacting the minimums make up approximately 0.1% of the [REDACTED] planned volume. The Postal Service disagrees with the following statements from the first and second paragraphs on page 4 of the audit:

As a result, in December 2021, the Postal Service achieved only [REDACTED] and [REDACTED] of its finalized air volumes for First-Class Mail transported by [REDACTED] and [REDACTED] respectively, falling short of their contractual commitments.

This occurred because the Standard Operating Procedure (SOP)10 does not clearly define the Postal Service's roles and responsibilities and the timelines associated with executing mode changes from air to surface transportation at the headquarters level.

The key driver to not achieving minimums was the decrease in volume compared to the same period in the prior year, and well below projections.

Management agrees that by moving forward with shifting the lanes identified in the audit from Air to Surface may have contributed to \$258,420 in questioned costs.

Recommendation [1]:

We recommend the Vice President, Logistics, develop a standard operating procedure to include guidance for transitioning First-Class Mail from air to surface transportation to ensure mode changes are timed with air volume requirement

submissions to [REDACTED] and [REDACTED]. At minimum, this guidance should include roles and responsibilities for tasks and timelines associated with planned mode changes.

Management Response/Action Plan:

Management agrees with this recommendation. The existing Standard Work Instructions were appended with roles, responsibilities for tasks addressing larger-scale mode shifts associated with the Service Standard Change.

Target Implementation Date:

6/30/2022

Responsible Official:

Director, Logistics Modeling & Analytics

**Robert
Cintron**

Digitally signed by
Robert Cintron
Date: 2022.06.10
14:51:39 -0400

Robert Cintron
Vice President, Logistics

cc: Manager, Corporate Audit Response Management

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