



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Delivery Unit Optimization Process

Audit Report

Report Number
DR-AR-14-007

August 25, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

The revised DUO guidelines were not adequate for processing DUO proposals with projected financial losses.

Background

The U.S. Postal Service's Delivery Unit Optimization (DUO) initiative began in December 2010 to increase operational efficiencies by consolidating delivery operations into centralized facilities. Management issued revised DUO guidelines in March 2013 as a result of a December 2012 Postal Service Office of Inspector General (OIG) audit. From March to September 2013, management implemented 273 DUO consolidations.

Our objectives were to assess the adequacy of the revised DUO guidelines and determine whether Postal Service areas and districts complied with the guidelines.

What the OIG Found

The revised DUO guidelines were not adequate for processing DUO proposals with projected financial losses. Also, management did not always comply with the guidelines. Specifically, in fiscal year 2013, management approved 41 consolidations with projected financial losses of \$321,550.

According to management, there may be valid business reasons to approve a DUO consolidation with a projected financial loss; however, the Postal Service did not document these reasons because the guidelines did not require it to do so. As a result, management did not fully support a business case for implementing 41 of the DUO consolidations.

Further, eight DUO proposals lacked sufficient support for \$584,797 of savings reflected on the DUO worksheets and some DUO before and after cost studies were not performed as required. These shortcomings were due to insufficient management oversight and management's belief that they needed data from a longer time period to adequately assess the consolidation. We could not validate projected savings or losses for the studies that were not performed. Consequently, we estimate questioned costs of over \$906,000 because post-implementation studies were not performed.



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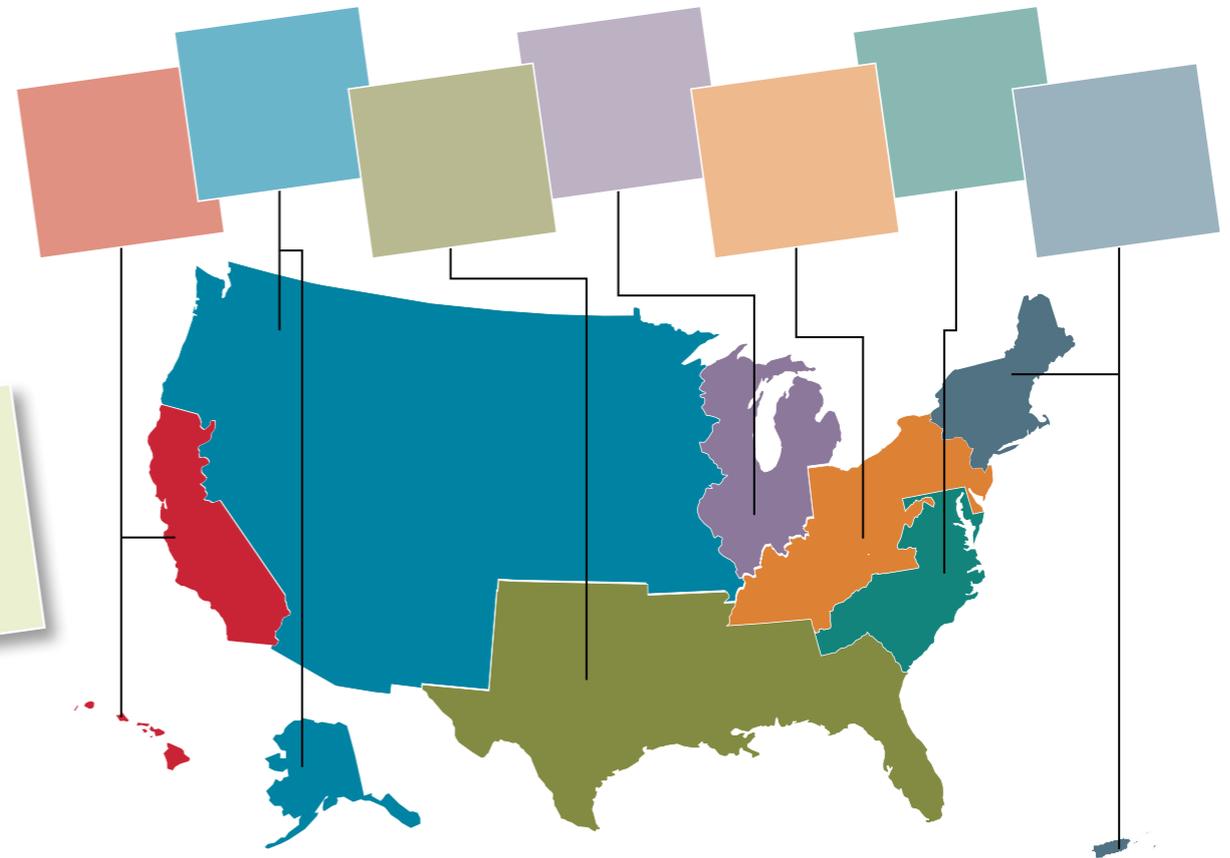
UNITED STATES POSTAL SERVICE

Delivery Unit Optimization (DUO) Consolidations by regions

Roll over the regional map to reveal the DUO consolidations in each region.

See Table 1 for a detailed break out by district.

Total DUOs
273



What the OIG Recommended

We recommended the vice president, Delivery and Post Office Operations, update DUO guidelines to require a savings threshold for consolidations and justifications for DUO proposals that do not reach the threshold and reinforce to the DUO coordinators that they provide justification and support on the DUO worksheet. In addition, require the approving authority

to validate cost savings calculations, compliance with guidelines to document the savings, and costs categories. We also recommended management ensure DUO coordinators perform required cost studies and revise the post-implementation cost analysis requirement to a single study conducted 1 year after consolidation.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 25, 2014

MEMORANDUM FOR: EDWARD F. PHELAN, JR
VICE PRESIDENT, DELIVERY AND
POST OFFICE OPERATIONS

E-Signed by Robert Batta
VERIFY authenticity with e-Sign
Robert J. Batta

FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Delivery Unit Optimization Process
(Report Number DR-AR-14-007)

This report presents the results of our audit of the U.S. Postal Service's Delivery Unit Optimization Process (Project Number 13XG035DR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita Oliver, director, Delivery and Post Office Operations, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

In fiscal year 2013, management approved 41 consolidations with projected financial losses of \$321,550. According to management, there may be valid business reasons to approve a DUO consolidation with a projected financial loss; however, the Postal Service did not document these reasons because the guidelines did not require it to do so. As a result, management did not fully support a business case for implementing 41 of the DUO consolidations.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's revised Delivery Unit Optimization (DUO) Process (Project Number 13XG035DR000). Our objectives were to assess the adequacy of the revised DUO guidelines and determine whether Postal Service areas and districts complied with them. See [Appendix A](#) for additional information about this audit.

In December 2010, the Postal Service established limited guidelines for the DUO initiative, which was designed to increase operational efficiencies by centralizing delivery operations within each postal district. Management revised the DUO guidelines in March 2013 based on recommendations from a December 2012 U.S. Postal Service Office of Inspector General (OIG) audit.¹ From March 1 through September 30, 2013, the Postal Service implemented 273 DUO consolidations. See [Table 1](#) for DUO consolidations by districts.

Conclusion

The revised DUO guidelines were not adequate for processing DUO proposals with projected financial losses. Also, management did not always comply with the guidelines. Specifically, in fiscal year 2013, management approved 41 consolidations with projected financial losses of \$321,550. According to management, there may be valid business reasons to approve a DUO consolidation with a projected financial loss; however, the Postal Service did not document these reasons because the guidelines did not require it to do so. As a result, management did not fully support a business case for implementing 41 of the DUO consolidations.

Further, eight DUO proposals lacked sufficient support for \$584,797 of savings reflected on the DUO worksheets and some DUO before and after cost studies were not performed as required. These shortcomings were due to insufficient management oversight and management's belief that they needed data from a longer time period to adequately assess the consolidation. We could not validate projected savings or losses for the studies that were not performed. Consequently, we estimate questioned costs of over \$906,000 because post-implementation studies were not performed.

Delivery Unit Optimization Guideline Enhancements

During March 1 through September 30, 2013, 41 of the 273 DUO consolidations had projected financial losses totaling more than \$321,000 (see [Appendix B](#)). Management stated there may be a number of reasons to approve a consolidation proposal with a projected loss. For example, the loss may be minor and, therefore, the consolidation may be considered "a wash"² or the consolidation may result in fewer drop-off points³ for business mailers. While there may be valid business reasons for approving a DUO consolidation with a projected financial loss, the DUO guidelines did not specify a dollar value threshold or require justification for approving such proposals.

¹ *Delivery Unit Optimization Initiative* (Report Number MS-AR-13-001, dated December 6, 2012).

² According to headquarters management a "wash" constitutes the DUO balancing out to \$0 savings.

³ Postal Service authorized shipper/maileer entry points.

Delivery Unit Optimization Guidelines Compliance

We concluded that Postal Service areas and districts did not always comply with established DUO guidance.

DUO Worksheet Accuracy and Justification. Eight DUO worksheets⁴ had discrepancies that included overstatements of more than \$584,000 in savings and “Other Costs” entered incorrectly. Also, these costs were insufficiently justified on the DUO worksheets.

- Greensboro District: one worksheet had two vacant positions counted as filled,⁵ resulting in an overstatement of salary-related savings of \$158,524.
- South Jersey District: one worksheet had a vacant position counted as filled, resulting in an overstatement of salary-related savings of \$73,639.
- Greater South Carolina District: three worksheets had vacant positions counted as filled, resulting in an overstatement of salary-related savings of \$181,352.
- Sierra-Coastal District: one worksheet had a vacant position counted as filled, resulting in an overstatement of salary-related savings of \$107,879.
- Atlanta District: one worksheet had a vacant position counted as filled, resulting in an overstatement of salary-related savings of \$61,369.
- Central Plains District: one worksheet reported \$2,034 as a cost in the comments section, but described this amount as a savings in the narrative.

These discrepancies occurred because Postal Service area and district management did not adequately review and approve DUO consolidation worksheets. Headquarters management stated they intentionally left some positions vacant as a strategic decision due to ongoing initiatives, with the intention of filling them at a later date. However, the data shows the positions had been vacant for 1 year or longer.⁶ The guidance for reporting “Other Savings” and “Other Costs” requires that “manual input of respective data must be explained in comments.”⁷ We believe that, with better oversight, these discrepancies were preventable.

We identified worksheets with salaries and benefits out of proportion with the number of current and proposed employees. We interviewed district DUO coordinators for each site and determined that employees were “authorized” but not on the roll. We determined the authorized on roll positions were counted as savings. We generated an On Roll and Paid Employee Statistics (ORPES) report⁸ to determine if the position had been vacant for at least 1 year. We identified eight positions vacant for at least 1 year and considered including salaries and benefits for that position to be invalid for the purposes of calculating savings.

4 DUO worksheets for these locations showed positive savings based on open vacancies at these locations.

5 Area management stated on the DUO worksheets they used headquarters Post Office Structure Plan (POStPlan) cost savings methodology because the DUO guidelines did not specify the timeframe for using previously open/unfilled vacancies as part of the analysis.

6 In testimony to the Postal Regulatory Commission on May 25, 2012, the Postal Service stated it now uses actual employee costs in economic analysis: historical data that provides an average of employee costs for the past year for vacant positions.

7 *USPS DUO/Cost/Savings Input PowerPoint Manual*, Change Suspension Discontinuance Center (CSDC), dated April 19, 2013.

8 The report is generated by the Enterprise Data Warehouse system.

Before and After Cost Studies. Some districts did not conduct the 3- and 6-month before or 3- and 6-month after cost study analyses required by the DUO guidelines. The OIG surveyed all 67 districts and received 15 responses.⁹ Only four districts indicated they conducted both 3- and 6-month before and after cost studies.¹⁰

We visited three of the surveyed districts¹¹ and determined the Northern Virginia and Richmond districts did not perform either the 3- and 6-month before or the 3- and 6-month after cost study analyses. The South Jersey District performed a pre-implementation cost study and indicated it plans to conduct a post-implementation cost study. Management believed they needed data from a longer time period to adequately assess the success of the consolidation. A longer time period would ensure that the DUO coordinator has more complete financial performance data. We found the post-implementation requirements contributed to the lack of data because districts did not have enough time to collect it. Because the Postal Service did not conduct after cost studies, it cannot be certain it achieved projected annualized savings. During the course of the audit, some managers suggested doing a single cost study 12 months after the DUO consolidation to provide a more accurate account of savings.

⁹ The OIG received 11 “no” responses and four “yes” responses to the survey submitted November 8, 2013.

¹⁰ Postal Service memorandum, *Delivery Unit Optimization*, dated March 1, 2013.

¹¹ We visited three districts: Northern Virginia, Richmond, and South Jersey. These districts implemented 51 DUO consolidations, 17 of which did not have the required cost study analysis.

Recommendations

We recommend management update DUO guidelines to require a savings threshold for consolidations and justifications for DUO proposals that do not reach the threshold and reinforce to the DUO coordinators that they provide justification and support on the DUO worksheet. In addition, it should require validation of cost savings calculations, compliance with guidelines to document the savings, and cost categories.

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

1. Update Delivery Unit Optimization (DUO) guidance to include a savings threshold amount and require justification for DUO proposals with projected losses.
2. Reinforce that Delivery Unit Optimization (DUO) coordinators provide justification and support in the comments section of the DUO projected annualized savings worksheet.
3. Require that Delivery Unit Optimization approving authorities validate cost savings calculations.
4. Ensure Delivery Unit Optimization coordinators prepare before and after cost study analyses to validate costs, savings, and efficiencies.
5. Revise the post-implementation cost study analysis requirement to a single study conducted 1 year after the Delivery Unit Optimization consolidation.

Management's Comments

Management disagreed with the findings, recommendations, and monetary impact.

Regarding our findings, management stated they do not consider the report to be accurate or reflective of actions taken. Management asserted that the DUO worksheets were accurate and stated they held the vacant positions in reserve as a cost avoidance measure and the work may have been performed by an employee paid a lower rate. Also, their analysis of the 41 reported DUO consolidations indicated projected losses of less than \$2,000 per month, per site for all but one of the of the consolidations. In addition, 38 of the consolidations with a projected loss were expected to yield additional operational savings from proposed POSTPlan initiatives.

Management disagreed with recommendation 1, stating that DUO guidance includes a process for analysis, justification, and management review and approval. Also, since savings are measured on economies to scale, a target savings threshold would not be feasible.

Management disagreed with recommendation 2, stating that the CSDC application negates the recommendation and there is a comment section in the projected annualized savings worksheet for recording additional comments.

Management disagreed with recommendation 3, stating that the process exists within the CSDC application which requires DUO approving authorities to validate cost savings. The financial worksheet is a forecasting tool and should not be misconstrued as containing the final calculations.

Management disagreed with recommendation 4, stating there is currently a process in place requiring coordinators prepare before and after cost study analyses. In addition, the district tracks all costs and savings associated with relocation and provides senior management with a summary.

Finally, management disagreed with recommendation 5, stating that, since DUO consolidations are performed throughout the country with various implementation dates, it would not be practical to conduct a single study 1 year after a consolidation. Additionally, full savings may not be realized within 1 year especially at sites as a result of a NODE¹² study.

In addition, management disagreed with the monetary impact, stating that we did not take into account operational savings, but only monetary savings.

Evaluation of Management's Comments

The OIG considers management's comments unresponsive to the findings and recommendations. As such, we view the recommendations as unresolved, but do not plan to pursue them through the audit resolution process.

Management's general comments on the accuracy of the report are incorrect. We obtained the information in the report from Postal Service publications and data systems, verified it with Postal Service field and Headquarters personnel, and discussed it with management on several occasions. During these discussions management did express some concerns; however, when asked for documentation to support their requested change, none was provided.

For all five recommendations management asserted they have a well-defined set of existing processes established in the DUO guidance so do not need to implement any of the recommendations.

Regarding recommendation 1, management disagreed with updating DUO guidance to include a savings threshold amount and require justification for DUO proposals with projected losses. Management acknowledged in their comments the approval of DUO consolidations with a projected loss. Management is also correct that the DUO guidance include a process for the analysis, justification, and management review and approval of DUO consolidations. However, we determined the DUO guidance does not contain specific procedures for processing DUO proposals with projected losses. Also, our analysis of the 41 DUO consolidations with projected losses determined the DUO worksheets did not contain an explanation of why a DUO consolidation with no projected savings was approved. During our audit, management stated some DUO consolidation savings may be a "wash" and there may be a valid business reason for approving a DUO consolidation with a projected loss, which we included in the report. The recommendation for management to establish a savings threshold for a DUO projected dollar loss that is considered acceptable or, a "wash", for approval for a DUO proposal is a good business practice. In addition, including a clear explanation in the comment section of the DUO worksheet justifying the business case for approving a DUO proposal with a projected loss will enhance transparency.

Management stated that the POSTPlan initiative yielded operational savings opportunities. The scope of our review was DUO consolidation proposals; however, on several occasions during the audit, we discussed with management the potential impact of POSTPlan on DUO consolidation savings at offices where both initiatives occurred simultaneously. During these meetings, management stressed that POSTPlan was a separate initiative and that savings from DUO and POSTPlan should not be combined. In response to management's initial comments on POSTPlan and the stated objective of the audit, we agreed to only review DUO proposals during the audit. However, if management now opts to include POSTPlan savings in their DUO assessment they should identify those savings in planning documents to provide a complete business case for performing a DUO consolidation. In addition, combining the two initiatives could facilitate the preparation of the consolidation proposals, reduce the potential for double counting savings, and enhance transparency.

¹² The NODE study analysis allows the Postal Service to consolidate delivery operations to yield operational and lease savings. *2012 Annual Report to Congress & Comprehensive Statement.*

Regarding recommendation 2, management disagreed with reinforcing that DUO coordinators need to provide justification and support in the comments section of the DUO worksheet. While management stated they have a well-defined process, the report identified examples of DUO worksheets with discrepancies that included savings overstatements of more than \$584,000 and other costs entered incorrectly. In addition, during our audit management stated that they intentionally left some employee positions vacant on the worksheets as a strategic decision due to ongoing initiatives, with the intention of filling them at a later date. However, our analysis of the data showed the positions had been vacant for 1 year or longer. There can be no savings if there is no expense. The Postal Service has acknowledged this to the Postal Regulatory Commission when reporting their POSTPlan savings calculations, but was inconsistent in that approach when reporting DUO savings. The DUO guidance for reporting other savings and other costs requires that manual input of data be explained in the comments section; therefore, with better oversight, discrepancies like these could be prevented.

Regarding recommendation 3, management disagreed with requiring approving authorities to validate cost savings calculations. They stated that the financial worksheet is just a forecasting tool and should not be misconstrued as containing the final calculations. While the financial worksheets may be a forecasting tool, management uses them in the DUO consolidation approval process. Consequently, DUO worksheets should be as complete and accurate as possible and approvals should include supporting documentation in addition to a "sign off".

Regarding recommendation 4, management disagreed with ensuring that DUO coordinators prepare before and after cost studies to validate costs and savings and to increase operational efficiencies by consolidating delivery operations into centralized facilities. Despite the requirement and reminders by headquarters management to perform the cost studies, during our audit we found that three of the districts we surveyed were not conducting them. Some managers stated the 3- and 6-month post-consolidation reviews do not provide enough time to adequately assess the success of the consolidation. They suggested doing a single cost study for each DUO consolidation after 12 months to provide a more accurate account of savings. Because the Postal Service did not conduct these cost studies, it cannot be certain it achieved projected annualized savings.

Regarding recommendation 5, management disagreed with revising guidelines to conduct post-implementation cost study analyses 1 year after the DUO consolidation instead of 3 and 6 months after, as currently required. Management responded that since DUO consolidations are performed throughout the country with various implementation dates, it would not be practical to conduct a single study 1 year after the consolidation. Management seems to have misinterpreted the recommendation even though we discussed it with them at the exit briefing and during other meetings throughout the audit. Revising DUO guidance to require one cost study for each DUO proposal 1 year after a DUO consolidation would be less labor-intensive and may provide a more accurate account of savings.

Regarding the monetary impact, we based our saving calculations on a review of DUO consolidation worksheets from the Postal Service's CSDC. As stated in the report, we based the savings on 41 consolidations approved at a loss without justification and discrepancies noted in the calculations on eight DUO worksheets. We discussed the monetary impact with management and requested documentation that would support a different result; however, they did not provide any supporting documentation to dispute the monetary savings identified.

Appendices

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to the right to navigate to the
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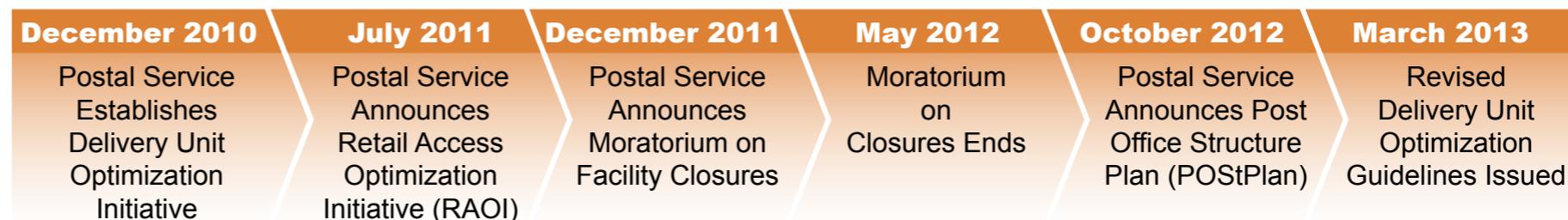
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Appendix A: Additional Information

Background

Management has taken positive steps by implementing numerous initiatives to close, consolidate, and reduce customer service operations between FYs 2010 and 2013 (see Figure 1).

Figure 1: Postal Service Delivery and Retail Initiatives



Source: OIG analysis.

In December 2010, the Postal Service established guidelines for the DUO initiative, which was designed to increase operational efficiencies by moving delivery operations out of Post Office retail facilities into centralized facilities within a district. The DUO initiative often resulted in a change at the post office's management level.¹³ Management revised the DUO guidelines¹⁴ for field implementation in March 2013 based on a recommendation from an earlier OIG audit.¹⁵

The revised guidelines provide additional information for determining costs and savings resulting from DUO consolidations. Specifically, the guidelines require management to track relevant operating costs, workhours, and mail volumes. The Postal Service uses this information to conduct cost studies and audits and to prepare and submit compliance reports, as required. Further, the guidelines require the Postal Service to conduct 3- and 6-month cost studies before and after implementation.¹⁶ From March 1 through September 30, 2013, the Postal Service implemented 273 DUO consolidations. See [Table 1](#).

¹³ Management levels are determined by the span of control for front-line supervisors and managers based on the number of employees for an area.

¹⁴ The revised DUO guidelines do not address claiming POSTPlan postmaster savings in DUO consolidations.

¹⁵ *Delivery Unit Optimization Initiative* (Report Number MS-AR-13-001, dated December 6, 2012).

¹⁶ Postal Service memorandum, *Delivery Unit Optimization*, dated March 1, 2013.

Table 1: DUO Consolidations

District	Number of Consolidations
Mid-America	52
Central Plains	44
Mid-Carolinas	28
South Jersey	24
Atlanta	21
Greensboro	20
Cincinnati	18
Kentuckiana	11
Northern Virginia	6
Dakotas	6
Richmond	5
Sierra-Coastal	4
Seattle	5
Greater SC	3
Central IL	3
Northern NJ	3
Sacramento	2
Mississippi	2
Appalachian	2
Western NY	2
Greater Indiana	2
Honolulu	2
Western PA	1
Detroit	1
Bay-Valley	1
Rio Grande	1
Capital	1
Greater MI	1
Lakeland	1
Santa Ana	1
Total	273

Source: OIG analysis based on data from CSDC.

Objectives, Scope, and Methodology

Our audit objectives were to assess the adequacy of the revised DUO guidelines and determine whether Postal Service areas and districts complied with them. Specifically we:

- Obtained, reviewed, and analyzed cost savings worksheets for completed DUO consolidations conducted from March 1 through September 30, 2013.
- Reviewed changes to the revised DUO guidance, including financial performance report line items and before and after cost study analysis requirements.
- Reviewed 273 projected annualized savings DUO consolidation worksheets, visited three district offices, and conducted interviews related to 51 consolidations that occurred from March 1 to September 30, 2013.
- Surveyed 67 district coordinators and finance managers to obtain information on before and after cost study analysis.
- Interviewed district DUO coordinators regarding the DUO calculations worksheets.
- Analyzed cost savings on the DUO projected annualized cost savings worksheets to determine whether positions counted as filled were vacant.
- Reviewed the POSStPlan methodology included on DUO worksheets to determine how management claimed POSStPlan savings¹⁷ in the consolidations.¹⁸
- Reviewed Automated Postal Service (PS) Form 150,¹⁹ Postmaster Workload Information, to determine office levels and vacancy status.
- Analyzed ORPES report data for the employee complement for the same period last year.

We conducted this performance audit from May 2013 through August 2014, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 19, 2014, and included their comments where appropriate.

We assessed the reliability of the DUO data from the CSDC²⁰ by accessing the systems used to retrieve and analyze various data elements and interviewing personnel knowledgeable about the data in the system. We determined that the data were sufficiently reliable for this report.

¹⁷ In January 2014, the OIG met with Postal Service Headquarters management and officials stated that DUO and POSStPlan were two separate initiatives and combined savings from these initiatives could not be used in either cost savings analysis.

¹⁸ In January 2014, management informed the OIG that POSStPlan savings were not part of the DUO consolidation savings calculations.

¹⁹ We retrieved automated PS Form 150 data from the Postal Service Operations Complement Management system.

²⁰ An interactive website that allows districts and areas to view material related to suspensions or discontinuances of post offices and enter data to make those changes.

Prior Audit Coverage

The OIG report, *Delivery Unit Optimization Initiative* (Report Number [MS-AR-13-001](#), dated December 6, 2012) determined that, although management generally complied with DUO guidelines, the guidelines were limited and did not provide district management with a well-defined methodology to project and validate savings and efficiencies. Thus, local managers developed their own methodologies to project and validate savings, which led to inconsistent consolidation determinations. Also, management did not always perform and document post-consolidation reviews. As a result, management has not effectively tracked the results of the DUO initiative and we could not determine whether the 1,500 consolidations reduced costs or improved operational efficiencies in delivery units. However, we judgmentally selected five sites for detailed review and found mixed results. Three of the five sites had reduced costs after consolidation, while two had increased costs. Furthermore, none of the five sites showed improved efficiencies 6 months after consolidation. Management did not agree with our recommendations.

Appendix B: Negative Projected Annualized Savings

We identified 41²¹ DUO consolidations that management approved and implemented with projected losses totaling \$321,550. During discussions with headquarters management the OIG was informed that although these consolidations were losses, there were other decision making variables involved with the consolidations such as operational efficiencies and local management knowledge.

District	Post Office	Total Projected Loss
Central IL	Lockport Carriers	(\$86,551)
Central IL	Powersville	(\$22,852)
Mid-America	Chilhowee	(\$22,263)
Mid-America	Easton	(\$19,897)
Mid-America	Lesterville	(\$17,570)
Mid-America	Ridgeway	(\$14,937)
Mid-America	Falcon	(\$14,698)
Mid-America	Skidmore	(\$14,210)
Mid-America	Effingham	(\$13,510)
Mid-America	White Cloud	(\$11,511)
Mid-America	Colony	(\$10,812)
Mid-America	Lancaster	(\$9,691)
Mid-America	Mendon	(\$6,488)
Atlanta	Molena	(\$6,426)
Mid-America	Collins	(\$4,694)
Mid-America	Eagleville	(\$4,320)
Mid-America	Creighton	(\$3,664)
Cincinnati	New Straitsville	(\$3,469)
Mississippi	Ruth	(\$3,169)
Detroit	Decker	(\$2,809)
Mid-America	Des Arc	(\$2,736)
Appalachian	Keeling	(\$2,657)
Atlanta	Good Hope	(\$2,386)
Cincinnati	Radnor	(\$2,242)

²¹ According to headquarters management, two of the DUO consolidations did not have a DUO and POSTPlan initiative occurring at the same time in order to include projected POSTPlan savings to prevent a loss.

District	Post Office	Total Projected Loss
Mid-America	Broseley	(\$1,900)
Mid-America	Winchester	(\$1,862)
NOVA	Brandy Station	(\$1,604)
Atlanta	Waco	(\$1,581)
Mid-America	King City	(\$1,561)
Cincinnati	Lewisville	(\$1,392)
Mid-America	Denton	(\$1,362)
Mid-America	Blairstown	(\$1,350)
Mid-America	Fordland	(\$1,212)
Cincinnati	Patriot	(\$1,056)
Western NY	Lawtons	(\$1,014)
Mid-America	Arcadia	(\$782)
Mid-America	Montreal	(\$752)
Mississippi	Carson	(\$306)
Mid-America	Fisk	(\$180)
Santa Ana	Anaheim Canyon Station	(\$41)
Mid-America	Fremont	(\$33)
Total	41	(\$321,550)

Source: CSDC database as of May 2013.

Appendix C: Management's Comments



July 31, 2014

LORI LAU DILLARD
A. DIRECTOR, AUDIT OPERATIONS

SUBJECT: Delivery Unit Optimization Process (Project Number 13XG035DR000)

The findings and recommendations outlined in the above noted audit report has been reviewed and the response is as follows.

Delivery Unit Optimization (DUO) is designed to increase operational efficiencies by relocating delivery operations into a "hub facility" within a district. Postal Savings are based on economies of scale. The benefit is increased operational savings. The DUO guidelines are a blue print to assist the field with moving operations from one location to another. Modifications were incorporated into the DUO guidelines as a result of prior recommendations from a 2012 OIG audit. This included recommendations on the methodology to project and validate savings and efficiencies.

According to the DUO guidelines the results of a successful implementation of the DUO process would be:

1. Offices retain their original identity
2. Offices are streamlined in delivery operations with routes in fewer offices
3. Retail presence remains essentially unchanged
4. Distribution operations in receiving offices are expanded fully utilizing existing personnel
5. Transportation schedules and trips may be modified to meet changing conditions

The OIG report indicated that eight DUO worksheets had overstated savings and that these costs were insufficiently justified. Of these eight sites, seven were related to vacant positions which the USPS held in reserve as a cost avoidance measure. Until such time, the US Postal Service opts to revert these positions; they remain fully funded active positions. The report also cited that the US Postal Service improperly reporting salary and benefits indicating that they were out of proportion. Salary and benefits within the US Postal Service are fluid depending on the rate of employee used to perform the work. If the positions were not filled as stated previously, then the work may have been absorbed or performed by a lower rate employee. The recommendation alone discredits the allegation made that USPS did not properly review or approve the DUO consolidation worksheet.

Additional the OIG reported that 41 DUO consolidations were performed that projected a loss of \$321,550 and therefore recommends a threshold be established and justifications recorded in the comments section of the worksheet. The USPS evaluated the forty one sites studied and all but one had projected loss of less than \$2,000 per month, per site. One was not implemented one was a result of a node study and thirty eight were post office structure plans (post-plan) sites which yield additional operational savings. Post Plan sites have low earning workload and adjusted hour of operation, therefore to maximize efficiency the delivery operation was relocated. This validates the US Postal Service position that savings are measured on economies to scale and the DUO guideline is a management tool and the savings are in fact operational. We disagree with all monetary findings as they do not take into account any operational savings, only monetary savings.

We further do not consider that the analysis and findings contained in your draft report to be accurate or reflective of actions taken nor that the DUO guidelines are not adequate for processing proposals with projected financial losses.

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

1. Update Delivery Unit Optimization (DUO) guidance to include a savings threshold amount and require justification for DUO proposals with projected losses.

MANAGEMENT RESPONSE: The USPS disagrees with this recommendation. The USPS has a well-defined process as established in the DUO guide book which includes analysis, justification, management review and approval. Since savings are measured on economies to scale a target savings threshold would not be feasible.

2. Reinforce that Delivery Unit Optimization (DUO) coordinators provide justification and support in the comments section of the DUO projected annualized savings worksheet.

MANAGEMENT RESPONSE: The USPS disagrees with this recommendation. The USPS has a well-defined set of existing processes to achieve this recommendation within the CSDC application. This includes check lists, analysis tools and templates that includes analysis, justification, support and approval for Delivery Unit Optimization. Furthermore, a comment section exists in the projected annualized savings worksheet for recording additional comments.

3. Require the DUO approving authorities to validate cost savings calculations.

MANAGEMENT RESPONSE: The USPS disagrees with this recommendation. The USPS has a well-defined set of existing processes to achieve this recommendation within the CSDC application which includes the DUO approving authorities validate cost savings. The financial worksheet is just that a forecasting tool and should no way be misconstrued as the finalized calculations.

4. Ensure Delivery Unit Optimization coordinators prepare before and after costs study analyses to validate costs, savings and efficiencies.

MANAGEMENT RESPONSE: The USPS disagrees with this recommendation. A well-defined process to achieve this recommendation currently exists. In addition the district Finance Manager tracks all costs and savings associated with the relocation and provides senior management with a summary.

5. Revise the post-implementation cost study analysis requirements to a single study conducted 1 year after the Delivery Unit Optimization consolidation.

MANAGEMENT RESPONSE: The USPS disagrees with this recommendation. The US Postal Service has a well-defined process for post implementation analysis. Since DUO consolidations are performed throughout the country with various implementation dates it would not be practical to conduct a single study one year after the consolidation. Additionally, full savings may not be realized within one year especially in sites as a result of NODE study.

This report and managements' response does not contain information that may be exempt from disclosure under the Freedom of Information Act.



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cc: Megan Brennan



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