



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

2015 Peak Season Package Processing Performance

Audit Report

Report Number
NL-AR-16-004

August 30, 2016





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UNITED STATES POSTAL SERVICE

Highlights

During the 2015 peak season, delayed packages increased by about [REDACTED] pieces.

Background

As eCommerce continues to grow, so, too, does the U.S. Postal Service's package volume. In August 2015, the Postal Service forecasted package growth of 4 to 7 percent annually through 2020. The Postal Service's strategy is to increase package volume and revenue to help offset declining letter mail revenue. At the same time, its operational philosophy is that it is not cost effective to invest in package processing machines solely to meet peak season demand.

The number of packages the Postal Service processed increased by about 87 million pieces annually (or 8 percent) for the 2011 through 2015 peak seasons. During the 2015 peak season, the Postal Service processed about 1.3 billion packages; almost [REDACTED] were processed by machine and about [REDACTED] were processed manually. This was an increase of almost 96 million packages (or 8 percent), including about [REDACTED] more packages processed by machine and about [REDACTED] fewer manually processed packages compared to the same period a year earlier. The Postal Service also increased its package processing machine capacity by about 53 million pieces compared to the same period a year earlier.

Our objective was to assess the Postal Service's package processing performance during the 2015 peak season.

What The OIG Found

During the 2015 peak season, delayed packages increased by about [REDACTED] pieces to nearly [REDACTED] packages — a [REDACTED] percent increase compared to the same period a year earlier.

Overall, the Postal Service did not meet seven of its eight package performance goals, with scores ranging from about [REDACTED] percent below performance goal targets. Compared to package performance scores for the same period a year earlier, five scores decreased by about [REDACTED] percentage points.

The increase in delayed packages occurred, in part, because the Postal Service did not use all of its processing machine capacity during the 2015 peak season. The unused capacity was almost 78 million pieces.

Even if processing machines had operated at full operational performance levels, the Postal Service would still have had to manually process excess package volume and packages that are not machine compatible. We estimated about [REDACTED] of the 1.3 billion processed packages (or [REDACTED]) were not compatible for machine processing.

Manual processing productivity is about [REDACTED] packages per hour less and [REDACTED] per piece more expensive than machine processing. Processing delays due to manual processing



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can negatively impact customer service performance scores. Unused machine processing also impacts overall Postal Service processing costs. For example, we estimated that if the unused machine capacity of almost 78 million pieces would have been used, the Postal Service would have saved about [REDACTED] spent on manually processing packages.

What The OIG Recommended

We recommended the vice president, Network Operations, evaluate and develop plans to increase use of existing machines for the 2016 peak season to reduce manual package processing.

Transmittal Letter

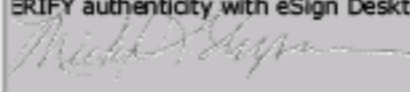


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 30, 2016

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop



FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – 2015 Peak Season Package Processing
Performance (Report Number NL-AR-16-004)

This report presents the results of our audit of the U.S. Postal Service's 2015 Peak Season Package Processing Performance (Project Number 16XG011NO000).

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

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Cover	
Highlights.....	1
Background.....	1
What The OIG Found.....	1
What The OIG Recommended	2
Transmittal Letter.....	3
Findings.....	5
Introduction	5
Summary.....	5
Package Processing Delays	6
Recommendation	11
Management’s Comments	11
Evaluation of Management’s Comments	12
Appendices.....	13
Appendix A: Additional Information	14
Background.....	14
Objective, Scope, and Methodology	14
Prior Audit Coverage	15
Appendix B: Management’s Comments.....	17
Contact Information	19

Findings

Overall, the Postal Service did not meet seven of its eight package performance goals, with scores ranging from about [REDACTED] percent below performance goal targets.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's 2015 Peak Season Package Processing Performance (Project Number 16XG011NO000). Our objective was to assess the Postal Service's package processing performance during the 2015 peak season.¹ See [Appendix A](#) for additional information about this audit.

As eCommerce continues to grow, so, too, does the Postal Service's package volume. In August 2015, the Postal Service forecasted package growth of 4 to 7 percent annually through 2020. The Postal Service's strategy is to increase package volume and revenue to help offset declining letter mail revenue. At the same time, its operational philosophy is that it is not cost effective to invest in package processing machines solely to meet peak season demand.

The number of packages the Postal Service processed increased by about 87 million pieces annually (or 8 percent) for the 2011 through 2015 peak seasons. During the 2015 peak season, the Postal Service processed about 1.3 billion packages,² with almost [REDACTED] processed by machine and about [REDACTED] processed manually. This was an increase of almost 96 million packages (or 8 percent), including about [REDACTED] more packages processed by machine and about [REDACTED] fewer processed manually compared to the same period a year earlier. The Postal Service also increased its package processing machine capacity by about 53 million pieces compared to the same period a year earlier.³

Summary

During the 2015 peak season, delayed packages⁴ increased by about [REDACTED] pieces to nearly [REDACTED] packages — a [REDACTED] percent increase compared to the same period a year earlier.

Overall, the Postal Service did not meet seven of its eight package service performance goals,⁵ with scores ranging from about [REDACTED] to [REDACTED] percent below performance goal targets. Compared to package performance scores for the same period a year earlier, five scores decreased, with scores ranging from about [REDACTED] percentage points.

The increase in delayed packages occurred, in part, because the Postal Service did not use all of its processing machine capacity during the 2015 peak season. The unused capacity was almost 78 million pieces.⁶

Even if processing machines had operated at full operational performance levels, the Postal Service would still have had to manually process excess package volume and packages that are not machine compatible. We estimated about [REDACTED] of the 1.3 billion processed packages (or [REDACTED] percent) were not compatible for machine processing.

-
- 1 The Postal Service extended the 2015 peak season to cover November 21, 2015, through January 8, 2016. The 2014 peak season only covered December 2014.
 - 2 This is package workload and is the sum of Total Piece Handling (TPH) and non-add TPH. For manual operations, TPH is the total of First-Handled Pieces (FHP) and subsequent handling pieces. For machine operations, TPH is total pieces fed minus any reworks or rejects. For non-distribution operations, the TPH count is not added to the mail processing distribution total and is referred to as non-add TPH.
 - 3 November 21, 2014, through January 8, 2015.
 - 4 This occurs when committed mail is not processed and finalized in time to be dispatched on the designated Dispatch of Value (DOV) to meet the programmed delivery day. Processed mail that is not on the platform or designated dispatch area prior to the DOV is designated as Delayed Processing.
 - 5 Service performance is measured by the time it takes mail to enter and exit the mailstream measured in the number of days from the point of entry by the mailer to the point of delivery by the Postal Service. Service standards are a stated goal for service achievement for each mail class.
 - 6 This is measured by Total Pieces Fed (TPF). TPF is the number of pieces inducted at the front of mechanization or automation equipment. This count includes rejects, reworks, and refeeds.

Manual processing productivity is about 80 packages per hour less and \$0.08 per piece more expensive than machine processing. Processing delays due to manual processing can negatively impact customer service performance scores. Unused machine processing also impacts overall Postal Service processing costs. For example, we estimated that if the unused machine capacity of almost 78 million pieces would have been used, the Postal Service would have saved about \$6 million spent on manually processing packages.

Package Processing Delays

During the 2015 peak season, the Postal Service had a [redacted] percent increase in package processing delays as compared to the same period a year earlier. Specifically, delayed packages increased by about [redacted] pieces to over [redacted] million packages (see Table 1).

Table 1. Comparison of Delayed Packages



Source: Postal Service Application System Reporting (ASR).

Overall, the Postal Service did not meet performance target scores for seven of the eight package performance goals. The seven package scores ranged from [redacted] percent to [redacted] percent below performance goal targets. The performance score for Parcel Select was the only performance goal met (see Table 2).

Table 2. Performance Scores Compared to Performance Target Scores

Service Class	2015 Peak Season Average Performance Score	2015 Peak Season Target Performance Scores	Difference
Express Mail	████	████	████
Priority Air	████	████	████
Priority Surface	████	████	████
Priority Composite	████	████	████
First-Class Mail® (FCM) 2-Day Composite	81.58	96.50	(14.92)
FCM 3-5 Day Composite	64.21	95.25	(31.04)
Package Services	82.55	90.00	(7.45)
Parcel Select	99.50	99.50	0.00

Source: Postal Service and Field Operations Performance Measurement.⁷

Also, five package performance scores decreased and three increased in the 2015 peak season, compared with the same period a year earlier. The decreases ranged from █████ percent to █████ percent (see Table 3).

Table 3. Performance Scores Compared to Same Period a Year Earlier

Service Class	2015 Peak Season Average Performance Score	Same Period a Year Earlier Average Performance Score	Difference
Express Mail	████	████	████
Priority Air	████	████	████
Priority Surface	████	████	████
Priority Composite	████	████	████
FCM 2 Day Composite	81.58	81.45	0.13
FCM 3-5 Day Composite	64.21	72.19	(7.97)
Package Services	82.55	86.53	(3.98)
Parcel Select	99.50	99.57	(0.07)

Source: Postal Service and Field Operations Performance Measurement.

This increase in delayed packages occurred, in part, because the Postal Service did not use all of its package processing machine capacity of 1.186 billion pieces during the 2015 peak season (see Table 4).

⁷ A Postal Service system that generates a variety of reports and provides information on service analysis reporting.

Table 4. Target Processing Machine Capacity

Processing Machine	Number of Operational Machines	Target Throughput (per Hour) ⁸	Target Runtime Hours (per Day)	Target Capacity ⁹
Automated Parcel and Bundle Sorter (APBS) ¹⁰	212	████	█	████████
Automated Package Processing System (APPS) - Single ¹¹	18	████	█	████████
APPS - Dual ¹²	56	████	█	████████
Parcel Sorting Machine (PSM) ¹³	63	████	█	████████
Small Package Sorting System (SPSS) ¹⁴	21	████	█	████████
Total	370			████████

Source: Postal Service Mail and Image Reporting System (MIRS) and processing machine documentation.

The Postal Service processed about 1.108 billion pieces during the 2015 peak season (see Table 5).

Table 5. Actual Machine Processed Pieces

Processing Machine	Number of Machines	Actual Throughput (per Hour)	Actual Runtime Hours (per Day)	Actual Pieces Processed ¹⁵
APBS	212	████	15.71	████████
APPS - Single	18	████	16.84	████████
APPS - Dual	56	████	16.92	████████
PSM	63	████	19.76	████████
SPSS	21	████	14.53	████████
Total	370			████████

Source: Postal Service MIRS.

As a result, available machine capacity for the 2015 peak season was almost 78 million pieces (see Table 6).

- 8 The rate at which a machine processes mail, usually designated in pieces per hour.
- 9 Calculated by multiplying the number of machines by target throughput (per hour) by target runtime hours (per day) by 39 mail processing days during the 2015 peak season.
- 10 Sorts bundles and small, single mailpieces into a series of bins from a centralized induction point.
- 11 A carousel-type sorter used to sort parcels and bundles of mail. The APPS - Single has one induction station.
- 12 The APPS - Dual has two induction stations.
- 13 A large machine used to sort parcels.
- 14 A new mail processing machine adapted to incorporate barcode reading and optical character reading capabilities for sorting packages.
- 15 Calculated by multiplying the number of machines by actual throughput (per hour) by actual runtime hours (per day) by 39 mail processing days during the 2015 peak season.

Table 6. Unused Processing Machine Capacity

2015 Peak Season Target Machine Capacity	2015 Peak Season Actual Pieces Processed	Unused Processing Machine Capacity
[REDACTED]	[REDACTED]	77,697,128

Source: Postal Service MIRS and processing machine documentation.

Even if processing machines operated at full operational performance levels, excess package volume and those packages that are not machine compatible would still need to be manually processed. We estimated about [REDACTED] of the 1.3 billion processed packages (or [REDACTED] percent) were not compatible for machine processing¹⁶ (see Table 7).

Table 7. 2015 Peak Season NMOs

	2015 Peak Season
Total Package Workload	[REDACTED]
NMO Percentage	[REDACTED]
Total NMOs	[REDACTED]

Source: Postal Service EDW.

The Postal Service increased its package processing machine capacity by about [REDACTED] pieces during the 2015 peak season as compared to the same period a year earlier (see Table 8).

Table 8. Comparison of 2015 Peak Season Target Processing Machine Capacity to the Same Period a Year Earlier

Processing Machine	Number of Operational Machines	Target Throughput (per Hour)	Target Runtime Hours (per Day)	Target Capacity ¹⁷
APBS	211	[REDACTED]	17	[REDACTED]
APPS - Single	18	[REDACTED]	17	[REDACTED]
APPS - Dual	56	[REDACTED]	17	[REDACTED]
PSM	61	[REDACTED]	17	[REDACTED]
SPSS	1	[REDACTED]	14	[REDACTED]
Processing Machine Capacity - Same Period a Year Earlier				[REDACTED]
2015 Peak Season Processing Machine Capacity				[REDACTED] ⁸
Increase in Processing Machine Capacity				[REDACTED]

Source: Postal Service MIRS and processing machine documentation.

¹⁶ These types of manually processed packages are also known as non-machinable outside (NMO). The *Domestic Mail Manual* defines an NMO as a parcel larger than 27 inches x 17 inches x 17 inches and heavier than 35 pounds. The Postal Service estimates the number of NMO packages at 5 percent of total workload.

¹⁷ Calculated by multiplying the number of machines by the target throughput (per hour) by the target runtime hours (per day) by 39 mail processing days during the same period a year earlier.

¹⁸ See Table 4.

In addition, workload increased by more than [REDACTED] packages, including about [REDACTED] more by machine and about [REDACTED] fewer manually compared to the same period a year earlier (see Table 9).

Table 9. Comparison of 2015 and Previous Peak Season Package Workloads

	2015 Peak Season Package Workload	Previous Year Package Workload	Difference
Machine	[REDACTED]	[REDACTED]	[REDACTED]
Manual	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

Source: Postal Service EDW.

During the 2015 peak season we found machines could process about [REDACTED] more packages per hour than manual processing. Specifically, machine productivity¹⁹ was about [REDACTED] packages per hour compared to about [REDACTED] packages per hour for manual processing (see Table 10).

Table 10. Productivity for Machine and Manually Processed Packages

	2015 Peak Season Machine Processed Packages	2015 Peak Season Manually Processed Packages
Package Workload	[REDACTED]	[REDACTED]
Workhours	[REDACTED]	[REDACTED]
Productivity (per hour)	[REDACTED]	[REDACTED]

Source: Postal Service Enterprise Data Warehouse (EDW).

Manual processing productivity is about [REDACTED] packages per hour less and [REDACTED] per piece more expensive²⁰ than machine processing. Processing delays due to manual processing can negatively impact customer service performance scores and unused machine processing impacts overall Postal Service processing costs. For example, we estimated that it cost the Postal Service \$6 million more to manually process the 78 million pieces during the 2015 peak season (see Table 11).

Table 11. Cost of Unused Machine Capacity

Unused Machine Capacity	Difference in Cost Per Piece Between Manual and Machine Processing	Cost of Unused Machine Capacity
77,697,128	[REDACTED]	\$6,098,299

Source: Postal Service MIRS, Processing Machine Documentation, and *Package Processing Machine Capacity* (Report Number NL-AR-16-003, dated July 1, 2016).

Slower processing can lead to delayed mail. This, in turn, can cause customers to become dissatisfied and choose alternative package delivery providers, causing loss of postal revenue. Delayed and late packages also reflect poorly on the Postal Service's goodwill, brand, and public image and leave the agency open to customer complaints. We estimated about \$15 million of revenue at risk because the Postal Service is not fully using its machine capacity to process packages.

¹⁹ Package workload divided by workhours.

²⁰ *Package Processing Machine Capacity* (Report Number NL-AR-16-003, dated July 1, 2016).

Recommendation

We recommend management evaluate and develop plans to increase use of existing machines for the 2016 peak season to reduce manual package processing.

We recommend the vice president, Network Operations:

1. Evaluate and develop plans to increase use of existing machines for the 2016 peak season to reduce manual package processing.

Management's Comments

Management disagreed with the finding as well as the monetary and other impact calculations; however, they generally agreed with the recommendation.

Regarding the finding and related monetary impact, management stated that the methodology used to calculate the gap between actual and target performance was not fungible across distance or time and did not correctly account for new machines or the expanded use of other machines. Management stated the crux of their concern was that we aggregated all workloads across the country and compared it to the entire package processing capacity nationwide. Management stated that aggregating low-volume day capacity and assuming it is available for high-volume days is not reasonable.

Management also stated they cannot use excess capacity available at a specific site to offset demand at another location, except at a few locations. At these locations, there are associated cost and service implications in moving the packages from the original location to the new plant and savings must be adjusted accordingly. Management agreed that some opportunity exists at certain times and locations to improve machine usage and they have plans in place to accomplish this.

Regarding the other impact, management disagreed with the methodology used to calculate revenue at risk associated with delayed packages because there was no evidence for the risk factors used in the calculations or market analysis for comparing the Postal Service's performance against other package shippers. Management also questioned the assessment of weather as having a very low risk.

Management agreed with the general goal of the recommendation and plans to maximize throughput performance on each machine for the next peak season. However, management did not agree with the level of reduction for delays that can be achieved. Subsequent to providing their comments, management informed us that the target implementation date for their plan to maximize machine throughput is December 31, 2016.

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

Evaluation of Management's Comments

The OIG considers management's plan to maximize throughput performance on each machine as responsive to the recommendation. However, management did not provide details for accomplishing their plan. In order to close the recommendation, we will need to review the plan and its results.

Regarding management's disagreement with the finding and monetary impact, our analysis used the available nationwide machine capacity to calculate the cost of unused machine capacity. We agree with management's comment that excess capacity available at a specific site cannot always be used to offset demand at another location. Our report did not recommend the Postal Service transport packages to other facilities for processing. In addition, we are not reporting the cost of unused machine capacity as monetary impact in our *Semiannual Report to Congress*.

Regarding management's disagreement with the other impact, in the absence of Postal Service market analysis, we used a conservative risk-based assessment tool to calculate revenue at risk. Based on our audit, we assessed the Postal Service's process for package processing as having medium risk. We assessed other factors, including weather, as having very low risk. We based our assessment of weather on conditions during the 2016 peak season.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendices

*Click on the appendix title
to the right to navigate
to the section content.*

Appendix A: Additional Information	14
Background	14
Objective, Scope, and Methodology	14
Prior Audit Coverage	15
Appendix B: Management's Comments.....	17

Appendix A: Additional Information

Background

The Postal Service strives to be a world-class package provider and is enhancing operations to enable more efficient package processing while reliably achieving service performance goals for packages.

The peak (or holiday) season is the Postal Service's busiest time of year. Expansion of the package delivery market has created opportunities for the Postal Service to increase revenue to help offset declining letter mail revenue. To prepare for the increased package volume, the Postal Service extended its 2015 peak season to cover November 21, 2015, through January 8, 2016.

Wanting to meet customer expectations, the Postal Service has invested in improving package processing by reducing manual workhours, deploying new automated package sorting equipment, and enhancing existing equipment. Specifically, the Postal Service added 21 SPSS machines at facilities across the nation; however, the Postal Service's operational philosophy is that it is not cost effective to invest in package processing machines solely to meet peak season demands.

Objective, Scope, and Methodology

Our objective for this project is to assess the Postal Service's package processing performance during the 2015 peak season. To accomplish our objective, we:

- Analyzed workload, workhours, and productivity for packages processed at Postal Service processing plants and compared the results to the same period a year earlier. We did not review data related to packages delivered straight to a Post Office, station, branch or Community Post Office.
- Analyzed delayed packages and compared the results to the same period a year earlier.
- Analyzed customer service performance scores for packages and compared the results to the same period a year earlier.
- Analyzed machine performance for the APBS, APPS, PSM, and SPSS and compared the results to the same period a year earlier.
- Interviewed Postal Service management to discuss the results of the 2015 peak season.

We conducted this performance audit from January through August 2016, 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 July 26, 2016, and included their comments where appropriate.

We did not conduct field observations during the 2015 peak season; however, we used computer-generated data from Postal Service systems when performing our analysis. We assessed the reliability of the data by applying alternative audit procedures, including reviewing existing information about the data and the system that produced them and discussing this with the appropriate managers. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Package Processing Machine Capacity</i>	NO-AR-16-003	7/1/2016	\$230.4
<p>Report Results: Our report found that the Postal Service has sufficient package processing machine capacity to meet its growing package volume through at least October 2018; however, during the peak (or holiday) season the Postal Service will need to continue manually processing excess package volume. When package processing machines are operating at full operational performance levels the Postal Service should be able to process an average of about 804 million packages monthly, but currently processes about 570 million packages monthly. In addition, about 91 million packages projected to be processed manually each month could be processed by package sorting machines operating at full operational performance levels. This would reduce annual, manual processing costs by about \$77 million in each of the next 3 years.</p>			
<i>Package Processing Performance During December 2014 Peak Holiday Season</i>	NO-AR-15-006	5/27/2015	None
<p>Report Results: Our report found that, overall, the Postal Service's package processing improved during the December 2014 peak holiday season. Specifically, total workload increased by 88.2 million packages while delayed packages decreased by 1.8 million as compared to the December 2013 peak holiday season. In addition, service scores for packages increased in six of the nine package categories. We recommended management enforce the segregation of Priority from First-Class Mail for commercial mailers and post offices; ensure timely installation of machines; better utilize feed systems; and improve the timing and prioritization of hiring temporary employees for the next peak holiday season. Management agreed with the recommendations.</p>			
<i>U.S. Postal Service's Delivering Results, Innovation, Value, and Efficiency Initiative 43 - Building a World-Class Package Platform</i>	MI-AR-15-003	5/4/2015	None
<p>Report Results: Our report found the Postal Service is measuring the success of DRIVE Initiative 43 with incomplete information and an unreliable project management process. We recommended management ensure the DRIVE governance policy is followed by requiring initiative leads and roadmap owners to include initiative goals in the underlying projects, ensure all projects have at least one goal measured in the initiative charter, and complete all appropriate forms and obtain all necessary approvals when making changes to initiative and project goals. Management agreed with most of the recommendations, but disagreed with the recommendation that they ensure all projects have at least one goal measured in the initiative charter.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Management Alert - Manual Package Counting and Conversion Factors</i>	NO-MA-14-008	9/30/2014	None
<p>Report Results: Our report found that Omaha Processing and Distribution Center management overestimated manual package volume because they inaccurately estimated container fullness and used outdated or incorrect container-per-piece conversion rates. This condition may be systemic throughout the network and could result in overstated manual package processing volumes. We recommended management automate manual package processing counts nationwide, train employees on proper counting of manual packages nationwide, and revise the count sheet to ensure consistency among various mail processing facilities. Management agreed with the recommendations.</p>			
<i>Readiness for Package Growth – Processing Capacity</i>	NO-AR-14-002	1/21/2014	None
<p>Report Results: Our report found that the Postal Service has sufficient machine capacity to process all non-peak period package volume. It can process an average of about 29 million packages daily, which is more than sufficient to process the 24 million packages it receives. During the December peak period, the Postal Service augments its machine capacity with manual processing to avoid having excess machine capacity and its associated costs the other 11 months of the year. To meet anticipated package growth, the Postal Service could improve machine throughput by properly staffing machines and adjusting the mail arrival schedule. Management agreed with the recommendation.</p>			

Appendix B: Management's Comments

ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS



August 19, 2016

SHERRY FULLWOOD
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Peak Season Package Processing Performance
(Report Number NO-AR-16-Draft)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report.

Management strongly disagrees with both the OIG's narrative analysis and finding of monetary impact. The methodology used to calculate the gap between actual performance and target performance fails to recognize that machine capacity is not fungible across distance or time. Management does agree that some opportunity does exist at certain times and certain locations to improve machine throughput and runtimes to improve machine utilization during Peak season and has plans in place to accomplish this.

The crux of the concerns of management relate to the analysis performed by the OIG in reaching its conclusions. The OIG aggregated peak workload from across the entire country and compared it to the total package processing capacity for the entire country. This method of aggregation took pockets of capacity and assumed them to be available for use for packages which were not sorted on automation. Typically excess capacity is available on lower volume days. These lower volume days are similar throughout the country. In addition, over capacity conditions typically occur on higher volume days, which are also similar days throughout the country. Therefore, aggregating excess capacity from low volume days and assuming that this is free capacity that can be utilized on high volumes days is not reasonable or practical; service would not be met if volume were held awaiting this excess capacity event. In essence, the analysis performed would suggest that if volume exceeded capacity on a Tuesday, the excess capacity on a Sunday could be utilized to automate this volume.

Similarly, excess capacity that is available at a specific site cannot be used to offset demand at another location except in a few locations, and in those locations there are cost and service implications associated with moving the packages from the original location to the new plant.

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Management also disagrees with the methodology used to calculate the financial impact of delayed packages. The revenue at risk is presented as a mathematical result while the narrative section states that the performance over peak 2015 "might drive them to competition" and "potentially" lose revenue. The OIG presents no evidence for the risk factors used in their calculations and provides no market analysis comparing the USPS performance to that of other package shippers' performance over this peak period. To further diminish the validity of this audit assessment, the OIG forecasts that there is a very low risk from weather at peak season.

The specific recommendation in this draft report is addressed below.

Recommendation 1:

We recommend the vice president, Network Operations:

1. Evaluate and develop plans to increase the use of existing machines for the 2016 peak season to reduce manual package processing

Management Response/Action Plan:

Management agrees with the general goal of the recommendation and already has plans to maximize throughput performance on each machine for the coming peak season. However Management does not agree with level of reduction of delays that can be achieved due to the limitations discussed earlier.

Target Implementation Date:

N/A

Responsible Manager:

N/A



Robert Cintron

cc: Corporate Audit Response Management



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