



Office of Inspector General | United States Postal Service

Audit Report

Terminal Handling Services – Denver, CO

Report Number 20-314-R21 | June 4, 2021



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Highlights

Objective

Our objective was to assess the effectiveness of Terminal Handling Services (THS) operations in Denver, CO.

There are 69 THS facilities nationwide that prepare and dispatch mail for [REDACTED] (aviation supplier). The U.S. Postal Service contracts with [REDACTED] (THS supplier) in Denver, CO, to prepare both originating and destinating mail for the aviation supplier to transport mail by air. For mail scheduled to fly, the Postal Service separates bypass mail from mixed mail during processing operations before delivering mail to the THS supplier. Bypass mail is destined for a single location and is not sorted until it arrives at the destination facility. Mixed mail is destined for multiple locations and is sorted at the aviation supplier's hub, incurring additional charges for the Postal Service. The THS supplier builds bypass and mixed air cargo containers based on the mail delivered from the Postal Service. In fiscal year (FY) 2020, the Denver THS supplier handled 26.9 million pounds of mail and cost the Postal Service about \$2.6 million.

To manage operations, both the Postal Service and THS supplier used a volume arrival profile (VAP). A VAP is a plan that details the hourly percentage of mail that a Postal Service facility is expected to deliver to the THS site. The plan should allow THS staff enough time to fill both bypass and mixed air cargo containers. The Postal Service requires the THS supplier to convert bypass containers that are less than 87 percent full to mixed containers to avoid under-utilized containers.

The Postal Service can assess liquidated damages for certain THS performance irregularities. The THS supplier is contractually required to self-report all performance irregularities and take corrective action when contract compliance issues are identified.

We conducted site visits at the Denver THS facility and the Denver Processing and Distribution Center (P&DC). We selected the Denver P&DC because it accounted for about 76 percent of the total mail volume delivered to the Denver THS. Our fieldwork occurred after the President of the U.S. issued the national

coronavirus emergency declaration on March 13, 2020. Our results may not reflect process and/or operational changes that occurred as a result of the pandemic.

Findings

We found the effectiveness of the Denver THS operations could be improved with increased Postal Service oversight of bypass operations and contractual obligations.

The Denver P&DC's operating decisions prevented the THS supplier from meeting the planned bypass container goals of 100 percent in FYs 2019 and 2020. In FY 2019, the Postal Service planned for 6,848 bypass containers but used 2,360 (34 percent) of the planned goal. In FY 2020, the Postal Service planned for 7,204 bypass containers but used 1,494 (21 percent) of the planned goal.

The Postal Service did not meet planned goals because the Denver P&DC employees were not following the VAP and not always separating bypass from mixed mail. Specifically, we observed employees processing mail past clearance times (latest time committed mail can clear an operation for proper dispatch or delivery), not always following the run plan generator (a software application processing facilities use to optimize machine usage and operational efficiency), and stopping the separation of bypass from mixed mail before clearance times.

While these departures from normal mail processing operations continued the mail flow, they caused the Denver THS supplier to receive insufficient bypass mail and convert 10,198 bypass containers to mixed containers in FYs 2019 and 2020. Consequently, the Postal Service paid about \$1.3 million annually to the aviation supplier for sortation of additional mixed mail containers. In addition, these departures put the THS and aviation suppliers at risk of schedule delays, which could affect the Postal Service's performance and goodwill branding.

Further, when the THS supplier does not receive mail on time, the mail is at risk of missing its intended flight and becoming delayed, which can create unanticipated volume in the network. To relieve this excess volume and maintain planned

operations, the Postal Service used mitigation techniques such as bedload trucks (extra trips). In FYs 2019 and 2020, the Postal Service requested 68 extra trips to transport mail via surface that was originally planned to be flown. We estimated the Postal Service incurred about \$818,000 annually for extra trips to the aviation supplier's hub.

Additionally, we observed the THS supplier did not have a scale because it had been removed about three years ago. Contractual obligations require the THS supplier to provide a scale, weigh mail, and report density (weight of mail divided by cubic capacity) figures to the Postal Service. Density is important as it allows the THS supplier to load more mail into the air containers, thus reducing the number of containers needed to move the mail volume. As a result of our audit, the THS supplier did receive a scale to weigh containers and calculate density; however, it was not working and was placed in an inefficient location.

Finally, the Postal Service did not have a system to track and report performance irregularities with the Denver THS supplier as required by the contract. We determined the supplier should have self-reported to the Postal Service for failing to deliver mail as scheduled and for routing mail to the wrong locations in FYs 2019 and 2020. Further, the Postal Service liaison was required to, but did not, identify and report these irregularities.

These conditions occurred because the Postal Service did not effectively monitor THS supplier contractual obligations and, as a result, missed the opportunity to

pursue liquidated damages for irregularities consistent with assessments outlined in the contract.

Recommendations

We recommended management:

- Reiterate through formal communication the importance of clearance times and following the run plan generator and require the Denver Processing and Distribution Center to continue bypass separations for the entire duration of mail processing operations.
- Conduct an analysis at the Denver Processing and Distribution Center and verify that processing operations are aligned with the volume arrival profile to allow Terminal Handling Service operations adequate time to build planned bypass containers.
- Assess the functionality of the scale and the efficiency of the scale's location at the Denver Terminal Handling Service supplier's operations and take action as appropriate.
- Establish a process for contract oversight to include verification that, at a minimum, the Denver Terminal Handling Service supplier is weighing mail and reporting accurate density figures and is tracking and reporting irregularities to the Postal Service so that liquidated damages can be pursued consistent with assessments outlined in the contract.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 4, 2021

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

MICHAEL L. BARBER
VICE PRESIDENT, PROCESSING AND
MAINTENANCE OPERATIONS

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

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

SUBJECT: Audit Report – Terminal Handling Services –
Denver, CO (Report Number 20-314-R21)

This report presents the results of our audit of Terminal Handling Services – Denver CO.

We appreciate the cooperation and courtesies provided by your staff. If you have any 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
Western Division Director, Processing Operations
Western Division Director, Logistics Operations
Plant Manager, Denver P&DC

Results

Introduction/Objective

This report presents the results of our self-initiated audit of terminal handling services (THS) in Denver, CO (Project Number 20-314). Our objective was to assess the effectiveness of THS operations in Denver, CO, for fiscal years (FY) 2019 and FY 2020. See [Appendix A](#) for additional information about this audit.

Background

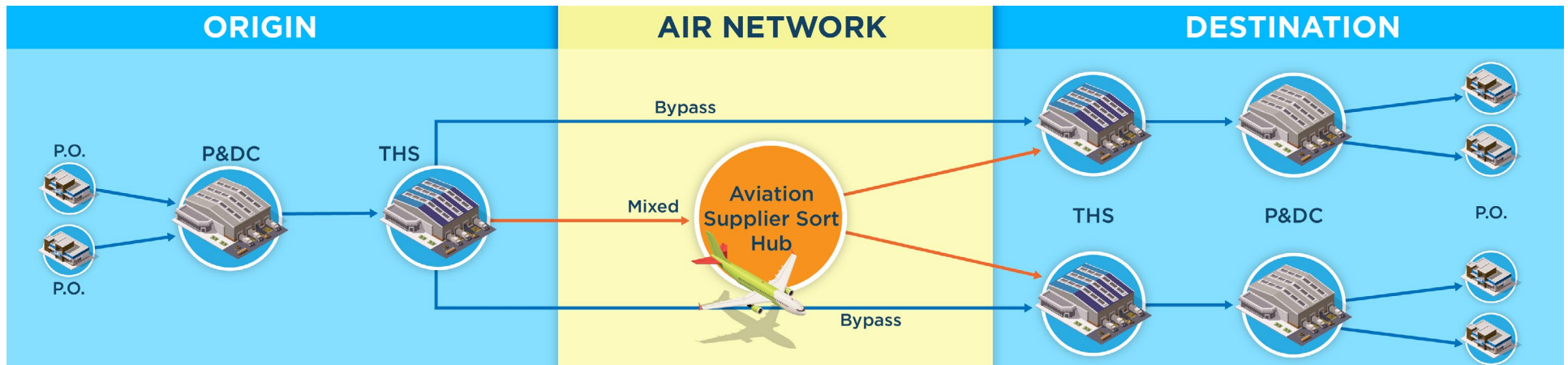
There are 69 THS facilities nationwide that prepare and dispatch mail for [REDACTED] (aviation supplier). THS suppliers processed about 1.4 billion pounds of mail in FY 2019 and about 1.5 billion pounds in FY 2020 — an increase of about 100 million pounds or 9 percent. This increase was due to the surge in e-commerce and shift in consumer behavior due to the novel coronavirus outbreak (COVID-19).

The U.S. Postal Service contracts with [REDACTED] (THS supplier) in Denver, CO, to prepare both originating and destinating mail for the aviation supplier to transport mail by air. For mail scheduled to fly, the Postal Service separates bypass from mixed mail during processing operations before delivering mail to the THS supplier. Bypass mail is destined for a single location whereas mixed mail is destined for multiple locations. The THS supplier builds bypass and

mixed air cargo containers based on the mail delivered from the Postal Service. Additionally, the THS supplier receives incoming mail from the aviation supplier and loads it into Postal Service mail transport equipment for delivery to local Postal Service mail processing facilities. The Postal Service has liaisons or other Postal Service personnel to coordinate, provide direction, monitor performance, and ensure proper management of THS operations. In FY 2020, the Denver THS supplier handled 26.9 million pounds of mail and cost the Postal Service about \$2.6 million.

To manage operations, both the Postal Service and THS supplier used a volume arrival profile (VAP). A VAP is a plan that details the hourly percentage of mail that the Postal Service facility is expected to deliver to the THS site. The plan should allow THS staff enough time to fill both bypass and mixed air cargo containers. Bypass containers are not sorted until they arrive at the final destinating facility and avoid the aviation suppliers per piece processing charge. Mixed containers are sorted at the aviation supplier's hub, incurring additional charges for the Postal Service (see Figure 1). The Postal Service requires the THS supplier to convert bypass containers that are less than 87 percent full to mixed containers to avoid under-utilized containers.

Figure 1. Example of Bypass and Mixed Mail Flow



Source: Postal Service - Aviation Supplier Hub Overview and U.S. Postal Service Office of Inspector General (OIG) analysis.

THS supplier contracts contain seven irregularities — or performance failures — for which the Postal Service can assess the THS supplier liquidated damages (see Table 1). Each irregularity has a specific calculation for liquidated damages. For example, to calculate the liquidated damages for mis-routed¹ mail, the weight of the mis-routed mail is multiplied by \$0.60. Additionally, THS suppliers are contractually required to self-report all performance irregularities and take corrective action when contract compliance issues are identified.

Table 1. Contract Irregularities by Category and Description

Type of Irregularity	Description
Failure to Load	A failure to accept and load mail to the aviation supplier as specified in the contract.
Failure to Deliver	A failure to deliver mail to the Postal Service’s designated location as specified in the contract and by the delivery time.
Mis-Routed	Any mail delivered to the wrong destination and/or placed in the wrong container.
Failure to Protect	A failure to protect and safeguard mail from depredation, rifling, inclement weather, mistreatment, or other hazard.
Failure to Protect Postal Service Equipment	A failure to protect, return, or safeguard Postal Service-provided equipment.
Failure to Protect the Aviation Supplier’s Air Cargo Containers	A failure to protect or safeguard the aviation supplier air cargo containers.
Failure to Execute Surface Visibility Scans	A failure to obtain any required Surface Visibility scans.

Source: Postal Service Contract Authority Management System (CAMS).

¹ The contract refers to this as “Mis-Delivered.”

“THS supplier contracts contain seven irregularities — or performance failures — for which the Postal Service can assess the THS supplier liquidated damages.”

We conducted site visits at the Denver THS facility and the Denver Processing and Distribution Center (P&DC). We selected the Denver P&DC because it accounted for about 76 percent of the total mail volume delivered to the Denver THS. Our fieldwork occurred after the President of the U.S. issued the national COVID-19 emergency declaration on March 13, 2020.

Our results may not reflect process and/or operational changes that occurred as a result of the pandemic.

Findings Summary

We found the effectiveness of the Denver THS operations could be improved with increased Postal Service oversight of bypass operations and contractual obligations.

Finding #1: Bypass Operations

The Denver P&DC’s operating decisions prevented the THS supplier from meeting the planned bypass container goals of 100 percent in FYs 2019 and 2020. Specifically, in FY 2019, the Postal Service planned for 6,848 bypass containers but used 2,360 (34 percent) of the planned goal. In FY 2020, the Postal Service planned for 7,204 bypass containers but used 1,494 (21 percent) of the planned goal (see Table 2).

“The Denver P&DC’s operating decisions prevented the THS supplier from meeting the planned bypass container goals.”

Table 2. FY 2019 and FY 2020 Bypass Container Goals

Fiscal Year	Planned Bypass Containers	Used Bypass Containers	Percentage of Bypass Used	Bypass Goal
2019	6,848	2,360	34%	100%
2020	7,204	1,494	21%	100%

Source: Informed Visibility and OIG analysis.

The Postal Service did not meet goals because the Denver P&DC employees were not following the VAP² and not always separating bypass from mixed mail. Specifically, we observed employees processing mail past clearance times,³ not always following the run plan generator,⁴ and stopping the separation of bypass from mixed mail before clearance times. Plant management said they were aware of these issues and understood the impacts, but mentioned that COVID-19, mail volumes, and problems with mail processing equipment all caused processing delays.

“We observed employees processing mail past clearance times.”

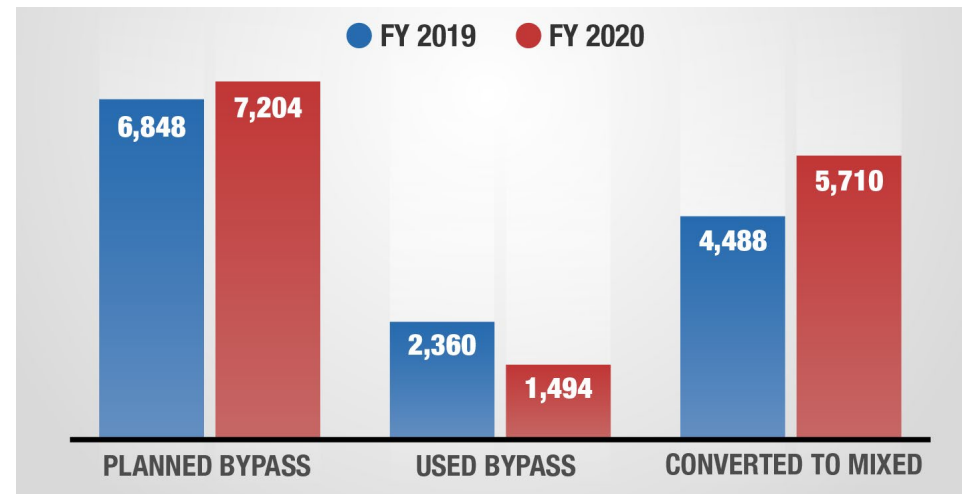
We determined the Denver P&DC processed about 4 billion pieces of mail in FY 2019 and about 3.5 billion pieces of mail in FY 2020, an overall decrease of about 432 million pieces (11 percent). However, the Denver P&DC processed about 61 million packages in FY 2019 and about 65 million packages in FY 2020, a total increase of 4 million packages (6 percent). Additionally, at the Denver P&DC, mail processing employee availability averaged about 77 percent in FY 2019 and about 74 percent in FY 2020 — a decrease of about 3 percent.

While these departures from normal mail processing operations continued the mail flow, they caused the Denver THS supplier to receive insufficient bypass mail

2 This same issue was identified in a prior OIG audit report, *Transportation Network Optimization and Service Performance* (Report Number 20-144-R20, dated 6/5/2020). The Postal Service agreed to the recommendation and, as of March 29, 2021, it remains open.
 3 The latest time committed mail can clear an operation for proper dispatch or delivery.
 4 A software application used by mail processing facilities to optimize machine usage and operational efficiency.
 5 Handling units can be a tray, flat tub, sack, or parcel.

and convert 10,198 bypass containers to mixed containers in FYs 2019 and 2020 (see Figure 2). For example, on October 5, 2018, the Postal Service planned for a total of 52 air cargo containers, to include 30 bypass and 22 mixed containers. However, only 14 bypass containers were used. The remaining 16 planned bypass containers were converted to mixed, resulting in a total of 38 mixed containers and 14 bypass containers.

Figure 2. Number of Bypass Containers Converted to Mixed Containers



Source: Postal Service Informed Visibility system and OIG analysis.

During our Denver THS site visit, we observed a bypass container (identified by a red bypass tag) bound for Fargo, ND, with about six mail handling units⁵ at 3:25 a.m. (see Figure 3). At 4:44 a.m., the Denver THS employees converted the bypass container to a mixed container (identified by a Memphis, TN, white tag) because there was not enough bypass mail to reach the required capacity (see Figure 4). The container was filled with mixed mail and sent to the aviation supplier’s hub for sortation.

Figure 3. Bypass Mail Air Container



Source: OIG photograph taken November 18, 2020, at 3:25 a.m. showing mail in bypass air container (see red arrow pointing to bypass tag) bound for Fargo, ND.

Figure 4. Bypass Mail Container Converted to Mixed Mail Container



Source: OIG photograph taken November 18, 2020, at 4:44 a.m. showing mail in bypass air container (see red arrow pointing to mixed tag) converted to a mixed container.

Consequently, as a result of converting 10,198 bypass containers to mixed containers in FYs 2019 and 2020, the Postal Service paid about \$2.6 million over two years to the aviation supplier for sortation of additional mixed mail containers (see Table 3). In addition, these departures from normal mail processing operations put the Denver THS and aviation suppliers at risk of schedule delays, which could affect the Postal Service’s performance and goodwill branding.

Table 3. Additional Aviation Supplier Sort Charges

Fiscal Year	Number of Bypass Mail Pieces	Average Aviation Supplier Sort Rate	Questioned Cost
2019	1,382,360	\$0.8132	\$1,124,135
2020	1,758,680	\$0.8132	\$1,430,159
Total			\$2,554,294

Source: Postal Service, Informed Visibility system and OIG analysis.

Further, when the THS supplier does not receive mail on time, the mail is at risk of missing its intended flight and becoming delayed, which can create unanticipated volume in the network. To relieve this excess volume and maintain planned operations, the Postal Service used mitigation techniques such as bedload trucks (extra trips). Bedload trucks are filled with bypass and mixed mail at Postal Service facilities or THS sites and arrive at the aviation supplier’s hub for sortation. The aviation supplier sorts all mitigated mail as if it is mixed mail.

In FYs 2019 and 2020, the Postal Service requested 68 extra trips to transport mail via surface that was originally planned to be flown. The Postal Service used 26 extra trips in FY 2019 and 42 in FY 2020 costing \$661,340 and \$975,491, respectively. We estimated that in FYs 2019 and 2020, the Postal Service incurred \$1,636,831 for extra trips from the

“In FYs 2019 and 2020, the Postal Service requested 68 extra trips to transport mail via surface that was originally planned to be flown.”

Denver THS to the aviation supplier's hub. Additionally, there were four extra trips during the week of our observations November 17 through November 19, 2021.

Recommendation #1

We recommend the **Vice President, Western Region Processing Operations**, reiterate through formal communication the importance of clearance times and following the run plan generator and require the Denver Processing and Distribution Center to continue bypass separations for the entire duration of mail processing operations.

Recommendation #2

We recommend the **Vice President, Western Region Processing Operations**, in coordination with the **Vice President, Logistics**, conduct an analysis at the Denver Processing and Distribution Center and verify that processing operations are aligned with the volume arrival profile to allow Terminal Handling Service operations adequate time to build planned bypass containers.

Finding #2: Postal Service Contractual Oversight

The Postal Service did not conduct effective oversight to verify that the Denver THS supplier fulfilled its contractual obligations. Specifically, the Postal Service did not require the Denver THS supplier to have a scale and did not properly evaluate and assess performance irregularities with the Denver THS supplier.

“The Postal Service did not conduct effective oversight to verify that the Denver THS supplier fulfilled its contractual obligations.”

At the time of our site visit in November 2020, the THS supplier did not have a scale. Contractual obligations require the THS supplier to provide a scale, weigh mail, and report density (weight of mail divided by cubic capacity) figures to the Postal Service. Density is important as it allows the THS supplier to fill the container properly to maximize the space in the air container. If the container density is determined to be low, the THS supplier has an opportunity to load more mail prior to transporting it to the aviation supplier, thus reducing the number of

containers needed to move the mail volume. According to the Postal Service liaison, the Denver THS supplier removed the scale about three years ago; however, when the THS supplier had a scale, it was located inside the facility (see Figure 5). The THS supplier said the scale was removed because it slowed down the process of providing the mail to the aviation supplier.

Figure 5. Previous Location of Denver THS Supplier Scale



Source: OIG photograph taken March 11, 2021, at 3:31 p.m. showing the previous location of the THS supplier scale.

As a result of our audit, the Denver THS supplier did receive a scale to weigh containers and calculate density. However, as of March 11, 2021, the scale was not working and was inefficiently located outside the building (see Figure 6). Placement of the scale outside the building could create unnecessary or excessive movement interrupting the continuous processing flow of air containers

as they would need to be brought back inside for additional loading if the density is low. The location of the scale could cause delays and prevent the Denver THS supplier from weighing each container, as contractually required.

Figure 6. Location of Denver THS Supplier Scale Outside the Building



Source: OIG photograph taken March 11, 2021, at 3:29 p.m. showing the location of the Denver THS supplier scale.

Finally, the Postal Service did not have a system to track and report performance irregularities with the Denver THS supplier. Specifically, the THS contract defines performance irregularities for which the Postal Service can assess the

“The Postal Service did not have a system to track and report performance irregularities.”

THS supplier liquidated damages. The liquidated damage for each irregularity has a specific calculation. The THS supplier is contractually required to self-report all performance irregularities and take corrective action when contract compliance issues are identified.

We determined the Denver THS supplier should have self-reported their irregularities for failure to deliver mail as scheduled and for routing mail to the wrong location in FYs 2019 and 2020. Further, the Postal Service liaison was required to, but did not, identify and report these irregularities.⁶

- **Failure to Deliver:** In FY 2019, the Denver THS supplier processed 1.3 million handling units and we identified 53,237 handling units (4.2 percent) that the THS supplier failed to timely deliver to the Postal Service’s designated locations. In FY 2020, the THS supplier processed 1.3 million handling units and we identified 54,385 handling units (4.1 percent) that the THS supplier failed to timely deliver to the Postal Service’s designated locations.
- **Mis-Routed:** In FY 2019, the Denver THS supplier mis-routed about 7,500 pounds of mail. In FY 2020, the THS supplier mis-routed about 12,000 pounds of mail, an increase of about 60 percent from the previous year.

In FY 2018, management implemented Standard Operating Procedures requiring the Postal Service liaison to use a liquidated damages tracker⁷ to monitor irregularities and calculate liquidated damages. We requested the Denver THS liquidated damage tracker data for FYs 2019 and 2020 from the Purchasing and Supply Management specialist at the Postal Service’s Air Transportation Category Management Center and were told that, due to its manual nature, the liquidated damages tracker was not maintained, and the Denver THS had no recorded irregularities during FYs 2019 or 2020. Further, the Headquarters Manager of Air Transportation Operations confirmed that the Postal Service had not collected penalties for any irregularities from the Denver THS supplier in FYs 2019 and 2020.

⁶ OIG calculated the irregularities, which totaled approximately \$25,000 for the Denver THS supplier’s Failure to Deliver and Mis-Routed mail for FYs 2019 and 2020.

⁷ COREInsight THS, *Liquidated Damages USPS User Guide*, October 2017.

These conditions occurred because the Postal Service did not effectively monitor THS supplier contractual obligations and, as a result, missed the opportunity to pursue liquidated damages for irregularities consistent with assessments outlined in the contract.

Recommendation #3

We recommend the **Vice President, Logistics**, assess the functionality of the scale and the efficiency of the scale's location at the Denver Terminal Handling Service supplier's operations and take action as appropriate.

Recommendation #4

We recommend the **Vice President, Logistics**, establish a process for contract oversight to include verification that, at a minimum, the Denver Terminal Handling Service supplier is weighing mail and reporting accurate density figures and is tracking and reporting irregularities to the Postal Service so that liquidated damages can be pursued consistent with assessments outlined in the contract.

Management's Comments

Management stated that they do not agree with all of the report's findings of fact and, in subsequent conversations, they agreed with finding 1 but disagreed with finding 2. Management also agreed with recommendations 1 and 2 but disagreed with recommendations 3 and 4. Further, management agreed with the calculations used to determine the monetary impact. See [Appendix B](#) for management's official comments in their entirety.

Regarding finding 1, management agreed that the Denver P&DC's operating decisions prevented the THS supplier from meeting the planned bypass container goals of 100 percent in FYs 2019 and 2020.

Regarding recommendation 1, management agreed and stated they will reiterate to Denver P&DC employees the importance of clearance times and following the run plan generator. Management also stated they will require Denver P&DC employees to continue bypass separations for the entire duration of mail processing operations, all of which will be communicated to employees via a stand-up talk. The target implementation date is June 30, 2021.

Regarding recommendation 2, management agreed and stated they will conduct an analysis at the Denver P&DC to verify that processing operations are aligned with the VAP to allow THS operations adequate time to build planned bypass containers. The target implementation date is June 30, 2021.

Regarding finding 2, management disagreed and stated that the Denver THS is required to weigh the mail but is not required to have a scale. In addition, management stated that they provide oversight by reviewing daily reports, and that performance irregularities are recorded by the Postal Service and not by the supplier.

Regarding recommendation 3, management disagreed and stated that the THS contract requires the supplier to weigh the mail but there is no requirement to have a scale. In the case of the Denver THS, the supplier weighed the mail using the aviation supplier's scale; therefore, the requirement to weigh the mail was met. Management further stated that the supplier has a scale on site as of March 29, 2021.

Regarding recommendation 4, management disagreed and stated there is no need to establish a process as one already exists. Management further stated they have always required the THS supplier to weigh mail and this requirement is written in the THS contract. Management stated that evidence of this process is on the daily THS report, which includes both weight and density.

Evaluation of Management's Comments

We consider management's comments responsive to recommendations 1 and 2 as the corrective actions should resolve the issues identified in the report. We consider management's comments nonresponsive to recommendations 3 and 4.

Regarding recommendation 3, management's assumption that there is no requirement to have a scale is incorrect. The THS supplier contract states that, "*building, weighing, marking of containers, sealing and scanning of airline containers is also required.*" Further, Attachment K (Ground Handling Equipment Specifications) and the Air Transportation Category Management Center specialist stated that the Denver THS is required to have at least one scale. The THS supplier has an operational scale as of March 29, 2021. However,

management was unresponsive to the efficiency of the scale's location at the Denver THS supplier's building and we will work with them on this part of the recommendation through the audit resolution process.

Regarding recommendation 4, management stated that the Postal Service — not suppliers — records performance irregularities. However, the THS supplier contract states, *“the supplier must self-report all performance irregularities.”* Additionally, we requested Denver THS liquidated damage tracker data for FYs 2019 and 2020 from the Purchasing and Supply Management specialist at the Postal Service's Air Transportation Category Management Center and were told that, due to its manual nature, the tracker was not maintained and the Denver THS had no recorded irregularities during FYs 2019 or 2020. Further, the headquarters manager of Air Transportation Operations confirmed that the Postal Service had not collected penalties for any irregularities from the Denver THS supplier in FYs 2019 and 2020. Therefore, we view management's plan of action for recommendation 4 as unresponsive and will pursue this through the formal audit resolution process.

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.

Appendices

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Appendix A: Additional Information

Objective, Scope, and Methodology

The scope of this audit was to assess the effectiveness of THS operations at the Denver facility for FY 2019 and FY 2020.

To accomplish our objective, we:

- Identified, reviewed, and evaluated Postal Service THS policies, procedures, guidelines, and operational requirements.
- Interviewed Postal Service Headquarters officials regarding oversight of THS operations.
- Conducted site observations at the Denver THS facility.
- Interviewed the Denver THS liaison to understand and discuss roles/responsibilities and THS operations.
- Conducted site observations at the Denver P&DC to assess the effectiveness of processing and transporting mail to the Denver THS.
- Interviewed Postal Service managers at the Denver P&DC to understand and discuss roles/responsibilities for processing and transporting mail to the Denver THS.
- Reviewed the Denver THS contract, specifically:
 - Terms and requirements

- VAP
- Contract irregularities
- Use of containers
- Analyzed and evaluated data from Informed Visibility (IV), the Enterprise Data Warehouse (EDW), Surface Visibility (SVweb), and the Time and Attendance Collection System (TACS).

We conducted this performance audit from November 2020 through June 2021 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 April 23, 2021, and included their comments where appropriate.

We assessed the reliability of the Postal Service's IV, EDW, SVweb and TACS systems by interviewing knowledgeable agency officials, reviewing related documentation, and testing for completeness by comparing it to other related data. We determined that the data were sufficiently reliable for the purposes of this report.

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	\$199.5
<i>U.S. Postal Service 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>Terminal Handling Services - Southern Area</i>	Assess the effectiveness of the THS used to sort and transport mail for the Postal Service in the Southern Area.	NL-AR-18-009	7/27/2018	\$4.5
<i>Terminal Handling Services - Capital Metro Area</i>	Assess the effectiveness of THS used to sort and transport mail for the Postal Service in the Capital Metro Area.	NL-AR-18-004	2/2/2018	\$21

Appendix B: Management's Comments



May 27, 2021

JOSEPH WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Management Response: Terminal Handling Services – Denver, CO
(Report Number 20-314-DRAFT)

Thank you for providing the Postal Service with an opportunity to review and comment on the recommendation contained in the draft audit report, Terminal Handling Services – Denver, CO (Report Number 20-314-DRAFT). Management agrees with the financial methodology as written in the Draft. Management does not fully agree with the cited recommendations as outlined below.

Recommendation #1:

Reiterate through formal communication the importance of clearance times and following the run plan generator and require the Denver Processing and Distribution Center to continue bypass separations for the entire duration of mail processing operations.

Management Response/Action Plan:

Management agrees with this recommendation and will reiterate the importance of clearance times and following the run plan generator with the Denver Processing and Distribution Center. Management will also require Denver to continue bypass separations for the entire duration of mail processing operations. This will be communicated to employees via a stand-up talk. To request closure of this recommendation, a copy of the stand-up talk will be provided.

Target Implementation Date:

June 30, 2021

Responsible Official:

Western Director, Processing Operations

Recommendation #2:

We recommend the **Vice President, Western Region Processing Operations**, in coordination with the **Vice President, Logistics**, conduct an analysis with the Denver Processing and Distribution Center and verify that processing operations are aligned with the volume arrival profile to allow Terminal Handling Service operations adequate time to build planned bypass containers.

Management Response/Action Plan:

Management agrees with this recommendation and will deploy a representative to conduct an analysis at the Denver Processing and Distribution Center. The representative will verify that processing operations are aligned with the volume arrival profile to allow Terminal Handling Service operations adequate time to build planned bypass containers. To request closure of this recommendation, a copy of the analysis will be provided.

From a Logistics perspective, the VAP is aligned to provide fluidity in the flow of mail to the THS. We also take into account the Bypass as well as the need to contractually provide 75% to [REDACTED] an hour prior to final tender. The chart below provides the data and rationale to support the existing VAP.

						May Tues Matrix	May Tues Bypass
THS Site	THS Supplier	Operation Date	Op Window Begins	Op Window Ends	Plan VAP %	18,778	7,476
DEN	[REDACTED]	5/13/2021	5/13/2021 23:00	5/13/2021 0:00	10%	1,878	1878
DEN	[REDACTED]	5/13/2021	5/13/2021 0:00	5/13/2021 1:00	15%	2,817	2817
DEN	[REDACTED]	5/13/2021	5/13/2021 1:00	5/13/2021 2:00	15%	2,817	2817
DEN	[REDACTED]	5/13/2021	5/13/2021 2:00	5/13/2021 3:00	17%	3,192	
DEN	[REDACTED]	5/13/2021	5/13/2021 3:00	5/13/2021 4:00	13%	2,441	
DEN	[REDACTED]	5/13/2021	5/13/2021 4:00	5/13/2021 5:00	10%	1,878	
DEN	[REDACTED]	5/13/2021	5/13/2021 5:00	5/13/2021 6:00	20%	3,756	
					100%	18,778	7511

Bypass Target

75% to FX rule

Target Implementation Date:

June 30, 2021

Responsible Official:

Western Director, Processing Operations

Recommendation #3:

We recommend the **Vice President, Logistics**, assess the functionality of the scale and the efficiency of the scale's location at the Denver Terminal Handling Service supplier's operations and take action as appropriate.

Management Response/Action Plan:

Management disagrees with the recommendation. The THS contract provides that the THS suppliers will weigh the mail. There is no requirement to have a scale. In the case of the DEN THS, the supplier was weighing the mail at [REDACTED] therefore the requirement to weigh the mail was met. [REDACTED] has an operational scale on site as of March 29, 2021. See attached certificate.

Responsible Official:

Director, Air Cargo Networks

Recommendation #4:

We recommend the **Vice President, Logistics**, establish a process for contract oversight to include verification that, at a minimum, the Denver Terminal Handling Service supplier is weighing mail and reporting accurate density figures and is tracking and reporting irregularities to the Postal Service so that liquidated damages can be pursued consistent with assessments outlined in the contract.

Management Response/Action Plan:

Management disagrees with this recommendation. There is no need to establish a process as one exists. Management has always required THS suppliers to weigh the mail. It is written in the THS contract. Evidence of this process is provided on the daily THS reports, both weight and density are included on the reports.

Responsible Official:

Director, Air Cargo Networks



Robert Cintron
Vice President, Logistics



Mike Barber
Vice President, Processing and
Maintenance Operations

cc: Manager, Corporate Audit & Response Management

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