



June 7, 2007

KATHLEEN AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL

SUBJECT: Audit Report – Deployment Strategy of Automated Postal Centers (Report Number DR-AR-07-010)

This report presents the results of our self-initiated audit of the U.S. Postal Service's Deployment Strategy of Automated Postal Centers (APCs) (Project Number 05YG043DR000). Our objective was to assess the deployment strategy of APC kiosks. Specifically, in this review, we determined whether Postal Service officials were adequately redeploying underperforming APC kiosks deployed during Phase I. We also determined whether Postal Service officials were properly planning for placement of additional APC kiosks during Phase II deployment.

The Postal Service deployment strategy for APC kiosks during Phase I was adequate. Postal Service officials initially deployed APC kiosks to facilities based on their initial criteria which included analysis of walk-in revenue related to the self-service platform products and facility data. Officials compared APC kiosks' performance with the number of "APC eligible" transactions. In addition, as of December 2006, officials had identified and appropriately redeployed 170 underperforming APC kiosks. However, approximately 54 percent of APC kiosks did not meet the minimum revenue requirements in fiscal year (FY) 2006. Further, approximately 55 percent of APC kiosks did not meet the minimum revenue requirements as of the first quarter of FY 2007.

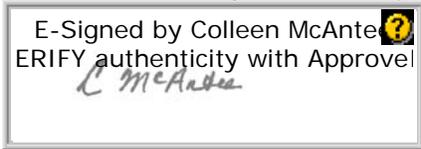
Although Postal Service Headquarters officials stated they have discussed with area officials the need to redirect noncomplex transactions from the retail counter to APC kiosks, they have not developed or communicated to area officials specific plans for how to do this. In addition, officials have not finalized the specific operational procedures for daily operations in the APC instructional documents since Phase I deployment in November 2004.

The Postal Service has an opportunity to improve plans for future deployment of Phase II APC kiosks. The draft Decision Analysis Report (DAR) provides four retail strategies that include moving simple transactions out of post offices and developing new retail services that create customer value and revenue. Although officials provided these strategies in the draft DAR, they have not specifically communicated how to achieve the *Transformation Plan's* goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010. In addition, the U.S. Postal Service Office of Inspector General's (OIG) analysis of FY 2006 actual transaction data for the best 3,000 Phase II candidate facilities indicates only about 50 to 100 of these facilities have sufficient APC eligible transactions to potentially produce a cost savings. The draft DAR used Phase I transaction data to calculate labor savings and not actual transaction data from the Phase II candidate facilities. As a result, the Postal Service's implementation of the Phase II purchase of 3,000 APC kiosks could result in a \$115 million loss over the next 7 years, instead of the positive \$243 million the draft DAR projected.

We recommended the Vice President, Delivery and Retail, revise, finalize, and distribute the APC instructional documents to area officials and include information on procedures similar to those found in Handbook PO-102, *Self Service Vending Operational and Marketing Program*. We also recommended management reevaluate the draft DAR to include strategies for achieving the *Transformation Plan's* goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010. We also recommended revising the draft DAR assumptions using analysis results of actual APC eligible transactions from the proposed 3,000 Phase II candidate facilities to calculate the minimum workhour reductions for labor savings.

Management provided written comments based on our discussion draft report and in subsequent discussions with OIG, agreeing with our findings and recommendations. Management stated they distributed the APC instructional documents for comment in February 2007, provided them to the union for review in April 2007, and will issue the final documents in June 2007. For Phase II APC deployment, management stated that if the decision is made to proceed, they plan to revise the draft DAR to include actual APC eligible transaction data to calculate the workhour savings and the strategies for meeting the *Transformation Plan's* goals for alternate access. We have included management's comments and our evaluation of these comments in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Rita Oliver, Director, Delivery, or me at (703) 248-2100.



Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
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INTRODUCTION

Background

Automated Postal Centers (APCs), shown in Figure 1, were designed to offer customers a wide range of Postal Service products, services, and information through state-of-the-art technology. The APC kiosks provide customers access to approximately 80 percent of Postal Service products and services available at the retail counter, up to 24 hours, 7 days a week.

Figure 1. Automated Postal Center with 'sidecar'



Source: Postal Service Headquarters Officials

The APC program supports the U.S. Postal Service's Transformation Strategy to Generate Revenue through Enhanced Access and Ease of Use. The program's long-range goals include reducing operating costs, expanding customer satisfaction, improving access to products and services, and increasing revenue through alternate access.

Postal Service officials deployed 2,500 APC kiosks from April through November 2004 to Postal Service facilities nationwide. Officials deployed APC kiosks to facilities based on initial criteria analysis of walk-in revenue related to the self-service platform products; wait time in line; population growth; and facility type, size, and location.¹

¹ Based on the APC Phase I Decision Analysis Report (DAR), approved by the Board of Governors in April 2003. Officials previously called the APC the Self-Service Platform.

[REDACTED]

The *Postal Service Transformation Plan's* goal is to double to 40 the percentage of retail transactions conducted via alternate access channels by 2010. The APC is one of those access channels targeted as part of this goal.

[REDACTED]

Postal Service officials plan to purchase and deploy up to 3,000 more APC kiosks in Phase II by the end of FY 2014, by means of a competitive procurement. At the time of our review, the Postal Service's capital budget indicated funding of \$122.1 million for the purchase of APC kiosks in FYs 2007 and 2008.⁴ The Postal Service will place APC kiosks in Postal Service facilities nationwide based on the initial criteria used in Phase I deployment and analysis of APC transaction data.⁵ Deployment locations will include APC kiosks in inner lobbies⁶ based on the pilot test results of APC kiosks in the Western Area.⁷ The Postal Service contracted with International Business Machines (IBM) to conduct a Strategic

[REDACTED]

⁵ The transaction data was retrieved from the Retail Data Mart (RDM) system which can provide a *Gain Report* that identifies an office's potential APC transactions that can be diverted from the retail counter to the APC.

⁶ The inner lobby area is opened to postal customers during normal business hours. In many facilities, an outer lobby area is opened for postal customers to enjoy the convenience and reliability of 24 hour postal access seven days a week.

[REDACTED]

Analysis of the APC locations and the results indicated that six out of the seven facilities reported closing one or more windows since the APCs were installed in the inner lobby in the Western Area. Also, revenue in the outer lobbies where APCs were located has increased since inner lobby APCs were installed in the Western Area.

**Objective, Scope, and
Methodology**

The objective of our audit was to assess the deployment strategy of APC kiosks. Specifically, in this review we determined whether Postal Service officials were adequately redeploying underperforming APC kiosks. We also determined whether officials were properly planning for placement of additional APC kiosks in the Phase II deployment.

We interviewed Postal Service Headquarters officials, and reviewed documentation, applicable policies, and procedures pertaining to the deployment strategy for APC kiosks. We also analyzed FYs 2004 through 2005 revenue data from the RDM system for the 56 APC kiosks redeployed⁸ to determine the accuracy of identifying the underperforming APC kiosks based on the revenue requirements.

We analyzed transaction data from RDM to determine if transactions were moving away from the retail counter to the APC. We also analyzed this data to validate that officials accurately identified the underperforming APC kiosks and redeployed the 56 APC kiosks to facilities based on transaction data. Further, we analyzed revenue data from the Postal Service RDM for FY 2006 through the first quarter of FY 2007 to determine the number of APC kiosks consistently not meeting revenue requirements.

We conducted this audit from August 2005 to June 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We relied on data obtained from postal systems. We did not directly audit the systems, but performed a limited data integrity review to support our data reliance. We discussed our observations and conclusions with management officials and included their comments where appropriate.

⁸ Based on our initial analysis, the Postal Service redeployed 56 APC kiosks. However, since that time, Postal Service officials have redeployed an additional 170 APC kiosks, bringing the total to 226 APC kiosks redeployed as of December 2006. We completed our analysis on the redeployment of the 56 underperforming APC kiosks.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) issued two reports directly related to our objectives. We have included a complete listing of the reports in Appendix C.

AUDIT RESULTS

Deployment Strategy of Automated Postal Centers

The Postal Service's deployment strategy for APC kiosks in Phase I was adequate. Postal Service officials initially deployed APC kiosks to sites based on their initial criteria analysis of walk in revenue related to the self-service platform products; wait time in line; population growth; and facility type, size, and location. Officials compared APC kiosks' performance with the number of "APC eligible" transactions. Additionally, as of December 2006, officials had identified and appropriately redeployed 170 underperforming APC kiosks. However, many APC kiosks were not meeting established revenue goals. Further, opportunities exist to proactively address revenue shortfalls and properly plan for future deployment of additional APC kiosks in Phase II.

Underperforming Automated Postal Centers

Officials identified and redeployed underperforming APC kiosks as appropriate. During FY 2006, transaction data indicated only 20 percent of APC eligible transactions were being converted to APC kiosks. As a result, approximately 54 percent of APC kiosks did not meet the minimum revenue requirements in FY 2006. Further, approximately 55 percent of APC kiosks continued to underperform as of the first quarter of FY 2007. (See Appendix A, Tables 1 and 2.)

Postal Service Headquarters officials developed an instructional training video that provided area officials with guidance on working in the lobby as an attendant for dissemination to their respective APC facilities. However, area officials with APC kiosks stated that (1) after the initial installation of APC kiosks, no requirement existed for training new employees assigned APC duties at existing APC facilities and (2) there was no policy for backup employees for APC kiosks.⁹ Also, the Postal Service contracted with IBM to conduct a strategic analysis at APC facilities; 75 percent of the respondents interviewed did not know their APC revenue goal and 25 percent indicated they received no direction on the APC from their supervisor.¹⁰ IBM made recommendations that included refreshing the

⁹ Source — OIG Fiscal Year 2006 Financial Installation Audit results.

¹⁰ IBM officials were able to successfully contact 189 locations via telephone and visit 26 sites. IBM conducted 108 phone interviews with service employees and 228 interviews with supervisors, postmasters, managers, or retail supervisors. One-half of the 26 site visits interviews were with service employees and the other half with supervisors.

training program, updating the training manual, promoting usage of the APC website to facilitate revenue communication, and requiring frequent use of lobby greeters.

Although Postal Service Headquarters officials stated they have discussed the need to redirect noncomplex transactions from the retail counter to APC kiosks with area officials, they have not developed or communicated to area officials how to do so. Further, officials have not finalized the procedures for APC daily operations. The operational procedures in the draft APC instructional documents included the *APC Relocations Procedures Handbook* and APC Handbook PO-103, *Automated Postal Center Host Standard Operating Procedures for Management and Automated Postal Center Host Standard Operating Procedures for Employees*.

Our analysis of the draft APC instructional documents indicated they do not provide clear guidelines for APC kiosk redeployment similar to Handbook PO-102, *Postal Service Vending Operational and Marketing Program* for vending machines.¹¹ Specifically, the guidelines did not contain (1) notification procedures and information on required efforts to improve APC kiosks' performance before redeployment that may include best practice information from successful postal locations¹² and (2) clear instructions for how to evaluate specific report metrics and how often to retrieve management information reports to make decisions.¹³

We discussed our results with Postal Service Headquarters officials who agreed with our findings. They stated that the detail guidelines were not included in the original draft documents due to management oversight. The officials stated the original draft documents provided guidance on redeploying underperforming APC kiosks; however, the information can be revised with specific procedures.

¹¹Section 232 – Revenue Criteria; Section 256 – Redeployment.

¹²We analyzed the Southeast Area, Central Florida District's procedures to monitor APC performance. Specifically, the procedures included daily monitoring and communication of the APC performance in meeting the minimum revenue requirement, making site visits to the underperforming machine locations, and placing attendants in the lobby on a short-term basis to facilitate customer use of APC kiosks.

¹³In the Automated Center Host Management Standard Operating Procedures document, *Tracking and Communication of Unit Performance*, there are no clear guidelines on all the baseline metrics that need to be established and how to establish them.

Recommendation	We recommended the Vice President, Delivery and Retail: <ol style="list-style-type: none"><li data-bbox="574 302 1409 915">1. Revise, finalize, and distribute the Automated Postal Center instructional documents for implementation by area officials (<i>APC Relocation Procedures Handbook</i>, Handbook PO-103, <i>Automated Postal Center Host Standard Operating Procedures for Management and the Automated Postal Center Host Standard Operating Procedures for Employees</i>) with information to include procedures similar to Handbook PO-102, <i>Self Service Vending and Operational Marketing Program</i>. At a minimum, the procedures should include (1) notification procedures and information on required efforts to improve the APC kiosks' performance before redeployment that may include best practice information from successful Postal Service facilities and (2) clear instructions for how to evaluate specific report metrics and how often to retrieve management information reports to make decisions.
Management's Comments	Management agreed with the recommendation. They stated the APC instructional documents were distributed for comment in February 2007 and provided to the union for review in April 2007. The final documents will be issued in June 2007. Management's comments, in their entirety, are included in Appendix D.
Evaluation of Management's Comments	Management's comments are responsive to the recommendation. Management's actions taken or planned should correct the issue identified in the finding.
Phase II Deployment of Automated Postal Centers	The Postal Service has an opportunity to improve plans for future deployment ¹⁴ of Phase II APC kiosks. The OIG analyzed the draft APC Phase II DAR and retail transaction data. The proposed DAR outlines expected labor savings of \$135.5 million. These savings were based on a reduction in sales and service associate workhours expected as transactions migrate from the retail counter to APC kiosks. The labor savings were expected during FY 2009. The DAR provided four retail strategies: move simple

¹⁴ As indicated in footnote 4, Postal Service officials delayed the Phase II DAR. Our review and analysis was based on the draft Phase II DAR, which Postal officials plan to revise prior to seeking approval for Phase II deployment.

transactions out of the post offices, create a new low-cost retail alternative, optimize the retail network, and develop new retail services that create customer value and revenue. Although officials provided these strategies in the DAR, they did not specify how to achieve the *Transformation Plan's* goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010. The APC is an alternate access channel offering customers a range of Postal Service products and services 365 days a year. However, as stated earlier in our report, the field units need more information on how to promote the use of APCs to increase the percent of revenue conversion.

Our analysis of the actual transaction data for FY 2006 at the best 3,000 Phase II candidate facilities indicated only about 50 to 100 of them have sufficient APC eligible transactions to potentially produce a cost savings. Further, our analysis of the draft Phase II APC DAR indicated the document did not use actual transaction data from these locations to project labor cost savings. Instead, the draft DAR used savings from the Phase I candidate facilities. Our analysis of the transaction data for these 3,000 facilities identified approximately 26 average weekly hours of APC eligible transactions from the retail counter. By contrast, for the Phase I APC kiosk facilities, the average number of weekly hours of APC eligible transactions was approximately 50. Even if the eligible transactions at these 3,000 facilities identified for Phase II increased to levels 50 percent greater than their current levels, given the assumptions in the OIG model used for analysis, the Phase II project would still not show a positive net present value. As a result, the Postal Service's implementation of the Phase II purchase of 3,000 APCs could result in a \$115 million loss over the next 7 years, instead of the positive \$243 million the draft DAR projected. (See Appendix B.)

Recommendations

We recommend the Vice President, Delivery and Retail, reevaluate the draft Decision Analysis Report to:

2. Include strategies to achieve the *Transformation Plan's* goal of doubling to 40 the percentage of retail transactions conducted via alternate access channels by 2010.

3. Revise the draft Decision Analysis Report assumptions using analysis results of actual Automated Postal Center eligible transactions from the proposed 3,000 Phase II candidate locations to calculate the minimum workhour reductions for labor savings.

**Management's
Comments**

Management agreed with the recommendations. They stated the Phase II APC purchase has been postponed due to budgetary constraints and Phase I APC kiosks not achieving target revenue goals. Management stated they plan to revise the draft DAR if the decision is made to proceed with the Phase II purchase. Management further stated the revised draft DAR will include actual APC eligible transaction data to calculate the workhour savings and strategies to meet the *Transformation Plan's* goals for alternate access.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the recommendations. Management's actions taken or planned should correct the issue identified in the finding.

APPENDIX A PERFORMING AND UNDERPERFORMING APC KIOSKS BY AREA

Table 1. Fiscal Year 2006

Earnings Per Month	Capital Metro	Eastern	Great Lakes	New York Metro	Northeast	Pacific	Southeast	Southwest	Western	Total No. of APCs	% of Total	Average Revenue
\$20,014 to 38,783	16	2	26	16	8	35	42	60	51	256		\$24,081
\$16,008 to \$19,992	33	18	30	27	6	52	55	53	67	341		\$17,706
\$12,503 to \$15,971	41	39	45	55	38	97	91	44	110	560		\$14,214
Total Performing APCs	90	59	101	98	52	184	188	157	228	1,157	46	
\$10,005 to \$12,478	37	55	53	20	31	61	64	39	96	456		\$11,254
\$8,010 to \$9,994	27	53	59	20	27	59	55	30	54	384		\$9,039
\$5,000 to \$7,999	39	52	89	12	12	75	44	25	46	394		\$7,243
\$1,457 to \$4,998	10	11	33	7	1	18	13	5	9	107		\$4,038
Total Underperforming APCs	113	171	234	59	71	213	176	99	205	1,341	54%	

Table 2. 1st Quarter of Fiscal Year 2007

Earnings Per Month	Capital Metro	Eastern	Great Lakes	New York Metro	Northeast	Pacific	Southeast	Southwest	Western	Total No. of APCs	% of Total	Average Revenue
\$20,009 to \$49,068	50	33	67	64	29	82	98	112	151	686		\$25,221
\$16,514 to \$19,983	33	38	51	40	25	56	72	33	85	433		\$18,150
Total Performing APCs	83	71	118	104	54	138	170	145	236	1,119	45	
\$12,004 to \$16,492	55	70	79	33	47	111	98	54	121	668		\$14,258
\$9,001 to \$11,991	32	53	57	12	13	85	50	36	32	370		\$10,564
\$8,001 to \$8,997	9	16	13	1	2	21	12	2	11	87		\$8,522
\$5,042 to \$7,951	16	15	41	2	3	27	9	4	18	135		\$6,836
\$28 to \$4,919	2	3	15	5	0	14	16	8	3	66		\$2,036
\$0 to -\$913	1	5	2	2	0	3	4	1	1	19		-\$48
Total Underperforming APCs	115	162	207	55	65	261	189	105	186	1,345	55%	

Source: Postal Service Headquarters Officials

APPENDIX B

OIG CASH FLOW ANALYSIS FOR PHASE II APC FUTURE PURCHASE

Given the model’s assumptions, implementing the Phase II program would result in a \$115 million loss for the Postal Service. Even for a few probably highly unrealistic scenarios which we modeled, the project does not break even (for the 7-year time horizon).

Project year FY	1 2007	2 2008	3 2009	4 2010	5 2011	6 2012	7 2013
Capital investment	(\$65,399)	(\$56,842)					
Operating variances other than labor savings							
Training, Personnel	(\$2,115)	(\$716)	(\$225)	(\$229)	(\$232)	(\$236)	(\$239)
Training, non-personnel	(\$818)	(\$236)	(\$41)	(\$41)	(\$42)	(\$42)	(\$43)
Equipment Maintenance, non-Postal (Level2)	(\$1,755)	(\$6,874)	(\$7,161)	(\$7,380)	(\$7,675)	(\$7,982)	(\$8,309)
Implementation and Life-Cycle Support, personnel	(\$3,790)	(\$1,675)	(\$325)	(\$337)	(\$351)	(\$364)	(\$380)
Implementation and Life-Cycle Support, Services	(\$17,820)	(\$17,080)	(\$13,575)	(\$13,467)	(\$13,411)	(\$13,453)	(\$13,740)
Implementation and Life-Cycle Support, Equipment	(\$7,980)	(\$3,075)					
Postal Servicing Labor (Level 1)	(\$401)	(\$3,207)	(\$6,357)	(\$7,755)	(\$8,001)	(\$8,250)	(\$8,506)
Total Operating variances other than labor savings	(\$34,680)	(\$32,864)	(\$27,683)	(\$29,209)	(\$29,713)	(\$30,327)	(\$31,216)
OIG labor cost savings estimate	\$6,023	\$19,802	\$31,317	\$39,382	\$44,464	\$46,878	\$49,990
Net Cash Flow	(\$94,056)	(\$69,904)	\$3,634	\$10,173	\$14,751	\$16,551	\$18,774
Discounted net cash flow	(\$94,056)	(\$63,694)	\$3,017	\$7,696	\$10,167	\$10,394	\$10,743
NPV @ 9.75% discount rate	(\$115,732)						
ROI (IRR)	-19.8%						
OIG estimated cumulative machines deployed	1,605	3,000					

We used the following assumptions to calculate the \$115 million loss.

Assumptions and Description of the Labor Cost Savings Model and Discounted Cash Flow Calculation

1. The base data for the model is the "APC Gain Report - Non-APC POS Locations as of 2/7/2007 — POS Visits FY06," provided by Postal Service Headquarters Customer Service Operations and contained in file "APC Gain - Non-APC POS locs — FY06 Report.xls." The report contains data collected by the Point of Service (POS) system for approximately 12,600 sites which do not currently have an APC in place. From this group, we were able to identify 4,390 of the 4,484 sites originally designated as Phase II candidate sites. We used this group for our analysis. From this group, we identified the 3,000 sites with the highest APC eligible workloads. The model assumes deployment of the APCs to this group — 1,605 in the first year of deployment and 1,395 in the second year.
2. The model assumes labor hour savings can be achieved in one of two ways — either permanent reductions in full-time positions or somewhat limited reduction of Overtime/Part Time Flexible Hours.
3. A full-time career position can be eliminated if at least 34 hours of workload can be converted to an APC. However, the hours eliminated will be valued at the Postal Service's fully loaded rate only if a full 40 hours of workload can be converted. Between 34 and 40 hours of workload converted will result in valuing the workhours eliminated at something less than the fully loaded rate.
4. For a given retail unit, OT/PTF workhours can be reduced one-for-one with each hour of workload converted, up to 15 percent of total unit retail workload.
5. In the first year after deployment of an APC, the estimated percentage of APC eligible transactions which will be converted to the APC is 16.61 percent. This value was derived from an analysis of the Phase I APC kiosk conversion rate somewhat more than 1 year after deployment. As such, we consider it to be likely overstated, therefore, conservative.
6. The base scenario of the model uses 1.3 as the annual conversion rate increase factor. This corresponds to a 30 percent per year increase in conversion, compounded each year.
7. The model assumes 90 percent is the maximum conversion rate achievable
8. The model assumes variable workhours are accomplished with a 50/50 mix of OT/PTF hours.
9. The model uses \$41.72, \$35.69 and \$22.70 as the fully loaded OT and PTF FY 2007 hourly rates, respectively.

10. The Postal Service labor cost escalation rate used is 2 percent per year.
11. In the "project discounted cash flow" tab, the capital investment amounts were obtained from the Postal Service's *Corporate Planning System* report. The values for the "Operating variances other than labor savings" in that tab were derived from the Phase II DAR, escalated by 1.5 percent per year.
12. 9.75 percent was used as the discount rate, which is currently appropriate for a "medium risk" project.
13. The sensitivity tables demonstrate the effect of the conversion rate increase factor. These are for the purpose of demonstrating the rapidity of conversion under various scenarios.
14. The purpose of the sensitivity tables is to test the sensitivity of the model to a major assumption/input, the conversion rate increase factor, and a major constraint — the number of hours of APC eligible transactions.

APPENDIX C

PRIOR AUDIT COVERAGE

Report Name	Report Number	Date Final Report Issued
Review of the Deployment Strategy of Automated Postal Centers – Central Florida District	DR-AR-05-015	9/7/05
Fiscal Year 2006 Financial Installation Audit – Automated Postal Centers	FF-AR-07-073	1/25/07

APPENDIX D. MANAGEMENT'S COMMENTS

KATHY AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL



April 19, 2007

COLLEEN MCANTEE

SUBJECT: Automated Deployment Strategy of Automated Postal Centers
Official Project Number - Project Number 05YG043DR000

In response to the March 8 draft report regarding the above-referenced subject, attached please find our comments. We agree with the recommendations contained within the report.

We request that anything dealing with revenue and specific business processes that could be used by our competitors to provide similar services be redacted from the report before posting on the Web page.

If you have any questions, please feel free to contact either Janet L. Webster at (202) 268-5091 or Debra A. Chin at (202) 268-5117.

A handwritten signature in black ink, appearing to read "Kathy Ainsworth".

Kathy Ainsworth

Attachments

cc: Patrick R. Donahoe
William P. Galligan
Janet L. Webster
Debra A. Chin
Michael C. Adams
Richard W. Rudez
Frederick J. Hintenach
Steven R. Phelps

**Management Response to the Office of Inspector General Audit Report
Automated Deployment Strategy of Automated Postal Centers
Official Project Number - Project Number 05YG043DR000**

Recommendation #1: We recommended that the Vice President, Delivery and Retail: Revise, finalize and distribute the APC Instructional Documents for implementation by Area officials (APC Relocations Procedures Handbook, APC Handbook - PO 103, Automated Postal Center Host Standard Operating Procedures for Management and the Automated Postal Center Host Standard Operating Procedures for Employees) with information to include procedures similar to the Postal Service Vending Operational & Marketing Handbook, PO-102. At a minimum, the procedures should include (1) notification procedures and information on required efforts to improve the machine's performance before redeployment that may include best practice information from successful postal locations and (2) clear instructions on evaluation of specific report metrics and how often to retrieve management information reports to make decisions.

Corrective Action: Postal Service Headquarter officials implemented corrective action during our audit. Management agreed to finalize and distribute the APC Instructional Documents in May 2007. After the draft documents have been circulated among the different functional areas for comment, they plan to post the updated document on the Delivery & Retail website by August 2007. The documents will include (1) specific strategic plans to achieve the Transformation Plan goal to increase the number of transactions moved from the counter to the APC; (2) notification procedures and information on required efforts to improve the machine's performance before redeployment that may include best practice information from successful postal locations; and (3) clear instructions on evaluation of specific report metrics and how often to retrieve management information reports to make decisions.

Management Response: The revised draft APC Instructional Documents were distributed for comment in February. Recommended changes were incorporated into the document and it was released to the Union for final review in April. Final release of the document will be made in June 2007.

Recommendation #2: We recommend that the Vice President, Delivery and Retail reevaluate the draft Decision Analysis Report to:

- 1) Include strategies to achieve the Transformation Plan goal of doubling the percent of retail transactions via alternate access channels to 40 percent by 2010.
- 2) Revise the draft DAR assumptions using analysis results of actual APC eligible transactions from the proposed 3,000 Phase II candidate locations to calculate the minimum work hour reductions for labor savings.

Corrective Action: We discussed our results with Postal Service Headquarters management. Management stated that the Phase II APC purchase would be postponed because some of the Phase I machines are not achieving target "revenue goals". Management also stated they will revise the draft DAR to include the strategies to meet the Transformation Plan goals for alternate access. Further, management stated that if they decide to purchase additional APCs, they will revise the DAR. Management estimated that they will revise the DAR in FY 2008. Official Name of the Audit - Automated Deployment Strategy of Automated Postal Centers

Management Response: The Phase II APC purchase has been postponed due to budget constraints as well as Phase 1 machines not achieving target "revenue goals". If the decision is made to proceed with the next buy of APCs, the draft DAR will be revised using analysis results of actual APC eligible transactions to calculate the minimum work hour reductions for labor savings. The revised DAR will also include strategies to meet the Transformation Plan goals for alternate access.