September 27, 2006

MICHAEL J. DALEY
ACTING VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Management Advisory – Delivery and Retail Standard Operating
Procedures – Pacific Area (Report Number DR-MA-06-002)

This report presents the results of our review of the implementation of Delivery and
Retail Standard Operating Procedures (SOP) in the Pacific Area (Project Number
06XG016DR006). Our overall objective was to assess implementation of Delivery and
Retail SOP in the Pacific Area. This is one in a series of reports on Delivery and Retail
Operations issued under the Value Proposition Agreement between the Vice President,
Delivery and Retail, and the U.S. Postal Service Office of Inspector General Delivery
and Retail directorate. The information in this report will be included in a nationwide
capping report assessing implementation of Delivery and Retail SOP.

Pacific Area officials implemented the Delivery and Retail SOP for city and rural delivery
and Function 4 (customer service) operations. Implementation included training
supervisors and managers, developing action steps for "vital few" units, and outlining
future plans to complete remaining reviews and certifications by the end of fiscal
year 2006. Officials also certified delivery and retail units under Morning SOP and Rural
Delivery SOP and conducted Function 4 reviews. Based on our review of the city and
rural delivery and Function 4 SOP, the Pacific Area implemented each component of
the SOP. However, additional emphasis was needed to improve Integrated Operating
Plan (IOP), Delivery Point Sequence (DPS), and rural delivery. Specifically, area
officials did not validate that plant and delivery unit personnel updated their IOP to
ensure consistent mail availability prior to carrier arrival and DPS percentage was below
the national average in FY 2005. In rural delivery, the area had difficulty retaining
Replacement Carrier Associates (RCA) for rural delivery routes. Management stated
the IOP and DPS issues existed because, in the past, the area focused on retail
(generating revenue) and not on delivery operations (controlling cost). In addition, area
officials indicated the low retention of the RCA was due to the area not meeting the job
expectations of the RCA. During our review, Pacific Area officials implemented
corrective actions to improve IOP, DPS percentages, and RCA retention.

Additionally, area officials were continuing to address the challenges associated with
the "vital few" performers. Pacific Area officials indicated that, although they were
implementing the SOP, "vital few" units were not performing to standards due to the
challenges associated with hiring and retaining RCA for rural routes and inadequate

monitoring. We recognize area officials' concerns, and we plan to address these issues in the capping report to Postal Service Headquarters**.**

We provided management with a copy of the report and they had no issues with the findngs. We are making no recommendations in this report to Pacific Area management.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Rita F. Oliver, Director, Delivery and Retail, or me at (703) 248-2300.

E-Signed by Colleen McAntee
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C McAntee
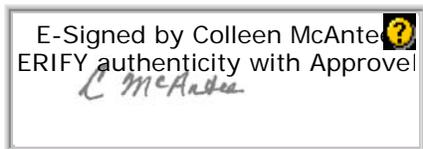
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Attachments

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INTRODUCTION

Background

Each day the U.S. Postal Service receives and delivers over 700 million pieces of mail. The Postal Service delivers mail to 144 million city and rural addresses across a network of 37,000 post offices and retail outlets. To receive and deliver the mail, the Postal Service has an annual field budget of approximately $60 billion of which roughly 51 percent is used for delivery and retail operations. Annual salary and benefits in fiscal year (FY) 2006 for rural and city carriers total about $22 billion and approximately $8 billion for Function 4 (customer service) operations. The Pacific Area's FY 2006 budget is $2.5 billion for city delivery operations, $203 million for rural delivery operations, and approximately $1 billion for Function 4 operations. The area is responsible for eight districts and services approximately 1,447 delivery and retail units.[1]

To ensure the efficient use of resources, the Vice President, Delivery and Retail, issued a letter on September 30, 2005, stating that all delivery and retail units will officially implement Standard Operating Procedures (SOP) beginning in FY 2006 to establish standard practices for managing all delivery and retail functions. In November 2005, Postal Service senior management officials requested audit assistance from the U.S. Postal Service Office of Inspector General (OIG) to assess implementation of the SOP and determine how the area is monitoring the units on the "vital few"[2] list. In response to the request, the OIG began its nationwide review of the Postal Service's implementation of SOP in January 2006.

The SOP consists of procedures to manage city and rural delivery and Function 4 operations. Postal Service officials must implement the SOP consistently and establish a review process to validate that the programs are operable. Officials must also take appropriate responsibility for developing plans that will assure that SOP are understood and functional.

Morning SOP (AMSOP) is an important component of city delivery SOP. AMSOP standardizes daily city carrier

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[1] Some of these units do not have all three components - city delivery, rural delivery, and retail operations. Therefore, they do not have budgeted workhours for all three operations.
[2] "Vital few" units have the largest opportunity for improvement in city and rural delivery and Function 4 operations and require specific management actions.

functions to align actual workhours to base workhours. The FY 2006 goal is to certify[3] all level 22[4] and above Delivery Operations Information System (DOIS) sites by September 30, 2006.

The Rural Delivery SOP (RDSOP) standardizes daily rural carrier functions to align actual workhours to standard workhours. The FY 2006 goal is to certify[5] 75 percent of units with 10 or more rural routes and those units identified as "vital few."

The Function 4 operations goal is to provide a standardized and comprehensive structure for development of an integrated review cycle that continually identifies and quantifies savings opportunities. In addition, management should conduct Function 4 Business Reviews[6] to identify units with the largest opportunity for workhour improvements.

A key component of the SOP is the identification of "vital few" delivery units. These units have the largest opportunity for improvement in city and rural delivery and Function 4 operations and require specific management actions. Postal Service Headquarters provides area officials with the "vital few" list quarterly based on the performance of the previous quarter. The area monitors the "vital few" units and develops action plans to correct their performance issues in city and rural delivery and Function 4 operations.

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[3] District program managers conduct a certification audit of a city delivery unit's operations to determine if supervisors are matching workhours to workload, time attendance reports, office configuration, and use of authorized overtime. Units must achieve a score of 95 or greater to achieve certification.

[4] A level 22 post office is a grade level assigned based on a combination of the responsibilities of the postmaster, the amount of employees, the size of the facility and various operations performed within each post office.

[5] District program managers conduct a formalized rural management review focusing on improving efficiency in an evaluated workload environment to more closely align actual to standard hours, reduce overtime, and reduce auxiliary assistance hours. Units must achieve a score of 85 or greater to achieve certification.

[6] The Function 4 Business Reviews identify and quantify savings opportunities and provide a process to ensure savings expectations are met. Function 4 teams complete the on-site reviews, and an Integrated Operations Business Plan Committee provide critical support to ensure attainment of major organizational targets.

Postal Service Headquarters provided delivery and retail standardization training to Area Managers of Delivery Support Programs on September 8 and 9, 2005. In addition, Postal Service Headquarters issued a memorandum on October 13, 2005, to each area outlining the area's responsibility for training managers on the SOP. Each area was responsible for training districts by October 31, 2005. The districts were responsible for completing training for all levels of management by November 15, 2005. Further, Postal Service Headquarters requested that each area establish a review process to validate whether the SOP were adopted to ensure consistent implementation. Finally, Postal Service Headquarters informed area officials that the "vital few" list requires their attention and monitoring, which includes action plans to correct performance issues in city and rural delivery and Function 4 operations.

Objective, Scope, and Methodology

Our overall objective was to assess implementation of Delivery and Retail SOP in the Pacific Area. Specifically, we determined whether Pacific Area officials implemented SOP in city and rural delivery and Function 4 operations. The scope of this review focused on whether area officials implemented the SOP at the area level and excluded review at selected district and delivery and retail units within the area. We did not determine the effectiveness of the implemented SOP at this time, but plan to perform future reviews and identify opportunities to increase revenue, reduce costs, and improve customer service.

We visited Postal Service Headquarters and the Pacific Area to interview management officials and obtain performance data and reviewed FY 2006 delivery and retail performance data for week 10.[7] We reviewed and analyzed performance data obtained from Postal Service systems from October 2005 through May 2006 and discussed the results with Postal Service officials.[8] We relied on data from these systems to conduct interviews and analysis. However, we did not directly audit the systems, but

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[7] Week 10 performance data was only for that specific week. The weekly performance data roll-up processes began in week 14, with year-to-date information available beginning with week 19.
[8] During our review timeframe, we analyzed performance data roll-up information for week 19 year-to-date and week 34 year-to-date.

discussed with Postal Service officials the relevance of the data to delivery and retail performance during our fieldwork.

We conducted this review from January through September 2006 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

Prior Audit Coverage	The OIG has issued 12 audit reports related to delivery and retail operations. While none of these reports are directly related to our objective, they do identify opportunities to improve management of delivery and retail operations. The details of the reports are included in Appendix A.

RESULTS

Implementation of Standard Operating Procedures

Pacific Area officials implemented the SOP in city and rural delivery and Function 4 operations, which included:

- Training supervisors and managers responsible for city and rural delivery and Function 4 operations to allow further implementation by the district and unit levels.[9]

- Developing approved action steps for units identified as "vital few."

- Outlining future plans to complete reviews on the remaining AMSOP, RDSOP and Function 4 Business Review locations by September 30, 2006.

Pacific Area officials had certified 46 percent (175 of 377) of their level 22 and above DOIS sites under AMSOP. During FY 2006, week 34 year-to-date, the city delivery office hours (percent to standard) exceeded standard workhours by 102 percent. This was an increase in hours from week 19 year-to-date, when the office hours exceeded the standard hours by 101 percent. During this same period, the deliveries per hour percentage exceeded the same period last year percentage by 2.14 percent. This was a decrease from week 19 year-to-date, when the deliveries per hour percentage exceeded the same period last year percentage by 2.41 percent.[10]

Further, area officials had certified 84 percent (355 of 421) of their rural units.[11] During FY 2006, week 34 year-to-date, rural delivery total actual workhours exceeded standard workhours by 5.10 percent. This was a decrease from week 19 year-to-date, when the actual workhours exceeded the standard hours by 6.48 percent.

Finally, area officials had conducted Function 4 Business Reviews at 35 percent (111 of 320) of their planned locations.[12] In addition, during FY 2006, week 34 year-to-date, Function 4 total earned hours variance was 1.17 million workhours. This was an increase from week 19

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[9] The Pacific Area announced the roll-out of city delivery SOP in June 2004. There were several training sessions outside this initial training. Rural delivery and Function 4 SOP training was conducted in November 2005.
[10] We are planning a future review on city carrier street performance.
[11] The 84 percent represents the "vital few" and units with 10 or more rural routes.
[12] Information as of June 2006.

year-to-date when the earned hour variance was 610,239 workhours. During the same period, the window staffing efficiency for week 34 year-to-date was 82 percent. This was a decrease from week 19 year-to-date when the window staffing efficiency was 83 percent.

Based on our review of the city and rural delivery and Function 4 SOP, the Pacific Area implemented each component of the SOP. However, additional emphasis was needed to improve Integrated Operating Plan (IOP), Delivery Point Sequence (DPS), and rural delivery. (See Appendix B.) Specifically, area officials did not validate that plant and delivery unit personnel updated their IOP to ensure consistent mail availability prior to carrier arrival and the DPS percentage was below the national goal in FY 2005.[13] In rural delivery, the area indicated they had difficulty retaining Replacement Carrier Associates (RCA)[14] for rural delivery routes.

Management stated the IOP and DPS issues existed because, in the past, the area focused on retail (generating revenues) and not on delivery operations (controlling costs). In addition, area officials indicated the low retention of the RCA was due to the area not meeting the job expectations of the RCA. During our review, Pacific Area officials implemented corrective actions to improve IOP, DPS percentages, and RCA retention.

Additionally, area officials are continuing to address the challenges associated with the "vital few" performers. Pacific Area officials indicated that, although they were implementing the SOP, "vital few" units were not performing to standards due to the challenges associated with hiring and retaining RCA for rural routes and inadequate monitoring of SOP operations. Management also stated that "vital few" units were impacted by the area's past focus on generating revenue rather than controlling costs. We recognize area officials' concerns and we plan to address these issues in the capping report to Postal Service Headquarters**.**

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[13] We are planning a future review that will incorporate DPS percentages, to identify opportunities to increase revenue, reduce costs, and improve customer service.

[14] RCA is a non-career Postal Service employee who either serves as a leave replacement in the absence of a regular rural carrier or provides service on auxiliary routes. We are planning a future review on RCA.

Integrated Operating Plan

Area officials did not validate that plant and delivery unit personnel updated their IOP to ensure consistent mail availability prior to carrier arrival. The area trained district personnel on the IOP process based on best practices from the Eastern Area and ensured each district had implemented IOP in 2004. However, management stated their recent monitoring of late mail arrivals revealed that some of the IOP had not been updated and were not valid.

To address this issue, Pacific Area officials sent a request to all IOP coordinators to review the status and validity of all IOP. The Pacific Area plans to validate that all IOP have been updated by September 2006. Since officials implemented corrective action, we are not making any recommendations.

The IOP is used to improve mailflows between the processing plants and delivery units. These plans develop accountability by:

- Establishing the schedule of dispatches from the plant to each of its delivery units and identifying the types of mail (by shape and level of sortation) that the plant will send on each dispatch.

- Tracking on a daily basis the arrival of dispatches at the delivery unit and the types of mail (by shape and level of sortation) that are on each dispatch.

- Providing performance cluster managers with a cross-functional, end-to-end overview of their operations that will facilitate better operating results.

When management does not ensure IOP are valid, mail flow problems can exist which negatively impact delivery service and operational costs.

**Delivery Point
Sequencing**

The Pacific Area had a 76 percent average DPS score, which was 1 percent below the FY 2005 national average. With the Postal Service continuing to have delivery growth, an increase in DPS letters is essential to decreasing cased letters volume and, therefore, time spent by the carriers in the office. As shown in Table 1, nationally, the DPS percentage is approximately 77 percent, with some areas achieving DPS percentages in the 80s.

DPS is the process of getting bar-coded mail into the carrier's walk sequence so the carrier can deliver it without manual sorting. The goal of DPS is to improve efficiency and thus reduce cost. Increasing the percentage of DPS letters equates to decreasing cased letter volume and time the carriers spend in the office.

Table 1. Average Delivery Point Sequencing Percentages for FY 2005

AREA	Actual DPS% (FY 2005)
Western	82
Northeast	82
Southwest	80
Southeast	79
Pacific	**76**
Great Lakes	76
Eastern	75
New York Metro	72
Capital Metro	71
National	**77**

Source: Information provided by Postal Service Headquarters officials

Pacific Area officials implemented corrective action to improve their DPS scores. This included monitoring districts' Address Management System (AMS) coordinators' attempts to resolve address problems such as those related to high-rise buildings and non-DPS offices. Since officials implemented corrective action, we are not making any recommendations.

Rural Delivery Replacement Carrier Associates

The area had difficulty retaining RCA for rural delivery routes. According to the RCA retention tracking data records, the Pacific Area had a 59 percent retention rate for the RCA compared to the national average of 67 percent. For the 24-month period March 2004 through March 2006, the Pacific Area hired 2,160 RCA but retained only 1,284 RCA. Area officials indicated the low retention of the RCA was due to the area not meeting the job expectations of the RCA. Specifically, when employees accepted the RCA position, actual workhours were less than they had expected, which caused them to leave. The inability to retain the RCA for rural routes severely impacts budgeted hours.

The area has begun to take steps to improve retention. Officials are conducting exit interviews to better understand the rationale for leaving. They are also directing the RCA to Postal Service units that better meet their work schedule expectations. Since officials implemented corrective action, we are not making any recommendations.

"Vital Few" Lists

Area officials were continuing to address the challenges associated with "vital few" units. Pacific Area officials indicated that, although they were implementing the SOP, "vital few" units were not performing to standards due to the challenges associated with hiring and retaining the RCA for rural routes and inadequate monitoring. Management also stated that "vital few" units were impacted by the area's past focus on generating revenue rather than controlling costs.

Pacific Area officials audited "vital few" units and held weekly telecoms to determine the causes of low performance. The area produced several reports on a daily and weekly basis to monitor "vital few" units in city and rural delivery and retail. Officials planned to continue placing emphasis on the SOP with the "vital few" units, which will make the process easier for officials to identify work outside standard time allowances. We recognize area officials' concerns and we plan to address these issues in the capping report to Postal Service Headquarters**.**

APPENDIX A

PRIOR AUDIT COVERAGE

City Letter Carrier Operations – Greater Indiana District (Report Number DR-AR-06-003, dated March 28, 2006). The report outlined opportunities to improve the management of city letter carrier operations in the Greater Indiana District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected the sample results for a total of 68,177 unjustified hours over the 5-month period from January 1 through May 31, 2005, that were not supported by volume or workload (total unrecoverable costs of $765,487). We also noted that supervisors and managers did not always view DOIS reports in a timely manner to manage operations, consistently use Managed Service Points (MSP) to monitor city letter carriers' street time to correct negative trends, or properly document letter carriers' unauthorized overtime occurrences and take corrective action.

AM Standard Operating Procedures - Fiscal Year 2005 Financial Installation Audit (Report Number FF-AR-06-096, dated March 20, 2006). The report outlined that at 28 of the 36 post offices, stations, and branches where AMSOP are applicable, management had begun implementation. Of those, 11 had obtained certification and 17 were at various stages of certification. At the time of our work, eight units had not begun implementation. Several factors contributed to units not being certified. These factors included issues with the mail arrival agreement with the processing and distribution plant, posting and following the AMSOP, and Function 4 activities. We made no recommendations in this report to management.

City Letter Carrier Operations – Detroit District (Report Number DR-AR-06-002, dated February 8, 2006). The report outlined opportunities to improve the management of city letter carrier operations in the Detroit District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected the sample results for a total of 59,208 unjustified hours over the 5-month period from January 1 through May 31, 2005, that were not supported by volume or workload (total unrecoverable costs of $723,586). We also noted that supervisors and managers did not always view DOIS reports in a timely manner to manage operations, consistently use MSP to monitor city letter carriers' street time to correct negative trends, or properly document letter carriers' unauthorized overtime occurrences and take corrective action.

Address Management Systems – Southwest Area – Rio Grande District (Report Number DR-AR-06-001, dated January 25, 2006). The report outlined opportunities to improve the quality of AMS data and put $988,945 of processing and delivery costs over the next 10 years to better use. Management agreed with our findings and recommendations and the $988,945 in funds put to better use.

City Letter Carrier Operations – Chicago District (Report Number DR-AR-05-019, dated September 29, 2005). The report outlined opportunities to improve the management of city letter carrier operations in the Chicago District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected the sample results for a total of 78,248 unjustified hours over the 5-month period from September 1, 2004, through January 31, 2005, that were not supported by volume or workload (total unrecoverable costs of $2,020,200). We also noted supervisors and managers did not always view DOIS reports in a timely manner to manage operations, consistently use MSP to monitor city letter carriers' street time to correct negative trends, or properly document letter carriers' unauthorized overtime occurrences and take corrective action.

City Letter Carrier Operations – Santa Ana District (Report Number DR-AR-05-013, dated August 8, 2005). The report outlined opportunities to improve the management of city letter carrier operations in the Santa Ana District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected the sample results for a total of 83,864 unjustified hours over the 5-month period from May 1 through September 30, 2004, that were not supported by volume or workload (total unrecoverable costs of $2,127,852). We also noted that supervisors and managers did not always view DOIS reports in a timely manner to manage operations, consistently use MSP to monitor city letter carriers' street time to correct negative trends, or properly document letter carriers' unauthorized overtime occurrences and take corrective action.

City Letter Carrier Operations – San Diego District (Report Number DR-AR-05- 014, dated August 8, 2005). The report outlined opportunities to improve the management of city letter carrier operations in the San Diego District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected the sample results for a total of 53,835 unjustified hours over the 5-month period from May 1 through September 30, 2004, that were not supported by volume or workload (total unrecoverable costs of $1,423,935). We also noted that supervisors and managers did not always view DOIS reports in a timely manner to manage operations, consistently use MSP to monitor city letter carriers' street time to correct negative trends, or properly document letter carriers' unauthorized overtime occurrences and take corrective action.

City Letter Carrier Operations – Rio Grande District (Report Number DR-AR-05-009, dated December 2, 2004). The report outlined opportunities to improve management of city letter carrier operations in the Rio Grande District. Delivery facility supervisors and managers did not adequately match workhours with workload. We projected that the three delivery facilities had 5,318 unjustified hours (at an estimated cost of $193,947) not supported by volume or workload over a 5-month period. We reported 2,543 of the unjustified hours – or $92,762 – as unrecoverable costs. We also noted that supervisors and managers did not effectively use DOIS to manage daily operations and delivery unit supervisors and managers did not consistently perform street management

or effectively use MSP to monitor city letter carriers' street time to correct negative trends.

Function 4 – Customer Service Operations (Report Number DR-AR-04-014, dated September 30, 2004). The Postal Service can improve the effectiveness and efficiency of the Function 4 process in meeting or exceeding its program goals of monitoring and measuring the potential savings of customer service operations. Specifically, Postal Service managers could improve customer service operations by fully utilizing the standardized Function 4 reviews and sharing proven practices.

City Letter Carrier Office Preparation in the Dallas District (Report Number DR-AR-04-005, dated July 26, 2004). The report stated that opportunities exist to improve Dallas District city letter carrier office preparation operations. Specifically, impediments existed that adversely affected delivery supervisors/managers' ability to adequately match workhours with workload. In addition, city letter carriers' work activities were not always appropriate to ensure they departed the delivery unit as scheduled. Further, supervisors/managers did not use the DOIS to assist in managing office activities.

City Letter Carrier Street Management and Route Inspections in the Fort Worth District (Report Number DR-AR-04-001, dated June 22, 2004). The report stated that street management and route inspections were generally efficient and effective at the ▮▮▮▮▮▮ and ▮▮▮▮▮▮▮▮ Stations. Delivery unit supervisors monitored city delivery carrier's street time to conserve workhours by performing at least the minimum number of required street observations. However, while a route inspection was conducted at the ▮▮▮▮▮▮ Station delivery unit, post route adjustment procedures were not followed to maintain routes at 8 hours.

City Carrier Productivity - Letter Carrier Delays in the Baltimore District (Report Number TD-AR-03-011, dated July 28, 2003). The report stated that early reporting wasted carriers' morning time and exposed the Baltimore District to potential unnecessary evening overtime costs. The report noted supervisors and managers were not using DOIS to manage carrier schedules and, consequently, could not use the system to evaluate carrier scheduling or take corrective action.

APPENDIX B

PACIFIC AREA'S IMPLEMENTATION OF DELIVERY AND RETAIL STANDARD OPERATING PROCEDURES

SOP Areas	Pacific Area Officials Implemented Procedures	Dates SOP Implemented	SOP Areas for Improvement[15]
City Delivery			
AMSOP	Yes	06/2004	No
Integrated Operations	Yes	06/2004	No *
Delivery Point Sequencing	Yes	06/2004	No *
Collection Point Management	Yes	06/2004	No
Scanning Performance	Yes	06/2004	No
Matching Workhours to Workload	Yes	06/2004	No
Volume Recording	Yes	06/2004	No
Route Evaluations and Adjustments	Yes	06/2004	No
"Vital Few" Service Improvements	Yes	06/2004	No
Rural Delivery			
RDSOP	Yes	11/2005	No *
Growth and Delivery Point Mgmt	Yes	6/2004	No
Function 4			
Function 4 Business Review	Yes	11/2005	No
RDM WOS	Yes	11/2005	No

*Corrective action taken during the review.

Source: Information provided by Postal Service Pacific Area officials

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[15]OIG determination based on review results.