



July 7, 2011

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VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

SUBJECT: Audit Report – Modes of Delivery (Report Number DR-AR-11-006)

This report presents the results of a U.S. Postal Service Office of Inspector General (OIG) self-initiated audit to review the Postal Service's modes of delivery in selected districts (Project Number 10XG003DR000). Our objectives were to determine whether the Postal Service (1) converted existing door-to-door and curbside delivery to more economical and efficient delivery modes and (2) assigned centralized delivery to new delivery points. This audit addresses strategic risk. See [Appendix A](#) for additional information about this audit.

The Postal Service is facing challenges with a decline of 6.2 billion mailpieces and an \$8.5 billion net loss in fiscal year (FY) 2010. Providing mail delivery service is central to the Postal Service's mission and its role as a service provider. For FY 2011, the Postal Service is working hard to reduce delivery operational costs of \$25 billion, while continuing to deliver mail to more than 150 million delivery points. Several factors affect the efficiency and cost of delivery operations, with the mode of delivery playing an important role. The Postal Service provides three primary modes of delivery: door-to-door, curbside, and centralized delivery.¹

Mail delivery and the mix of delivery modes have evolved over time, creating inconsistent levels of service. Door-to-door delivery is more costly, because carriers must deliver the mail directly to the customers' door, placing it in a house-mounted mailbox or through a mail slot in the door. Curbside and centralized delivery allow the carrier to deliver the mail at the curb or centralized location.

Conclusion

The Postal Service has converted and assigned some delivery points² to more efficient delivery modes; however, much more could be done to minimize costs nationwide. Though management has implemented a program to manage existing and new delivery

¹ Centralized delivery includes cluster box units (CBUs), and neighborhood delivery and collection box units (NDCBUs).

² A new single mailbox or other place where mail is delivered.

points, policy restrictions, customer resistance, and other factors exist that limit management's ability to maximize the mode of delivery.

Notwithstanding these limitations, the Postal Service should develop a comprehensive strategic plan to aggressively move from existing door-to-door delivery to curbside delivery, which could save more than \$4.5 billion a year. Future strategies should also evaluate savings opportunities associated with conversion of curbside to centralized delivery — which could save the Postal Service an additional \$5.1 billion — and mandate centralized delivery for new delivery points.

This strategic plan would significantly reduce delivery costs and could be implemented internally through policy changes. It would not require congressional approval, unlike other significant cost-savings initiatives, such as moving from 6- to 5-day delivery. At the same time, these changes would increase fairness and consistency of service to customers, as curbside delivery would be the primary delivery mode.

Converting and Assigning Delivery Points to More Cost-Effective Delivery Modes

The delivery operation is the Postal Service's largest cost center with mail delivery occurring 6 days a week. Door-to-door delivery is the most expensive mode of delivery, costing the Postal Service as much as \$353 per delivery point, totaling \$12 billion annually. Curbside delivery is more cost effective, because it allows the carrier to remain in the vehicle and deliver mail from the street to a mailbox or grouping of mailboxes. Furthermore, it lessens the possibility of carrier injuries such as falls, stress and strain on shoulder joints due to carrying a mail satchel, and dog bites. Centralized delivery is even more cost effective and efficient, because carriers deliver mail to a group or cluster of mail receptacles at one delivery point.

Converting existing door-to-door to curbside delivery could save the Postal Service more than \$4.5 billion. If the Postal Service converted all delivery modes to centralized delivery, it could save an additional \$5.1 billion.

Our review in selected districts identified that the Postal Service converted only 11,579 of 27 million existing door-to-door and curbside delivery points to centralized delivery. The factors that contributed to district officials' inability to convert existing delivery points to less expensive modes of delivery include the following:

- Policy restrictions.
- Customer resistance to give up door-to-door service.
- Lack of a specific comprehensive strategy with targets to measure progress at unit, district, area, and headquarters levels.
- Best practices of successful districts were not shared.
- Districts were not required to maintain supporting documentation for converted delivery points.

The Postal Service has been much more successful in assigning centralized delivery to new delivery points. Our review in selected districts identified that, of the 345,501 new delivery points in FY 2009, the Postal Service centralized 195,856 of them (57 percent), leaving the remaining 149,645 to other modes. The Postal Service's inability to assign more new delivery points to centralized delivery resulted from policy and existing procedures that allow districts to assign other modes of delivery, rather than the most cost-effective mode. In addition, targets for measuring the progress of assigning centralized delivery to new delivery points were not established at the district, area, and national levels.

We acknowledge it could be difficult to make these changes, as the Postal Service may never fully mitigate customers' resistance to eliminating an existing service.³ Likewise, we acknowledge some deliveries may never be candidates for conversion. On the other hand, the Postal Service must take every opportunity to cut these significant delivery costs.

As a starting point, the Postal Service could mandate centralized delivery for all new delivery points. We estimated the Postal Service could save more than \$35 million if it took action to centralize new delivery points. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our calculation of monetary impact.

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

1. Revise the *Postal Operations Manual*, Issue 9, to remove language that inhibits conversion of existing delivery points and the use of centralized delivery for new delivery points to reduce costs.
2. Increase customer awareness of the benefits/costs of converting to cheaper delivery modes.
3. Develop and implement a comprehensive strategy to aggressively convert existing door-to-door delivery points to curbside and assign centralized delivery for new delivery points to reduce costs.
4. Establish targets and a way to measure progress of delivery conversions and assigning modes to new delivery points at district, area, and national levels.
5. Apply best practices and methods of successful districts to increase delivery point conversions.

³ Given the significant cost differences of the various delivery modes, it has been suggested that a mandated change to the current mix of delivery should be made. Practical considerations as well as public policy concerns must be addressed before viability of the proposed change could be determined. – *U.S. Postal Service Transformation Plan*, April 2002, page 69.

6. Require areas and districts to maintain supporting documentation for conversion of delivery points.

Fairness and Cost Issues Involved with Varying Modes of Delivery

The mix of delivery modes raises a service fairness issue. Some customers receive a premium service for which others are paying. Door-to-door delivery is more costly and less efficient than curbside or centralized delivery. As of December 31, 2010, more than 35 million door-to-door delivery points exist nationwide, costing the Postal Service billions in excess costs. One possible option would be for the Postal Service to charge customers a service fee to offset the costs of this premium service for those instances in which customers desire or need door-to-door delivery service.

We recommend the vice president, Delivery and Postal Service Operations:

7. Determine whether a business case exists to go to a fee-based system for door-to-door delivery.

Management's Comments

Management generally agreed with recommendations 2 and 5. However, they disagreed with the overarching report conclusion and recommendations 1, 3, 4, 6, and 7 as well as the monetary impact. Management correctly noted that this broader audit encompasses a previous project.

Regarding recommendation 2, Postal Service management indicated they could develop internal publications to address the benefits of converting delivery points and provide training internally on the benefits of converting business delivery. Also, they would concentrate on increasing public awareness on the benefits of converting business delivery. For recommendation 5, they also agreed to update the delivery standard operating procedure, *Growth and Delivery Point Management*, to include language promoting conversions and review growth management program of each district and determine what the best practices from each are and share nationally. Also, management is developing a training webinar to include the OIG findings available in Quarter III, FY 2011. Management indicated they will review and disseminate the conversion best practices in Quarter IV of FY 2011.

The Postal Service disagreed with the overall conclusion to eliminate door-to-door service and move to curbside and from curbside to cluster box. The Postal Service indicated their focus was on managing new growth in a responsible fashion when mail volume and delivery points were growing. It is only now that they are experiencing a slowing in delivery point growth combined with decreasing mail volume. The Postal Service focus remains on core strategies for retaining and growing our mail volume and package business while pursuing legislative change to secure 5-day delivery. Likewise, management disagreed with recommendations 1, 3, 4, 6, and 7, which support the

overall conclusion of the report. Management stated that the estimated savings and impact were unrealistic, unattainable, and did not account for logistical and practical challenges such as geographic limitations, equipment cost, and hardship delivery.

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

Evaluation of Management's Comments

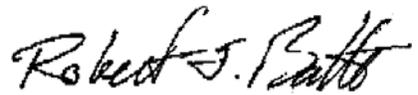
The OIG considers management's comments responsive to recommendations 2 and 5 and corrective actions should resolve the issues identified in the finding. However, management's comments on recommendations 1, 3, 4, 6, and 7 were non-responsive, and management's corrective actions will not resolve the issues identified in these findings. Although management disagreed, we do not plan to take these five recommendations through the formal audit resolution process.

The Postal Service disagreed with the overall report conclusion of aggressively pursuing changing costly modes of delivery to more cost efficient means, and the five recommendations associated with that conclusion. The Postal Service indicated their focus remains on core strategies for retaining and growing our mail volume and package business, while pursuing legislative change to secure 5-day delivery.

Although the Postal Service is pursuing the cost reduction strategy to 5-day delivery, their financial condition calls for pursuing multiple cost cutting strategies. Adjusting modes of delivery is a significant cost cutting strategy that could be undertaken in parallel with reducing delivery to 5 days. Further, a cost reduction strategy focused on delivery modes would not require congressional legislation. In fact, the Postal Service action plan, *Ensuring a Viable Postal Service for America*, included evaluations of additional concepts related to reducing cost – including modes of delivery. Likewise, in March 2010, a McKinsey & Company analysis showed a service level opportunity, requiring no legislative approval, could decrease the projected losses due to occur by the year 2020. This opportunity to reduce costs involved changing delivery location to curbside or cluster mailboxes, moving deliveries from the door, or to the lowest cost of delivery.

We recognize the \$4.5 billion does not include cost associated with the project such as the potential for revenue at risk and other implementation costs. Finally, we recognize in the report, and as stated in management's comments, that this strategy and recommendations will not be easy to implement and has some significant hurdles. However, by not fully pursuing changes in the existing modes of delivery, the Postal Service is foregoing an opportunity to significantly reduce its delivery operational costs.

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

A handwritten signature in black ink that reads "Robert J. Batta". The signature is written in a cursive, slightly slanted style.

Robert J. Batta
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Mail delivery and the mix of delivery modes have evolved over time. During the 19th century, postage only covered the delivery of mail from Post Office™ to Post Office, and citizens picked up their mail. In some cities, customers could pay an extra fee for letter delivery or use private delivery firms. It was not until 1863 that carriers began delivering mail to home addresses. In 1863, an act of Congress established free city delivery at Post Offices where local postal income was sufficient to pay all expenses of the service. The Postal Service did not establish rural free delivery until 1902. Initially, carriers delivered mail to customers' homes and often had to wait for a customer to answer the door. Often, carriers had to redeliver mail if customers were unavailable. To reduce the time required to complete delivery, the Postal Service proposed that individual residential or commercial mailboxes be mounted on suitable posts or other supports. In 1923, the Postal Service mandated that every household have a mailbox or mail slot to receive home delivery of mail. During the 1930s, carriers began delivering mail to customers with suitable boxes at the curbside. Curbside delivery increased as suburban areas began to develop. In 1967, the Postal Service introduced curbside cluster boxes.

The Postal Service provides three primary modes of delivery for existing delivery points: door-to-door, curbside, and centralized.⁴ Door-to-door consists of delivering mail to slots or receptacles at the customer's door (see Picture 1).

Picture 1. Door-to-Door Delivery



Source: www.usps.com

The Postal Service provides curbside delivery to customers who have mailboxes at the curb and that carriers can safely and conveniently service from their vehicles. In some instances, curbside mailboxes are grouped to a property line (see Picture 2).

⁴ Post Office Boxes are considered centralized delivery, and each is counted as an individual delivery point.

Picture 2. Curbside Delivery

Source: www.usps.com

Centralized delivery is considered the most efficient and cost effective delivery, because it involves grouping or clustering mail receptacles at one delivery point. Examples of this include Post Office Boxes™ in Postal Service facilities, apartment mail receptacles, or several boxes grouped together at a single point. Centralized delivery also includes CBUs and NDCBUs. NDCBUs are multiple compartments for centralized delivery of mail to residents of apartment buildings or entire neighborhoods (see Picture 3).

Picture 3. Centralized Delivery

Source: www.usps.com

As of 2010, the Postal Service calculates the annual costs⁵ of the three modes of delivery per delivery point are as follows:

Table 1. Delivery Mode Costs⁶

Mode of Delivery	City	Rural	Contract Delivery Service
Door-to-Door	\$353.02	\$278.44	\$193.49
Curbside	\$224.09	\$176.74	\$122.82
Centralized ⁷	\$160.51	\$126.60	\$87.97

Source: Postal Service Headquarters Delivery Operations.

As of December 31, 2010, curbside delivery was the most popular mode of delivery for residential delivery points and door-to-door delivery for business delivery points (see Table 2).

Table 2. Number of Delivery Points by Mode through December 31, 2010⁸

Mode of Delivery	Residential	Business	Total Delivery Points
Door-to-Door	30,370,776	4,687,611	35,058,387
Curbside	51,074,639	1,411,440	52,486,079
Centralized	35,781,885	1,534,556	37,316,441
Total	117,227,300	7,633,607	124,860,907

Source: Intelligent Mail and Address Quality System (IMAQ).

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether the Postal Service (1) converted existing door-to-door and curbside delivery to more economical and efficient delivery modes and (2) assigned centralized delivery to new delivery points.

Specifically, we:

- Obtained possible and active delivery point data by district for FYs 2008, 2009, and 2010 and Quarter 1, 2011 from Postal Service Headquarters Address Management Systems Division.

⁵ The *Postal Service Cost of Delivery Study*, dated February 1995 was conducted to determine the cost of delivery by type and mode of delivery. Annually, the cost of each mode is indexed to the Consumer Price Index to determine the current year's cost.

⁶ Cost for each mode of delivery is based on the type of delivery: city or rural or contract delivery service.

⁷ Centralized delivery includes apartment mail receptacles, several boxes grouped together at a single point, and NDCBUs and CBUs. Centralized delivery could save approximately \$64 to \$193 per city delivery point.

⁸ This table does not include the total number Post Office Boxes included in the total number of delivery points.

- Conducted a random sample of 18⁹ districts in the Capital Metro, Eastern, Great Lakes, Pacific, Southeast, and Southwest areas and judgmentally selected three districts¹⁰ in the Western Area for site visits. We selected districts with the highest increase in new delivery points from FYs 2008 to 2009.¹¹ See [Appendix D](#) for a list of the selected districts.
- Reviewed applicable documentation, policies, and procedures.¹²
- Obtained, reviewed, and analyzed cost data associated with door-to-door, curbside, and centralized delivery modes.
- Interviewed appropriate delivery operations managers at the headquarters, area, and district levels to obtain information on the policies and procedures for selecting modes of delivery for new developments, converting delivery modes for existing delivery points, and providing supporting performance documentation.

We conducted this performance audit from October 2009 through July 2011 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 August 16, 2010, and March 29, 2011, and included their comments where appropriate.

We assessed the reliability of delivery point data by reviewing existing information about the data and the system that produced it, as well as interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

⁹ We selected three districts from each of the six Postal Service areas reviewed during the audit phase. We did not include the Northeast Area, because of the consolidation and elimination of several districts.

¹⁰ We selected three districts from the Western Area to review during the survey phase.

¹¹ During the audit, we expanded the audit scope to conduct additional work on the fee for delivery to door-to-door point concept. We reviewed and analyzed FYs 2008 and 2009 documentation for the 21 districts selected for site visits and in the OIG analysis.

¹² We reviewed the following documentation, policies, and procedures, Handbook M-39, *Management of Delivery Services*; *Postal Operations Manual (POM), Issue 9*; and *Delivery Standard Operating Procedures, Growth and Delivery Point Management*.

PRIOR AUDIT COVERAGE

The OIG has issued one report related to our objectives in the last several years.

Report Title	Report Number	Final Report Date	Report Results
<i>Implementation and Utilization of the Growth Management Tool</i>	DR-AR-07-016	9/29/2007	Our review found that Headquarters Delivery and Retail officials effectively implemented the Growth Management Tool (GMT) in the districts reviewed. However, officials could enhance the effectiveness of GMT implementation by updating the 2006 delivery standard operating procedure for the Growth and Delivery Point Management Program. Management agreed with findings and recommendations.

APPENDIX B: DETAILED ANALYSIS

Converting and Assigning Delivery Points to More Cost-Effective Delivery Modes

For FY 2011, the Postal Service is working hard to reduce delivery operational costs of \$24 billion, while continuing to deliver mail to more than 150 million delivery points. The Postal Service implemented a program to manage existing and new delivery points and established policies and procedures for converting existing delivery points to a more cost-effective delivery mode. Under this structure, local district managers are responsible for managing established delivery points and soliciting conversions that would be cost beneficial to the Postal Service.

The delivery operation is the Postal Service's largest cost center with mail delivery occurring 6 days a week. Door-to-door delivery is the most expensive mode of delivery, costing the Postal Service as much as \$353 per delivery point, totaling \$12 billion annually. Door-to-door delivery requires the carrier to dismount from the vehicle to deliver the mail. If a new delivery point is established on a block that currently receives door-to-door delivery, the new point could become door-to-door delivery, further increasing costs. In the Postal Service's *Cost of Delivery Study*¹³ establishing the cost of delivery by type and mode, the analysis showed that door delivery costs were rising higher than the rate for other modes of delivery at that time. Further, avoidance and reduction of door delivery is of high importance in growth management.

Curbside delivery is more cost effective, because it allows the carrier to remain in the vehicle and deliver mail from the street to a mailbox or grouping of mailboxes. Furthermore, it lessens the possibility of carrier injuries such as falls, stress and strain on shoulder joints due to carrying a mail satchel, and dog bites. OIG analysis shows the Postal Service may realize savings by converting costly door-to-door delivery points to curbside delivery (see Table 3).

¹³ *Cost of Delivery Study*, dated February 1995.

Table 3. Potential Cost Savings for Converting Door-to-Door Delivery Points to Curbside Delivery

Delivery Type	Number of Door-to-Door Delivery Points as of December 31, 2010	Variance¹⁴	Potential Cost Savings from Converting Door-to-Door Delivery Points to Curbside Delivery
City	34,502,039	\$129	\$4,450,763,031
Rural	415,016	\$101	\$41,916,616
Highway Contract Route	141,332	\$70	\$9,893,240
Total	35,058,387		\$4,502,572,887

Source: OIG analysis based on IMAQ.

The Postal Service could achieve significant additional cost savings by moving to centralized delivery. Nationwide, 52.5 million curbside delivery points exist, costing the Postal Service more than \$10 billion annually to deliver mail. Converting curbside delivery points to centralized delivery is more cost effective and efficient, because carriers deliver mail to a group or cluster of mail receptacles at one delivery point. OIG analysis also shows the Postal Service might realize savings for converting curbside delivery points to centralized delivery. However, this move would likely be very difficult due to potential public resistance (see Table 4).

¹⁴ Variance represents the difference between the cost of door-to-door delivery and curbside delivery. Door-to-door delivery for city, rural, and highway contract route delivery points costs \$353, \$278, and \$193, respectively. Curbside delivery for city, rural, and highway contract route delivery points costs \$224, \$177, and \$123, respectively.

Table 4. Potential Cost Savings for Converting All Curbside Delivery Points to Centralized Delivery

Delivery Type	Number of Curbside Delivery Points as of December 31, 2010	Variance¹⁵	Potential Cost Savings from Converting Existing Curbside Delivery Points to Centralized Delivery	All Curbside Delivery Points (including Door-To-Door Delivery Points Converted to Curbside)	Potential Cost Savings from Converting All Curbside Delivery Points to Centralized Delivery
City	19,497,922	\$63	\$1,228,369,086	53,999,961	\$3,401,997,543
Rural	31,241,094	50	1,562,054,700	31,656,110	1,582,805,500
Highway Contract Route	1,747,063	35	61,147,205	1,888,395	66,093,825
Total	52,486,079		\$2,851,570,991	87,544,466	\$5,050,896,868

Source: OIG analysis based on IMAQ.

The McKinsey & Company report, *Postal Service Future Business Model*, dated March 2, 2010, states the Postal Service can pursue either of two courses of action to address its financial challenges: (1) actions within its control, and (2) fundamental non-legislative and legislative change options. Specifically, the report states that a fundamental non-legislative service level opportunity exists for the Postal Service, changing delivery location or mode to curbside or centralized.

With conversions to curbside and centralized deliveries, additional costs for equipment may be incurred. For conversions to curbside delivery, Postal Service Headquarters officials stated they do not purchase or provide maintenance for curbside mailboxes, so these costs are unknown. However, when the Postal Service solicits customers for conversions to centralized delivery, it pays the cost for delivery equipment. Management stated that, in some instances, they negotiate with customers to share equipment costs. Customers are responsible for equipment costs if they request conversions or if the Postal Service determines conversions are required, because of safety or security reasons. Although the Postal Service may incur additional costs to purchase equipment, it would receive a significant return-on-investment over time for converting to a more cost-effective delivery mode.

¹⁵ Variance represents the difference between curbside and centralized delivery. Curbside delivery for city, rural, and highway contract route delivery points costs \$224, \$177, and \$123, respectively. Centralized delivery for city, rural, and highway contract route delivery points costs \$161, \$127, and \$88, respectively.

Policy Restrictions and Customer Resistance to Converting Existing Delivery Points

POM, Issue 9, Section 631.6, states that the key to converting existing deliveries is identifying those that are most costly to the Postal Service. It further states that delivery managers can go into any delivery territory where delivery has been established for more than 1 year and solicit to convert the mode of delivery if it would be cost beneficial. However, customer signatures must be obtained before conversion. Some district officials have had difficulty converting existing door-to-door and curbside delivery points, because of customer resistance. For example:

- Appalachian District officials stated they have solicited customers to convert door-to-door delivery to curbside and centralized delivery but have met with a considerable amount of customer resistance. Officials stated that conversion proposals have resulted in congressional inquiries in which customers often use the agreement clause¹⁶ of the Postal Service policy to oppose delivery mode conversions.
- Kentuckiana District officials have not aggressively pursued conversion because of customer resistance. They stated the current Postal Service policy does not mandate centralized delivery; therefore, conversions of door-to-door and curbside delivery are not solicited.
- Officials in the Gateway, Chicago, and Tennessee districts have successfully converted some delivery points. However, they stated customer resistance and Postal Service policy prevent them from converting more delivery points.
- Lastly, Northern Ohio District officials successfully converted existing door-to-door delivery points to centralized delivery. However, they do conversions when customers request them instead of soliciting for conversion, because when customers learn about the proposed conversions, they file congressional inquiries to stop them.

The Postal Service surveyed mailers who also expressed concern with converting existing door-to-door and curbside delivery points. According to the Postal Service's action plan, *Ensuring a Viable Postal Service for America*, dated March 2010, changing deliveries to curbside or centralized would reduce delivery costs. However, management would not pursue this, because mailers were concerned that shifting delivery to curbside or community mailboxes would undermine the convenience of mail delivery and lead to customers checking mail less frequently, resulting in reduced mail volume. In addition, the action plan states that roughly 15 to 20 percent of small and mid-sized businesses expect to reduce volume by more than 10 percent if delivery

¹⁶ POM, Issue 9, Section 631.6, "Conversion of Mode of Delivery," states that customer signatures must be obtained before conversion. In instances in which residences or lots are owned, each owner must agree to the conversion in writing. Owners who do not agree must be allowed to retain their current mode of delivery.

points are changed. Finally, the action plan states that shifting delivery points would also be expensive and slow to implement. Although we agree that mail volumes could be impacted to some degree by a change in delivery modes, we believe that an aggressive strategic plan that is effectively implemented, could result in a minimal impact to mail volume and significant cost savings

[Establishing a Comprehensive Strategy with Specific Targets for Conversions](#)

We found the Postal Service has not developed a comprehensive strategy with specific targets for measuring progress to convert to more cost-effective delivery modes for the district, area, and headquarters levels. The conversion percentage of existing delivery points varied from district to district, with the Honolulu District the most successful, converting 1.22 percent of their existing door-to-door and curbside delivery points and six districts with no points converted (see Table 5). Historically, converting delivery points has been difficult, because the language in the POM regarding conversions has been long established and is not designed to actively encourage conversion of existing delivery points. Establishing specific targets will encourage district officials to strive to identify a percentage of costly delivery points each year for possible conversion.

Table 5. Total Number of Converted Delivery Points

District	Total Number of Active Existing Delivery Points	Total Number of Converted Delivery Points	Percentage of Delivery Points Converted
Honolulu	255,951	3,129	1.22%
Mid-Carolinas	1,673,364	4,111	0.25%
San Francisco	760,203	1,783	0.23%
Salt Lake City	931,182	1,200	0.13%
Mississippi	1,025,612	799	0.08%
Hawkeye	953,954	192	0.02%
Gateway	1,571,233	156	0.01%
Northern Ohio	1,696,647	167	0.01%
Sierra Coastal	1,167,812	32	0.00%
Chicago	582,608	10	0.00%
Albuquerque	385,300	N/A ¹⁷	N/A
Atlanta	1,933,381	N/A	N/A
Central Illinois	1,381,386	N/A	N/A
Greensboro	1,646,077	N/A	N/A
Houston	1,440,020	N/A	N/A
Seattle	1,585,623	N/A	N/A
Tennessee	2,410,611	N/A	N/A
Appalachian	1,073,878	0 ¹⁸	0.00%
Greater South Carolina	1,345,226	0	0.00%
Kentuckiana	1,551,993	0	0.00%
Oklahoma	1,249,294	0	0.00%
Total	26,621,355	11,579	

Source: District Offices' Conversion Documentation.

Best Practices of Successful Districts

We understand the difficulty many district officials face in terms of policy restrictions and customer resistance when attempting to convert their existing door-to-door and curbside delivery points. However, we believe an opportunity might exist for successful district officials to share their best practices with those who have either converted only a small percentage or no delivery points.

Specifically, the Honolulu District had the highest conversion percentage of all the districts reviewed. According to district officials, their success is attributed to their aggressive and active participation in centralized delivery conversions with the assistance of local leadership, mayors, developers, and township leaders.

Although the Seattle District has not successfully converted many residential delivery points, they have directed their efforts to converting business delivery points —

¹⁷ Indicates district officials stated they performed conversions but were unable to provide documentation to support the number of delivery points converted.

¹⁸ Indicates district officials did not convert existing delivery points to centralized delivery.

particularly malls and shopping centers — because it is easier to get agreement from the owner of a shopping mall or shopping center.

Supporting Documentation for Delivery Point Conversions

District officials did not always maintain documentation to support conversions of existing door-to-door and curbside delivery points.¹⁹ By maintaining sufficient supporting documentation, district officials can better substantiate whether conversions were performed and monitor and track results. Also, maintaining documentation will provide districts with historical information they can use to establish goals for future delivery conversions.

In seven of the districts reviewed, we found:

- Seattle District officials converted business delivery points such as shopping malls and shopping centers from door-to-door delivery to centralized delivery and residential delivery points in areas where mail theft and safety issues were a concern. However, they could not provide data showing the actual number of conversions.
- Atlanta District officials stated they converted existing door-to-door delivery points to curbside delivery points. District officials considered this to be a conversion to centralized delivery, because of multiple curbside boxes being placed on one post. However, this does not meet the criteria for centralization. Additionally, the Atlanta District did not provide documentation to support the number of delivery points converted.
- Albuquerque, Central Illinois, Greensboro, Houston, and Tennessee district officials did not provide any conversion data or documentation to support their conversions.

Assigning New Delivery Points

Managers in the 21 districts reviewed assigned 195,856 (57 percent) new delivery points to centralized delivery in FY 2009. District officials established modes other than centralized delivery for the remaining 149,645 (43 percent) new delivery points (see Table 6).

¹⁹ Each district varied in how it maintained and tracked delivery point conversion documentation.

Table 6. FY 2009 New Centralized Delivery Points

District	Total New Delivery Points	Number of New Centralized Delivery Points	Percentage of Centralized Delivery Points	Number of New Door-to-Door or Curbside Delivery Points
Honolulu	4,510	4,510	100.0%	0
Seattle	18,477	18,477	100.0%	0
Sierra Coastal	13,561	13,416	98.9%	145
Chicago	8,154	8,037	98.6%	117
San Francisco	5,811	5,083	87.5%	728
Hawkeye	6,759	5,738	84.9%	1,021
Salt Lake City	13,344	11,284	84.6%	2,060
Albuquerque	10,470	8,358	79.8%	2,112
Houston	49,431	39,440	79.8%	9,991
Central Illinois	5,151	3,892	75.6%	1,259
Atlanta	25,023	11,643	46.5%	13,380
Greensboro	25,297	11,328	44.8%	13,969
Greater South Carolina	23,141	10,172	44.0%	12,969
Northern Ohio	5,037	2,175	43.2%	2,862
Gateway	11,832	4,734	40.0%	7,098
Mississippi	18,915	7,509	39.7%	11,406
Mid-Carolinas	27,564	10,183	36.9%	17,381
Tennessee	27,229	8,636	31.7%	18,593
Kentuckiana	17,686	4,653	26.3%	13,033
Appalachian	12,031	3,026	25.2%	9,005
Oklahoma	16,078	3,562	22.2%	12,516
Total	345,501	195,856		149,645

Source: IMAQ.

The Honolulu and Seattle districts centralized 100 percent of their new delivery points. The Honolulu District established a district policy to centralize all new delivery points. District officials actively encourage centralized delivery with builders and developers through the “Go Central, Go Green” program.²⁰ Seattle District officials stated that centralized delivery is the preferred mode of delivery for new developments. District officials also stated they have established good working relationships with builders and developers, and the customers understand that centralized delivery is the preferred mode of delivery for new points. Officials added that they do not have the resistance that other districts may have experienced when implementing centralized delivery for new points.

²⁰ The goal of the program is to encourage customers to use centralized delivery as a means of protecting and improving the environment. For example, district officials stated that communities served by centralized delivery routes use 40 percent fewer postal vehicles, which results in a 40-percent reduction in vehicle emissions and fuel use.

Eight of the 21 districts established centralized delivery for 70 percent or more of their new delivery points. These districts have all established policies that require or emphasize the use of centralized delivery for all new delivery points. Additionally, these districts provided their policies to builders and developers, which increased awareness. The remaining 11 districts used centralized delivery on less than 50 percent of their new delivery points. In these districts, we found that curbside delivery was the most utilized delivery mode for new delivery points.

Similar to conversions, the Postal Service has not established specific targets for measuring progress of centralized delivery for the district, area and national levels for new points. As shown earlier in Table 6, the percentage of new delivery points assigned to centralized delivery varied from district to district, with a two districts assigning centralized delivery to 100 percent of new points and some districts assigning centralized delivery to 26.3 percent or less to new points. Establishing specific targets will encourage officials to strive to reduce costs by maximizing centralized delivery for new points.

District officials stated that centralized delivery is the preferred mode of delivery for new delivery points because it is more cost effective. However, POM Issue 9, Section 63, provides all new establishments and extensions with all three delivery mode options: door-to-door, curblin boxes, or central delivery using receptacles. The Postal Service policy does not mandate centralized delivery for all new delivery points. According to district officials, builders, and developers are aware of options for door-to-door and curbside delivery and do not always agree to centralized delivery. District officials also stated that builders and developers assume that centralized delivery devalues property, particularly in high-income neighborhoods. Additionally, district officials stated that some residential customers in lower income neighborhoods resist centralized delivery, because they are aware of the Postal Service's other delivery options, and believe they are being slated for centralized delivery, because of their financial status. In our opinion, the Postal Service should make the final decision on assigning the more cost-effective mode of delivery for all new delivery points.

Postal Service Headquarters officials stated the mechanism for changes to or clarifications of regulations within the POM includes publication in the *Federal Register* for comment and recommendation from the Postal Regulatory Commission (PRC). According to Title 39 U.S.C. § 3661, when the Postal Service determines a change should occur in the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis, it will submit a proposal requesting an advisory opinion on the change to the PRC. According to Postal Service officials, they may initiate a request for an opinion but that does not guarantee approval. It is within the Postal Service's discretion to accept or reject the substance of any such opinion. Finally, converting and assigning delivery points to more cost-effective modes does not require the Postal Service to seek congressional approval, unlike reducing delivery from 6 to 5 days. These changes would increase fairness and consistency of service to customers, as street delivery would be the primary delivery mode.

Fairness and Cost Issues Involved with Varying Modes of Delivery

In the U.S., mail recipients have access to mail delivery service at no charge to the customer, regardless of whether the customer's mailbox is located at the door, at the curb, or in a centralized location. Door-to-door delivery is by far the most expensive delivery mode at \$353 per city delivery compared to \$224 and \$161 for curbside and centralized delivery, respectively. These varying modes of delivery result in fairness concerns in service levels to customers. Additionally, the delivery costs for the premium service of door-to-door delivery are paid for by postage bought by customers who may not receive this service.

With the current financial situation the Postal Service is facing, mail volume declines, and financial losses, the Postal Service may need to consider charging customers a fee to receive mail delivery at their door versus at the curbside or at a centralized delivery point. Charging a fee for door-to-door delivery would increase fairness as the increased delivery cost for this extra service would be borne by postal ratepayers, as well as customers who request the additional level of service.

Imposing fees for door-to-door delivery may create a public policy issue as well as operational, financial, and legal challenges. First, regarding public policy, customers already receiving mail at their door at no cost may be reluctant to pay a fee for the same service. Further, imposing a fee for door-to-door delivery may result in an increase in the number of hardship cases. Customers may feel that their physical limitations²¹ require them to receive mail via door-to-door delivery free of charge.

Second, imposing a fee for door-to-door delivery may create operational issues, such as subsections of door delivery. On any given route, some customers may elect to retain their door delivery for a fee, while others may not. This could result in increased delivery costs as various modes of delivery could be created on the same route.

Third, the Postal Service is trying to scale back the number of Post Offices to reduce costs while expanding customer access via more convenient locations. Charging delivery fees may counter these efforts as a fee-based system could create the need to collect payments for such a service at a postal facility. Lastly, as with any national change in service, the Postal Service will have to request an advisory opinion from the PRC to impose the fees.

Although pursuing a fee-for-service initiative would be challenging, we believe the Postal Service should consider the option as it evaluates action to be taken in the delivery area.

²¹ It is the opinion of the OIG that the Postal Service should not make hardship determinations to validate a customer's special needs. We believe the federal government should be responsible for determining this type of societal issue. Additionally, costs for providing door-to-door delivery to persons with hardships should be paid from appropriated funds or tax dollars and not from stamp funds or Postal Service revenue.

APPENDIX C: OIG CALCULATION OF MONETARY IMPACT²²

The OIG estimates the Postal Service could save more than \$4,538,016,397 in funds put to better use and questioned costs (see Table 7).

Table 7. Summary of Monetary Impact

Finding	Impact Category	Amount
Converting Existing Door-to-Door to Curbside Delivery Points	Funds put to better use	\$4,502,572,887
Centralizing New Delivery Points (FY 2009)	Questioned costs	24,052,226
Centralizing New Delivery Points (FY 2010)	Funds put to better use	11,391,284
Total		\$4,538,016,397

Source: OIG analysis

The OIG estimated the Postal Service could save more than \$4,502,572,887 in funds put to better use²³ for FY 2011 by converting existing door-to-door delivery points to curbside delivery (see Table 8).

Table 8. Potential Cost Savings for Existing Door-to-Door Delivery Points to Curbside Delivery

Delivery Type	Number of Door-to-Door Delivery Points as of December 31, 2010	Variance ²⁴	Potential Cost Savings from Converting Door-to-Door Delivery Points to Curbside Delivery
City	34,502,039	\$129	\$4,450,763,031
Rural	415,016	101	41,916,616
Highway Contract Route	141,332	70	9,893,240
Total	35,058,387		\$4,502,572,887

Source: OIG analysis.

- We calculated the existing delivery funds put to better use for FY 2011 by obtaining the number of existing door-to-door delivery points as of December 31, 2010. We determined cost savings by comparing the cost of existing door-to-door delivery to the cost of curbside delivery for the same number of delivery points.

²² Our monetary impact calculation did not include the \$5.1 billion in savings if all delivery modes were centralized.

²³ Funds that could be used more efficiently by implementing recommended actions.

²⁴ Variance represents the difference between the cost of door-to-door delivery and curbside delivery. Door-to-door delivery for city, rural, and highway contract route delivery points costs \$353, \$278, and \$193, respectively. Curbside delivery for city, rural, and highway contract route delivery points costs \$224, \$177, and \$123, respectively.

- The *Postal Service Cost of Delivery Study*, dated February 1995,²⁵ included carrier office time and street time and vehicle costs in the cost of each delivery mode.
- We did not consider the costs for curbside equipment and maintenance when calculating cost savings, because the Postal Service had no available cost data.
- We did not consider the percentage of hardship cases when calculating cost savings, because the Postal Service does not have a database that tracks this information.
- We did not consider the percentage of delivery points that can never be converted when calculating cost savings, because the Postal Service does not track this delivery statistic.

We identified \$24,052,226 in questioned costs²⁶ in FY 2009 as a result of not centralizing new delivery points. In addition, we estimated the Postal Service could save \$11,391,284 in funds put to better use²⁷ for FY 2010 by mandating centralized delivery for new delivery points (see Table 9).

Table 9. Potential Cost Savings for Centralizing New Delivery Points

Area	New Delivery Points Questioned Costs FY 2009	New Delivery Points Funds Put to Better Use FY 2010	Total Potential Cost Savings
Capital Metro	\$ 3,769,319	\$1,900,524	\$ 5,669,843
Eastern	2,889,504	800,794	3,690,298
Great Lakes	2,165,010	825,690	2,990,700
Pacific	1,154,371	777,618	1,931,989
Southeast	5,079,412	1,511,732	6,591,144
Southwest	6,558,529	4,175,286	10,733,815
Western	2,436,081	1,399,640	3,835,721
Total	\$24,052,226	\$11,391,284	\$35,443,510

Source: OIG analysis.

- We calculated the new delivery point questioned costs for FY 2009 by obtaining the number of door-to-door and curbside delivery points added during the fiscal year. We determined cost savings by comparing the cost of new curbside and new door-to-door delivery to the cost of centralizing the same number of delivery points.
- We calculated the new delivery funds put to better use for FY 2010 by obtaining the number of door-to-door and curbside delivery points added during the fiscal year. We determined cost savings by comparing the cost of new curbside and new door-to-door delivery to the cost of centralizing the same number of delivery points.

²⁵ Cost studies were conducted in 1974, 1985, and 1995.

²⁶ Question Costs are unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc.

²⁷ Funds that could be used more efficiently by implementing recommended actions.

- We did not consider separate costs for purchasing, installing, and maintaining centralized delivery equipment in the cost-savings calculation, because the delivery mode data included these costs.

APPENDIX D: SELECTED AREAS AND DISTRICTS REVIEWED

Area	District
Capital Metro	Greensboro
	Greater South Carolina
	Mid-Carolinas
Eastern	Appalachian
	Kentuckiana
	Northern Ohio
Great Lakes	Central Illinois
	Chicago
	Gateway
Pacific	Honolulu
	San Francisco
	Sierra Coastal
Southeast	Atlanta
	Mississippi
	Tennessee
Southwest	Albuquerque
	Houston
	Oklahoma
Western	Hawkeye
	Salt Lake City
	Seattle

APPENDIX E: MANAGEMENT'S COMMENTS

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



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SUBJECT: Audit Report – Modes of Delivery
(Report Number DR-AR-10-DRAFT)

This responds to the recommendations contained in the Modes of Delivery Audit conducted by the Office of the Inspector General (OIG). This iteration of the report is a continuation of an audit started in October of 2009, which resulted in a draft report dated August 30, 2010. This office responded to that report on September 15, 2010.

The audit attempts to identify and quantify further cost savings available to the U.S. Postal Service (USPS), beyond the August report and shifts from the original premise of using "centralized delivery for new delivery points" to promoting the widespread conversion of existing delivery. Specifically, the objective was to determine if the Postal Service 1) converted existing door-to-door and curbside delivery to more economical and efficient delivery modes and 2) assigned centralized delivery to new delivery points. This would be accomplished by regulatory change to mandate centralized delivery for all new delivery established hereafter and to permit the USPS to unilaterally convert door delivery to curblines, and ultimately curblines to centralized delivery.

The OIG identifies \$24,052,226 of monetary impact in unrecoverable questioned costs; and \$4,513,964,171 of monetary impact in funds put to better use. The \$24 million in unrecoverable questioned costs is unchanged from the August 2010 audit; the \$4.51 billion dollars of funds put to better use reflects an upward adjustment from the \$6.91 million dollars cited in the August report, a difference of \$4.05 *billion* additional dollars. The OIG identifies a total of over \$4.53 billion dollars in cost avoidance that could be achieved if changes to the national policy cited in the Postal Operations Manual (POM) were pursued. Finally, the OIG asserts that by converting curblines delivery to centralized delivery, the USPS could see additional savings of over \$5.05 billion dollars for 100 percent conversion of curblines to centralized delivery. In management's assessment, these estimated savings and impact are unrealistic, unattainable and without sound foundation given the need to change and convert nearly 87 million door and curblines deliveries.

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The recommendations would eliminate door and curblin delivery nationally for all residential and business delivery and require centralized delivery alone; this would constitute a fundamental change to the provision of service to the public and would likely trigger active stakeholder resistance.

The OIG recognizes that such changes are discussed in the Postal Services action plan, *Ensuring a Viable Postal Service for America*³¹, and pose potentially negative impacts upon mail volume and customer satisfaction. The OIG belief that "an aggressive strategic plan that is effectively implemented could result in minimal impact" is over simplistic. Furthermore, it is unclear what information or data the OIG relies upon, especially since it contradicts the findings presented by the McKinsey and Company report and mailer surveys.

Potential cost savings of \$4.50 billion dollars as detailed in Table 3 (pg11) presumes a 100 percent conversion rate for over 35 million door deliveries in City/Rural/Highway Contract Route delivery. The process of converting another 52 million curblin to centralized deliveries would be needed to realize the additional \$5.05 billion dollars in cost as noted in Table 4 (pg12). The expectation of 100 percent conversions is ill conceived and does not account for significant logistical and practical challenges that must be overcome:

1. Geographic Challenges-Not all delivery points are suitable for conversion:
 - a. Rural areas with widely dispersed residences make travel to a centralized mailbox costly for the consumer and inconvenient, further degrading the mail moment
 - b. Urban area's with little or no right of way or easements for locating curblin, sidewalk or centralized delivery equipment
2. Equipment Cost/Funding-USPS will be at borrowing limit by end of fiscal year (FY) 2011
 - a. CBU Equipment cost for OIG recommended 35 million door deliveries converted would be \$1.74 billion dollars
 - b. CBU Equipment cost at 80 percent of 35 million door deliveries would be \$1.39 billion dollars
3. Hardship Delivery-would increase in response to having mailboxes moved from residences
 - a. Cost of hardship delivery assuming a 1 percent increase in requests from the 35 million door deliveries converted under the OIG recommendations would be over \$123 million annually.

Table 6 indicates new delivery in FY2009 of an additional 149,645 Possible Deliveries (PDS) that are listed as "New door to door or Curbside Delivery" which lends the appearance of the new growth being spread evenly between the two. This does not depict a fair representation of USPS growth over the past 14 years. Since 1996 the USPS has reduced the actual number of door deliveries from 39.5 million to 37.4 million.

³¹ USPS.com/strategicplanning/futurepostalservice.htm *Ensuring a Viable Postal Service for America*

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The change in delivery cannot be attributed to conversions, or be dismissed as demolition in its entirety; it is simply a calculation of net change. It is most likely illustrative of the growth in curbside delivery not door delivery, even though USPS regulations permit new in-growth door delivery.

Most importantly, the audit fails to consider the full scope of the legal and public policy issues that will be raised by USPS customers and stakeholders, many of who could be expected to resist such changes. These may include legal challenges, public comment to and an advisory opinion pursuant to section 3662 from the Postal Regulatory Commission (PRC), and most certainly to Congress and the media. The USPS has long understood how protective customers are where home delivery is involved, and has extensive experience with congressional activity and special interest groups in this arena. While the audit acknowledges USPS has constituencies with an interest in how mail is delivered to a business or residence, it does not consider the regulatory process and the public policy issues to their fullest extent. For instance, when surveyed, our customers indicated that they would rather lose a day of delivery service than have their mailbox moved from a door or curbside location to a centralized delivery.

The Postal Service may initiate a request for an advisory opinion to the PRC; however, it does not guarantee that the Postal Service may take action to change service. Customers, whether mailers or recipients, will have significant concerns over how changes such as those recommended in the audit would impact their use of the mail and mail volume, and any process undertaken to change regulations would involve significant public debate. While acknowledging the accuracy of much of what the audit details, the USPS does not agree with the overarching conclusion drawn from the audit, with portions of the methodology, or the recommendations suggested as a remedy.

Audit recommendations are addressed in the following narrative and where adopted, suggested courses of actions are described. We provide the following response to the OIG recommendation Nos. 1-5 for the Vice President, Delivery and Post Office Operations:

Recommendation 1

Revise the *Postal Operations Manual (POM)* Issue 9 to remove language that inhibits conversion of existing delivery points and the use of centralized delivery for new delivery points to reduce costs.

Response

Not - Adopted

This recommendation proposes sweeping changes to the POM that has evolved over 40 years of history in promoting cooperative development between the USPS and the public sector. The recommended approach to the mission of the Postal Service is to provide service and value to its customers-both mailers and end

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users. This recommendation, if adopted in whole, would serve to alienate the mailing public with significant impacts on mail volume and ultimately postal revenues.

The USPS partnered with the public to create from scratch nearly 19 million new CBU deliveries thereby essentially eliminating door delivery for all new delivery. These achievements were attained while relying on current national regulations and policies/strategies and the efforts of districts to provide service, control costs and remain within those boundaries. While minor clarifications can be made to adjust regulations that may enhance the Postal Services ability to increase efficiencies, without the broad changes requested by the OIG, the drastic change required by the OIG recommendations cannot be adopted. Clarifications to regulations (POM 631.6) can be proposed as part of a strategically focused review designed to mitigate opposition while beginning regulatory change.

This will not include a mandate to require centralized delivery for residential delivery, nor provide districts autonomous control to involuntarily convert customer delivery. Additionally, by modifying specific language in the POM that constrains local management's ability to solicit conversion of delivery, the Postal Service could begin to lay the groundwork to encourage conversions to increase efficiencies and minimize negative impact.

Recommendation 2

Increase customer awareness of the benefits/costs of converting to cheaper delivery modes.

Response

Adopted-in part (with qualifications)

The Postal Service can develop internal publications that would be shared externally or modify existing publications (Pub 265 A-C) to specifically address the benefits of converting PDS. In addition to increasing public awareness the USPS can provide training internally on the benefits of converting business delivery.

This may include updates to internal data systems and programs such as the Growth Management Tool. Additionally, Delivery and Post Office Operations will partner with internal stakeholders to develop strategies and provide training as needed on clarifications/changes to regulations.

However, the Postal Service cannot adopt the full breadth of change embodied in recommendation 1 by the OIG in part, as outlined in the agency response above. The USPS remains especially sensitive to the potential impact on mail volumes these changes may have and that the audit recognized in the USPS March 2, 2010 Action Plan. The USPS believes that sufficient data have already been collected and incorporated into the USPS Action Plan, *Ensuring a Viable*

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Postal Service for America, to validate its concerns about negative impact on mail volumes resulting from these proposed changes.

Recommendation 3

Develop and implement a comprehensive strategy to aggressively convert existing door-to-door delivery points to curbside and assign centralized delivery for new delivery points to reduce costs.

Response

Not adopted (with qualifications).

The USPS acknowledges the audit findings that no national strategy exists to “aggressively convert existing door-to-door delivery points to curbside”. This is due in part to existing regulations that eliminated door delivery in the 1970’s, the introduction of NCBU/CBU delivery in the 1980’s, and the focus on managing new growth in a responsible fashion when mail volume *and* delivery points were growing. It is only now that we are experiencing a slowing in delivery point growth combined with decreasing mail volumes. The agency focus remains on core strategies for retaining and growing our mail volume and parcel business while pursuing legislative change to secure 5-day delivery.

Responding to unprecedented change in the mailing industry, increases in electronic communication, outside agency economic pressure, and obligations for funding Retiree Health Benefits, the Postal Service commissioned three outside experts for assistance in addressing this crisis. The Boston Consulting Group (BCG) provided forecasting expertise, Accenture provided an analysis of the revenue generation diversification strategies used by foreign posts, and McKinsey & Company provided an analysis of the feasibility and impact of a multitude of cost-reducing and revenue-generating options². This provided the basis for the USPS action plan, *Ensuring a Viable Postal Service for America*, which provides information at a national level.

In *Ensuring a Viable Postal Service for America*, 13-19 percent of business respondents to the question “How would your company alter its mail volume if the Post Office shifted residential customers to curbside community mailbox delivery?” indicated they would reduce the amount of mail volume entered by more than 10 percent. Of respondents that use advertising mail (the bulk of today’s mail volume) nine percent indicated they could see reductions of 20 percent or more. The USPS Annual Report for 2010 reported operating revenues of just over 67 billion dollars. Revenue at risk from these business respondents could result in drops in operating revenue of between \$1.48 and \$1.88 billion dollars per year. Losses of this size are not considered by the audit and would only exacerbate a worsening financial position for the USPS.

² USPS.com/strategicplanning/futurepostalservice.htm *Ensuring a Viable Postal Service for America*

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Furthermore, the McKinsey and Company survey indicated that 30 percent and 39 percent of USPS customers in the age groups 55-64 and older than 64 years of age, respectively, would consider a conversion to shared location delivery point (centralized delivery) to be "A serious problem or hardship." This growing segment of USPS customers constitutes our most consistent residential users of postal products. It is possible that conversions of current delivery modes, to these groups in particular, may create situations where hardship delivery requests would increase, thereby in effect, restoring a sub-section of door delivery. This potential cost is not discussed in the audit.

It is our belief that if we are going to alienate our entire recipient customer base as the OIG suggest, we might as well have our customers move to general delivery and save the total expense of home delivery.

Recommendation 4

Establish targets and a way to measure progress of delivery conversions and assigning modes to new delivery points at district, area, and national levels.

Response

Not adopted (with qualifications).

Establishing targets for conversion will require significant changes to how Address Management Systems (AMS) compiles portions of its delivery data. Being able to "track delivery point history" is not a simple task and requires the commitment of substantial time and resources given the breadth of data systems AMS uses. This type of change will require additional:

1. Servers
2. Storage
3. Bandwidth
4. Programming development and support
5. Additional resources in the field and at AMS for training

As detailed below, the USPS is demonstrating an effective and long-term strategy to fully utilize centralized delivery as evident in growth percentages. The USPS strategies are further substantiated and supported by audit findings acknowledging high awareness and understanding of USPS policies and their limitations from the field personnel interviewed in support of this audit.

The USPS has consistently maintained the same regulations governing new delivery since a 1978 rulemaking adopting changes to the precursor of the Postal Operations Manual. Pursuant to a congressionally imposed moratorium on initiating new centralized delivery at that time, the USPS elected to continue an interim practice of reaching agreement with customers on selecting "the option of centralized" delivery service.

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Consistent with other national policy on establishing modes of delivery, this practice remains in effect today and has resulted in the addition of nearly 19 million CBU deliveries.

Since 1994 the USPS delivery network has grown from 104.9ml PDS to 129.9ml PDS (19.24 percent). Under the "customer option" rules, CBU delivery in that same time period has doubled from 8.5ml to 17.1ml. Additionally, the 8.6 million new CBU deliveries out of the total 25ml new PDS, comprise 34.4 percent of all new deliveries added in that time period, including extensions and establishment of delivery.

That the USPS pursues centralized delivery is evident in the current regulations found in the POM, Central Delivery Guidelines, and the utilization of the recently updated Growth Management Tool (GMT) as the audit noted. Additionally, current policy permits the purchase of delivery equipment in certain instances such as when establishing or extending delivery. When considering the establishment of new delivery, the USPS may waive portions of its regulations governing new delivery where CBU delivery is elected and other criteria are met. The USPS may "elect, under certain conditions, to purchase, install, and maintain curb-mounted or cluster box units"³. Districts have effectively used waivers of the "10 percent rule" (POM 642.2b) to encourage new delivery service via CBU's.

Since FY2006, the USPS has funded \$95.86 million⁴ in support of maintaining and establishing delivery via CBU equipment nationally. Furthermore, in 2005 and 2006 the USPS applied for patents on CBU delivery equipment as well as revised standards governing the manufacture of centralized delivery equipment. These changes and enhancements to equipment were made to expand the appeal of centralized equipment to the private sector, to increase security, and to provide a better form factor to increase parcel and package services.

Recommendation 5

Apply best practices and methods of successful districts to increase delivery point conversions.

Response

Adopted (with qualifications)

The USPS will adopt the recommended updates to the policy document (*Delivery Standard Operating Procedures, Growth and Delivery Point Management*) as outlined on page 3 of the audit to include language promoting conversions. Additionally, Delivery Operations will review the growth management programs of each district cited in the report as well as other districts, to determine what the best

³ POM sect 632.12 July 2009

⁴ SCM contract# 1CDSEQ-05-B-3001

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practices from each are and share nationally. Delivery Operations is developing national training (webinar) to include the findings from the OIG audit on Modes of Delivery, the updated Standard Operating Procedures, and as a re-emphasis upon the current policy of centralized delivery and smart growth. Abatements for recommendation 5 in part, will be in Quarter three of FY2011. Best practices of converting will be compiled, reviewed and disseminated by QTR IV of FY2011.

Recommendation 6

Require areas and districts to maintain supporting documentation for conversion of delivery points.

Response

Not-Adopted

The OIG recommendations for conversions of delivery require unilateral determination by the Postal Service for mode of delivery and the 100 percent conversion of door delivery to curblines. In this scenario there is no need for retaining documentation since the option for choosing mode of delivery is not extended to the customer. The only documentation required to be maintained locally is any request for hardship delivery under section 631.42 of the POM.

Since the OIG recommendation to convert delivery unilaterally is not adopted, then the POM section 631.6 currently requires the local offices to retain documentation and that is deemed sufficient for a local conversion matter. Delivery Operations at the National level will provide updated language reminding districts of this obligation in the best practices information sharing efforts as part of the qualified adoption of recommendation 5.

Recommendation 7

Determine whether a business case exists to go to a fee based system for door-to-door delivery.

Response

Not-Adopted

The OIG does not take into account the legal requirements of Postal Enhancement and Accountability Act (PAEA) in its suggestions of "fees" to offset cost accrued for providing door delivery service. Clearly the USPS recognizes that cost varies by mode of delivery, however, it is not as straightforward as the OIG calculates when it projects \$4.05 billion in unrecoverable costs based on a 100 percent conversion rate. Also it does not offset the cost savings with any considerations of new costing methods or compliance with PAEA for the logistics challenges of charging for and accepting remittance. Reconciling the recommended change with the policy of one free form of delivery for customers is not addressed by the audit.

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The model of a PO Box premium service is not the same when the delivery service can change from location at a door, to curb location, and back again, whenever a resident or business moves. The logistics of charging a fee based on cost would require extensive new modeling using current cost data to withstand legal review and SOX compliant reporting requirements'. None of these issues are considered or included in cost as an offset to the \$4.5 billion dollars in claimed unrecoverable costs.

Finally, the USPS does not distinguish or accept that one mode of delivery is "a premium service for which others are paying" as asserted by the OIG in its findings. The level of service provided by the USPS, regardless of mode of delivery, is a premium level of service. Absent special handling as required by product, Delivery Operations does not recognize one mode of delivery as better than or above another and expects its employees to treat mail with the same level of service regardless of what type of mail receptacle is in use.

for Elizabeth A. Schaefer
Dean J. Granholm

cc: Ms. Schaefer
Mr. Knoll