



August 26, 2010

KIM R. FERNANDEZ
DISTRICT MANAGER, BAY-VALLEY DISTRICT

SUBJECT: Audit Report – City Delivery Efficiency Review – Bay-Valley District
(Report Number DR-AR-10-007)

This report presents the results of our audit of the City Delivery Efficiency Review – Bay-Valley District¹ (Project Number 10XG038DR000). Our objectives were to assess overall efficiency of city delivery operations and identify opportunities to reduce operating costs within the Bay-Valley District. This self-initiated audit addresses operational risk and is one in a series being conducted by the U.S. Postal Service Office of Inspector General (OIG). See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service is delivering fewer pieces of mail to a growing number of addresses as new households and businesses are added to the delivery network each year. The Postal Service must achieve unprecedented levels of efficiency to accommodate this new growth while facing financial losses from declining mail volumes and rising costs.

Conclusion

The Bay-Valley District was not operating at peak efficiency and could reduce city delivery operating costs. Our benchmarking comparison determined the Bay-Valley District used approximately 13 minutes more per day than the national average for each carrier route, compared to the standard for that route. The measurement for this, called percent to standard², was 115.93, 9 percentage points above the national average of 106.49.

Operation Efficiency

Although numerous factors were involved, our review of 22 randomly selected delivery units determined that district management did not always (1) provide sufficient review and oversight of unit offices' operating efficiencies and (2) coordinate with mail processing facilities to ensure mail was timely received and in a condition that promoted office operating efficiency. Elimination of time-wasting practices and an increased focus on

¹ The Bay-Valley District is one of eight districts in the Pacific Area. It consists of 99 city delivery units that deliver mail on 3,377 city routes with more than 1,846,435 delivery points.

² A measure of carrier office workhour performance in relation to mail volume and delivery points. A figure of 100 percent indicates that office performance is at the stated performance goal. A figure greater than 100 percent indicates performance is less than the desired standard.

efficiency could allow management to reduce workhours. Some examples include ensuring that:

- Management discusses morning and afternoon office expectations with carriers.
- Clerks and carriers do not unnecessarily re-handle unshelved mail transport containers to identify and retrieve Delivery Point Sequence³ (DPS) mail.
- Carriers do not have to wait to retrieve accountable⁴ items.
- Carriers do not handle sequenced mailings⁵ on office time.
- Units receive the proper mail mix from the processing facilities per the Integrated Operating Plan (IOP).⁶

See [Appendix B](#) for additional information about these issues.

Consequently, the Bay-Valley District used more workhours than necessary to deliver the mail. Making adjustments to its operations would increase the district's overall efficiency by reducing approximately 223,011 workhours, resulting in savings of more than \$7.9 million annually, or \$79 million over 10 years. See [Appendix C](#) for additional information about this issue.

Recommendations

We recommend the district manager, Bay-Valley District:

1. Reduce the district's workhours by 223,011 to achieve an associated economic impact of more than \$7.9 million annually, or \$79 million over 10 years.
2. Reinforce Postal Service policy and procedures for supervising city delivery office operations in delivery units and eliminate time-wasting practices as appropriate.
3. Require processing facility managers and delivery managers to coordinate, review, and update all Integrated Operating Plans to ensure mail arrives timely and in the condition necessary to promote office efficiency.

³ A process for sorting bar-coded letter mail at the processing plants and delivery units into the carrier's line-of-travel Mail is taken directly to the street, with no casing time in the office.

⁴ Items that require a signature such as Registered Mail, Certified Mail, collection on delivery, postage due, scanners, and arrow lock keys.

⁵ Mailings that are distributed to the carrier in delivery order.

⁶ The IOP contract covers mail arrival from the plant and identifies the product of mail agreed for each individual trip. The primary purpose is to stabilize mail flow (for example, arrival time of DPS, auto letters, and auto flats), based on other requirements for mail arrival such as the mail mix/unit distribution percentage.

Management's Comments

Management agreed with the findings, recommendations, and monetary impact in our report.

In response to recommendation 1, management stated the Bay-Valley District has opportunities to achieve the stated monetary impact related to the 223,011 hours. In fact, since 2007, management eliminated 435 routes from the Bay-Valley District, which constitutes a considerable monetary savings. Management also stated their percent to standard was trending in the right direction with a current percent to standard of 105.51 compared to the 115.93 when the audit was conducted.

For recommendation 2, management stated that during the OIG audit, Delivery Operations Information Systems refresher training was initiated to address unauthorized overtime and carriers' previous day performance. The Bay-Valley District is also focusing on ensuring accountable mail is ready before carriers leave for the street and curtailing the casing of sequenced mailings. In addition, the Bay-Valley District is developing a procedure to be issued September 15, 2010, to eliminate carriers leaving the case to obtain accountable items. Finally, Delivery Programs and In-Plant Support developed a pilot site to improve the proper tracking of DPS mail, minimizing the expansion of office time. Management intends to use the new procedure throughout the Bay-Valley District. These actions are partially completed and will be fully completed by February 1, 2011.

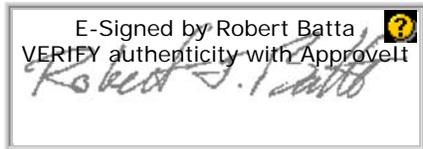
In response to recommendation 3, management stated the Bay-Valley District is continually emphasizing to Customer Service Operations the need to communicate with the plants on a daily basis when mail does not arrive in the mix or condition promised. A teleconference is held each morning to discuss the mail arrival quality and ensure the plant is aware of inconsistencies, thereby improving the delivery of mail product. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report.

The OIG considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. The OIG considers the support provided by management detailing corrective ongoing actions to be sufficient to close this recommendation.

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, or me at 703-248-2100.



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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Delivery operations is the Postal Service's largest operational function, accounting for approximately 45 percent of salary expenses and workhours. Despite an annual increase of approximately 1 million delivery points, delivery operations used 36.5 million fewer workhours in fiscal year (FY) 2009 because of effective growth management, increased use of automation, standardization of best practices, and improved productivities. Although delivery operations used fewer workhours, workhour reduction has not kept pace with declining mail volume. Nationally, mail volume declined by 14 percent during the first two quarters of FY 2010, ending March 31, 2010. During this same period, mail volume declined in the Pacific Area by 19.4 percent while workhours declined by 8.1 percent, and in the Bay-Valley District mail volume declined by 17.5 percent while workhours declined by 8.1 percent.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess overall efficiency of city delivery operations and identify opportunities to reduce operating costs within the Bay-Valley District. To accomplish our objectives we:

- Ranked the eight areas from highest to lowest in terms of percent to standard from April 1, 2009, through March 31, 2010. We used the national percent to standard measurement of 106.49 percent for April 1, 2009, through March 31, 2010, as a baseline guide.
- Judgmentally selected the Pacific Area and, within that area, the Bay-Valley District for review because its percent to standard measurement of 115.93 percent highlighted an opportunity for improvement.
- Randomly selected 22 delivery units within the Bay-Valley District for review.

At the selected delivery units we:

- Obtained, reviewed, and analyzed delivery unit data related to office operations.
- Conducted interviews on-site and obtained information on carrier operations, unit operations, processes, and procedures.
- Conducted physical observations of office delivery operations.

- Reviewed documentation and applicable policies and procedures for city delivery and Postal Service Handbooks M-39⁷ and M-41.⁸

We conducted this performance audit from May through August 2010 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 officials on July 28, 2010, and included their comments where appropriate.

We relied on data obtained from Postal Service database systems, primarily eFlash⁹. We did not directly audit the systems but performed a limited data integrity review to support our data reliance. We assessed the reliability of delivery point's data by reviewing existing information about the data and the system that produced them, as well as interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

The OIG identified three audits related to our objective that were issued over the past 3 years:

⁷ *Management of Delivery Services*, March 1998.

⁸ *City Delivery Carriers Duties and Responsibilities*, March 1998.

⁹ A weekly operating reporting management system that combines data from delivery, mail processing, employee relations, labor relations, and finance. The information is extracted from various host systems and loaded into eFlash.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>City Delivery Efficiency Review-Los Angeles District</i>	DR-AR-10-006	7/1/2010	\$105,000,000	The Los Angeles District was not operating at peak efficiency and could save workhours and reduce city delivery operating costs. Although numerous factors were involved, our review of 25 randomly selected delivery units confirmed these inefficiencies and determined district management did not (1) provide sufficient review and oversight of unit offices' operating efficiencies and (2) coordinate with the mail processing facility to ensure mail was timely received and in a condition that promoted office operating efficiency. Elimination of time-wasting practices and increased focus on efficiency could allow management to reduce workhours.
<i>City Delivery Efficiency Review – San Francisco Napoleon Street Station</i>	DR-AR-10-002	12/18/2009	\$21,308,433	The audit concluded the Napoleon Street Station was not operating at peak efficiency and management could reduce city delivery costs. Our benchmarking comparison of five similar delivery units showed this station used 54,975 more workhours than necessary. We also found management did not adjust workhours to the changes in workload. Management agreed with our findings and recommendations to correct the issues identified.
<i>Timely City Delivery – Chicago District</i>	DR-AR-08-001	10/11/2007	N/A	The audit confirmed the Chicago District had difficulty with timely mail delivery. Specifically, delivery performance indicators showed office performance was well below standard and street performance was at an all-time low. Management agreed with our findings and recommendations to correct the problems.

APPENDIX B: DETAILED ANALYSIS

Operation Efficiency

The Bay-Valley District used 223,011 more workhours than necessary. Our benchmarking comparison determined the Bay-Valley District’s percent to standard measurement was 9 percent higher than the national average (115.93 percent compared to the national average of 106.49 percent). In other words, the Bay-Valley District used approximately 13¹⁰ minutes more than the average route in the nation. Over the four fiscal quarters reviewed (April 1, 2009 through March 31, 2010), the Bay-Valley District ranked sixth of eight districts in terms of percent to standard within the Pacific Area. See Table 1.

**Table 1. Pacific Area Percent to Standard Comparison
April 1, 2009 through March 31, 2010**

	Percent to Standard	Ranking
National Average	106.49	N/A
Districts in Pacific Area		
HONOLULU DISTRICT	103.38	1
SAN DIEGO DISTRICT	109.67	2
SANTA ANA DISTRICT	111.86	3
SACRAMENTO DISTRICT	112.38	5
SIERRA COASTAL DISTRICT	112.71	4
BAY-VALLEY DISTRICT	115.93	6
LOS ANGELES DISTRICT	119.10	7
SAN FRANCISCO DISTRICT	122.10	8

Source: eFlash

This condition occurred because management did not always (1) provide sufficient review and oversight of unit offices’ operating efficiencies and (2) coordinate with the mail processing facility to ensure mail was timely received and in the condition necessary to promote office operating efficiency.

Setting Morning and Afternoon Office Expectations

Supervisors did not always set expectations for morning office operations nor review previous day performance with carriers. For example, supervisors often printed the *Route Carrier Daily Performance Report*, but did not always discuss the report with carriers. If a carrier does not meet performance standards, a supervisor must investigate and discuss performance deficiencies with the carrier.

¹⁰ 13,380,660 minutes (223,011 hours above the national average percent to standard multiplied by 60 minutes per hour) divided by 3,377 routes in the Bay-Valley District divided by 302 annual delivery days equals approximately 13 minutes per route per day.

We observed some carriers spending up to 15 minutes or more in the office after returning from their routes. Postal Service policy allows a standard 5 minutes for carriers to perform afternoon office duties. We also observed carriers not clocking in upon returning to the unit in the afternoon, so much of this additional “office time” is hidden in street operations.

Mail Condition

DPS letters processed by the plants arrive at delivery units in mail transport containers that are not staged for easy retrieval by the carriers. This requires clerks — and sometimes carriers — to unload and sort DPS mail by route which delays carriers unnecessarily. Postal Service policy¹¹ states that mail processing should stage DPS letters for transport in shelved or modified containers so that individual trays do not have to be re-handled at the delivery unit. See Illustration 1.

Illustration 1: Carriers Re-handling and Arranging DPS Mail



Source: OIG

Carriers Waiting for Accountable Items

Carriers often had to wait for accountable items before departing to the street. Postal Service policy¹² states that accountable items must be available for carriers in a timely manner so as not to delay the carrier. Since carrier time should be minimized in the accountable operation, use of a mobile accountable cart operation¹³ is highly recommended. See Illustration 2.

¹¹ *Field Operations Standardization Development, Morning (AM) Standard Operating Procedures (AMSOP) II Guidebook, 2007, Section 2-6.*

¹² *Field Operations Standardization Development, Morning (AM) Standard Operating Procedures (AMSOP) II Guidebook, 2007, Section 3-1.*

¹³ Clerks use accountable carts to transport items from the accountable cage to the carriers.

Illustration 2: Carriers Waiting in Line to Retrieve Accountables



Source: OIG

Handling Sequenced Mailings

We observed some carriers handling or casing sequenced mailings instead of loading it and taking it directly to the street.¹⁴ During our site visits, 14 of the 22 units received sequenced mailings. Of these 14 units, eight unnecessarily handled or cased this mail. Postal Service policy¹⁵ states that clerks should isolate walk sequenced mailings and place them in parcel hampers so mailings can be taken directly to the street without further handling. See Illustration 3.

Illustration 3: Carrier Handling/Casing Sequenced Mail



Source: OIG

¹⁴ Handbook M-41, Section 222(a) “. . . sequenced mailings shall not be cased but shall be handled as additional bundles.”

¹⁵ *Field Operations Standardization Development, AMSOP II Guidebook 2007*, Section 3-13.

Mail Arrival

The arrival of mail at 11 of 22 delivery units we observed did not always match the IOP agreed to by the plant and delivery unit. When mail arrives at the delivery unit later than expected or not in the agreed upon mail mixture, carriers are delayed in the office. In some instances, they were even required to assist in distribution effort to speed their departure to the street. The IOP is designed to help stabilize mail flows and is critical in establishing appropriate staffing and reporting times to ensure carriers are not delayed. Although the district uses the Mail Arrival Quality System to report issues to the plant, mail flow issues often remain unresolved. See Illustration 4.

Illustration 4: Carriers Assisting in Distribution of Mail



Source: OIG

By reviewing workhour and workload utilization and improving oversight of office processes, management would increase the Bay-Valley District efficiency, thereby saving approximately \$7.9 million annually, or more than \$79 million over 10 years. See [Appendix C](#).

APPENDIX C: MONETARY IMPACT

Finding	Impact Category	Amount
Operating Efficiency	Funds Put to Better Use ¹⁶	\$79,016,988

We estimated the monetary impact of \$79,016,988 in funds put to better use by reducing 223,011 workhours at delivery units in the Bay-Valley District. This amount included an estimated cost savings of \$76,495,928 from reducing city letter carrier positions over 10 years and \$2,521,060 in reduction of delivery office overtime workhours over 2 years. See Table 2.

Table 2. Bay-Valley District Station Workhour Savings

District	Delivery Units¹⁷	Estimated City Delivery Workhours Saved¹⁸	10-Year Projection of Savings from Full FTEs' Workhour Reduction	2-year Projection of Savings from Partial FTEs' Overtime Workhours	Estimated Total Savings
Bay-Valley	42	223,011	\$76,495,928	\$2,521,060	\$79,016,988

Source: OIG

- We calculated funds put to better use of Full-Time Equivalents (FTEs) over 10 years using the FY 2011 city carrier Level 2 fully loaded labor rate with an escalation factor of 1.7 percent.
- To determine the reduction of city carrier FTE positions, we used a cash flow analysis based on city carrier complement and attrition from the Web Enterprise Information System for FYs 2005 through 2009. We used this to determine how many city letter carriers are estimated to leave in future years.
- We used the discount rate of 3.875 percent based on the Postal Service's Decision Analysis Report Factors (cost of borrowing rate).
- We calculated funds put to better use for reducing city carrier workhours not equivalent to a FTE using the city carrier overtime rate for FY 2011 with an escalation factor of 1.7 percent for the 2-year projection.

¹⁶ Funds that could be used more efficiently by implementing recommended actions

¹⁷ We identified cost savings at 42 of the 99 delivery units in the Bay-Valley District.

¹⁸ The amount of workhours the district can save if they improve their percent to standard from 115.93 down to the national average of 106.49. The reduction of these hours results in a projected FTE reduction of 108 positions over 10 years and a reduction of 34,011 overtime workhours over 2 years.

APPENDIX D: MANAGEMENT'S COMMENTS



August 18, 2010

Germaine Kropilak
Office of Inspector General

Subject: Bay Valley District City Delivery Review

Thank you for the opportunity to provide a follow-up report and comment on the progress of the units reviewed. Overall, the audit conducted by OIG team members was fair and professional. The team was courteous, professional and effective with resolving concerns.

RECOMMENDATIONS

- 1. Reduce the district's workhours by 223,011 to achieve an associated economic impact of more than \$79 million over 10 years.**

MANAGEMENT RESPONSE:

We agree with the findings and recommendation. However, the district has saved 641,000 to SPLY YTD. The principles of sound supervision require that supervisor evaluate employee performance daily. Supervisor should counsel and instruct their employees as necessary, giving attention to evidence of good performance, as well as to areas where the employees need improvement.

Bay-Valley also developed a supervisor flow chart to assist supervisors with tasks/time of completion for day, week, and month to ensure supervisors included setting the expectations for morning operations and reviewing previous day performance. The district plans to implement actions on this issue by December 31, 2010.

We also agree the district has opportunities to attempt to achieve the stated monetary impact related to the 223,011 hours. In fact, since 2007, management has eliminated 435 routes from the Bay-Valley District, which constitutes a considerable monetary savings. We have also addressed our % to Standard in review of the following statistics:

	% STD	SEI	F2 Workhours Reduction to SPLY
FY 2008	112.61	85.61	-176,763
FY 2009	116.52	89.25	-770,319
FY 2010 YTD	105.51	91.06	-641,000

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Our focus was the 1188 limited duty employees in our district. Therefore, in the beginning of FY 2010, the National Reassessment Process was initiated in the district. This process currently includes 628 limited duty employees in the NRP. The YTD savings is \$385,811. Therefore, the district is trending in the right direction with a current % to Standard of 105.51 compared to 115.93 at the time the review was conducted.

2. Reinforce Postal Service policy and procedures for supervising city delivery office operations in delivery units and eliminate time-wasting practices as appropriate.

MANAGEMENT RESPONSE:

We agree with the finding and recommendation. Prior to the audit, the district instituted actions to begin to reinforce procedures such as the district-wide training of 1838-C. In addition, during the audit DOIS refresher training was initiated in June, 2010 for EAS that addressed unauthorized overtime and previous day performance with carriers as well as conducting DOIS "Vital Few" performance reviews with carriers.

The district is also focusing on ensuring accountables are ready before the carriers leave for the street. We are in the process of developing a SOP for the associate offices offering different options to eliminate carriers leaving the case to obtain accountable. The operating procedures will be implemented by September 15, 2010.

In addition, management has immediately curtailed the casing of sequenced mailings by developing a *Sequenced Mailing Guidelines* in conjunction with an Area Directive that became part of the Required Communications as of 7/27/2010. The guidelines listed the savings for not casing sequenced mailings as well as defining the various types of sequenced mailings and the proper handlings. Delivery support will conduct reviews to ensure compliance.

Finally, Delivery Programs and In-Plant Support worked together to observe best practices of other district plants and how they were racking the DPS mail. Delivery Programs and In-Plant Support developed a pilot site with intentions to utilize throughout the district for the proper racking of DPS mail to the offices so that F4 does not have to sort the mail in route order and carriers do not have to wait, thereby, minimizing expansion office time.

These initiatives are partially completed, and will be fully completed by February 1, 2011.

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- 3. Require processing facility managers and delivery managers to coordinate, review, and update all Integrated Operating Plans to ensure mail arrives timely and in the condition necessary to promote office efficiency.**

MANAGEMENT RESPONSE:

We agree with the findings and recommendation to review all Integrated Operating Plans with the Plants on a daily basis when mail does not arrive in the mix or condition promised. The district is continually emphasizing to Customer Service Operations the need to communicate with the Plants on a daily basis when mail does not arrive in the mix or condition promised. We have a tool to communicate IOP variances with the Plant called "Mail Arrival Quality" (MAP). Every morning, the In-Plant Manager, MDO's, Manager Post Office Operations, and Postmasters are reviewing and addressing the written variances via teleconference to make the Plant aware of inconsistencies thereby improving the delivery of mail product to the associate offices.

Freedom of Information Act (FOIA)

As regards, the district has reviewed the report and has not identified any portions that need to be exempt under FOIA.

Your guidance and assistance in improving the Bay-Valley District's delivery efficiency is greatly appreciated.

If you have any question, please contact Veena Malhotra at (510) 874-8772.



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