Office of Inspector General | United States Postal Service

Audit Report

Projected Savings and Returns on Capital Investment Projects

Report Number 20-194-R21 | December 21, 2020

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Highlights

Objective

The U.S. Postal Service invests in facilities, vehicles, services, technology, equipment, and other resources. These resources help the Postal Service meet its customer experience, employee engagement, and revenue generation goals; and provide the Postal Service with the tools needed to maintain accountability, credibility, and competitiveness. From fiscal year (FY) 2011 to FY 2015, the Postal Service completed 48 investment projects, which were tracked in its quarterly investment compliance reports. These investments had a combined approved funding amount of about $4.2 billion. We reviewed investments over this period because the average financial projection period for investments was about 10 years and we needed data from a longer period of time to complete our assessment.

Project managers must prepare a decision analysis report (DAR) business case to describe and justify any investment of $1 million or more. A DAR describes the organizational problem addressed by the investment and the need for the expenditure.

Of the 48 investment projects completed between FY 2011 and FY 2015, 11 were generative, non-facility investments. Generative investments are those the Postal Service approves primarily for expected economic benefits. These 11 investments had a total spend of about $2 billion, projected savings of about $13.7 billion, and estimated returns on investment (ROI) of up to 119.6 percent.

In addition, 18 of the 48 investment projects were facility investments (which may or may not be generative) with a total approved funding amount of about $471 million, projected (positive) savings of about $837 million, and estimated ROIs of up to 135.8 percent.

Our objective was to assess whether the Postal Service achieved projected savings and ROIs identified in DAR business cases.

Finding

The Postal Service did not always track and assess all data needed to determine whether investments achieved projected savings and ROIs identified in DAR business cases. Personnel only tracked and assessed actual savings for three of the 11 generative investments and actual ROIs for seven of the 11 investments in quarterly compliance reports for two quarters after investment project completion, as policy requires. In addition, although personnel briefly tracked actual savings and ROI for some investments, they did not maintain historical data or documentation to support these actuals for any of the generative investments we reviewed. Therefore, we could not assess whether the Postal Service achieved projected savings and ROIs.

> ***"Project managers must prepare a decision analysis report business case to describe and justify any investment of $1 million or more."***

The Postal Service did not:

- Have clear retention policies and procedures for how and where project sponsors should maintain investment documentation.
- Ensure the investment documentation was accessible.
- Enforce requirements to quantify and submit achieved benefits to appropriate personnel from the time the investment project was approved until two quarters after the project was completed, per policy.
- Have specific economic and risk criteria to determine the need for an investment cost study or a formal process for reviewing those criteria. Cost studies compare the actual costs and benefits of the investments to those estimated in the DARs and identify lessons learned.

In addition, current procedures hindered the ability to effectively and efficiently track and verify the financial performance of all facility investments. Specifically, management had to perform multiple, complicated processing steps to search for and extract cost data for 16 of 18 facility investments (about 89 percent) completed between FY 2011 and FY 2015. This was because management did not assign a new accounting identification number to all facility investments, as required by policy.

Management stated they generally only assign new accounting identification numbers to high-dollar value facility projects, but the threshold for assigning these new codes was not defined. In addition, the Postal Service maintained transactional cost data for individual facility investments in the facilities management system (rather than its financial system). A facilities management system project number is needed to search for and retrieve project records in the system; however, management did not maintain the project numbers for the facility investments in our review. As a result, personnel could not efficiently extract actual cost data for facility investments.

Tracking the ROI throughout a project's life cycle is a commonly used best practice across industries. It is important for the Postal Service to track actual savings and returns and for this data to be readily accessible so the Postal Service can effectively assess the financial performance of its investments. This is necessary to determine whether investments met expectations, were in the best interests of the Postal Service, and could provide insight on lessons learned.

Recommendation

We recommended management:

- Revise policy to more clearly define the retention period for investment data and documentation.
- Develop a plan to ensure project sponsors quantify actual operating savings and ROIs and submit this information with quarterly compliance reports.
- Develop specific economic and risk criteria that may warrant an investment cost study and periodically review investments against these criteria to determine if a cost study is warranted for select investments.
- Update policy to specify what conditions require assignment of a unique accounting identification number for facility investments and require retention of the electronic Facilities Management System project number for all facility investments with quarterly compliance reports.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

December 21, 2020

MEMORANDUM FOR: LUKE T. GROSSMANN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

FROM: Sherry K. Fullwood
Acting Deputy Assistant Inspector General
for Finance and Pricing

SUBJECT: Audit Report – Projected Savings and Returns on Capital Investment Projects (Report Number 20-194-R21)

This report presents the results of our audit of Projected Savings and Returns on Capital Investment Projects.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Whitney Clarke, Acting Director, Cost and Pricing, 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 Projected Savings and Returns on Capital Investment Projects (Project Number 20-194). Our objective was to assess whether the U.S. Postal Service has achieved projected savings and returns on investment (ROI) identified in decision analysis report (DAR) business cases. See Appendix A for additional information for this audit.

Background

The Postal Service makes capital and expense investments[1] in facilities, vehicles, services, technology, equipment, and other resources. It must classify these investments as either economic opportunities (generative[2]) or necessary to sustain[3] existing operations into the future by correcting or eliminating a problem. These investments help the Postal Service meet its customer experience, employee engagement, and revenue-generation goals; and provide the Postal Service with the tools needed to maintain accountability, credibility, and competitiveness.

From fiscal year (FY) 2011 to FY 2015, the Postal Service completed 48 investment projects, which were tracked in its quarterly investment compliance reports.[4] These investments had a combined approved funding amount of about $4.2 billion and an actual spend of at least $4.3 billion.[5] We selected 29 of the 48 investments[6] to review for this five-year review period because the average financial projection period for those investment projects was about 10 years, and we needed data from a longer period of time to complete our assessment.

The Capital Investments and Business Analysis group is responsible for maintaining corporate investment policies and procedures for all major investment projects. According to the Capital Investments and Business Analysis internal web page, it facilitates the decision-making process from business case preparation through final approval, coordinates capital budget requirements, and provides program performance tracking and documentation of best practices.

> *"From FY 2011 to FY 2015, the Postal Service completed 48 investment projects, which were tracked in its quarterly investment compliance reports."*

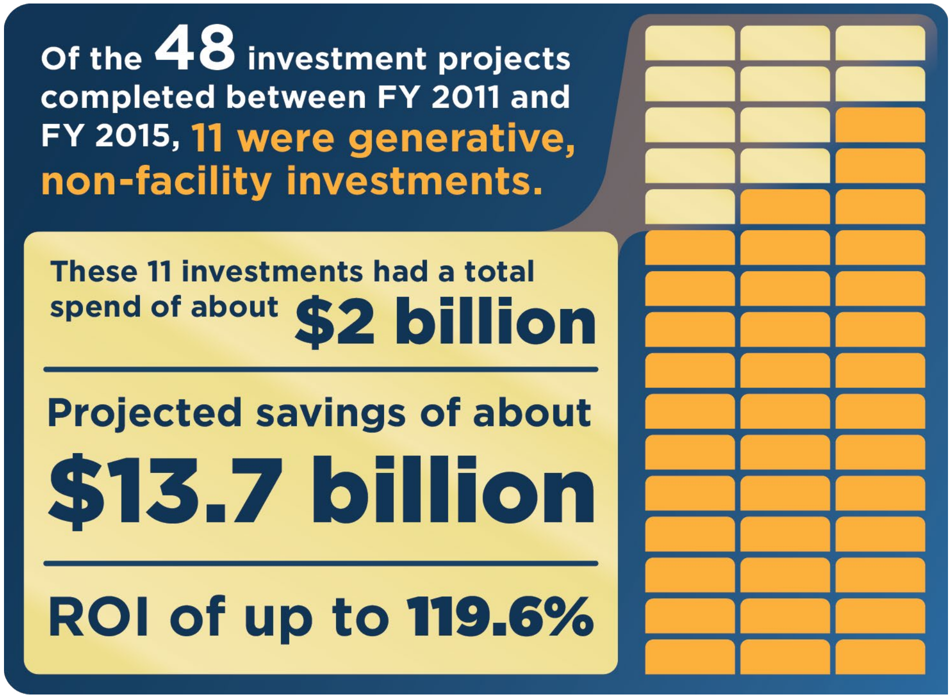
Postal Service project sponsors[7] must prepare a DAR business case document to propose an investment of $1 million or greater for approval. The DAR describes the organizational problem or opportunity addressed by the investment and details the need for the expenditure. It must also provide sufficient detail, including back-up documentation, to enable approving authorities to make an informed decision regarding the use of Postal Service funds.

As part of the DAR submission, Postal Service personnel prepare a cash flow statement. The cash flow statement shows anticipated capital cash outlays, deployment and implementation expenses, operating costs, and operating savings for an investment, usually over an analysis period of 10 years. It also

1 Capital investments are investments in real property (for example, land and buildings), personal property (for example, equipment or vehicles), or software. Expense investments include expenditures for things like leases, rental agreements, and research and development.
2 According to Postal Service policy, generative investments must measurably enhance operations and demonstrate the potential to provide economic benefits (for example, a ROI that equals or exceeds the established minimum ROI). The ROI is the primary reason for the investment.
3 Policy states that sustaining investments assure the continuation of ongoing operations while maintaining security, service, and appropriate working conditions. Economic benefits, if any, are generally secondary; however, the Postal Service must consider the most economic investment option.
4 These quarterly compliance reports, also known as Detailed Capital Investment Reports, track performance metrics related to costs, benefits, schedules, and risks. They also track project milestones, project-specific metrics, capital and expense investment commitments, and capital cash outlays.
5 The actual spend amount reflects capital cash outlay data from September 2002 through March 2019 and expense data from October 2003 through March 2019. This amount excludes actual spend for the Automated Flats Sorting Machine (AFSM) Automatic Induction, Phase 2 investment because its finance number was discontinued and did not return any data when we queried the financial system.
6 We did not review 19 non-facility, sustaining investments because the Postal Service made these investments to assure the continuation of ongoing operations, without the expectation of an economic return. Therefore, there generally would be no associated savings or ROI.
7 Representatives within the functional organizations or units requesting and justifying an investment project.

outlines the expected results of various mathematical measurements, such as estimated ROI, net present value, and payback period.

- ROI is a measure of how productively funds are being used and is a comparison of total anticipated benefits compared to the investment amount. The anticipated benefits typically come in the form of labor savings or reduced operating costs. Generally, the higher the ROI, the better the expected value of the proposed investment for the Postal Service.
- Net present value is the value today of a future stream of costs or benefits.



- The payback period is the amount of time it takes to recover the cost of an investment.

These DAR calculations help the Postal Service identify the most economically beneficial resolution to a problem, determine the financial impact of an investment, and prioritize investments within the same category. As such, cash flow projections must be realistic and comprehensive and include only benefits or savings to the extent that they are achievable.

Of the 48 investment projects completed between FYs 2011 and 2015, 30 were non-facility related and 18 were facility related. Of the 30 non-facility related investment projects in our review, 11 (about 37 percent) were generative investments.[8] These 11 investment projects had a total spend of at least $2 billion,[9] projected savings of about $13.7 billion, and estimated ROIs up to 119.6 percent. The 18 facility-related investments had total approved funding amount of about $471 million, projected (positive) savings of about $837 million, and estimated ROIs of up to 135.8 percent.

Finding #1: Financial Performance Tracking and Assessment

The Postal Service did not always track and assess all investment data needed to determine whether investments achieved projected savings and returns identified in DARs. Personnel only tracked and assessed actual savings for three of the 11 generative investments reviewed (about 27 percent) and actual ROIs for seven of the investments (about 64 percent) in quarterly compliance reports for two quarters after investment project completion, as policy requires. In addition, although personnel briefly tracked actual savings and ROI for some investments, they did not maintain historical data or documentation to support these actuals for any of the generative investments reviewed. Without this information, we could not determine whether the Postal Service achieved projected savings and ROIs.

8 Although facility investments can be generative, we excluded them from our review of generative investments because this report has a separate finding specific to facility investments, which the Postal Service tracks in a different manner than other types of investments.
9 This amount does not include the actual spend for the generative AFSM Automatic Induction, Phase 2 investment because the project's finance number was discontinued and did not return any data when we queried the financial system.

Postal Service policy[10] requires project sponsors to establish and review performance metrics on an ongoing basis to evaluate achieved (financial) benefits and savings identified in DARs. They must also submit quarterly compliance reports that address investment performance relative to the costs, benefits, schedules, and risks to the Capital Investments and Business Analysis group. For capital investments of at least $5 million, sponsors must submit these reports from the time of project approval through two full quarters after the quarter the project was completed.

"Current retention policies and procedures did not clearly identify how or where investment records should be retained."

These conditions occurred because the Postal Service did not:

- Have clear retention policies and procedures for how and where project sponsors should maintain investment documentation.
- Ensure the investment documentation was accessible.
- Enforce requirements to quantify and submit achieved benefits to appropriate personnel from the time the investment was approved until two quarters after the project was completed, as policy requires.
- Have documented, specific economic and risk criteria to determine the need for an investment cost study, or a formal process for reviewing those criteria.

Investment Documentation Retention

Current retention policies and procedures did not clearly identify how or where investment records should be retained.

Decentralization

Management stated that historical investment information is not housed in one centralized location. Documentation may be maintained electronically or in hard copy form in any of the following locations:

- Capital BlueShare platform[11]
- electronic Facilities Management System (eFMS)[12]
- Other Postal Service systems
- Personnel offices

Management explained that Capital Investments and Business Analysis personnel and individual project sponsors may maintain supporting documentation in electronic or physical form. Capital Investments and Business Analysis personnel maintain documentation related to investment approvals (for example, DARs) for more recent projects on the electronic Capital BlueShare platform. However, for investment projects that pre-date the Capital BlueShare platform, they maintain the investment approval documentation in physical form.

Additionally, management stated that individual project sponsors maintain documentation related to tracking and assessing actual costs, savings, and returns in their project files. However, management could not provide the names of all project sponsors with each investment's records in our scope period. Management further stated that some data records on actual costs and savings may also be available in various operational systems. These decentralized storage methods made it challenging for them to effectively maintain or easily access investment data and documentation in the event management needed

10 Handbook F-66, *General Investment Policies and Procedures*, dated November 2019.
11 The Capital Investments and Business Analysis group currently stores some investment and DAR-related documentation on their internal Capital BlueShare web page.
12 A national database management system for programming, budgeting, planning, scheduling, controlling, and reporting on facility programs.

to assess investments' financial performance after the two quarters requirement was completed.

Retention Period

In addition to decentralized documentation methods, the retention policy did not clearly specify the timeframe for maintaining documentation. Current Handbook F-66 policy states that all records related to DAR projects must be retained from the time of project approval until five years after deployment, or the required retention period, if longer. We interpreted this to mean documentation should be retained for a minimum of five years; however, management stated that the policy was intended to require retention of documentation for a maximum of five years after deployment, with some exceptions. They stated that documentation for various investment types may necessitate a longer retention period for future assessment or consideration. For example, they may need to retain documentation on equipment or vehicle projects for longer than current policy specifies because the asset life for those investments is over five years. However, the policy does not specify circumstances that warrant a retention period longer than five years.

"Management stated they would like to build an improved system that captures all DARs and investment-related information that is searchable and cataloged by project."

Management stated that they believe the retention policy, as currently written, allows management the discretion to maintain investment documentation beyond five years, when needed. However, clear guidance on retention expectations would ensure investment documentation is retained for the appropriate period of time and ensure the information is accessible in the event that additional financial assessments are required.

Finally, most DAR documentation includes a cash flow period longer than five years, which estimates ROI and cash savings. Management stated that they used these calculations to assess possible financial benefits of the investments, not as metrics to determine the financial success of a project. We acknowledge the Postal Service's position that the current policy of a five-year retention period is generally sufficient for management's purposes. However, we believe that not retaining documentation for an investment's full cash flow period would make it difficult to complete a full assessment of actual cash flows and returns compared to estimated cash flows and returns.

Best Practices

According to Iron Mountain,[13] an enterprise information management company, best practices on records management and retention suggest that, when developing a retention policy, organizations must take into consideration the length of time to retain records to meet departmental, operational, or user group record needs. In addition, organizations should have a properly indexed recordkeeping system (for example, by subject matter, record creator, intended recipient, or date) to ensure easy access for business support, litigation response, or audit and compliance purposes, while also minimizing time and labor costs. Management stated they would like to build an improved system that captures all DARs and investment-related information that is searchable and cataloged by project. However, they stated an improved system would take time and resources to develop and they are currently focused on developing a new corporate budget system.

Due to the investment data and documentation retention practices, personnel could not effectively and efficiently fulfill our information requests. Specifically, management and personnel involved in developing DARs could not provide us with the actual costs or savings information for any of the 11 generative investments in our review. This includes documentation for the one generative investment completed in FY 2015, which was still within the five-year retention period at the time of the request. Personnel stated they could not locate the documentation or were not required to maintain it. Enhanced procedures for

13 A leading global business that has partnered with thousands of companies, including almost all of the FORTUNE 1000 companies, to design and implement comprehensive records management programs for storing, managing, and protecting records, media, and electronic data.

record storage and retention would improve management's ability to retrieve historical data and documents when needed (for example, for congressional requests).

Investment Benefits

Management did not always enforce requirements to quantify and submit achieved investment benefits from the time the investment was approved until two quarters after the project was completed, as policy requires. Management stated the Capital Investments and Business Analysis group does not have enough resources to ensure that personnel consistently track, maintain, and quantify data on actual benefits (for example, cost savings) achieved by investments; therefore, they rely on individual project sponsors to perform this function.

While project sponsors can more easily track and quantify investment expenses, management stated that it is often difficult for project sponsors to quantify actual savings realized. This is because the Postal Service does not have the technological tools and capabilities to clearly isolate the savings generated by a specific investment from those generated by other related operational changes. For example, management stated that improved timekeeping technology could enable them to better distinguish workhour reductions associated with investments from those associated with other operational changes. However, we believe project sponsors could use actual cost and/or revenue data with the methodologies and assumptions used to calculate DAR savings projections to estimate actual benefits realized. Management also stated that they use other indicators besides actual savings and ROI (for example, the investment payback period and operational metrics) to assess an investment's performance and the benefits realized.

Management acknowledged that, in general, tracking actual investment savings and ROI and measuring financial performance was important, but they questioned the feasibility of doing this for all investments and for an extended time period (for example, the full cash flow period). Specifically, management questioned the benefit of expending resources to track actual savings and returns when an investment seemed to work as expected and add operational value. Management also explained that overhead costs of monitoring actual investment savings and ROI would be very high due to the number of projects and available staffing. Further, management stated there comes a point when tracking actual benefits provides them with information they can no longer act on because the investments have already been functioning for some time. When asked if it was practical to shorten the cash flow period and track actuals for just those years, management explained that the cash flow period should be commensurate to an asset's useful life.

"While project sponsors can more easily track and quantify investment expenses, management stated that it is often difficult for project sponsors to quantify actual savings realized."

Current Handbook F-66 policy requires personnel to track and document achieved benefits and savings for investment projects in quarterly compliance reports from the time the projects are approved until two full quarters after the quarter in which they are completed. However, management did not always enforce this requirement. Management stated that personnel sometimes documented actual savings and ROIs in post-deployment tollgate presentations[14] as opposed to the quarterly compliance reports. While the post-deployment tollgate meeting is an appropriate forum to review actual returns, this should not substitute consistent tracking of this information in the quarterly compliance reports, as stipulated in policy.

While it may require significant resources to track the actual financial benefits realized from generative investments over a period of time, this information is useful for assessing an investment's performance and whether it was in the best financial interest of the Postal Service, in order to apply lessons learned to the planning and execution of future projects. If it is not feasible to capture this information in quarterly compliance reports for all investments, the current

14 A presentation made to the Postal Service's Investment Review Committee during key milestones to provide concept information, request funding, and update members with project status. There are several types of tollgates, based on project type and total funding: ideation, concept evaluation, conversion, execution, and post-deployment.

"Tracking returns throughout an investment project's life cycle is a commonly used best practice across industries."

policy should be revised to clearly specify when and how this investment information should be tracked.

According to Zacks Investment Research, Inc.,[15] tracking returns throughout an investment project's life cycle is a commonly used best practice across industries. When monitored for changes each year, an ROI can support business planning, gauge the effectiveness of business decisions, and determine how long it will take an investment project to pay for itself. While we understand that savings and ROI are not the sole indicators of investment performance, we believe the Postal Service should consistently track these financial metrics to help it gauge whether actual cash flows were in line with expectations as well as to determine the validity of original assumptions. Without consistent enforcement of the requirement for project sponsors to quantify and submit actual benefits realized, the Postal Service cannot:

- Effectively assess whether savings and benefits materialized as outlined in the DARs.
- Reevaluate priorities and make necessary modifications during project implementation.
- Maximize the value of an investment monitoring program by enhancing transparency of actual performance during project implementation and identifying lessons learned.

Investment Cost Studies

While management had policies and procedures for tracking actual investment costs and benefits from project start until two quarters after project completion, they did not have documented, specific economic and risk criteria that could be used to determine the need for comprehensive investment cost studies. Further, there was no formal process for reviewing investment characteristics to determine a need for cost studies.

According to current Handbook F-66 policy, Postal Service leadership should identify investment projects in need of monitoring. In contrast to quarterly compliance reports, which track investments' actual financial data to-date, cost studies entail more in-depth reviews of investments' financial performance. They involve quantifying and measuring projects' actual savings and costs against the benefits projected in DARs to determine whether project objectives were met. The Capital Program Performance[16] group is responsible for performing cost studies. Cost studies should include:

- Analyzing actual data to calculate the ROI and net present value.
- Comparing operating costs for the 12 months before deployment to the costs for the 12 months after deployment to derive the actual operating variances.
- Comparing actual investment savings and ROI to the total savings and costs estimated in the DAR.
- Assessing the project's original assumptions to identify issues and lessons learned.

Management stated that they perform investment cost studies when compelling and material reasons warrant a review of unexpected project results. For example, they might perform a cost study if an investment project experienced performance issues or variances which could not be sufficiently explained. Management stated they may also initiate a cost study if a significant investment was not meeting performance or cost saving expectations.

However, according to management, the last known formal cost studies were performed in February 2013 for the Postal Automated Redirection System (PARS)[17] investment. For the PARS cost study and two others performed

15 A company that specializes in independent investment research that helps individuals and firms achieve investment success.
16 The Capital Program Performance group manages the DAR compliance process and evaluates and tracks performance metrics for DAR business cases.
17 This is a system that can intercept mail identified as undeliverable-as-addressed by matching a change-of-address record in the national database with the name and delivery address on the mailpiece.

between FYs 2011 and 2015 for which we obtained documentation, management completed most of the analysis stated above.

Management stated that although they have not conducted an official cost study for some time, they occasionally perform informal reviews and hold roundtable discussions about investment results. For these informal reviews, they evaluate whether the investments are performing as anticipated and review the accuracy of original assumptions. Management stated the main differences between a formal cost study and an informal review are that formal cost studies are more comprehensive and informal reviews are more focused, involve personnel from multiple disciplines, and have a lot more management interest.

Management could not provide a specific number of informal reviews they have performed over the past several years; however, they did provide documentation on a FY 2020 informal review of the Automated Delivery Unit Sorter Program investment. We observed that, compared to the formal cost study reports, this informal review did not contain a comparison of the actual cash flow statement with the one presented in the DAR. Specifically, it did not:

- Compare operating costs for the 12 months before deployment to those for the 12 months after deployment.
- Compare the actual savings and costs to those estimated in the DAR.
- Assess original project assumptions or identify potential issues and lessons learned.

We acknowledge that performing formal investment cost studies requires considerable time and resources. However, there should be a systematic way of identifying when an investment may warrant a cost study to plan the redirection of resources for major projects. As an example, personnel estimated that the Automated Parcel and Bundle Sorter (APBS)[18] – Service Life Extension investment project, completed in FY 2012, would realize about [redacted] billion in savings over a 12-year period and have an ROI of [redacted] percent. While this project had an actual spend of about [redacted] million as of March 31, 2020, management had not conducted a formal cost study on this investment to assess whether it achieved expected savings and returns. Postal Service management should identify specific criteria that indicate when a cost study may be warranted, such as investments with significant projected savings (for example, over $1 billion), to assess investment performance for major projects.

> ***"Management stated the main differences between a formal cost study and an informal review are that formal cost studies are more comprehensive and informal reviews are more focused, involve personnel from multiple disciplines, and have a lot more management interest."***

It is important that the Postal Service consistently track actual savings and ROI to assess whether expended resources for generative investments achieved the anticipated economic benefits that formed the primary basis for the investment approvals. Between FY 2011 and FY 2015, the Postal Service spent at least $2 billion on 11 generative investments and expected to generate about $13.7 billion in cost savings. However, it cannot verify the actual savings realized from those investments. Improving current policies and procedures for tracking and assessing investment financial performance would enable the Postal Service to achieve its project review, approval, and post-approval process objectives to:

- Ensure project visibility
- Identify and resolve issues
- Avoid costly project delays
- Enhance accountability for DAR assumptions

18 An updated Small Parcel and Bundle Sorter with a new control system, barcode and optical character reader technology, and improved induction stations.

Recommendation #1:
We recommend the **Senior Vice President, Finance and Strategy,** revise policy to more clearly define the retention period for investment-related data and documentation that includes how to appropriately store the records for accessibility.

Recommendation #2:
We recommend the **Senior Vice President, Finance and Strategy,** develop a plan to ensure project sponsors quantify actual operating savings and returns on investments, and submit this information with quarterly compliance reports.

Recommendation #3:
We recommend the **Senior Vice President, Finance and Strategy,** develop specific economic and risk criteria that may warrant an investment cost study and periodically review investments against these criteria to determine if a cost study is warranted for select investments.

Finding #2: Facility Investments

Current procedures hindered the Postal Service's ability to efficiently track and verify the financial performance of all facility investments.[19] Specifically, management had to perform multiple, complicated processing steps to search for and extract transactional cost data for 16 of 18 facility investments (about 89 percent) completed between FYs 2011 and 2015. While historical compliance reports captured costs for these investments at a moment in time, transactional financial data was not easily accessible once investments were no longer included in these reports. These challenges existed because management did not assign a new finance number to all facility investments and did not maintain the proper tracking information with the associated facility investments' historical documentation.

Current Handbook F-66 policy states that all programs requiring a DAR must have a new finance number associated with the program to allow for accurate investment tracking and compliance reporting. A new finance number allows for accurate investment tracking and compliance reporting that is critical to determine how the funding has been used and the outcome of the investment. However, management explained they generally only assign new finance numbers to high-dollar value facility projects, such as new facilities or facility expansions. Management further stated that smaller projects, such as repair and alteration and heating, ventilation, and air conditioning projects, do not always require a new finance number. These projects are generally assigned to one of a few different finance numbers based on the Facilities team responsible for the project. Each Facilities team has a finance number assigned to all projects that team manages; however, facility investments without a new finance number cannot be independently tracked (separately from other facility investments) in the Postal Service's financial system. Further, this practice was not in line with established policy, and a threshold for assigning new finance numbers to facility investments was not defined. Policy should specify circumstances when the new finance number requirement is not applicable.

"A new finance number allows for accurate investment tracking and compliance reporting that is critical to determine how the funding has been used and the outcome of the investment."

In addition, unlike other investment types, the Postal Service maintained transactional cost data for individual facility investments in the eFMS (rather than its financial system). An eFMS project number is needed to search for and retrieve project records in the system. Management stated that they receive a quarterly listing of eFMS project numbers for active facility investments; however, the listings were not available for projects older than five years, in line with the data retention policy. As a result, management could not provide eFMS project numbers for the investments in our review. Consequently, the Postal Service and we could not efficiently query the eFMS for actual cost data. Documentation of the eFMS project numbers should be maintained with other project-specific information in its detailed quarterly

19 As noted previously, facility investments can be sustaining or generative in nature.

compliance reports, which are maintained for a longer time period. This would ensure the historical tracking information is readily available for more efficient data querying of facility investment financial information beyond five years, if needed.

Due to challenges we encountered when initially searching for the transactional cost data, it was necessary to work closely with management to identify eFMS search criteria. However, it took a considerable amount of time for management and us to find actual cost data; therefore, we tested a sample[20] of the investments to ensure transactional cost data existed.

"As with other investment types, it is important for personnel to maintain actual capital, expense, and savings data for facility projects to ensure it is readily available and easily accessible for Postal Service management and oversight groups."

Establishing a new finance number for all facility investments would enable personnel to more efficiently track and assess whether actual costs incurred are in line with DAR estimates. However, if establishing new finance numbers for all facility investments is not feasible, then management should at least retain the proper tracking information (such as eFMS project numbers) for the required retention period for easy and timely accessibility.

These 18 facility investment projects had a total approved funding amount of about $471 million and total projected savings of about $837 million, with the highest ROI estimated at 135.8 percent. As with other investment types, it is important for personnel to maintain actual capital, expense, and savings data for facility projects to ensure it is readily available and easily accessible for Postal Service management and oversight groups. This would help facilitate assessments of financial performance for facility investments, which are necessary to determine whether investments met expectations, were in the best interests of the Postal Service, and could provide insights on lessons learned.

Recommendation #4

We recommend the **Senior Vice President, Finance and Strategy,** update policy to specify when a new finance number is not required for facility investments and require retention of the electronic Facilities Management System project number for all facility investments with quarterly compliance reports.

Management's Comments

Management agreed or partially agreed with all recommendations presented in the report and provided a common target implementation date of March 31, 2021. In addition, while they generally agreed with our findings, they disagreed with certain statements.

Regarding finding 1, management agreed that personnel did not always report complete ROI metrics for generative investments included in our review. However, management stated that the audit scope was outside of the required document retention period and much of the documentation maintained by program managers was not available due to staffing and organizational changes over time.

Regarding recommendation 1, management stated they believe current policy sufficiently explains the baseline retention period and the flexibility to extend it. However, they acknowledged a potential need for process improvement in educating new program managers on record storage and responsibilities and enforcing retention periods for existing DAR records. Management plans to review its current DAR reporting education process and develop guides for record retention and management.

Regarding recommendation 2, management agreed to develop a process within the Capital Program Performance group to identify, report, and escalate (if needed) missing project performance information within the program performance reporting process.

20 Our sample consisted of five of the 18 facility investments (28 percent) that the Postal Service did not independently track in its financial system.

Regarding recommendation 3, management agreed to create a management guide to assist in determining the need for potential cost studies.

Regarding finding 2, management agreed that it takes some effort to search for and identify facility investment project information in the eFMS without project numbers. They also acknowledged there are opportunities to enhance search capabilities within the system. However, they disagreed with our statements on the complexity of searching for investment information in the eFMS. Management stated it is relatively easy to search the eFMS with the facility project numbers, and they currently receive project number listings on a quarterly basis. They further stated project number listings were not available for the facility investments in our scope of review because they were outside of the required document retention period.

Regarding recommendation 4, management partially agreed and stated a change in the facility information reported in Detailed Capital Investment Reports (DCIRs) would address the intent of our recommendation better than creating a new finance number for facility projects. They also plan to provide input to the eFMS team and share ideas on improving eFMS search capabilities.

See Appendix B for management's comments in their entirety.

Evaluation of Management's Comments

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

Regarding finding 1, we selected generative investments completed between FY 2011 and FY 2015 because the average financial projection period for investment projects was about 10 years. Therefore, we needed to review actual cash flows for enough years after project completion to assess whether the investments had achieved the projected savings and returns outlined in the DARs. We believe we had a reasonable expectation that relevant financial information would be available for the investment projects within our audit scope for the following reasons:

- The current wording of the Postal Service's investment document retention policy suggests information may be retained for longer than five years.
- The Postal Service maintains other historical financial information for longer than 15 years.
- Tracking post-implementation year-over-year returns from investments is a common best practice.
- Management did not raise concerns about the retention of documentation for our scope period during the entrance conference or the early stages of our fieldwork.

Regarding finding 2, we acknowledge that the eFMS can be searched more efficiently with a facility project number and that management currently receives project number listings for facility investments on a quarterly basis. However, just as management retains finance numbers that enable personnel to efficiently pull historical data from its financial systems for other investments, we believe they should retain project numbers for facility investments in the same manner. This should be accomplished with management's planned corrective action to address recommendation 4.

Regarding recommendation 4, although we believe management should update the policy to specify when personnel are permitted to forgo establishing new finance numbers for facility investments, we agree the planned incorporation of facility project numbers in the DCIRs, which management retains for longer than five years, will improve the accessibility of facility investments' historical financial information.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. All 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

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

Appendix A: Additional Information

Scope and Methodology

The scope of the project included investments (of $5 million or greater) completed between FY 2011 and FY 2015 and tracked in quarterly investment compliance reports. We reviewed available data and documentation on estimated costs, savings, and ROIs and actual spend for investments within that time period. We focused on generative investments, which the Postal Service approves for the economic benefits, and facility investments, because the Postal Service tracked and maintained the financial information for those investments differently than for other investment types (such as equipment and vehicle investments). We had planned to review the actual capital cash outlays, deployment and implementation expenses, operating costs, and operating savings for all investment projects within our scope to assess whether the Postal Service had achieved projected savings and ROIs. However, we were unable to perform this assessment because the Postal Service did not retain historical data on each investment project's actual benefits realized for our scope period.

To accomplish our objective, we:

- Reviewed policies and procedures related to developing DARs, reviewing and approving investments, and monitoring and evaluating investment performance.
- Reviewed investment compliance reports and DARs to identify investment projects of $5 million or more completed during FY 2011 through FY 2015.
- Analyzed DAR documentation, Accounts Payable Excellence (APEX)[21] data, Accounts Payable Accounting and Reporting System (APARS)[22] data, and general ledger data to identify each investment project's:
  - Approved capital and expense investment amounts.
  - Projected costs and savings.
  - Estimated net cash flow, ROI, net present value, and payback period.
  - Actual capital cash outlays and expenses.
- Evaluated whether the Postal Service monitored and maintained key investment data and measured actual financial performance against projected savings and ROIs.
- Reviewed documentation for investment cost study reports and informal reviews to determine procedures for evaluating investments' financial performance, how the Postal Service used the results of those studies and reviews, and how frequently it performed them.
- Reviewed best practices for tracking and retaining investment data and documents to measure and evaluate financial performance against projections.

We conducted this performance audit from March through December 2020 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on November 5, 2020, and included their comments where appropriate.

We assessed the reliability of APEX, APARS, and general ledger investment data stored in the Enterprise Data Warehouse[23] by performing logical tests of completeness, accuracy, and validity on key fields. We determined that the data was sufficiently reliable for the purposes of this report.

Prior Audit Coverage

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

21 A commercial off-the-shelf product that the Postal Service purchased to modernize its financial systems.
22 The accounts payable system the Postal Service had in place prior to implementing APEX.
23 The repository intended for all data and the central source for information on retail, financial, and operational performance.

Appendix B: Management's Comments

LUKE T. GROSSMANN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

UNITED STATES POSTAL SERVICE

December 15, 2020

JOE WOLSKI
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Projected Savings and Returns on Capital Investment Projects
Project Number 20-194-DRAFT, November 30, 2020

Postal Management has reviewed the subject Office of Inspector General's report, its findings, and recommendations.

Finding #1: Financial Performance Tracking and Assessment
With regards to Finding #1 Financial Performance Tracking and Assessment, we agree with many of the findings concerning prior generative programs not reporting all return on investment (ROI) metrics. We would restate that almost all of the audit's scope audit took place well outside of the F-66's noted retention period. Accordingly, much of the documentation maintained by the program managers was not available as staff and business organizations change over time.

Recommendation #1: We recommend the **Senior Vice President, Finance and Strategy**, revise policy to more clearly define the retention period for investment-related data and documentation that includes how to appropriately store the records for accessibility.

Management Response/Action Plan: Management believes the F-66 in its current form sufficiently articulates the baseline retention period and the flexibility to extend the retention period for investment-related data and documentation. We do believe there is a potential for process improvement in educating new program mangers on record storage and responsibilities. We also believe there is a need to commence enforcement of retention periods on existing DAR records. As such, management will review its current DAR reporting education process and develop guides for record retention and management.

Target Implementation Date: March 31, 2021
Responsible Official: Director, Capital Investments and Business Analysis

Recommendation #2: We recommend the **Senior Vice President, Finance and Strategy**, develop a plan to ensure project sponsors quantify actual operating savings and returns on investments, and submit this information with quarterly compliance reports.

Management Response/Action Plan: Management agrees with the recommendation and will develop a process check within the Capital Program Performance group to identify, report, and escalate if needed missing project performance information within the program performance reporting process.

Target Implementation Date: March 31, 2021
Responsible Official: Director, Capital Investments and Business Analysis

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Recommendation #3: We recommend the **Senior Vice President, Finance and Strategy**, develop specific economic and risk criteria that may warrant an investment cost study and periodically review investments against these criteria to determine if a cost study is warranted for select investments.

Management Response/Action Plan: Management agrees with this recommendation. A management guide will be created for the consideration on the need for potential cost studies.

Target Implementation Date: March 31, 2021
Responsible Official: Director, Capital Investments and Business Analysis

Finding #2: Facility Investments
The Postal Service does not concur with the OIG's characterization on the complexity of searching facility investments in the electronic Facilities Management System (eFMS) or the Postal Service's ability to find information. Facility property IDs and project numbers are currently provided each quarter along with the facility program compliance submissions. With the project numbers, it is relatively easy to search eFMS. The older programs included in the scope of the audit did not have the project number listings submitted quarterly as is performed in our current process. As mentioned earlier, the audit's scope was well outside the document retention periods outlined in the F-66.

Also, as a reminder, eFMS is an in-scope SOX compliant system that tracks each site's activity for approvals, commitments, and cash outlays. eFMS is the system of record for this financial information. We agree that without project numbers it may require a little effort to search for and identify projects and there are opportunities for enhancements within eFMS. eFMS maintains information in a manner that allows a wholistic and historic view of a facility site's projects and maintenance.

Recommendation #4: We recommend the **Senior Vice President, Finance and Strategy**, update policy to specify when a new finance number is not required for facility investments and require retention of the electronic Facilities Management System project number for all facility investments with quarterly compliance reports.

Management Response/Action Plan: Management partially agrees with this recommendation. We currently receive the property ID's for and project numbers for facility projects. We believe this recommendation would be better addressed through a change in information reported with DCIR reporting rather than creating an arbitrary FN creation policy.

We will provide input to the eFMS systems team to share ideas on improving the eFMS search capabilities.

Target Implementation Date: March 31, 2021
Responsible Official: Director, Capital Investments and Business Analysis

Regards,

Luke T. Grossmann
Senior Vice President, Finance and Strategy

cc: Manager, Corporate Audit Response Management

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