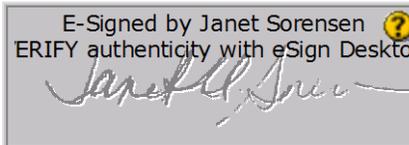




November 27, 2015

**MEMORANDUM FOR:** EDWARD F. PHELAN, JR.  
VICE PRESIDENT, DELIVERY OPERATIONS

ROBERT CINTRON  
VICE PRESIDENT, ENTERPRISE ANALYTICS



**FROM:** Janet M. Sorensen  
Deputy Assistant Inspector General  
for Revenue and Resources

**SUBJECT:** Management Alert – ZIP Code Review Process  
(Report Number MS-MT-16-001)

This management alert presents concerns regarding the U.S. Postal Service's ZIP Code Review Process (Project Number 15RG033MS000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Joe Wolski, director, Retail, Revenue, and Customer Service, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

## Introduction

This management alert presents concerns regarding the U.S. Postal Service's Zone Improvement Plan (ZIP) Code™ Review Process (Project Number 15RG033MS000). In response to an inquiry from U.S. Congressman Bobby Rush regarding inconsistent application of policies and procedures for establishing ZIP Codes, we evaluated all 56 ZIP Code adjustment requests made from July 2012 through July 2015.<sup>1</sup> Our objective was to assess the Postal Service's processes for managing and evaluating ZIP Code requests.

In the early 1960s, the Postal Service created the ZIP Code system to organize the vast geography of the U.S. into well-defined areas for efficient mail delivery and operations. ZIP Codes are associated with mail volume, delivery area size, and geographic location, not necessarily municipal or community boundaries.

The Postal Service adjusts ZIP Codes based on changes in delivery, volume, and operations, when necessary. It can establish new ZIP Codes or adjust current ZIP Code boundaries. While Postal Service Operations officials often request ZIP Code adjustments, external parties, such as businesses or communities, can also request adjustments.

The Postal Service has a finite number of ZIP Codes, with 42,137 allocated nationally. The Postal Service's Operations group oversees the process for evaluating ZIP Code adjustment requests. It first evaluates the request against Postal Service criteria, such as the number of routes and delivery points. For example, the four general criteria for splitting delivery ZIP Codes are as follows:

- Seventy of the available 100 sectors have been assigned;
- Manual scheme items approach 800 items;
- The number of regular routes exceeds 55; and
- The number of delivery points exceeds 25,000.<sup>2</sup>

Depending on the results of this preliminary evaluation, the Postal Service may conduct additional analyses, which may include evaluating delivery growth projections, talking with interested parties, and surveying potentially affected customers. Throughout this process, the Postal Service is guided by the principle that any changes should support more efficient mail processing and distribution. Headquarters Address Management System officials review and ultimately approve or deny the requests.

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<sup>1</sup> Postal Service officials implement ZIP Code changes by July 1 of each year.

<sup>2</sup> *Postal Operations Manual* Issue 9, Section 439.212, dated July 2002 (updated with changes through March 3, 2015). These criteria must be considered as a whole and also be projected for 20 years. For definition purposes, sectors are segments of delivery routes and schemes are systematic plans to guide the effective distribution of mail to its destination.

## Summary

While the Postal Service consistently documented, evaluated, and managed all 56 ZIP Code change requests, the survey evaluation methodology the Postal Service used for Crestwood, IL, was different than the one it used for the seven<sup>3</sup> other customer surveys issued during the 3-year period under review. As with the other seven surveys, the Crestwood survey required a majority of respondents to approve the new ZIP Code; however, unlike the other surveys, it also required a majority of the customers to respond to the survey.

Postal Service policy allows use of a more stringent survey evaluation methodology when both the Postal Service and local officials mutually agree to unique survey evaluation terms. But the ZIP Code customer survey process does not require that these decisions be documented. Consequently, there was no official documented record of the agreement on the Crestwood survey evaluation criteria. Establishing processes for documenting these agreements would help create clarity and transparency in these situations.

## Crestwood Survey Evaluation Criteria

Officials representing Crestwood, IL, requested a new delivery ZIP Code from the Postal Service in 2014. After preliminary analysis and discussion, the Postal Service decided to issue a customer survey on the potential of a new ZIP Code to the residents and businesses of Crestwood. The evaluation criteria were that a majority of customers respond by mail to the survey and that a simple majority of survey respondents approve the new ZIP Code.<sup>4</sup> This was the only ZIP Code-related customer survey issued between July 2012 and July 2015 that required at least a 50 percent response rate.

This more stringent criterion is allowed under current policy, as shown below, as long as the parties involved mutually agree:

*“The criteria for evaluation of the survey responses are set in advance of the survey’s distribution. A simple majority **of the survey respondents** is adequate for approval, unless more stringent criteria are mutually agreeable.”<sup>5</sup>*

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<sup>3</sup> Of the 56 ZIP Code requests made during this 3-year period, eight included a survey of potentially affected customers.

<sup>4</sup> The evaluation criteria were identified through reviews of correspondence and interviews with applicable Postal Service and Crestwood officials. There was, however, no official, documented record of an agreement on the evaluation criteria by the two parties.

<sup>5</sup> *ZIP Code Boundary Review Process*, November 1998.

The Crestwood survey captured a 44 percent response rate, with over 90 percent of respondents replying in favor of the new ZIP Code. The Postal Service subsequently denied the request as it did not meet the 50 percent response requirement.

The Postal Service's ZIP Code customer survey process does not require documentation that the two parties agreed to the decision. Consequently, there was no official documented record of the agreement on the Crestwood survey evaluation criteria.<sup>6</sup> Developing such a requirement would help ensure that both parties clearly understand the criteria used in the survey and would promote objectivity and transparency.

## Recommendations

We recommend the vice president, Delivery and Post Office Operations:

1. Review the Crestwood, IL, customer surveys for consistency with other surveys and applicable policy and take appropriate action as deemed necessary.
2. Develop a process for documenting the mutual agreements that occur when more stringent criteria are used during ZIP Code customer surveys.

## Management's Comments

Management agreed with one recommendation and disagreed with the other.

Regarding recommendation 1, management agreed and stated that the Crestwood survey required a 50 percent response rate while the other surveys required a simple majority. Although the Crestwood survey criterion was more stringent, it was not outside Postal Service guidelines. Management stated that it is in the best interest of all parties to ensure the needs of the community are not affected by a small population who respond. Management also stated that to avoid this situation in the future, they plan to update the guidelines to require 50 percent or more of the addressees within a proposed new ZIP code to respond favorably in order for the Postal Service to consider a ZIP code change. Management stated they would update this guidance by January 1, 2016. Management stated that they would take no further action on the Crestwood decision.

Regarding recommendation 2, management disagreed, stating that they will revise their policy to disallow mutual agreements. Management also indicated that the audit did not disclose that the parties were not aware of the criteria established at the start.

See [Appendix A](#) for management's comments, in their entirety.

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<sup>6</sup> We found the Crestwood survey evaluation criteria through reviews of correspondence and interviews with applicable Postal Service and Crestwood officials.

## Evaluation of Management's Comments

The OIG considers management's comments non-responsive to recommendation 1 and the proposed alternate actions responsive to recommendation 2.

Regarding recommendation 1, we consider management's comments non-responsive. Management indicated that they would be changing their policy to require a 50 percent response rate for future surveys, but did not provide the results of their evaluation of the seven surveys conducted in comparison to Crestwood. While we agree with the Postal Service that it is in the best interest of all parties to ensure the needs of the community are not affected by a small population who respond, as discussed in our report, 44 percent of the Crestwood survey recipients responded by mail to the survey, with 90 percent of those responding favorably. In light of partial year residents and other community variables, we continue to believe it is important to review the Crestwood survey for consistency with the other surveys. This is also important in order to make sure that 50 percent is the appropriate response rate to include in the revised policy. We view the disagreements on recommendation 1 as unresolved. We do not plan to pursue this recommendation through the formal audit resolution process at this time, but we plan to evaluate the implementation of the revised policies in a future review.

Regarding recommendation 2, the Postal Service disagreed with our recommendation to document mutually agreed upon procedures and instead proposed to change their policy to no longer allow more stringent mutually agreed upon criteria. Regarding the Postal Service's statement that our report did not indicate the parties involved were not aware of the Crestwood survey criteria, in the absence of documentation, we were unable to determine if the parties were aware at the time the criteria was established. We consider management's proposed alternative action responsive to this recommendation. We will keep this recommendation open until management revises its policy.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions for these recommendations are completed. The recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

## Appendix A: Management's Comments

EDWARD F. PHELAN, JR.  
VICE PRESIDENT, DELIVERY OPERATIONS



November 18, 2015

LORI LAU DILLARD  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: ZIP Code Review Process (MS-MA-16-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Management's General Response:

The creation of ZIP codes had an immediate effect on postal operations by increasing speed and efficiency of mail flow across the United States. At the time of creation ZIP codes matched geographic areas central to most communities; however, over time cities have grown beyond the original boundaries and new towns have been developed that now cross multiple ZIP codes.

The Postal Service has recognized that communities like to have their own identity as it relates to their ZIP code; however, changes can have major operational impacts to both the Postal Service and customers. In order to assist in this effort the Postal Service has a structured approach to review and analyze, with customer input, to fairly and systematically assess whether a ZIP code change is actually needed.

Recommendation 1:

Review the Crestwood, IL, customer surveys for consistency with other surveys and applicable policy and take appropriate action as deemed necessary.

Management Response/Action Plan:

Agree. As indicated in the audit the survey conducted in Crestwood, IL was completed in accordance with Postal Policy. While a more stringent criterion was used it is not outside of the guidelines. In this particular case it was determined a 50% response rate was needed which in most instances a simple majority is enough. Regardless of the response rate, the outcome

affects 100% of the residents, so it is in the best interest of all parties involved to ensure the needs of the community are not affected by a small population who respond. To avoid this situation the guidelines will be updated to reflect 50% or more of the addresses within the ZIP code must respond favorable to the survey in order for the Postal Service to consider the change. We agree to review the survey policy and update related guidance but are taking no further action on the Crestwood decision.

Target Implementation Date: January 1, 2016

Responsible Official: Manager, Delivery Planning & Strategy

Recommendation 2:

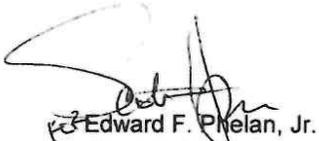
Develop a process for documenting the mutual agreements that occur when more stringent criteria are used during ZIP code customer surveys.

Management Response/Action Plan:

Disagree. The audit reviewed several surveys and found that in only one case was there a more stringent criteria used. While this is not a violation of policy this issue will be corrected once the guidelines are changed and mutual agreements will not be allowed. However, at no time in this audit does it indicate the parties involved were not aware of the criteria established at the start. There isn't a need for another layer of documentation to solve a problem that doesn't exist.

Target Implementation Date: NA

Responsible Official: N/A



Edward F. Phelan, Jr.

cc: CARM  
David E. Williams  
E-FOIA