



# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

## Mail Processing and Transportation Operational Changes

### Audit Report

Report Number  
NO-AR-16-009

September 2, 2016





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***For the 9 months following the January 5, 2015, service standard revisions, the Postal Service experienced increased nationwide delayed mail, reduced performance scores, decreased mail processing productivity, and increased transportation costs.***

## Background

The Postal Accountability and Enhancement Act of 2006 noted the U.S. Postal Service had more facilities than it needed and should streamline its network to eliminate excess costs. The act requires the Postal Service to prepare a strategy for rationalizing its facilities network and remove excess processing capacity and space.

In 2011, the Postal Service announced its Network Rationalization Initiative (NRI) in response to its unsustainable financial situation. The purpose of NRI is to align the Postal Service's network processing capacity with its declining mail volume through equipment and plant consolidations and operational changes.

As part of the NRI, on January 5, 2015, the Postal Service revised its First-Class Mail® service standards, eliminating single-piece overnight First-Class Mail service and shifting mail from a 2-day to a 3-day service standard. These revisions enabled the Postal Service to expand its mail processing operational window and this change is known as the operational window change (OWC). The Postal Service described the OWC as one of its most significant changes since automating mail processing. It was designed to allow the Postal Service to process mail on fewer machines, thus using less facility square footage.

The OWC was projected to save over \$805 million annually through increased mail processing productivity, decreased premium pay, additional delivery point sequencing of mail,

less mail sorting at fewer facilities, and use of more efficient mail sorting machines. The OWC also required changes in mail transportation.

Since implementing the OWC, stakeholders such as members of Congress, commercial mailers, and individual customers, have voiced concerns that delayed mail is increasing and service is declining.

The objective of this audit was to determine the timeliness of mail processing and transportation since the January 5, 2015, service standard revisions. In addition, we reviewed whether the projected cost savings from the OWC were realized.

## What the OIG Found

For the 9 months following the January 5, 2015, service standard revisions, the Postal Service experienced increased nationwide delayed mail, reduced performance scores, decreased mail processing productivity, and increased transportation costs.

For the period January through September 2015, the Postal Service reported delayed mail processing increased by almost 638 million pieces (or 51 percent) compared to the same period in fiscal year (FY) 2014. Further, the Postal Service's service standard measurements indicated that 2-day and 3-5 day First-Class Mail weekly performance scores declined by as much as 7 percent and 34 percent, respectively, compared to the same period a year earlier.



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***The Postal Service did not achieve projected savings associated with the OWC. Management could provide support for achieving only 10 percent of the projected annual OWC savings presented to the Postal Regulatory Commission in 2011 of over \$805.5 million.***

The Postal Service has taken significant steps to reduce delayed mail, notably deploying quick response teams based on Lean Six Sigma processes to determine causes and establish corrections.

Subsequently, the Postal Service reported delayed mail processing decreased by about a billion pieces (or 54 percent) for the period October 2015 through April 2016, compared to the same period in FY 2014. First-Class Mail service scores have significantly improved since the initial decline and are within about two percentage points of April 2014 service scores. Based on this improvement, we believe the Postal Service should not revert back to its prior operating window.

Although the Postal Service reported national delayed mail has been reduced significantly, it is still a problem for specific Processing and Distribution Centers serving certain urban and rural customers. In Quarters 1 and 2, FY 2016, the top 10 processing facilities with delayed mail had about 247 million pieces of delayed mail, or almost 30 percent of all delayed mail nationwide. These 10 facilities in CA, CO, IL, MD, PA, NJ, NY, and TX process mail for about 13.7 million delivery addresses.

In order to independently measure service after the OWC, we conducted a nationwide non-statistical mailing test of urban and rural areas from September through November 2015 and February through March 2016. We tested single piece First-Class Mail® letters, flats, and parcels and Priority Mail® flats and packages. Of the 2,995 pieces included in our test

results, 27 percent (or 801 pieces) did not meet the service standards.

We found the increase in delayed mail and decrease in service scores was caused by three significant network and operational changes, insufficient air transportation capacity, mail arriving late at processing plants, outdated operating plans, and adverse winter weather.

In addition to service issues, the Postal Service did not achieve projected savings associated with the OWC. Management could provide support for achieving only 10 percent of the projected annual OWC savings presented to the Postal Regulatory Commission in 2011 of over \$805.5 million.

The Postal Service stated there have been additional savings realized from the OWC separate from the projections presented to the Postal Regulatory Commission. The OIG validated \$231 million additional savings.

However, the Postal Service exceeded its transportation budget plan by over \$200 million (or 3 percent) in FY 2015. The Postal Service attributes \$130.2 million of increased transportation costs to the OWC. About 1.7 billion more pieces of First-Class Mail (or 40 percent) were transported via contractor air transportation in 2015 than in the previous year due to changes in the critical entry time for this mail.



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### What the OIG Recommended

We recommended the vice president, Finance and Planning, re-evaluate the operational and transportation financial impacts associated with the OWC.

We recommended the vice president, Network Operations, develop and implement a nationwide strategy to improve mail processing productivity before implementing any additional

nationwide operational changes or consolidations; increase air capacity to meet its critical entry times; create a nationwide system to track and report the amount, cause, and origin of mail arriving after its critical entry time; and establish a nationwide database to capture and share the Lean Six Sigma team's lessons learned. In addition, we recommended instructing management to update all operating plans to reflect the OWC and continue monitoring and reducing delayed mail processing.

# Transmittal Letter



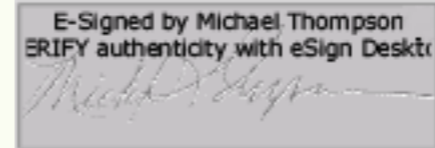
OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

September 2, 2016

**MEMORANDUM FOR:**

LUKE T. GROSSMANN  
VICE PRESIDENT, FINANCE AND PLANNING

ROBERT CINTRON  
VICE PRESIDENT, NETWORK OPERATIONS



**FROM:**

Michael L. Thompson  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:**

Audit Report – Mail Processing and Transportation  
Operational Changes  
(Report Number NO-AR-16-009)

This report presents the results of our audit of the Postal Service's Mail Processing and Transportation Operational Changes (Project Number 15XG023NO000). Our objective was to determine the timeliness of mail processing and transportation since the January 5, 2015, service standard revisions.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Margaret B. McDavid, director, Network Processing, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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# Findings

***The Postal Service described the OWC, which was designed to allow the Postal Service to process mail on fewer machines, thus using less facility square footage, as one of its most significant changes since automating mail processing.***

## Introduction

This report presents the results of our audit of the mail processing and transportation operational changes (Project Number 15XG023NO000). The objective of this self-initiated audit was to determine the timeliness of mail processing and transportation since the January 5, 2015, service standard revisions. In addition we reviewed whether the U.S. Postal Service realized the projected cost savings from the operational window change. See [Appendix A](#) for additional information about this audit.

The Postal Accountability and Enhancement Act of 2006 noted that the Postal Service had more facilities than it needed and should streamline its network to eliminate excess costs. The act requires the Postal Service to prepare a strategy for rationalizing its facilities network and remove excess processing capacity and space.

In 2011, the Postal Service announced its Network Rationalization Initiative (NRI). The purpose of the NRI is to align the Postal Service's network processing capacity with its declining mail volume through equipment and plant consolidations and operational changes. Phase I of the NRI involved consolidating 141 mail processing facilities between 2012 and 2013. Under Phase II, which began in January 2015, the Postal Service planned to consolidate 82 facilities by October 2015. As part of the NRI, on January 5, 2015, the Postal Service revised its First-Class Mail® (FCM) service standards, eliminating single-piece overnight FCM service and shifting mail from a 2-day to a 3-day service standard. These revisions enabled the Postal Service to expand its mail processing operational window. This change is known as the operational window change (OWC). Processing and Distribution Centers (P&DC) nationwide had to adjust their mail processing and transportation operations to meet the critical entry times (CET),<sup>1</sup> clearance times,<sup>2</sup> and dispatches of value<sup>3</sup> associated with the OWC. The Postal Service described the OWC, which was designed to allow the Postal Service to process mail on fewer machines, thus using less facility square footage, as one of its most significant changes since automating mail processing.

The Postal Service projected the OWC would save it over \$805 million annually through increasing mail processing productivity, decreasing premium pay, moving additional mail volume to Delivery Point Sequence<sup>4</sup> (DPS), doing less mail sorting at fewer facilities, and using more efficient mail sorting machines.

The U.S. Postal Service Office of Inspector General (OIG) issued a management alert<sup>5</sup> on the substantial increase in delayed mail since the January 5, 2015, service standard revisions. The alert found that mail was not being processed timely nationwide and that service scores declined.

Many stakeholders voiced concerns that delayed mail was increasing and service was declining as a result of major network changes. In May 2015, the Postal Service's chief operating officer (COO) announced that, in response to these concerns, the Postal Service would delay implementing Phase II consolidations. The COO did not provide a definite date for resuming the consolidations.

- 
- 1 The latest time that committed mail must be available for an operation if the mail is to complete its planned distribution in the operation by its scheduled clearance time.
  - 2 The latest time that committed mail must complete an operation if it is to meet the CET for the next required operation.
  - 3 The designated scheduled trip that departs at or after the facility's clearance time and arrives at or before the destinating facility's CET.
  - 4 An automated process of sorting mail by carrier routes into delivery order, eliminating the need for carriers to sort the mail manually in the delivery unit prior to their departure to their delivery routes.
  - 5 *Substantial Increase in Delayed Mail*, Report Number NO-MA-15-004, dated August 13, 2015.



***FCM service scores have significantly improved since the initial decline and are within about two percentage points of April 2014 service scores. Based on this improvement, we believe the Postal Service should not revert back to its prior operating window.***

## Summary

For the 9 months following the January 5, 2015, service standard revisions, the Postal Service experienced increased nationwide delayed mailed, reduced performance scores, decreased mail processing productivity, and increased transportation costs.

Mail was not processed timely nationwide following the January 5, 2015, service standard revisions. For the period January through September 2015, delayed mail processing<sup>6</sup> increased by over 638 million pieces (or 51 percent) compared to the same period in fiscal year (FY) 2014. Further, we found the Postal Service's service standard measurements indicated that 2-day and 3-5 day FCM weekly performance scores declined by as much as 7 and 34 percent, respectively, compared to the same period a year earlier.

The Postal Service has taken significant steps to reduce delayed mail, notably deploying quick response teams based on Lean Six Sigma<sup>7</sup> (LSS) processes to determine causes and establish corrections.

The Postal Service reported that delayed mail processing decreased by about a billion pieces, or 54 percent, for the period October 2015 through April 2016, compared to the same period in FY 2014. FCM service scores have significantly improved since the initial decline and are within about two percentage points of April 2014 service scores. Based on this improvement, we believe the Postal Service should not revert back to its prior operating window.

Although the Postal Service reported a reduction in national delayed mail from a high of about 472 million pieces in January 2015 to about 44 million pieces in April 2016, it is still a problem for specific P&DCs serving certain urban and rural customers. In Quarters 1 and 2, FY 2016, the top 10 processing facilities with delayed mail had about 247 million pieces of delayed mail, or almost 30 percent of all delayed mail nationwide. These 10 facilities in CA, CO, IL, MD, PA, NJ, NY, and TX process mail for about 13.7 million delivery addresses.

We conducted a nationwide non-statistical mailing test of urban and rural areas from September through November 2015 and February through March 2016 to independently measure service after the OWC. We tested single piece First-Class Mail<sup>®</sup> letters, flats, and parcels and Priority Mail<sup>®</sup> flats and packages; and submitted mail at retail windows, in collection boxes, residence mailboxes, and by scheduled carrier pick-up. Of the 2,995 pieces included in our test results, 27 percent (or 801 pieces) did not meet the service standards.

We found the increase in delayed mail and decrease in service scores was caused by three significant network and operational changes, insufficient air transportation capacity, mail arriving late at processing plants, outdated operating plans, and adverse winter weather.

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<sup>6</sup> The Postal Service considers mail delayed when it is not processed in time to meet its established delivery day with the exception of Standard Mail. Standard Mail is considered delayed when it is not processed, finalized, or dispatched in time to provide the subsequent operation or facility the time necessary to ensure delivery by the established delivery day.

<sup>7</sup> A managerial approach that combines methods and tools to eliminate waste of resources, time, effort and talent while assuring quality in organizational processes.

***The Postal Service exceeded its transportation budget plan by over \$200 million (or 3 percent) in FY 2015. The Postal Service attributes \$130.2 million of increased transportation cost to the OWC. About 1.7 billion more pieces of FCM (or 40 percent) were transported via contractor air transportation in 2015 than in the previous year, due to changes in the CET for this mail.***

In addition to the service issues, the Postal Service did not achieve projected savings associated with the OWC and could only provide support for achieving only 10 percent of the projected annual OWC savings of over \$805.5 million. Specifically, the Postal Service estimated it would annually save:

- \$678.67 million by increasing mail processing productivity.
- \$65.75 million by reducing premium pay due to work hours being transferred from night shifts to day shifts.
- \$32.87 million by increasing mail volume sorted to DPS.
- \$16.71 million by reducing outgoing secondary sorting.
- \$11.51 million by eliminating less efficient machines.

The Postal Service did not provide support for realized savings related to increasing mail processing productivity and, because productivity decreased by 4.5 percent for the year after the OWC, it is unlikely any productivity savings were achieved. Postal Service management stated that they achieved labor savings but could not separate labor savings from the OWC with those from the Phase II consolidations. They estimated a net savings of \$64.3 million related to labor and parts. The Postal Service did not provide support for realized savings related to reducing premium pay and increasing mail volume sorted to DPS. We verified Postal Service support for actual savings for the year following the OWC of \$10.3 million and \$6.5 million, related to reducing outgoing secondary sorting and eliminating less efficient machines, respectively.

The Postal Service stated there have been additional savings realized from the NRI separate from the projections presented to the Postal Regulatory Commission (PRC) in 2011 of over \$805.5 million. Specifically, management stated that the Postal Service has sold properties or discontinued leases worth about \$139.7 million. We validated \$81.2 million of savings related to the sale of properties from consolidations made possible by the OWC. The remaining \$58.5 million was for properties consolidated before the OWC and part of Phase I of the NRI. Additionally, management indicated the OWC has allowed the Postal Service to repurpose and use existing space and facilities, valued at about \$167.9 million, to accommodate package growth. The OIG validated \$150.2 million of the cost avoidance by confirming when additional machines were added and the square feet required for each, however, the remaining \$17.7 million were for machines added before the OWC.

Finally, the Postal Service exceeded its transportation budget plan by over \$200 million (or 3 percent) in FY 2015. The Postal Service attributes \$130.2 million of increased transportation cost to the OWC. About 1.7 billion more pieces of FCM (or 40 percent) were transported via contractor air transportation in 2015 than in the previous year, due to changes in the CET for this mail.

### **Mail Not Processed Timely**

Nationally, mail was not being processed timely from January through September 2015, with an increase in delayed mail of over 638 million pieces (or 51 percent) compared to the same period in FY 2014. As shown in [Figure 1](#), nationally delayed mail peaked at about 472 million pieces in January 2015, and decreased each month until July 2015.

**Figure 1. Nationwide Delayed Processing Mail January Through September FY 2015 Compared to FY 2014**



Source: Delayed mail data obtained from the Postal Service's Mail Condition Reporting System (webMCRS) database.

### Management Actions

The Postal Service has taken significant steps to reduce delayed mail, notably deploying quick response teams based on LSS processes to determine causes and establish corrections. The Postal Service sent quick response teams, called Kaizen teams, to 22 Postal Service sites to determine causes and resolve issues related to delayed mail. Kaizen teams are small, cross-functional teams with knowledge of Postal Service operations. The Kaizen teams are designed to create a culture of continuous improvement and produce sustainable incremental improvements by identifying areas for improvement at sites and providing immediate benefit for the organization. We plan to conduct future audit work on Kaizen teams and their results.

For the period October 2015 through April 2016, delayed processing decreased by a billion pieces (or 54 percent) compared to the same period in FY 2014 (see [Figure 2](#)).

**Although the Postal Service reported national delayed mail has been reduced from a high of about 472 million pieces in January 2015 to about 44 million pieces in April 2016, it is still a problem for specific P&DCs serving certain urban and rural customers.**

**Figure 2. Nationwide Delayed Processing Mail October Through April FY 2016 Compared to FY 2014**



Source: Delayed mail data obtained from webMCRS database.

Additionally, FCM service scores have significantly improved since the initial decline; and are within one percent in April 2016 compared to April of 2014. Based on this improvement, we believe the Postal Service should not revert back to its prior operating window.

Although the Postal Service reported national delayed mail has been reduced from a high of about 472 million pieces in January 2015 to about 44 million pieces in April 2016, it is still a problem for specific P&DCs serving certain urban and rural customers. In quarters 1 and 2, FY 2016, the top 10 processing facilities with delayed mail had about 247 million pieces of delayed mail, or almost 30 percent of all delayed mail nationwide. These 10 facilities located in California, Colorado, Illinois, Maryland, Pennsylvania, New Jersey, New York, and Texas process mail for about 13.7 million delivery addresses.

**Service Scores**

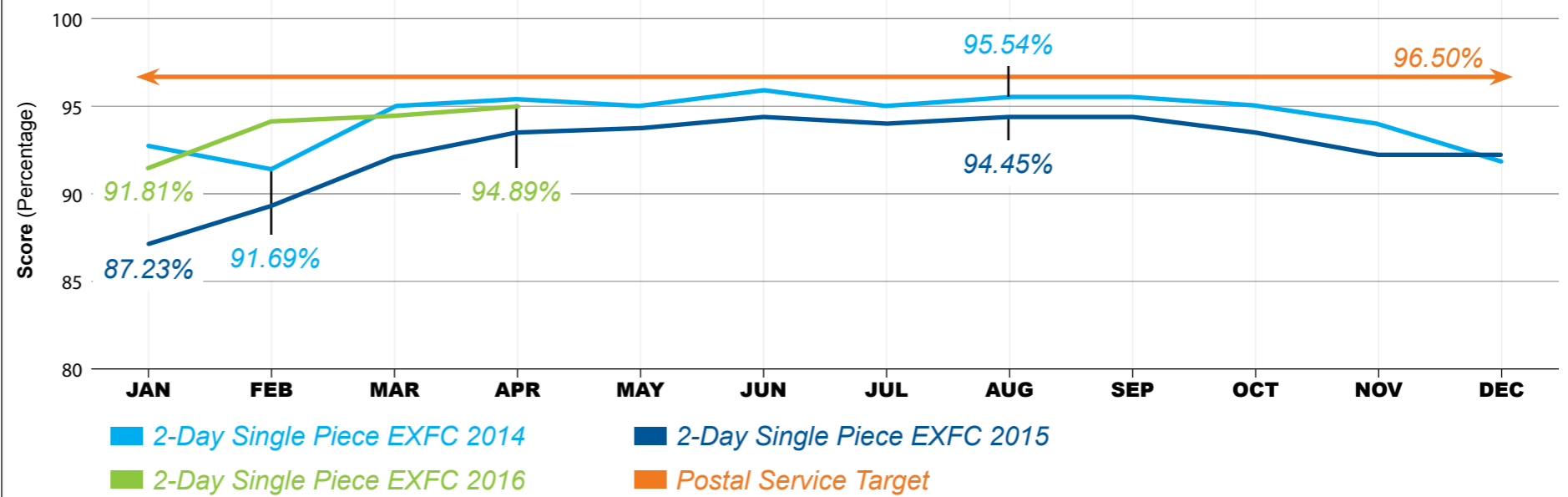
The Postal Service’s External First-Class (EXFC) measurement<sup>8</sup> scores for on-time delivery declined by as much as 7 percent for 2-day service immediately following the service standard revisions compared to the same period a year earlier (see [Figure 3](#)).<sup>9</sup> For the week ending April 22, 2016, the 2-day EXFC score was 94.95 percent which is one percentage point lower than the same period in 2014.<sup>10</sup>

8 A component of the Single-Piece First-Class Mail measurement system. The system is designed to measure service performance from a customer perspective. A Postal Service contractor measures the transit time of single-piece First-Class Mail (letters, flats, and postcards) from the deposit of mail into a collection box or business lobby chute until its delivery to a home or business. EXFC results are compared with USPS service standards to produce national, area, and district level estimates of service performance. Sampled mail piece tracking from barcode scans is used in conjunction with the external data to extrapolate results to the entire volume of Presort First-Class Mail.

9 For the week ending January 30, 2015, the 2-day EXFC score was 85.77 percent; a year earlier it was 91.94 percent. The difference is 6.71 rounded to 7. All percentage points are rounded to the nearest whole number.

10 For the week ending April 25, 2014, the 2-day EXFC score was 95.72 percent.

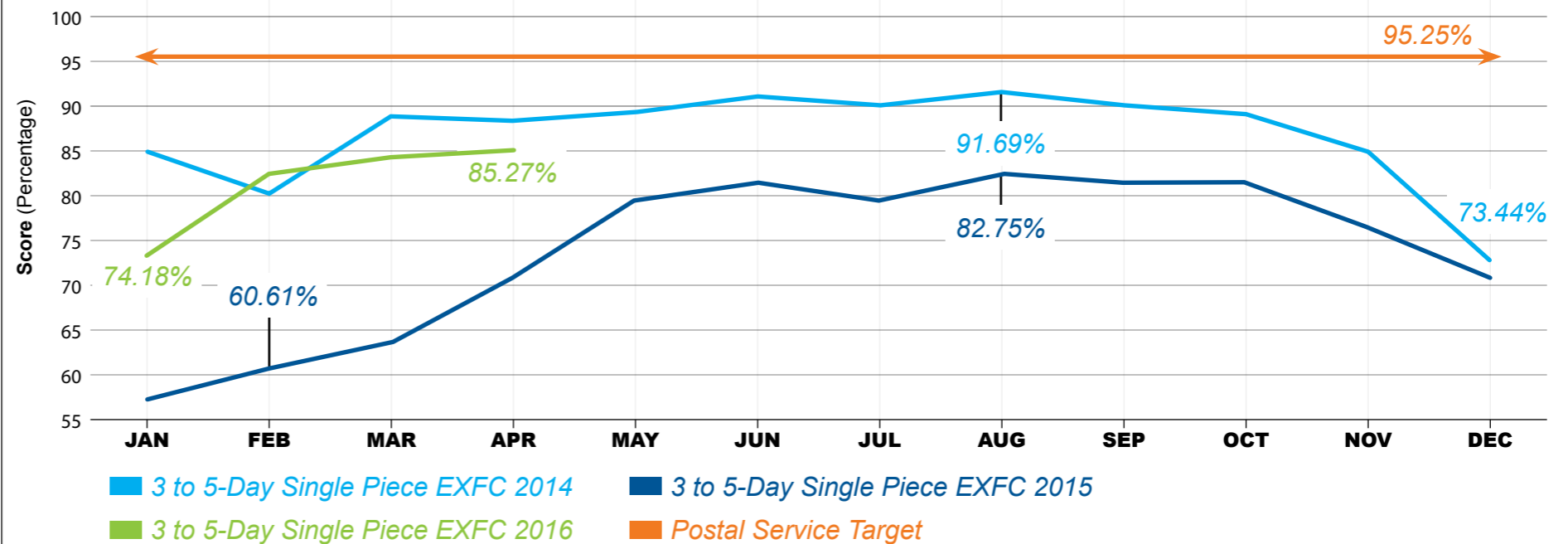
**Figure 3. National 2-Day EXFC Scores January 2014 to April 2016**



Source: Monthly Time and Transit Measurement System (TTMS) EXFC scores for 2-day service standards from January 2014 through April 2016.

EXFC scores declined by as much as 34 percent for 3-5 day service<sup>11</sup> immediately following the service standard revisions compared to the same period a year earlier (see Figure 4).<sup>12</sup> For the week ending April 22, 2016, the 3-5 day EXFC score was 86.75 percent which is 2 percentage points lower than the same period in 2014.<sup>13</sup>

**Figure 4. National 3-5 Day EXFC Scores January 2014 to April 2016**



Source: Monthly TTMS EXFC scores for 3-5 day service standard from January 2014 through April 2016.

<sup>11</sup> This service score includes all 3-day First-Class Mail service standards and 4- and 5-day First-Class Mail service standards to/from continental U.S. to/from Alaska, Hawaii, and U.S. territories.

<sup>12</sup> For the week ending March 13, 2015, the 3-5 day EXFC score was 53.34 percent; a year earlier it was 86.88 percent.

<sup>13</sup> For the week ending April 25, 2014, the 3-5 day EXFC score was 89.22 percent.

The single piece First-Class Mail parcel scores declined by as much as █ percentage points for 2-day service, as compared to the same period a year earlier (see Figure 5).<sup>14</sup> For the week ending April 22, 2016, the 2-day service score was █ percent, which is █ percentage points higher than the same period in 2014.<sup>15</sup>



Source: Monthly TTMS EXFC scores for 2-day First-Class Mail parcel service standard from January 2014 through April 2016.

Single piece First-Class Mail parcel scores declined by as much as █ percent for 3-5 day service, compared to the same period a year earlier (see Figure 6).<sup>16</sup> For the week ending April 22, 2016, the 3-5 day score was █ percent, which is █ percentage points higher than the same period in 2014.<sup>17</sup>



Source: Monthly TTMS EXFC scores for 3-5 day First-Class Mail parcel service standard from January 2014 through April 2016.

14 For the week ending September 18, 2015, the 2-day First-Class Mail parcel score was █ percent; a year earlier it was █ percent.

15 For the week ending April 25, 2014, the 2-day First-Class Mail parcel score was █ percent.

16 For the week ending September 30, 2015, the 3-5 day First-Class Mail parcel score was █ percent; a year earlier it was █ percent.

17 For the week ending April 25, 2014, the 3-5 day First-Class Mail parcel score was █ percent.

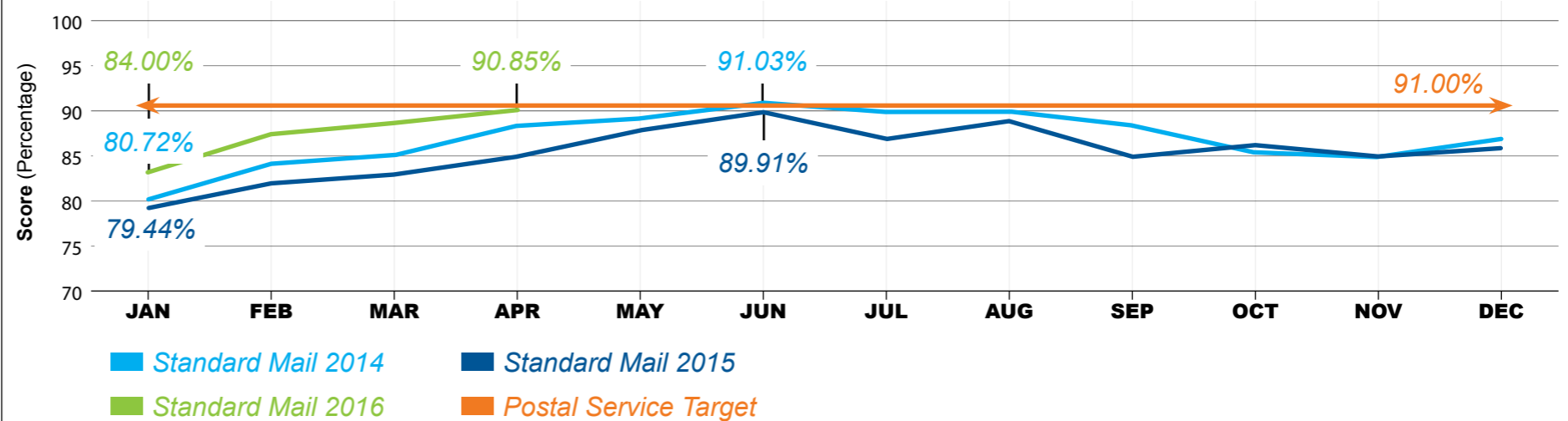
Priority Mail® service scores for air and surface combined remained largely unaffected by the new service standards (see Figure 7). For the week ending April 22, 2016, the air-surface combined Priority Mail score was [REDACTED] percent, which is [REDACTED] percentage points higher than the same period in 2014.<sup>18</sup>



Source: Monthly Service and Field Operations Performance Measurement (SFOPM) reports for Priority Mail from January 2014 through April 2016.

Standard Mail service scores remained largely unaffected by the new service standards (see Figure 8). For the week ending April 22, 2016, the Standard Mail score was 91.36 percent which is 2 percentage points higher than the same period in 2014.<sup>19</sup>

**Figure 8. National Standard Mail Scores January 2014 to April 2016**



Source: Monthly TTMS Standard Mail service scores from January 2014 through April 2016.

Periodicals service scores remained largely unaffected by the new service standards (see Figure 9). For the week ending April 22, 2016, the Periodicals score was 81.03 percent, which is 1 percentage point lower than the same period in 2014.<sup>20</sup>

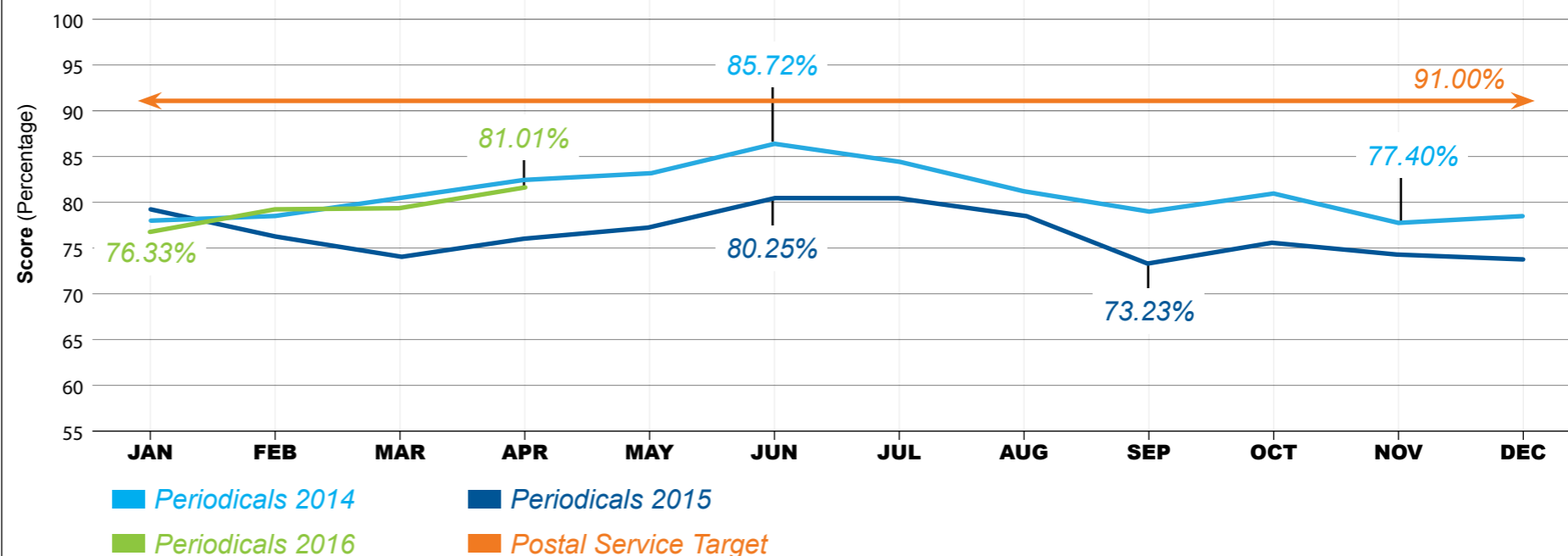
<sup>18</sup> For the week ending April 25, 2014, Air-Surface combined Priority score was [REDACTED] percent.

<sup>19</sup> For the week ending April 25, 2014, the Standard Mail score was 89.09 percent.

<sup>20</sup> For the week ending April 25, 2014, the Periodical Mail score was 82.18 percent.

**We conducted a nationwide independent, non-statistical mailing test, including urban and rural areas, to determine if the Postal Service was meeting its delivery service standard commitments for First-Class Mail letters, flats, and parcels and Priority Mail flats and packages.**

**Figure 9. National Periodical Scores January 2014 to April 2016**



Source: Monthly TTMS Periodical Mail service scores from January 2014 through April 2016.

### Test of First-Class Mail and Priority Mail Service

We conducted a nationwide independent, non-statistical mailing test, including urban and rural areas<sup>21</sup>, to determine if the Postal Service was meeting its delivery service standard commitments for First-Class Mail letters, flats, and parcels and Priority Mail flats and packages. We mailed 2,995 individual mailpieces<sup>22</sup> through all seven Postal Service areas and 99 different processing locations<sup>23</sup> from September 8 to November 10, 2015, and February 23 to March 4, 2016. We inducted mail at retail windows, in collection boxes, residence mailboxes, and by scheduled carrier pick-up. See [Appendix B](#) for more information on our testing methodology.

Of the 2,995 test pieces, 801 (or 26.74 percent) did not meet the delivery service standards (see [Table 1](#)). Based on these results, on average:

- On-time service for First-Class Mail Letters was 17 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Flats was 44 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Parcels was 20 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Flats was 19 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Packages was 8 percent below the Postal Service’s target goals.

<sup>21</sup> We identified urban and rural areas using Census Bureau definitions of urban and rural areas. Urban areas include urbanized areas of 50,000 or more people and urban clusters of at least 2,500 and less than 50,000 people. Rural areas encompasses all population, housing, and territory not included within an urban area.

<sup>22</sup> We initially mailed 3,035 pieces, but results for 40 test pieces could not be validated and therefore, we did not include them in our test results.

<sup>23</sup> We used USPS label lists L0201507 and L02016011 to determine the destinating processing locations and Postal Service management provided originating processing locations.



Table 1 depicts the results of the nationwide mail testing we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

**Table 1. Nationwide Test Results**

Class of mail	Pieces mailed	Pieces that met service standard	% of pieces that met service standard	Postal Service Target Goals <sup>24</sup>	Difference	Weighted Average Difference
First-Class Mail Letters 2 day	62	55	88.71%	96.50%	-7.79%	-17%
First-Class Mail Letters 3 day	526	403	76.62%	95.25%	-18.63%	
First-Class Mail Flats 2 day	63	43	68.25%	96.50%	-28.25%	-44%
First-Class Mail Flats 3 day	527	254	48.20%	95.25%	-47.05%	
First-Class Mail Parcels 2 day	65	55	84.62%	██████	██████	██████
First-Class Mail Parcels 3 day	542	402	74.17%	██████	██████	██████
Priority Mail Flats 1 day	36	27	75.00%	██████	██████	
Priority Mail Flats 2 day	533	407	76.36%	██████	██████	██████
Priority Mail Flats 3 day	35	25	71.43%	██████	██████	
Priority Mail Packages 1 day	41	38	92.68%	██████	██████	
Priority Mail Packages 2 day	531	454	85.50%	██████	██████	██████
Priority Mail Packages 3 day	34	31	91.18%	██████	██████	
<b>Total</b>	<b>2995</b>	<b>2194</b>	<b>73.26%</b>			

Source: OIG mail test and the USPS Service Performance Quarterly Update.

Due to concerns from stakeholders about delayed FCM flats, we are conducting a review on the timeliness of mail processing for this product and plan to issue a separate audit report.

### Rural to Rural Testing

Of the 161 test pieces that originated and destinated in a rural area, 49 (or 30.43 percent) did not meet the service standard (see [Table 2](#)). Based on these results, on average:

- On-time service for First-Class Mail Letters was 16 percent below the Postal Service's target goals.
- On-time service for First-Class Mail Flats was 49 percent below the Postal Service's target goals.
- On-time service for First-Class Mail Parcels was 17 percent below the Postal Service's target goals.
- On-time service for Priority Mail Flats was 19 percent below the Postal Service's target goals.

<sup>24</sup> These are the Postal Service's on-time performance goals for the overall mail volume of each class of mail.

- On-time service for Priority Mail Packages was 26 percent below the Postal Service's target goals.

Table 2 depicts the results of the nationwide mail testing from rural areas to rural areas we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

**Table 2. Nationwide Test Results From Rural Areas to Rural Areas**

Class of mail	Pieces mailed	Pieces that met service standard	% of pieces that met service standard	Postal Service Target Goals	Difference	Weighted Average Difference
First-Class Mail Letters 2 day	7	6	85.71%	96.50%	-10.79%	-16%
First-Class Mail Letters 3 day	27	21	77.78%	95.25%	-17.47%	
First-Class Mail Flats 2 day	6	3	50.00%	96.50%	-46.50%	-49%
First-Class Mail Flats 3 day	24	11	45.83%	95.25%	-49.42%	
First-Class Mail Parcels 2 day	7	6	85.71%	██████	██████	██████
First-Class Mail Parcels 3 day	25	19	76.00%	██████	██████	
Priority Mail Flats 1 day	4	3	75.00%	██████	██████	██████
Priority Mail Flats 2 day	21	17	80.95%	██████	██████	
Priority Mail Flats 3 day	7	4	57.14%	██████	██████	██████
Priority Mail Packages 1 day	7	6	85.71%	██████	██████	
Priority Mail Packages 2 day	18	10	55.56%	██████	██████	██████
Priority Mail Packages 3 day	8	6	75.00%	██████	██████	
<b>Totals</b>	<b>161</b>	<b>112</b>	<b>69.57%</b>			

Source: OIG mail test and the USPS Service Performance Quarterly Update.

### Rural to Urban Testing

Of the test 390 pieces that originated in a rural area and destined in a urban area, 82 (or 21.03 percent) did not meet the service standard (see Table 3). Based on these results, on average:

- On-time service for First-Class Mail Letters was 12 percent below the Postal Service's target goals.
- On-time service for First-Class Mail Flats was 43 percent below the Postal Service's target goals.
- On-time service for First-Class Mail Parcels was 14 percent below the Postal Service's target goals.
- On-time service for Priority Mail Flats was 5 percent below the Postal Service's target goals.
- On-time service for Priority Mail Packages was 7 percent below the Postal Service's target goals.

Table 3 depicts the results of the nationwide mail testing from rural areas to urban areas we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

**Table 3. Nationwide Test Results From Rural Areas to Urban Areas**

Class of mail	Pieces mailed	Pieces that met service standard	% of pieces that met service standard	Postal Service Target Goals	Difference	Weighted Average Difference
First-Class Mail Letters 2 day	4	3	75.00%	96.50%	-21.50%	-12%
First-Class Mail Letters 3 day	69	58	84.06%	95.25%	-11.19%	
First-Class Mail Flats 2 day	4	3	75.00%	96.50%	-21.50%	-43%
First-Class Mail Flats 3 day	73	37	50.68%	95.25%	-44.57%	
First-Class Mail Parcels 2 day	5	5	100.00%	██████	██████	██████
First-Class Mail Parcels 3 day	75	60	80.00%	██████	██████	
Priority Mail Flats 1 day	2	2	100.00%	██████	██████	██████
Priority Mail Flats 2 day	78	70	89.74%	██████	██████	
Priority Mail Flats 3 day	1	1	100.00%	██████	██████	██████
Priority Mail Packages 1 day	2	2	100.00%	██████	██████	
Priority Mail Packages 2 day	76	66	86.84%	██████	██████	██████
Priority Mail Packages 3 day	1	1	100.00%	██████	██████	
<b>Total</b>	<b>390</b>	<b>308</b>	<b>78.97%</b>			

Source: OIG mail test and the USPS Service Performance Quarterly Update.

### Urban to Rural Testing

Of the 337 test pieces that originated in an urban area and destined in a rural area, 99 (or 29.38 percent) did not meet the service standard (see Table 4). Based on these results, on average:

- On-time service for First-Class Mail Letters was 20 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Flats was 45 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Parcels was 36 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Flats was 16 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Packages was 3 percent below the Postal Service’s target goals.

Table 4 depicts the results of the nationwide mail testing from urban areas to rural areas we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

**Table 4. Nationwide Test Results From Urban Areas to Rural Areas**

<b>Class of mail</b>	<b>Pieces mailed</b>	<b>Pieces that met service standard</b>	<b>% of pieces that met service standard</b>	<b>Postal Service Target Goals</b>	<b>Difference</b>	<b>Weighted Average Difference</b>
First-Class Mail Letters 2 day	3	3	100.00%	96.50%	3.50%	-20%
First-Class Mail Letters 3 day	61	45	73.77%	95.25%	-21.48%	
First-Class Mail Flats 2 day	4	2	50.00%	96.50%	-46.50%	-45%
First-Class Mail Flats 3 day	64	32	50.00%	95.25%	-45.25%	
First-Class Mail Parcels 2 day	3	3	100.00%	██████	██████	██████
First-Class Mail Parcels 3 day	64	36	56.25%	██████	██████	
Priority Mail Flats 1 day	1	1	100.00%	██████	██████	██████
Priority Mail Flats 2 day	50	40	80.00%	██████	██████	
Priority Mail Flats 3 day	18	13	72.22%	██████	██████	██████
Priority Mail Packages 1 day	0	0	N/A	██████	██████	
Priority Mail Packages 2 day	55	49	89.09%	██████	██████	██████
Priority Mail Packages 3 day	14	14	100.00%	██████	██████	
<b>Total</b>	<b>337</b>	<b>238</b>	<b>70.62%</b>			

Source: OIG mail test and the USPS Service Performance Quarterly Update.

### Urban to Urban Testing

Of the 2,107 test pieces that originated and destined in an urban area, 569 (or 27.01 percent) did not meet the service standard (see [Table 5](#)). Based on these results, on average:

- On-time service for First-Class Mail Letters was 18 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Flats was 43 percent below the Postal Service’s target goals.
- On-time service for First-Class Mail Parcels was 19 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Flats was 22 percent below the Postal Service’s target goals.
- On-time service for Priority Mail Packages was 8 percent below the Postal Service’s target goals.

[Table 5](#) depicts the results of the nationwide mail testing from urban areas to urban areas we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

**Table 5. Nationwide Test Results From Urban Areas to Urban Areas**

Class of mail	Pieces mailed	Pieces that met service standard	% of pieces that met service standard	Postal Service Target Goals	Difference	Weighted Average Difference
First-Class Mail Letters 2 day	48	43	89.58%	96.50%	-6.92%	-18%
First-Class Mail Letters 3 day	369	279	75.61%	95.25%	-19.64%	
First-Class Mail Flats 2 day	49	35	71.43%	96.50%	-25.07%	-43%
First-Class Mail Flats 3 day	366	174	47.54%	95.25%	-47.71%	
First-Class Mail Parcels 2 day	50	41	82.00%	██████	██████	██████
First-Class Mail Parcels 3 day	378	287	75.93%	██████	██████	██████
Priority Mail Flats 1 day	29	21	72.41%	██████	██████	
Priority Mail Flats 2 day	384	280	72.92%	██████	██████	██████
Priority Mail Flats 3 day	9	7	77.78%	██████	██████	
Priority Mail Packages 1 day	32	30	93.75%	██████	██████	
Priority Mail Packages 2 day	382	329	86.13%	██████	██████	██████
Priority Mail Packages 3 day	11	10	90.91%	██████	██████	
<b>Total</b>	<b>2107</b>	<b>1536</b>	<b>72.90%</b>			

Source: OIG mail test and the USPS Service Performance Quarterly Update.

We used the Mail History Tracking System<sup>25</sup> and USPS Tracking<sup>®26</sup> to assess the mail processing scans for each test piece that did not meet its service standard. The scans show when, where, and on what operation a mailpiece was processed at its originating and destinating facility.

We also identified some outcomes as “no data” because there was no available tracking data. Specifically, we were unable to obtain data for 60 of the 801 test pieces that did not meet the service standard. We categorized these pieces as “no data” and did not assign a failure point. A mailpiece can have multiple failure points, as shown in Table 6. Based on available data, a majority of failures occurred during the transit and destinating processes. See Appendix B for additional details on possible causes of failures.

Table 6 depicts the test piece failure point from the results of the nationwide mail testing we conducted from September 8 to November 10, 2015, and February 23 to March 4, 2016.

<sup>25</sup> An online software application that allows Postal Service employees to identify improperly sequenced mail before carriers take it to the street. It looks at individual mailpieces, examines all the information in the barcode or ID tag and other details and identifies pieces that have been incorrectly sent, sorted, and sequenced before the mail leaves the office.

<sup>26</sup> Provides tracking updates, including the date and time of delivery or attempted delivery.

**We identified failures as breakdowns in the process of collecting, processing, transporting, and delivering mail.**

**Table 6. Test Piece Failure Points**

Class of Mail	Number of Pieces that did not Meet Service Standard	Originating Failure	Transit Failure	Destinating Failure	Last Mile Failure	No Data <sup>27</sup>
First-Class Mail Letters	130	18	36	53	28	23
First-Class Mail Flats	293	80	95	147	65	28
First-Class Mail Parcels	150	■	■	■	■	■
Priority Mail Flats	145	■	■	■	■	■
Priority Mail Packages	83	■	■	■	■	■
		■	■	■	■	■

Source: OIG mail test pieces that did not meet service and review of mail piece tracking data obtained from the Postal Service's Mail History Tracking System and USPS Tracking.

Note: A mailpiece can have multiple failure points.

We identified failures as breakdowns in the process of collecting, processing, transporting, and delivering mail:

- Originating Failures: Mail that is not processed at the originating facility on the day of induction or day zero.
- Transit Failures: A mailpiece is not processed at a destinating facility within 1-2 days (depending on service standard) after its originating processing date.
- Destinating Failures: Mail that shows multiple processing dates at the same destinating facility.
- Last Mile Failures: A mailpiece is not delivered the day after receiving final destinating processing.

Stakeholders, such as members of Congress, commercial mailers, and individual customers, have voiced concerns about the OWC and that delayed mail – generally mail not processed in time to meet its established delivery day – is increasing and service is declining. Delayed mail could cause late delivery of time-sensitive mail such as scholarship applications, wedding invitations, birthday cards, or in-home-date-critical consumer advertisements.

Several factors contributed to the increase in delayed mail processing and the decrease in First-Class Mail service performance.

### Network and Operational Changes

Postal Service management made three significant changes to the mail processing network over a relatively short period of time, January through April 2015. These changes were the OWC, service standards, and facility consolidations. The OWC had the largest impact because it affected the schedules for nearly all processing and transportation activities nationwide.

Specifically, the OWC allowed mail to be processed much earlier and also resulted in over 5,000 employees transitioning from night to day shifts. Staff had to be reassigned and trained for new roles. The Postal Service could not immediately shift mail processing clerks' and mail handlers' scheduled workhours to mirror the new mail processing times because of labor agreements.

<sup>27</sup> There was no tracking data in the Mail History Tracking System or USPS Tracking for ■ test pieces that did not meet the service standard.

**Postal Service management made three significant changes to the mail processing network over a relatively short period of time. These changes were the OWC, service standards, and facility consolidations.**

**The Postal Service did not have sufficient air transportation capacity to always transport mail to meet new CETs of the OWC.**

Moreover, the job bidding process established between the Postal Service and its unions can take several months to complete, and larger plants had to re-bid hundreds of jobs.

### Insufficient Air Transportation Capacity

The Postal Service did not have sufficient air transportation capacity to always transport mail to meet new CETs of the OWC. Rollover<sup>28</sup> First-Class Mail increased by 177 million pieces, or 37.7 percent, for the January to December 2015 period as compared to the same period a year earlier (see Table 7). When mail is rolled over, the Postal Service has to make additional air or surface transportation trips to ensure the mail was transported to the proper facility, increasing the risk that the mail would not be delivered on time.

**Table 7. Comparison of Rollover Mail**

Mail Type	2014 Rollover Volume	2015 Rollover Volume	Volume Change	Percentage Change
Priority Mail	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
First-Class Mail	470,115,867	647,441,817	177,325,950	37.7%

Source: 2014 and 2015 rollover data from Logistics Condition Reporting System (LCRS).

Mail processing starts up to 9 hours earlier due to the OWC. This means more FCM has to be transported via air transportation to meet its CET. Specifically, almost 1.7 billion more pieces of FCM were transported via contract air transportation in 2015 than in 2014, a 40.6 percent increase. Additionally, the manager, Mail Transport Equipment, stated that the Postal Service's package volume [REDACTED] for packages. This created opportunity for some customers [REDACTED]

FCM rollover has decreased from 322.1 million pieces in Q2 of 2015 to 77.8 million pieces in Q2 of 2016 due to increased air capacity and surface transportation opportunities.

**The Postal Service does not have a nationwide system to track and report the cause and origin of late arriving mail.**

### Late Arriving Mail Not Tracked and Reported

The Postal Service does not have a nationwide system to track and report the cause and origin of late arriving mail.<sup>30</sup> This mail should be identified and counted at the receiving (inbound) platform and input into webMCRS. The Postal Service reported 262 million late arriving mailpieces for the period January 2015 through April 2016, but that data doesn't contain information on its origin or cause.

During OIG site visits, auditors observed late arriving mail coming into the receiving platform. Operations must receive mail committed for delivery the next day much earlier because of the OWC's new CETs (see Table 8). Specifically, incoming primary operations<sup>31</sup> start up to 9 hours earlier and DPS operations now begin up to 10 hours earlier. When incoming mail is not received at the plant by its CET, it may not be sorted by its clearance time, which could cause late delivery. If the Postal Service doesn't track the cause and origin of late arriving mail nationally, it cannot identify and resolve transportation challenges associated with

<sup>28</sup> Mail that is assigned to air transportation but is still on-hand or still awaiting transportation primarily due to transportation capacity limitations.

<sup>29</sup> [REDACTED]

<sup>30</sup> Late arriving is the volume of mail that is received after the facility CET for the corresponding service commitment, regardless of its processing status.

<sup>31</sup> A scheme or sort plan in which destinating mail served by the processing plant is first sorted to city zones (5-digit ZIP Code ranges) and local stations, branches, or post offices.

***The Postal Service did not update its mail processing operating plans to reflect the new CETs, clearance times, and dispatches of value associated with the OWC.***

***Postal Service management stated that a large number of winter storms disrupted service from January through March 2015, particularly for mail requiring air transportation.***

the OWC's new processing times.

**Table 8. Changes in Mail Processing Operations**

<b>Operation</b>	<b>Old Operational Window</b>	<b>New Operational Window</b>
Incoming Primary Operations	5 p.m. - 12:30 a.m.	8 a.m. - Noon
DPS/Secondary Operations	10 p.m. - 6 a.m.	Noon - 6 a.m.

Source: Rapid Information Bulletin Board System website.

### **Operating Plans Not Updated**

The Postal Service did not update its mail processing operating plans to reflect the new CETs, clearance times, and dispatches of value associated with the OWC. Specifically, 186 of the 229 processing plants' operating plans (or 81 percent) were not updated in the Mail Processing Operating Plan System (MPOPS) after the OWC. Operating plans<sup>32</sup> are organized collections of operations, average daily volumes, and target times; and include volume profiles, start times, percentages of volume by hour, and scheduled end times for all major operations to ensure that the CET and clearance times of each operation and subsequent operations can be met. Operating plans must be synchronized among facilities to align transportation for outgoing and incoming operations. The development of accurate operating plans is mandated by headquarters Network Operations and is intended to aid the facility in the scheduling, processing, and delivery of its mail volume.<sup>33</sup>

When operating plans are not updated, it can affect management's ability to properly schedule machines and employees to meet operational goals. In turn, transportation and dispatch schedules may not be coordinated to meet service standard goals.

### **Adverse Winter Weather**

Postal Service management stated that a large number of winter storms disrupted service from January through March 2015, particularly for mail requiring air transportation. Further, management asserted weather-related delays increased significantly from February through March 2015, compared to February through March 2014. Our analysis of data from the National Oceanic and Atmospheric Administration indicated that weather patterns in 2015 were similar those in 2014; however, we found that winter storms in 2015 shut down highways on January 6 and 7, 2015, and disrupted service at a contractor's hub in Memphis, TN, from March 9 to 13, 2015, delaying mail across the country.

### **Mail Processing Productivity Decreased**

Our analysis of mail processing productivity<sup>34</sup> after the OWC showed that mail processing productivity actually decreased by 4.5 percent for the period January through December 2015, compared to the same period a year earlier. Specifically, productivity declined in all but two mail processing labor categories, or labor distribution codes (LDC)(See [Table 9](#)).

<sup>32</sup> Postal Service provided testimony before the PRC and discussed the importance of operating plans. Mail Processing Network Rationalization Service Changes, 2012 (Docket No. N2012-1). USPS-T-4, filing ID 78328, dated December 5, 2011.

<sup>33</sup> *MPOPS User Guide*, May 19, 2009.

<sup>34</sup> Productivity is calculated by dividing mail volume by workhours.



**Table 9. Comparison of Mail Processing Productivity Before and After OWC**

Labor Distribution Code	Description	Total Workload Productivity (Pieces per Hour)		
		2014	2015	Percentage Difference
11	Automated Distribution Letters	7,870	7,438	(5.5%)
12	Automated/Mechanized Distribution Flats	2,372	2,288	(3.5%)
13	Mechanized Distribution - Other	227	222	(2.4%)
14	Manual Distribution	532	516	(3.0%)
15	Remote Bar Code System	996	997	0.2%
17	Mail Processing - Other Direct	1,831	1,764	(3.7%)
18	Mail Processing - Indirect/Related	94	104	9.8%
<b>Average</b>		<b>2,397</b>	<b>2,289</b>	<b>(4.5%)</b>

Source: Operation Report by LDC for January – December 2014 and 2015 obtained from Enterprise Data Warehouse (EDW).

Our analysis of mail processing productivity for 2016 showed that mail processing productivity further decreased by 2.71 percent for the period January through April 2016, compared to January to December 2015. Specifically, productivity declined in all but three LDCs. (See Table 10).

**Table 10. Comparison of Mail Processing Productivity 2016**

Labor Distribution Code	Description	Total Workload Productivity (Pieces per Hour)		
		2015 (January - December)	2016 (January - April)	Percent Difference 2015 to 2016
11	Automated Distribution Letters	7,438	7,442	0.05%
12	Automated/Mechanized Distribution Flats	2,288	2,267	(0.93%)
13	Mechanized Distribution - Other	222	218	(1.88%)
14	Manual Distribution	516	549	6.31%
15	Remote Bar Code System	997	771	(22.74%)
17	Mail Processing - Other Direct	1,764	1,598	(9.41%)
18	Mail Processing - Indirect/Related	104	124	20.08%
<b>Average</b>		<b>2,289</b>	<b>2,238</b>	<b>(2.23%)</b>

Source: Operation Report by LDC for January – December 2015 and January - April 2016 obtained from EDW.

***The Postal Service did not realize or could not provide support for realized savings for \$724.4 million (or almost 90 percent) of its projected annual savings from the OWC.***

## Projected Savings from Operational Window Change Not Realized

The Postal Service did not realize or could not provide support for realized savings for \$724.4 million (or almost 90 percent) of its projected annual savings from the OWC. The Postal Service projected savings from the OWC because mail would be processed over a longer period of time and use fewer and more efficient mail processing machines. Further, there would be more time for additional, more precise mail sorting down to the delivery point, eliminating manual sorting by the carrier.

In 2011, the postmaster general announced the Postal Service would save \$750 million annually from Phase II of the NRI. These anticipated savings were based on facility consolidations and the OWC created by the new service standard revisions. Since then, the Postal Service has revised its savings projections and now projects \$1.2 billion in annual savings from Phase II of the NRI: \$805.5 million from the OWC and \$400 million from facility consolidations.

The OWC savings were broken out into the following categories:

- Mail Processing Productivity Gains<sup>35</sup>
- Mail Processing Premium Pay Reductions<sup>36</sup>
- Additional DPS Sorting<sup>37</sup>
- Reduction in Outgoing Secondary<sup>38</sup> Sorting<sup>39</sup>
- Replacement of Carrier Sequence Barcode Sorter (CSBCS)<sup>40</sup>
- Upgraded Flats Sorting Machine 1000 (USFM1000)<sup>41</sup> Machines<sup>42</sup>

The Postal Service stated that it supported the savings by providing testimony and documentation to the PRC in 2011 of over \$805.5 million. The testimony showed savings of \$1.1 billion annually for those categories. The Postal Service stated that it separated those savings categories between Phase I and Phase II (\$300 million for Phase I and \$805 million for Phase II) but could not provide support for the separated calculations. The Postal Service did not realize, or could not provide support for realized savings for 90 percent of its OWC savings projections (see [Table 11](#)).

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35 Savings associated with better use of both machine and labor resources.

36 Savings associated with processing DPS during the day and avoiding night premiums.

37 Savings resulting from opportunity to move mail currently processed in manual operations into automated or mechanized operations, which require fewer workhours to process the same volume.

38 Outgoing secondary is a scheme or sort plan in which mail that was sorted in an outgoing primary operation is further sorted to finer outgoing separations.

39 Savings resulting from a reduction in workload due to fewer network mail processing locations

40 CSBCS is an automated machine that sorts an individual carrier's mail, allowing the mail to go directly from the automation equipment in delivery sequence to the carrier for delivery to postal customers. The CSBCS is a smaller BCS designed for delivery units with 10 or more routes.

41 USFM1000 is a flat-sorting machine that can handle pieces beyond the size range of the Automated Flats Sorting Machine. The retrofitted UFSM 1000 can also sort non-barcoded mail and barcoded mail using a high-speed feeder and optical character reader (OCR) technology.

42 Savings resulting from larger operating windows allowing CSBCS and UFSM1000 volumes to be migrated to more efficient equipment.

**The Postal Service estimated \$678.67 million in annual savings in mail processing productivity because of the OWC.**

**Since mail processing productivity decreased in the year following the OWC, it is unlikely the Postal Service realized any projected mail processing productivity gains.**

**Table 11. Breakdown of Projected and Realized OWC Savings**

Type	Category	Projected Savings Presented to PRC (millions)	OWC Phase II Projected Savings (millions)	OWC Phase II Realized Savings (millions)
Labor Cost Changes	Mail Processing Productivity Gains	\$968.20	\$678.67	\$64.3 <sup>43</sup>
	Mail Processing Premium Pay Reductions	71.99	65.75	0
Workload Reduction Cost Changes	Additional DPS Sorting	36	32.87	0
	Reduction in Outgoing Secondary Sorting	18.30	16.71	10.3
	Replacement of CSBCS and USFM1000	12.6	11.51	6.5
<b>Total</b>		<b>\$1,100</b>	<b>\$805.50</b>	<b>\$81.1</b>

Source: OWC savings obtained from manager, Network Operations Engineering, manager, Mail Transport Equipment, and PRC filings in Docket No. N2012-1. Calculated total difference due to rounding.

**Mail Processing Productivity Gains**

The Postal Service estimated \$678.67 million in annual savings in mail processing productivity because of the OWC. In the original PRC filings,<sup>44</sup> the Postal Service stated it could achieve mail processing productivity gains by balancing workload across the mail processing day and managing mail processing operations more effectively, matching workhours to workload, and planning for peak load issues.

The Postal Service did not provide realized savings directly related to mail processing productivity gains because it does not separate the labor savings captured through the OWC from those of the Phase II consolidations. The manager, Mail Transport Equipment, stated this is because processing operations and maintenance support are closely related. To overcome this limitation, the Postal Service tracks the overall labor savings through Delivering Results, Innovation, Value and Efficiency (DRIVE)<sup>45</sup> Initiative 1.<sup>46</sup> During FY 2015, the Postal Service tracked 3 quarters of savings for this initiative. As part of this tracking, workload adjustments were applied to account for the increases experienced from the unplanned package growth and workload changes. In FY 2015, the initiative posted net savings in labor and parts of \$64.3 million. Since mail processing productivity decreased in the year following the OWC (see Table 9 and Table 10), it is unlikely the Postal Service realized any projected mail processing productivity gains.

**Mail Processing Premium Pay Reductions**

The Postal Service estimated mail processing premium pay reductions due to workhours being transferred from nighttime to daytime as part of the OWC. Eligible employees receive premium pay, known as night differential pay, for all work performed between 6 p.m. and 6 a.m. The Postal Service expected the night differential ratio of total workhours to decrease from 58 percent

<sup>43</sup> The Postal Service did not provide realized savings related to this category. Rather it provided labor savings as tracked through its Delivering Results, Innovation, Value and Efficiency Initiative 1.  
<sup>44</sup> Mail Processing Network Rationalization Service Changes, 2012. (Docket No. N2012-1). USPS-T-4, filing ID 78328, dated December 5, 2011.  
<sup>45</sup> DRIVE is a management process the Postal Service is using to improve business strategy development and execution. DRIVE is focused on a portfolio of strategic initiatives that the Postal Service will implement to meet its ambitious performance and financial goals.  
<sup>46</sup> DRIVE Initiative 1, Optimize Network Operations, is responsible for evaluating and right-sizing the mail processing infrastructure to increase operating efficiency, reduce costs, and provide reliable and consistent service.

***The Postal Service estimated that it would save \$16.71 million annually by reducing outgoing secondary sorting volume.***

***There have been additional savings realized from the NRI separate from the projections the Postal Service presented to the PRC.***

to 39 percent due to the OWC, resulting in \$65.75 million in savings. The Postal Service could not provide any realized savings for this category.

#### **Additional Delivery Point Sequence Sorting**

The Postal Service estimated that, as a result of the OWC, it could move 90 million in manual volume and 687 million in automated volume to DPS sorting, providing \$32.87 million in annual savings. The Postal Service could not provide support for any realized savings for this category.

#### **Reduction in Outgoing Secondary Sorting**

The Postal Service estimated that it would save \$16.71 million annually by reducing outgoing secondary sorting volume by 4 billion letters and 200 million flats. The reduction would result from fewer network processing facilities and less work.

The Postal Service stated that the reduction in outgoing secondary processing was contingent upon the completion of all planned consolidations. While consolidations are not complete, the Postal Service has been able to reduce outgoing secondary processing. The Postal Service stated outgoing secondary volume has been reduced to about 2 billion for letters and 256 million for flats. This equals a 50 percent capture rate for letters and a 24 percent capture rate for flats and realized savings of \$10.3 million. The OIG independently verified the reductions in volume and based on the reduction in volume, these savings seems reasonable.

#### **Replacement of Inefficient Machines**

The Postal Service estimated that, as a result of the OWC, it could transfer 1.5 billion letters from the CSBCS and 640 million flats from the USFM1000 to more efficient Delivery Bar Code Sorter<sup>47</sup> (DBCS) and Automated Flats Sorting Machine<sup>48</sup> (AFSM) 100 machines. It estimated this will yield \$11.51 million in annual savings.

The Postal Service stated that it no longer has any CSBCS machines and has decreased UFSM1000 volume to 115 million, resulting in \$6.5 million of realized savings. The OIG independently verified the decrease in UFSM1000 volume and elimination of CSBCS machines and, based on this, these savings appear reasonable.

#### **Other Savings from Network Rationalization**

The manager, Budget, stated there have been additional savings realized from the NRI separate from the projections the Postal Service presented to the PRC. Specifically, the Postal Service has sold properties or discontinued leases worth about \$139.7 million. We validated \$81.2 million of savings related to the sale of properties from consolidations made possible by the OWC. The remaining \$58.5 million was for properties consolidated before the OWC and part of Phase I of the NRI. Additionally, management indicated the OWC has allowed the Postal Service to repurpose and use existing space and facilities, valued at about \$167.9 million, to accommodate package growth. The OIG validated \$150.2 million of the cost avoidance by confirming when additional machines were added and the square footage required for each machine, however, the remaining \$17.7 million were for machines added before the OWC. The manager, Budget, also stated that the Postal Service is currently evaluating additional benefits and cost savings realized through the NRI and is in the process of finalizing the quantification of those benefits and savings. In addition, the Postal Service is assessing additional measures being put in place to realize additional efficiencies and savings moving forward.

<sup>47</sup> An automated letter sorting machine that is used for letter-size mail already barcoded either by mailers or by USPS on other mail processing equipment. The high-speed multilevel DBCS can sort mail in carrier walk sequence, eliminating additional sorting at the delivery unit.

<sup>48</sup> A fully automated machine that processes flat size mail. The machine receives mail via automatic feeders, acquires images of script and typed mail for video encoding, and processes mail using optical character recognition technology.

***The Postal Service projected savings in surface transportation resulting from Phase II. However, we found surface transportation costs have increased since the OWC and the Postal Service exceeded its transportation budget plan by over \$200 million in FY 2015.***

## Transportation Costs Increased

When the Postal Service completed its decision analysis report (DAR)<sup>49</sup> for the NRI in 2012, it projected savings in surface transportation resulting from Phase II. However, we found surface transportation costs have increased since the OWC and the Postal Service exceeded its transportation budget plan by over \$200 million in FY 2015.

Specifically, we found that:

- Highway Contract Route (HCR)<sup>50</sup> costs exceeded the FY 2015 budget by \$97.1 million. The Postal Service attributed a \$61.8 million increase in HCR costs from Quarters 2 through 4, FY 2015, to the OWC. Going forward, Postal Service data indicates that HCR transportation costs will increase by \$100.1 million annually due to the OWC. The manager, Mail Transport Equipment, stated that HCR costs increased because Phase II of the NRI was not fully implemented and package volume increased. Specifically, the model developed for the NRI assumed the plan would be fully implemented and all consolidations would occur to support reductions in HCR routings. Further, management stated that the unforeseen increase in package volume coupled with the shift to larger packages due to the dimensional weight pricing used by competitors has increased the need for cubic space on the surface fleet.
- Postal Vehicle Services (PVS)<sup>51</sup> costs exceeded the FY 2015 budget by \$63.5 million. The Postal Service did not attribute any of this increase to the OWC but, instead, to the growth in package volume and size, requiring extra trips to and from delivery units. These numbers include other operations such as Vehicle Maintenance Facilities. Finally, there was a general wage increase that further impacted PVS costs.
- Air transportation costs exceeded the FY 2015 budget by \$41.5 million. The Postal Service attributed a \$68.4 million increase in air transportation from Q2 through Q4, FY 2015, to the OWC (see [Table 12](#)). The Postal Service stated that a large portion of FCM transportation was moved from surface routing to air to achieve the new CETs of the OWC. The Postal Service testified to the PRC that air transportation costs would increase \$124.9 million annually as a result of OWC.<sup>52</sup> The Postal Service spent \$56.5 million less on air transportation in 2015 than projected; however, the increase in rollover mail indicates it didn't have sufficient air capacity for its mail volume.

[Table 12](#) depicts the Postal Service exceeded its transportation budget plan by over \$200 million in FY 2015.

49 DAR is a document developed by the requiring organization to justify a project investment and to assist the approving authorities in making decisions concerning the use of USPS funds.

50 A route of travel served by a postal contractor to carry mail in bulk over highways between designated points. HCRs generally do not deliver mail to individual customer addresses along the line of travel. Highway contract routes make up the largest single group of transportation services used by USPS and range from long-haul tractor trailers to box delivery routes.

51 A service operated by employees to transport mail between mail processing facilities, post offices, Post Office branches, Post Office stations, detached mail units, various postal customers, and terminals.

52 PRC Docket No. N2012-1, USPS-T-10 filing ID 78318 dated December 5, 2011.

**Although the Postal Service stated the OWC was one of the most significant operational changes and estimated a \$124.9 million increase in air transportation, the FY 2015 transportation budget plan only increased by \$3.7 million (or 0.05 percent) from FY 2014 actual amounts.**

**Table 12. FY 2015 Transportation Costs Compared to Plan**

Transportation Costs	Planned for FY 2015	Actual FY 2015	Difference	Quarter 2 to Quarter 4, FY 2015 Costs Attributed to the OWC
HCR	\$3,531,602,503	\$3,628,751,956	\$97,149,453	\$61,831,458
PVS	1,223,525,231	1,287,013,659	63,488,428	-
Air	2,108,108,043	2,149,638,098	41,530,055	68,356,466
<b>Total</b>	<b>\$6,863,235,777</b>	<b>\$7,065,403,713</b>	<b>\$202,167,936</b>	<b>\$130,187,924</b>

Source: Transportation cost data obtained from general ledger accounts in the EDW. Transportation budget obtained from Postal Service management.

Although the Postal Service stated<sup>53</sup> the OWC was one of the most significant operational changes and estimated a \$124.9 million increase in air transportation, the FY 2015 transportation budget plan only increased by \$3.7 million (or 0.05 percent) from FY 2014 actual amounts (see Table 13).

**Table 13. FY 2014 Transportation Costs Compared to FY 2015 Plan**

Transportation Costs	Actual FY 2014	Planned for FY 2015	Difference
HCR	\$ 3,532,798,741	\$3,531,602,503	(\$1,196,238)
PVS	1,236,966,206	1,223,525,231	(13,440,975)
Air	2,089,809,518	2,108,108,043	18,298,525
<b>Total</b>	<b>\$6,859,574,465</b>	<b>\$6,863,235,777</b>	<b>\$3,661,312</b>

Source: Transportation cost data obtained from general ledger accounts in EDW. Transportation budget obtained from Postal Service management.

53 Quarterly Performance for Single-Piece FCM – FY 2015, Q2.

# Recommendations

***Management expressed significant concerns with the report's content, analysis, and tone and took issue with findings regarding the benefits of NRI. Management agreed with the OIG that since performance scores have significantly improved, they should not revert back to their prior operating window and service standards.***

We recommend the vice president, Finance and Planning:

1. Re-evaluate and update the projected operational and transportation financial impacts associated with the operational window change.

We recommend the vice president, Network Operations:

2. Develop and implement a strategy to improve mail processing productivity in the new operational window before any additional nationwide operational changes or consolidations are implemented.
3. Develop a plan to ensure adequate air transportation capacity is available for mail to meet its critical entry times.
4. Create and use a nationwide system to track and report the amount, cause, and origin of late arriving mail.
5. Establish a nationwide database to capture and share the Lean Six Sigma team's lessons learned.
6. Ensure all operating plans are updated in accordance with Postal Service policy to reflect the new operating window.
7. Continue to monitor and reduce delayed mail processing, as appropriate.

## Management's Comments

Management expressed significant concerns with the report's content, analysis, and tone and took issue with findings regarding the benefits of NRI. Management agreed with the OIG that since performance scores have significantly improved, they should not revert back to their prior operating window and service standards.

Management disagreed with the findings regarding service performance metrics, the non-statistical mailing test, and projected OWC savings and revenue at risk calculations.

Management agreed with recommendations 3, 4, 5, 6, and 7; and partially agreed with recommendations 1 and 2. See [Appendix C](#) for management's comments in their entirety.

Management stated the report does not reflect current record high service performance levels for major product categories of Standard Mail, [REDACTED], and [REDACTED] and includes non-current conclusions.

Management stated the mailing test results were not statistically valid as a basis for inferring system-wide service performance for several products. Management added the mail test did not proportionately reflect the actual mix of mail types it purports to measure.

Management stated the OIG incorrectly assumed that the Postal Service would start to realize OWC "full-up" savings on day 1 of the change. Management added they would continue to reduce costs from the NRI and expect to continue capturing incremental savings in the future, which will increase when the network is fully rationalized.

Management stated the revenue at risk estimate is inappropriate given that the Postal Service presented an estimate of lost contribution to the PRC. They stated that, to date, there is no indication the Postal Service is experiencing any negative revenue impacts due to network rationalization.

Management partially agreed with recommendation 1, stating they will develop targets as part of the annual budget cycle. Management also stated they will continue to assess additional positive contributions provided by the NRI and quantify those contributions annually. The target implementation date is December 31, 2016.

Regarding recommendation 2, management stated they consider this recommendation to be similar to recommendation 4 in an earlier report (*Substantial Increase in Delayed Mail*, Report Number NO-MA-15-004, dated August 13, 2015). Subsequent to providing their comments on recommendation 2, management informed us they partially agree with the recommendation. Management agreed to develop and implement strategies to improve mail processing productivity but disagreed with ceasing all other operational changes as well as appropriate and timely consolidations. The target implementation date is September 30, 2017.

Regarding recommendation 3, management stated they consider this recommendation to be similar to recommendation 3 in the above mentioned report (Report Number NO-MA-15-004).

Regarding recommendation 4, management stated they developed the informed visibility system to collect more granular data regarding the acceptance, processing, and delivery of mail. The target implementation date is March 31, 2017.

Regarding recommendation 5, management stated the Postal Service has already developed the Continuous Improvement Project Tracker to capture and share information from LSS projects. Management considers this recommendation to be completed and did not provide a target implementation date.

Regarding recommendation 6, management stated they have directed all processing centers to update their current operating plans and will set up a process to ensure compliance. The target implementation date is October 31, 2016.

Regarding recommendation 7, management considers this recommendation to be similar to recommendation 1 from the above mentioned report (Report Number NO-MA-15-004), which the OIG closed in June 2016.

## **Evaluation of Management's Comments**

The OIG considers management's comments responsive to recommendations 4, 6, and 7 and corrective actions should resolve the issues identified in the report. In order to close recommendations 4 and 6, we will need to review supporting documentation on future actions and results.

Regarding management's concern that the report does not reflect current record high service performance levels, we reviewed performance scores from January 2014 to April 2016. We also noted six times in the report that service performance has improved significantly. In addition, management in their executive summary noted that they agreed with the report's conclusion that service scores have significantly improved.



Regarding management's disagreement with the mailing test, we shared our mailing test scope and methodology with management prior to conducting the test and incorporated their feedback into the test design. For example, we mailed to and from multiple Postal Service areas and facilities and acknowledged seven times in the report that our mailing test was not statistical. We did not assert that the results of our mail test were representative of the entire mail universe. The goal of this test was to reflect the average customer's experience, because there have been numerous complaints regarding service associated with FCM from individual users of the mail. As we noted in the report, delayed mail since the operating window change can cause late delivery of time-sensitive mail such as scholarship applications, wedding invitations, birthday cards, college acceptance letters, or in-home, date-critical consumer advertisements.

Regarding management's disagreement with the projected OWC savings calculation, if the Postal Service did not expect to achieve immediate savings, then it should have identified a plan to recover these savings which clearly documents the amount of savings it expects to achieve and over what period of time it would capture these savings. Despite multiple requests to management for a plan and projections, we did not receive a plan. Such a plan is critical to ensuring that Postal Service tracks and realizes the hundreds of millions of dollars in savings associated with this extensive change in mail service.

Regarding management's disagreement with our calculation of revenue at risk, we based our analysis on the impact of actual delayed mail on customers. In the absence of Postal Service market analysis, we used a conservative risk-based assessment tool to calculate revenue at risk.

Regarding recommendation 1, we agree that developing annual targets as part of the budget process is critical. However, management should also re-evaluate and update the entire projected operational and transportation financial impacts associated with the operational window change and develop a plan to ensure savings are captured. We plan to conduct additional audit work in this area.

Regarding recommendation 2, in response to recommendation 4 in Report Number NO-MA-15-004, the Postal Service agreed to establish criteria for determining if the network has stabilized prior to resuming Phase II consolidations. The Postal Service has yet to establish these criteria. We believe that as part of the process for establishing criteria, the Postal Service should develop and implement a strategy to improve mail processing productivity. We also continue to believe the Postal Service may need to make adjustments at individual facilities, so we maintain that no further significant national network or operational changes should take place prior to establishing criteria and stabilizing the network. Therefore, management's comments are not responsive to this recommendation.

Regarding recommendation 3, it differs from recommendation 3 in Report Number NO-MA-15-004, which recommended management ensure appropriate transportation is in place to help meet new service standards. In response to that recommendation, management provided documentation showing increased air and surface transportation costs and significantly improved service scores and decreased delayed mail. Based on the information provided, the OIG closed the recommendation in August 2016. The focus of recommendation 3 in this report is for the Postal Service to continue reducing rollover mail by ensuring adequate air transportation capacity exists to meet critical entry times. As noted in our report, 77.8 million pieces of FCM were rolled over in Q2, FY 2016. Therefore, management's comments are not responsive to this recommendation.

Regarding recommendation 5, we agree that management's creation of the Continuous Improvement Project Tracker could serve as a database to share lessons learned from LSS teams. However, this tracker is not currently being used to capture or share lessons learned. We plan to conduct additional audit work in this area.

Regarding recommendation 7, we agree this recommendation is similar to recommendation 1 in Report Number NO-MA-15-004. We closed that recommendation in June 2016 based on declining reported delayed mail volume. We continue to believe that oversight of delayed mail processing is critical and plan to conduct additional work in this area.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. Recommendations 1-6 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. We consider recommendation 7 closed with the issuance of this report.

# Appendices

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## Appendix A: Additional Information

***The Postal Accountability and Enhancement Act of 2006 noted the Postal Service had more facilities than it needs and should streamline its network to eliminate excess costs.***

### Background

The Postal Accountability and Enhancement Act of 2006 noted the Postal Service had more facilities than it needs and should streamline its network to eliminate excess costs. Congress strongly encouraged the Postal Service to expeditiously move forward in its streamlining efforts. The act requires the Postal Service to prepare a strategy for rationalizing its facilities network and remove excess processing capacity and space, including:

- Estimated timeframes, criteria, and processes to be used for making changes to the facilities network.
- The process for engaging policy makers and the public in related decisions.
- Discussion of what impact any facility changes may have on the postal workforce and whether the Postal Service has sufficient flexibility to make needed workforce changes.
- Identification of anticipated costs, cost savings, and other benefits associated with the infrastructure rationalization alternatives discussed in the plan.

In 2011, the Postal Service announced its NRI to align the Postal Service's network processing capacity with its declining mail volume through equipment and plant consolidations and operational changes. As part of the NRI the Postal Service adjusted its operating window and revised service standards. Specifically, on January 5, 2015, the Postal Service revised its FCM service standards, eliminating single-piece overnight FCM service and shifting mail from a 2-day to a 3-day service standard. These revisions enabled the Postal Service to expand the mail processing operational window. This change is known as the OWC. It was designed to allow the Postal Service to process mail on fewer machines, thus using less facility square footage. P&DCs nationwide had to adjust their mail processing and transportation operations to meet the CETs, clearance times, and dispatches of value associated with the new, expanded operational window. The Postal Service stated the OWC was one of the most significant operational changes since mail processing was automated and would save more than \$805 million annually. However, many stakeholders have voiced concerns that delayed mail is increasing and service is declining as a result of the major network changes.

In August 2015, the OIG issued a management alert on the substantial increase in delayed mail since the January 5, 2015, service standard revisions. The OIG found mail was not being processed timely nationwide. Specifically, in the first 6 months of 2015 delayed processing increased by about 494 million mailpieces (a 48 percent increase), compared to the same period a year earlier. The Postal Service considers mail delayed when it is not processed in time to meet its established delivery day with the exception of Standard Mail. Standard Mail is considered to be delayed when it is not processed, finalized or dispatched in time to provide the subsequent operation or facility the allotted time necessary to ensure delivery by the established delivery day. EXFC measurement scores declined as well.

As the Postal Service system began to adjust to the large-scale changes, the timeliness of mail processing improved. Delayed mail nationwide decreased in each subsequent month from January to June 2015. Likewise, service scores have significantly improved for both 2-day and 3-5 day mail.

## Objective, Scope, and Methodology

Our objective was to assess the timeliness of mail processing since the January 5, 2015, service standard revisions. To accomplish our objective we:

- Interviewed Postal Service Delivery, Network Operations, and Finance management officials.
- Monitored nationwide delayed mail.
- Analyzed service performance for all classes of mail.
- Evaluated transportation changes following the service standard revisions.
- Conducted cost analysis of projected savings as a result of service standard revisions.
- Analyzed mail processing efficiency.
- Reviewed management controls over mail processing operations.

We also conducted independent, non-statistical testing of single piece FCM letters, flats, and parcels and Priority Mail flats and packages from September 8 – November 10, 2015, and February 23 – March 4, 2016, to determine how long it took for a mailpiece to be delivered. We chose these time periods to avoid the Postal Service's busiest time of year (December) known as peak season. We also excluded holidays.

We judgmentally selected OIG employee participants primarily based on the location of their residences to ensure we included all seven Postal Service areas and a mix of urban and rural addresses. We mailed 3,035 mailpieces through all seven Postal Service areas and 99 different processing locations. We inducted mail at retail windows, in collection boxes, residence mailboxes, and by scheduled carrier pick-up.<sup>54</sup> Our test was limited by the number of OIG employees living in rural locations, so we sent nine OIG employees to rural towns in DE, MI, MO, MT, NH, ND, OH, UT, and VA to send and receive mail. Each participant signed attestation forms to record dates that mail was received. We excluded 40 mailpieces in our analysis because there was no attestation of receipt. Due to concerns from stakeholders about delayed FCM flats, we are conducting a separate review of this product and plan to issue a separate report on this subject.

We conducted this performance audit from March 2015 through September 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 14, 2016, and included their comments where appropriate.

We used computer-processed data from the EDW, LCRS, webMCRS, MPOPS, SFOPM, and TTMS. We assessed the reliability of computer-generated data by interviewing knowledgeable agency officials. We determined that the data were sufficiently reliable for the purposes of this report.

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<sup>54</sup> We counted the number of days between when a test piece was dropped off at a retail window, collection box, mail box or placed for carrier pick-up and it was delivered.

## Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Timeliness of Mail Processing at the North Houston, TX, Processing and Distribution Center</i>	NO-MT-16-002	2/29/2016	None
<p><b>Report Results:</b> Our report determined that the North Houston P&amp;DC had difficulty processing mail on time. From September 1 through November 30, 2015, the facility had about 54 million delayed mailpieces, compared to about 20 million for a similar-sized facility with the second most delayed mail during that period. In addition, the North Houston P&amp;DC had almost twice as much delayed mail as a percentage of first-handling pieces (FHP) compared to similar-sized facilities. Our management alert recommended management continue to monitor and mitigate delayed mail, fill staff vacancies and management positions, update the mail processing operating plan and run plan generator, increase machine runtime and productivity, ensure management and staff comply with standard operating procedures for mail transport equipment, and ensure corrective actions are taken to address the reported security deficiencies. Management agreed with the findings and recommendations.</p>			
<i>Timeliness of Mail Processing at the Denver Processing and Distribution Center</i>	NO-MT-16-001	12/3/2015	None
<p><b>Report Results:</b> Our report determined that the Denver P&amp;DC had difficulty processing mail on time. Specifically, from July 1 through August 7, 2015, the Denver P&amp;DC's delayed mail increased by 15.4 million mailpieces compared to the same period a year earlier. We found the delays were due to unused processing capacity, supervisor turnover, and mail arriving late to the facility, which, in turn, delayed processing. Our management alert recommended management ensure mail meets CETs and fill supervisor vacancies. Management agreed with our findings and recommendations but disagreed with the revenue at risk calculation for delayed mail.</p>			
<i>Substantial Increase in Delayed Mail</i>	NO-MA-15-004	8/13/2015	None
<p><b>Report Results:</b> The report determined that the mail was not processed timely throughout the country due to weather and network and operational changes, with considerable impact on customer service and employees. There is no longer overnight service for single-piece FCM; the EXFC scores declined for 2-day and 3-5 day service by 6.71 and 38.60 percent, respectively, when compared to the same period a year earlier; and many employees' start times and assigned days off have changed as a result of the expanded operational window. Management agreed with the recommendations to continue to monitor and mitigate delayed mail, evaluate staffing levels and training requirements, and continue to evaluate opportunities for adjustments to ensure appropriate transportation is in place to provide a service responsive network and partially agreed with the recommendation to establish criteria to determine if the network has stabilized and ensure the criteria are met prior to resuming the Phase II consolidations or conducting any other optimization efforts.</p>			
<i>Area Mail Processing Consolidations</i>	NO-AR-15-007	6/5/2015	None
<p><b>Report Results:</b> The report determined that area mail processing (AMP) guidelines provided sufficient instruction for justifying consolidations and required analysis and disclosure of the impact on delivery service standards. We also analyzed 60 Phase 2 consolidations approved in 2012 and 2013 and determined they were cost justified and all yielded cost savings. However, the process should be more transparent. Management agreed with the recommendation to require weekly updates of the public notification website, did not state whether they agreed or disagreed with the findings, and disagreed with the recommendations to update the AMP guidelines to include determining a timeframe for implementing an AMP consolidation once a feasibility study is approved and defining the term "substantive change."</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Mail Processing Operations at the Southern Maine Processing and Distribution Center</i>	<a href="#">NO-MA-15-003</a>	5/11/2015	None
<p><b>Report Results:</b> The report determined that there was a significant increase in delayed mail following the service standard revisions because Southern Maine P&amp;DC management instituted a major staffing realignment to meet operational needs. However, management did not ensure all supervisors and employees were adequately trained for their new job functions nor did they update the facility's operating plan. Our management alert recommended management to continue to monitor delayed mail and to update the operating plan to reflect current operations and ensure it is kept updated. Management agreed with the findings and recommendations.</p>			
<i>Lack of Service Standard Change Information in Area Mail Processing Feasibility Studies</i>	<a href="#">NO-MA-15-001</a>	10/6/2014	None
<p><b>Report Results:</b> The report determined that the Postal Service had not analyzed the impact of planned service standard changes or informed stakeholders of the changes related to Phase 2 consolidations. Specifically, management did not complete the service standard impacts worksheet in 91 of the 95 AMP feasibility studies. We recommended management complete the service standard impacts worksheet in all Area Mail Processing feasibility studies for Phase 2 of the NRI scheduled to begin January 5, 2015, and evaluate the impacts that revised standards will have on each affected community before implementing the consolidations. Management partially agreed with the recommendation.</p>			
<i>U.S. Postal Service: Information on Recent Changes to Delivery Standards, Operations, and Performance</i>	<a href="#">GAO-14-828R</a>	9/25/2014	None
<p><b>Report Results:</b> The report found that revised delivery standards increased the delivery time for some FCM and Periodicals, notably by reducing mail with a 1-day standard. The Postal Service also eliminated 1-day delivery standards for end-to-end Periodicals, which generally shifted to a 2-day standard. USPS's changes in delivery standards enabled it to make significant operational changes, including closing some mail processing facilities. The Postal Service took action intended to balance its workload, notably by increasing the delivery time of some Standard Mail from 3 to 4 days. The Government Accountability Office did not make any recommendations in this report.</p>			
<i>Timeliness of Mail Processing at the Harrisburg, PA, Processing and Distribution Center</i>	<a href="#">NO-MA-14-005</a>	9/16/2014	None
<p><b>Report Results:</b> The report determined that, although the Harrisburg P&amp;DC made improvements, it had difficulty processing its mail on time. In Q1, FY 2014, there were 98 million pieces of delayed mail. The volume of delayed mail decreased in Qs 2 and 3, FY 2014. Despite this improvement, there are still areas at risk that could make it difficult for the Harrisburg P&amp;DC to process mail on time. For example, it had a facility operating plan that was outdated; there were not enough maintenance employees at the facility in FY 2014, Q3, which put operations at risk; and equipment was down for nearly 4,000 hours for mechanical reasons. Our management advisory recommended management to update the operating plan to accurately reflect consolidations and fill maintenance and supervisor vacancies up to authorized levels. Management agreed with the findings and recommendations.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Timely Processing of Mail at the Boston, MA, Processing and Distribution Center</i>	<a href="#">NO-AR-14-007</a>	5/19/2014	\$534,141
<p><b>Report Results:</b> The report determined that the Boston P&amp;DC did not always process mail on time. The Boston P&amp;DC had about 28 million delayed mailpieces in FY 2014, Q1. The majority of delayed mail was due to implementation errors associated with the Middlesex Essex P&amp;DC consolidation, which included failure to update the Boston P&amp;DC operating plan, acquire additional material handling equipment, properly schedule employees, enforce proper color coding of mail, and properly supervise mail flow. Consequently, service scores in Boston declined and the percentage of carriers reporting back after 5 p.m. increased. Our report recommended management to expedite existing material requests, update the operating plan, adjust scheduling of employees to accommodate mail volume, train employees and supervisors on proper color coding procedures, and train supervisors on expediting mail flow throughout the facility. Management agreed with the findings and recommendations.</p>			
<i>Timeliness of Mail Processing at the Hartford, CT Processing and Distribution Center</i>	<a href="#">NO-AR-13-009</a>	9/30/2013	\$144,000
<p><b>Report Results:</b> The report determined that the Hartford P&amp;DC experienced difficulties processing First-Class and Standard Mail in a timely manner during Qs 1 and 2, FY 2013. For example, the Hartford P&amp;DC delayed 34.4 million out of 704 million pieces of mail and had the highest amount of delayed FCM and the second highest delayed Standard Mail compared to similar-size facilities. The majority of the delayed mail was due to two major operational issues: insufficient planning and scheduling especially during holiday periods and mail arriving too late at the plant to be timely processed. Consequently, service scores declined and there was an increased risk that some customers would seek alternative delivery or advertising methods that could result in revenue loss. The report recommended management to adjust planning and scheduling to accommodate mail volumes and ensure mail arrives earlier at the plant so that it can be processed timely. Management agreed with the recommendations.</p>			



## Appendix B: Methodology for Identifying Mailpiece Failures

We used the Mail History Tracking System to examine the mail processing scans for each piece that did not meet its service standard. The scans show when, where, and on what operation a mailpiece was processed at the originating and destinating facilities.

We identified failures as breakdowns in the process of collecting, processing, transporting, and delivering mail; and categorized them as originating, transit, destinating, and last mile. We provided a list of possible causes for failure based on our knowledge of each process; however, there is not sufficient data to determine the root cause of each failure.

**Originating Failures:** Mail that is not processed at the originating facility on the day of induction or day zero.

### Possible Causes

- Carriers did not pick up mail on time.
- Carriers did not pick up blue box collection.
- Mail not transported from station to plant on time.
- Origin plant did not process mail timely.
- Origin plant processed mail on wrong operations.
- Mail processed at originating facility on time and on the correct operation but sent to wrong facility for the next processing (missent mail).

**Transit Failures:** A mailpiece is not processed at a destinating facility within 1-2 days (depending on service standard) after its originating processing date.

### Possible Causes

- Transportation network did not get mailpiece to destinating plant on time (e.g., could be due to rollover mail, diversions, extra trips, etc.).
- Destinating plant did not process mailpiece the day it was received.
- Originating plant did not dispatch mailpiece the day it was processed.

**Destinating Failures:** Mail that shows multiple processing dates at the same destinating facility.

### Possible Causes

- Mail processed on the wrong operations.

- Mail shows multiple processing dates at the same destinating facility.
- Mail processed at the correct destinating processing facility on time, but sent to manual handling bins in error.
- Mail expected to be delivered, but has additional processing at the same destinating processing facility or other facility after the expected delivery date (missent mail).

**Last Mile Failures:** A mailpiece is not delivered the day after receiving final destinating processing.

#### Possible Causes

- Mail did not leave the destinating plant the day it was processed.
- Mail did not arrive at the carrier unit before the carrier left on the route.
- Carrier did not deliver the mailpiece.

A mailpiece can have multiple failure points. Based on available scan data, we can make a reasonable conclusion on where a failure occurred in the process; however, there isn't sufficient data to determine an exact root cause of each failure. We are identifying the possible causes listed in this document based on the team's knowledge of each process and Postal Service scan data. Our conclusion for transit and last mile failures is limited because there is insufficient Postal Service data to track when the mailpiece leaves the originating plant or arrives at the destinating plant.

## Appendix C: Management's Comments



August 19, 2016

SHERRY FULLWOOD  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Office of Inspector General (OIG) Draft Audit Report – Mail Processing and Transportation Operational Changes (Report Number NO-AR-16-DRAFT)

### Executive Summary

The United States Postal Service (USPS) has significant concerns with this OIG audit report's content, analysis and tone. Further, the Postal Service takes issue with inaccurate report findings that do not correctly reflect the benefits of Network Rationalization. While the major concerns are detailed below, the Postal Service does agree with the report's conclusion that since mail service scores have significantly improved since our operating window change in January of 2015, we should not revert back to our prior operating window and implicitly, service standards. This supports the Postal Service's position that we should not revise our First-Class Mail service standards.

Specific USPS concerns include:

- 1. Service Performance Metrics.** The service performance metrics used in the OIG report do not reflect the current record high service performance levels for the major product categories of Standard Mail, ██████████ and ██████████. Nor does it acknowledge that for Quarter 3, for these products and for National Composite Scanning, the Postal Service has achieved the highest quarterly performance scores. In addition, the First-Class Mail Composite score also is at near record levels. Simply put, the report includes non-current OIG conclusions, which are in sharp contrast to our actual current performance and as a result, may cause confusion among our stakeholders.
- 2. Non-statistically valid OIG Mailing Test.** The mailing test conducted by OIG and summarized in this report is not statistically valid as a basis for inferring system wide service performance for several products. Management requested that the OIG language be clarified to accurately note the test pieces were not statistically valid; the OIG did not change the report language, but rather left their language of "non-statistical test."

The non-statistically valid data sample implies relatively large margins of error.

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Analysis of margins of error is essential to the credibility of any service performance estimate. Nevertheless, it is not clear from the report whether appropriate margins of error have been calculated.

In addition, the non-statistically valid test did not proportionately reflect the actual mix of the mail types it purports to measure. For example, 89 percent of the OIG tested First-Class Mail pieces were subject to service standards in the 3-5 day range, compared to the actual mail stream where the proportion is only 51 percent. A disparity also exists in the OIG-tested First-Class Mail Flats, which made up 50 percent of the OIG sample compared to the underlying population of the actual mail stream, which is closer to 5 percent. The test also utilized a limited number of origin and destination points and completely excluded commercial mail, which accounts for 84.7 percent of total volume processed within the same network affected by the operating window changes.

The Postal Service also strongly disagrees with the monetary impact calculated by the OIG for Network Rationalization Initiative (NRI), and has concerns about the characterization of both savings and revenue assumptions in the report.

3. **'Full-Up' Savings Assumptions.** The OIG audit incorrectly assumed that the "full-up" savings (total savings to be achieved over time from Operating Window Changes) would immediately start to be realized on Day 1 of the change. In fact:
  - a) Postal Service testimony before the Postal Regulatory Commission (PRC) in PRC Docket No. N2012-1, Tr. Vol. 2 at 219-220, provided to OIG makes clear that the adjustment of operations, and therefore savings, would take time to accrue rather than be fully realized at the "flip of a switch."
  - b) The Postal Service, recognizing this reality, budgeted \$70.1 million in savings for FY 2015 and provided this information to the OIG.
  - c) The OIG has prematurely concluded the full-up savings target of more than \$805.5 million has not been achieved, because it has failed to recognize that the Operating Window Changes are wholly interdependent with the remaining facility consolidations — which have been deferred due to operational considerations and stakeholder input, including customer and Congressional feedback.
  - d) The Postal Service continues to reduce costs from this initiative and expects to continue capturing incremental savings in the future, and this will increase when the network is fully rationalized.
4. **Monetary Impact of Revenue at Risk.** The OIG estimate of revenue at risk in this report is inappropriate, given that the Postal Service already identified and presented an annual estimate of lost contribution in PRC Docket No. N2012-1, USPS-

T-2 at 11-12. To date, there is no indication that USPS is experiencing any negative revenue impacts due to network rationalization.

In summary, this draft report emphasizes the negatives and omits many of the positives that have resulted thus far. Overall, the tone gives a skewed and incomplete impression of the current state of both service performance and savings related to Network Rationalization. The report correctly recognizes USPS service improvements through Quarters 1 and 2 of FY 2016, but does not acknowledge the record level service metrics in Quarter 3.

The Postal Service has rebounded from early FY 2015 service issues and now has record service performance. After incurring expenses to improve service, additional savings are being realized. Total savings and cost avoidances achieved to date are significant, and the rationale for savings provided in the case still remains valid: by consolidating operations and equipment sets, economies of scale can be realized, leading to efficiency gains. The exclusion of these relevant material facts from the OIG audit report creates the impression that challenges with service that have been resolved continue to linger. The report focuses on non-current service performance metrics, unjustifiably reports revenue at risk, mistakenly compares current state savings to full-up targets, and obscures the statistically questionable nature of service performance test data that readers might presume to be reliable.

#### **Background**

Historically, the Postal Service has modified its processing and distribution network to adapt to changing mail volumes and technological innovation. These adjustments produced a network that was capable of delivering over 212 billion pieces of mail in 2006. Subsequently, a precipitous reduction in mail volume resulted in significant excess capacity within the postal network. In order to adapt the network to this new reality, the Postal Service moved forward with the NRI.

Because the NRI involved a nationwide change in the nature of service that was scheduled for implementation in mid-2012, the Postal Service formally requested an advisory opinion from the Postal Regulatory Commission, as required by 39 U.S.C. § 3661(a). See PRC Docket No. 2012-1, Request of the United States Postal Service on Changes in the Nature of Postal Services (December 5, 2011). The request was supported by extensive expert testimony regarding mail processing operations, network modeling, postal costing and finances, and market research, all of which was subjected to adversarial scrutiny by the PRC and numerous interveners in Docket No. N2012-1. The purpose of the initiative is to align the capacity of the network with present and projected workload realities. The basic logic of NRI is that falling mail volumes and the resultant excess capacity in the Postal Service's mail processing network necessitate a major consolidation of the network, and this task in turn is contingent on revisions to service standards, particularly the overnight standard for First-Class Mail:

By relaxing service standards, operating windows can be expanded. Expanded operating windows allow for the same volume to be processed on fewer machines. Fewer machines mean less facility square footage is required to house the equipment.

Docket No. N2012-1, Direct Testimony of Emily Rosenberg on Behalf of United States Postal Service, USPS-T-3 at 11.

On the assumption that initiation of plant consolidations would coincide with underlying service standard changes, this elimination of excess capacity was originally estimated to generate \$2.1 billion dollars in annual net cost savings. See PRC Docket No. N2012-1, Direct Testimony of Stephen Masse on Behalf of United States Postal Service USPS-T-2 at 11-12. This savings estimate was based on FY 2010 workload, volumes, and trends, and assumed a full-up steady state network in which all implementation activities were completed.

However, during PRC Docket No. N2012-1, the Postal Service adopted the strategy of implementing related service standard and operational changes in two phases. See 77 Federal Register 31191-92 (May 25, 2012). Phase I of Network Rationalization began in July 2012 and included the elimination of plant-to-plant overnight service standards, as well as a modification to the 2- and 3-day service standards. These service standard changes led to the consolidation of operations at 141 facilities. Implementation of the Phase II service standard changes and operational and plant consolidations was originally scheduled for February 1, 2014. *Id.* However, the Phase II service standard changes were not implemented until January 5, 2015. See 79 Fed. Reg. 44701. Critical to any analysis of the impact of Phase II of NRI is the fact that the service standard changes that make the cost-saving operational consolidations feasible have been implemented, but the reductions in mail processing equipment sets and facilities that would generate additional savings have been postponed. The OIG's analysis is undermined by its failure to address the interdependent nature of the two components of Phase II.

#### **A TWO-PHASED NRI**

The Network Rationalization project is extremely difficult to dissect for comparative purposes. As reflected in the case submitted for PRC review in Docket No. N2012-1, it was originally envisioned as a single phase project in which the operating window change (OWC) and consolidations would be implemented at the same time, allowing for the entire network to transition at once. However, after review of comments responsive to the Proposed Rulemaking, informal advice received through other channels, and market research, the Postal Service decided to implement NRI in a two-phased manner. This splitting into phases not only made the comparison to plan more difficult, but it also slowed the ability to capture full efficiencies as early as originally envisioned. Although one-and-a-half years have passed since the OWC changes took effect, not all network changes have been completed due to the deferral of consolidations, focused efforts on improving service performance, and network adjustments for the significant increase in parcels.

It also is very difficult to isolate actual impacts as being driven solely by the network changes. Multiple changes have taken place since the planning of the NRI back in 2010. These include operational changes, as well as changes to transportation contracts and shifts between modes of transportation, and increased spending to improve service. In addition, the volume of packages has changed the operating environment significantly, with package volumes up over 48 percent from FY 2010 levels.

Any attempt to isolate impacts of OWC from impacts of consolidations is further complicated because both affect similar operations. For example the reduction in the numbers of Delivery Bar Code Sorters (DBCS) is achieved by consolidating delivery zones into fewer machines. Such consolidation is optimized when more zones are processed in a particular location (consolidation) and when the processing window is expanded (OWC) and this solution is neither linear nor continuous in nature. With the changing mail mix, additional manual handling costs have been added because many packages are oversized and not machineable. This also led to an increasing need for space on airlift (Priority Mail) or trucks (First-Class Mail or Standard Mail) due to size requirements. In addition, as package volumes have grown, additional transportation has been added to make pickups, as well as to advance receipt into plants (and subsequently into the network) to improve the volume arrival profile (VAP).

The NRI has allowed the Postal Service to maximize its asset utilization to support letter and flat distribution, while also creating the ability to absorb the additional package growth which was not anticipated at the time Network Rationalization was first envisioned. Revenue growth from increased package volume is supporting the agency's universal service obligation; it also has necessitated the addition of sortation machines, which occurred during the period of this audit and is still occurring. Specifically, the Postal Service deployed Small Parcel Sorting System (SPSS) machines across the network and expanded the number of bins on its Automated Parcel Bundle Sorter (APBS) equipment which created some disruption and temporarily increased costs. The audit report fails to note this significant transformation occurring within the network at the same time the Operating Window Change was being implemented.

The NRI also has provided and will continue to provide additional opportunities for savings and cost avoidance that were not included as part of the Postal Service's conservative approach to claiming non-workhour savings in its original case filing with the PRC, although the possibility for significant savings was considered. The Postal Service has begun to quantify such additional benefits as it continues to assess the positive externalities associated with Network Rationalization. These additional benefits include:

- Sale and elimination of leases associated with unneeded facilities and repurposing of assets to support additional equipment to improve the efficiency of package distribution, which the OIG recognized within this audit report.

- Reduced need for equipment upgrades to support end-of-life issues within the reduced equipment fleet.
- Ability to delivery point sequence more mail volume. Due to the expanded operating window, mail which otherwise would have to be sorted manually is now sequenced on automation.

This history further emphasizes how difficult it is to report actual impacts from the NRI's two-phased implementation against the original single-phased implementation plan.

#### Specific Postal Service Concerns with the Audit Report

##### 1. Service Performance Metrics

Since the stabilization of service performance, all service categories have seen a dramatic improvement with ██████████ Standard Mail, ██████████ and National Composite Scanning achieving the highest quarterly performance score on record since performance measurement began. See Figures 1-2 for service performance trends.

Figure 1

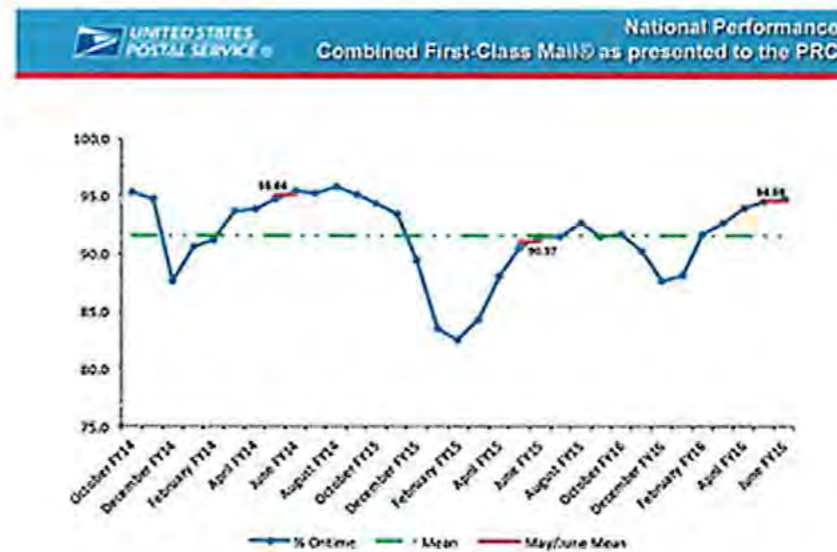




Figure 2



## 2. Non-statistically valid OIG Mailing Test

The audit comments related to service performance are over four months old and are based on statistically invalid samples which overstate the delay in the overall mail and package portfolio. The OIG performed this non-statistically valid test during Quarters 1 and 2 of FY 2016, with results presented at national levels and by product and service standard, as well as broken down into urban-rural origin and destination categories.

The OIG report does not provide any information on procedures or quality verifications used in the creation and addressing of its test pieces, or the validation of reported information on transit time. The Postal Service utilizes a system performed by an independent outside organization, known as the External First Class (EXFC) model. EXFC performs extensive quality checks of test pieces, including address verification, inspection of postage and physical test piece characteristics, and periodic testing of processing performance at USPS mail processing facilities. Similarly, the EXFC system employs rigorous data quality check processes to confirm the validity of reported induction (start-the-clock) and receipt (stop-the-clock) information. If test pieces and their associated performance data fail to meet any of these quality checks, the pieces are not used in EXFC performance calculations. The OIG report does not specify the criteria which were used to determine which sampled pieces were included in its results.

During the OIG entrance conference, Network Operations personnel communicated these concerns related to statistical inaccuracy, margin of error, and testing quality assurance. The

general response was that the OIG recognized that its test would not be statistically representative and that the final report would reflect this awareness. These concerns were also communicated during subsequent OIG information gathering sessions, especially when it became clear that their testing methodology and distribution would generate very different results when compared to the Postal Service's EXFC testing.

The non-statistically valid test performed by the OIG utilized a very small sample size, which generates a large margin of error. When the Postal Service requested that margin of error estimates for the non-statistically valid test be provided, the OIG was unable to do so. The sample sizes used for the OIG test, if they had been established using statistical methods, would yield large margins of error.

Information about how the limited origin and destination locations were chosen for the OIG test was not made available for evaluation. The national level results provided within the OIG report by product and service standard indicate that the samples were divided approximately equally between products, with approximately 90 percent of the First-Class Mail pieces having a 3-day service standard. This heavy concentration of 3-day sample pieces (90 percent) versus the true population of approximately 50 percent 3-day pieces is inconsistent with actual mailing patterns and behavior (See Table 1). In addition, the OIG's test has a heavy non-statistically valid sampling of flats which far exceeds the underlying population of mail volume it purports to measure. FC Flats make up approximately 5.10% of the Postal Service's official sampling measurement which corresponds to the actual underlying population of FC flats versus FC letters whereas the OIG utilized approximately 50% flats within non-statistically valid sample of the OIG (See Table 1 totals). Aggregating the OIG sampled pieces and showing the results for all of the sampled pieces will lead to inaccurate conclusions about overall performance.

Table 1

		Official Measurement Statistics		OIG Test Results	
Product	Service Standard	Sample Size	% of Product	Sample Size	% of Product
First-Class Letters	2-Day	525,975	49%	62	11%
First-Class Letters	3-5 Day	555,327	51%	526	89%
First-Class Flats	2-Day	28,297	49%	63	11%
First-Class Flats	3-Day	29,826	51%	527	89%
<b>Total Letters</b>		<b>1,081,302</b>	<b>94.90%</b>	<b>588</b>	<b>49.92%</b>
<b>Total Flats</b>		<b>58,123</b>	<b>5.10%</b>	<b>590</b>	<b>50.08%</b>

The non-statistically valid OIG test for letters and flats was performed only on Single-Piece First-Class Mail Letters, Single-Piece First-Class Mail Flats. These mail types are a very small subset of market-dominant letter and flat products for which the Postal Service measures and reports service performance. By focusing on these discrete categories, the OIG's analysis ignores service performance for Commercial (Presort First-Class Mail) and Standard Mail, which comprise the overwhelming majority of letters and flats.

Table 2 below shows the volume levels for letters and flats by the above-referenced categories. Highlighted is the portion of mail volume contained within the non-statistically valid measurement of service performed by the OIG. The volume categories not included within the OIG test comprise approximately 85 percent of all letter and flat volume moving through the system which also were affected by the Operating Window Change. The exclusion of the overwhelming majority of the letter and flat volume flowing through mail processing plants from consideration in an analysis of the impact of Network Rationalization on service performance limits the credibility and value of that impact analysis.

Table 2

Category	Total (Q1,Q2 FY2016) (Volume in millions)	Percent (Q1,Q2 FY2016)	OIG Pieces (Q1,Q2 FY2016 Test)	Percent (Q1,Q2 FY2016 Test)
Single-Piece Letters and Cards	10,723	14.62%	588	49.92%
Single Piece Flats	502	0.68%	590	50.08%
Commercial Presort Letters and Cards	20,782	28.34%	-	0.00%
Commercial Presort Flats	323	0.44%	-	0.00%
Standard Letters	28,484	38.84%	-	0.00%
Standard Flats	12,523	17.08%	-	0.00%
<b>Total:</b>	<b>73,337</b>	<b>100.00%</b>	<b>1,178</b>	<b>100.00%</b>

\*Source: FY 2016 Revenue, Pieces and Weight Quarterly volume for Q1+Q2

### 3. 'Full-Up' Savings Assumptions

The report assumes that savings from Network Rationalization were expected to accrue immediately following the change in service standards. This is not the case and was never expected to be the case since the inception of the Network Rationalization Initiative. The full savings from Network Rationalization cannot be realized until all of the elements have been enacted. This includes the remaining consolidations that are currently deferred. In addition, as noted in the report, there was a lag time following the service standard change during which the Postal Service realigned all of the operational components to support the new operational profiles. These changes included activities associated with the consolidations, the rebidding of job assignments in processing facilities, and the realignment of transportation modes and capacities. None of these efforts could be accomplished overnight and had to be coordinated. These changes delayed and continue to delay the capture of savings identified in the PRC case, Docket No. N2012-1, associated with Phase II of Network Rationalization. This fact was overlooked despite the testimony referenced below, which was provided to the OIG as well:

It's our intent to change service standards on one day, so the service standards would change on one day across the country and then those activities that would need to take place primarily around facility modifications, equipment changes, transportation changes, mail movement, people movement, those major operational changes would start to take place across the network. But again, it's not something that a flip of a switch that we're going to be able to do. It will take some time.

Docket No. N2012-1, Tr. Vol. 2 at 219-220.

The Postal Service, recognizing this reality, budgeted \$70.1 million for FY 2015 and provided this information to the OIG.

The OIG audit report's predicted savings shortfall also assumes no additional savings will be realized from the NRI; this is incorrect. The Postal Service already has provided to the OIG additional cost savings that were enabled through the NRI (which the OIG validated), and is actively working on achieving additional savings. Further, there are additional savings to be generated from the remaining consolidations that have been deferred, and the overall efficiency of the network when fully implemented.

There are also other financial benefits from future sales of buildings and terminations of leases. In addition, the Postal Service will continue to transform excess space for other internal use and benefit from avoided costs of having to lease or purchase new space. The reduction of the equipment fleet will reduce required maintenance support; minimizing equipment upgrades due to a reduced equipment fleet will add additional cost avoidance benefits.

The OIG's assessment simply takes the original estimate of savings and subtracts what has been achieved to date, declaring the resulting figure the predicted savings "shortfall."

#### **4. Monetary Impact of Revenue at Risk**

The revenue at risk was previously identified by the Postal Service and presented to the PRC in Docket No. N2012-1; therefore, it is inappropriate for the OIG to assess a monetary impact for revenue at risk related to the NRI. It also is important to note that the Postal Service estimates of annual lost contribution from this initiative totaled approximately \$500 million. See PRC Docket No. N2012-1, USPS-T-2 at 11-12. That estimate was premised on a complete elimination of overnight service for all First-Class Mail, which would have been a more extreme change in the nature of service than actually was implemented. Rather than complete elimination, the change was instead a phased reduction in First-Class Mail service that preserves overnight service for properly entered Presort First-Class Mail. To date, there is no indication that the agency is experiencing any negative impact to revenue as a result of Network Rationalization.

#### **Response to OIG Recommendations**

##### **Recommendation 1:**

Re-evaluate and update the projected operational and transportation financial impacts associated with the operational window change.

##### **Management Response:**

The Postal Service agrees in part with this recommendation. Finance and Planning in conjunction with Operations will develop annual targets as part of its annual budget cycle to allocate appropriate cost reduction goals to the field based on identified efficiency opportunities. In addition, the Postal Service will continue to assess additional positive

contributions provided by Network Rationalization and will quantify those contributions annually as part of its DRIVE initiative process.

**Target Implementation Date:** Annual

**Responsible Managers:** Manager, Budget  
Manager, Processing Operations

**Recommendation 2:**

Develop and implement a strategy to improve mail processing productivity in the new operational window before any additional nationwide operational changes or consolidations are implemented.

**Management Response:**

Management considers this recommendation to be similar to Recommendation 4 from the OIG's Management Alert NO-MA-15-004:

Establish criteria for determining if the network has stabilized and ensure the criteria are met prior to resuming Phase II consolidations or conducting any other optimization efforts.

Management provided the following response on August 11, 2015:

Management partially agrees with this recommendation. Management does not agree that all *other* optimization efforts must cease. The activities associated with Phase 2 consolidation efforts are the activities deferred at this time. Some optimization efforts, particularly with individual facilities may be required to continue to meet customer or business requirements.

**Target Implementation Date:** N/A

**Responsible Manager:** N/A

**Recommendation 3:**

Develop a plan to ensure adequate air transportation capacity is available for mail to meet its critical entry times.

**Management Response:**

Management considers this recommendation to be similar to Recommendation 3 from the OIG's Management Alert NO-MA-15-004:

Ensure appropriate transportation is in place to help meet the new service standards.

Management provided the following response on August 11, 2015:

Management agrees with this recommendation. Management regularly reviews the network, continually evaluating opportunities for adjustments to ensure appropriate transportation is in place to provide a service responsive network.

Target Implementation Date: N/A

Responsible Manager: N/A

**Recommendation 4:**

Create and use a nationwide system to track and report the amount, cause, and origin of late arriving mail.

**Management Response:**

Management agrees with this recommendation. The Postal Service already has developed the Informed Visibility system (IV) to collect significantly more granular data regarding the acceptance, processing and delivery of mail. IV data will enhance the Postal Service's ability to assess the magnitude and diagnose the root causes of late arriving mail. The system will have the capability to provide the recommended functionality. The potential service performance measurement capabilities of the system currently are the subject of review in PRC Docket No. PI2015-1.

Target Implementation Date: March 2017

Responsible Manager: Manager, Processing Operations

**Recommendation 5:**

Establish a nationwide database to capture and share the Lean Six Sigma teams' lessons learned.

**Management Response:**

Management agrees with this recommendation. The Postal Service already has developed a national database to capture and share information from Lean Six Sigma projects, the Continuous Improvement Project Tracker. Management considers this recommendation to be completed.

Target Implementation Date: N/A

Responsible Manager: N/A

**Recommendation 6:**

Ensure all operating plans are updated in accordance with Postal Service policy to reflect the new operating window.

**Management Response:**

Management agrees with this recommendation. Management already has directed all processing centers to update their current operating plans housed in the Mail Processing Operating Plan System (MPOPS) and will set up a process to ensure compliance.

**Target Implementation Date: October 2016**

**Responsible Manager: Manager, Processing Operations**

**Recommendation 7:**

Continue to monitor and reduce delayed mail processing, as appropriate.

**Management Response:**

Management considers this recommendation to be similar to Recommendation 1 from the OIG's Management Alert NO-MA-15-004:

Continue to monitor and reduce delayed mail processing, as appropriate.

Management provided the following response on August 11, 2015:

Management agrees with this recommendation. Management will continue its daily practice of monitoring mail conditions and making improvements where appropriate.

This OIG closed this recommendation on June 6, 2016

**Target Implementation Date: N/A**

**Responsible Manager: N/A**



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