



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

**City Delivery Route
Optimization Pilot Initiative
Management Advisory Report**

August 24, 2012

Report Number DR-MA-12-002



HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service developed the route optimization concept to respond to declining mail volume. The concept restructures city letter carrier assignments by separating a delivery unit's office and street duties.

Traditionally, a carrier cases (or sorts) in the office and then loads and delivers the mail on the assigned route. Under the route optimization concept, the carrier with the office assignment cases mail on multiple routes, while other carriers only assigned to the street load and deliver the mail on one route.

The Postal Service implemented the route optimization pilot initiative in two phases, with Phase 1 beginning in October 2011 and Phase 2 in February 2012. The U.S. Postal Service Office of Inspector General issued a report supporting a business case for the concept in March 2011.

This report responds to a request from the postmaster general and chief executive officer. Our objective was to validate savings from the pilot.

WHAT THE OIG FOUND:

Our assessment of the route optimization pilot indicated there is an unfavorable business case for proceeding with the pilot. For the eight sites we reviewed during the pilot, office and street workhours increased with no efficiency improvements.

Vehicle mileage did not meet targets and the units incurred additional implementation costs. The increased workhours and related costs exceeded the gains achieved by reducing routes and vehicles.

These conditions occurred because of the difficulties in casing mail and mail fluctuations; reluctance in some carriers participating in the pilot; increased vehicle usage; lack of management oversight; and unplanned costs to implement the pilot. Consequently, the workforce structure and rules limited the success of the pilot, and it did not yield a material net savings.

This review also identified assets at risk totaling \$23,735 in one delivery unit due to inadequate asset safeguards. Management immediately initiated corrective actions on these security matters.

WHAT THE OIG RECOMMENDED:

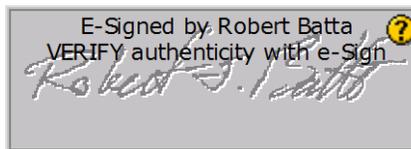
We recommended the vice president, Delivery and Post Office Operations, discontinue the route optimization pilot under the existing work environment and work rules and execute a new initiative to maximize savings by using lessons learned and results data from the pilot to optimize the full- and part-time staff mix.

[Link to review the entire report](#)



August 24, 2012

MEMORANDUM FOR: DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS



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

SUBJECT: Management Advisory Report – City Delivery Route
Optimization Pilot Initiative
(Report Number DR-MA-12-002)

This report presents the results of our review of the City Delivery Route Optimization Pilot Initiative (Project Number 12XG014DR000).

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.

Attachments

cc: Elizabeth A. Schaefer
Philip F. Knoll
Vice Presidents, Area Operations
Corporate Audit and Response Management

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Introduction

This report presents the results of our review of the U.S. Postal Service's Route Optimization Pilot Initiative (pilot) (Project Number 12XG014DR000). The report responds to a request from the postmaster general and chief executive officer to review the pilot.¹ Our objective was to validate cost savings from the pilot. This review addresses operational risk. See [Appendix A](#) for additional information about this audit.

The Postal Service is operating in an environment which has seen increased automation and decreased mail volume that directly affect carrier office workload as the number of mailpieces that carriers manually handle diminishes. The Postal Service faces challenges in developing new concepts for operating in this changing environment. In March 2011, Delivery Operations officials developed the *Route Optimization Concept* paper to respond to the decline in mail volume. The paper detailed the process for restructuring city letter carrier assignments by separating a delivery unit's office casing² and street duties, where feasible. Traditionally, a city carrier cases and then delivers the mail on his assigned route. Under the route optimization concept, the carrier with the office assignment (the caser) cases and pulls down mail on multiple routes, while the carrier with the street assignment (the deliverer) loads and delivers the mail on one route (see [Appendix B](#) for a description of office and street assignments). The Postal Service anticipated this concept would ultimately result in reduced fixed office time, routes, and vehicles.

The Postal Service implemented the pilot in October 2011³ in two phases with both evaluating operations where a carrier was assigned office duties on multiple routes with another carrier delivering mail on one route.⁴ Management implemented Phase 1 in 13 city delivery units across four postal areas for a 6-month period with start dates ranging from October 17 to November 3, 2011. Management implemented Phase 2 in February 2012 at 35 sites nationwide (see [Appendix C](#) for the list of pilot sites). Phase 2 implementation start dates ranged from February 25 to April 14, 2012.

¹ In February 2011, the postmaster general and chief executive officer requested the U.S. Postal Service Office of Inspector General (OIG) to validate savings for the "100 Percent Street Time" concept. The initiative was initially titled "100 Percent Street Time" and changed to "Route Optimization" in March 2011. The OIG reviewed data for sites under both phases of the pilot to validate the data.

² Casing duties consists of letter and flat mailpieces manually sorted by letter carriers into the line-of-travel for their assigned route.

³ Headquarters officials notified the National Association of Letter Carriers (NALC) union in September and December 2011 of their intent to implement the pilot.

⁴ Phase 1 included only Flat Sequencing System (FSS) sites.

Conclusion

There is an unfavorable business case for proceeding with the pilot.⁵ During the pilot period with the focus on eight selected sites,⁶ the Postal Service successfully created separate office and street assignments that reduced routes and vehicles.

However, during the pilot we also found:

- An increase in carrier office workhours with no improvement in casing efficiency.
- An increase in carrier street workhours and overtime with no improvement in street efficiency.
- Vehicle mileage that did not meet target mileage for the reduced routes and vehicles.
- Additional costs incurred to implement the pilot.

The gains achieved during the pilot in reducing routes and vehicles were not enough to overcome increases in workhours and other associated costs. These conditions occurred due to:

- Carriers' steep learning curves and fluctuations in casing mail volume resulting from FSS processing issues which increased office workhours.
- A spike in carrier sick leave, increased office time, errors in route adjustments, and one official told us some carriers were protesting the concept by deliberately performing less efficiently.
- Lack of management oversight at the unit level increased street time.
- Auxiliary assignments and management vehicle usage increasing vehicle mileage.
- Unplanned costs to implement the pilot that was not outlined in the concept paper.

Consequently, the workforce structure and rules limited the success of the pilot, and it did not yield a material net savings.

This audit also identified assets at risk totaling \$23,735 at one delivery unit due to inadequate asset safeguards ([Appendix D](#)). Management immediately initiated corrective action on these security matters.

⁵ Our conclusion for an unfavorable business case is based on the comparison of actual workhours and vehicle mileage to criteria described in the concept paper.

⁶ Four of the selected sites were new FSS sites, and the remaining four were non-FSS sites.

Route Optimization Pilot

The Postal Service implemented the pilot and achieved no office, vehicle mileage,⁷ or street savings. The pilot yielded no process efficiencies, and additional costs were incurred to implement the pilot at some sites.

Office Time Impact

Overall, office workhour savings were not achieved, and office efficiency did not improve during the pilot. Management expected to improve office efficiency through reductions in fixed office time⁸ and more efficient casing. Also, more efficient casing was expected by reconfiguring (moving) casing equipment to reduce the amount of time spent walking between cases while completing office duties. We found that management adjusted routes and reduced the unit's total office time, or office base hours,⁹ by removing fixed office time (38 minutes) from as many routes as possible to create separate caser assignments. At the eight selected sites, fixed office time was reduced by about 16 hours, which created 47 caser assignments for 160 routes.

Management realized reductions in office workhours during Phase 1 with 26 percent less hours used over the same period last year (SPLY)¹⁰ and no reductions in phase 2. Although these reductions occurred, further analysis of actual hours in comparison to the base hours showed savings were not realized as actual hours exceeded base hours by 52 percent in Phase 1 and 12 percent in Phase 2 (see Table1).

⁷ They reduced routes and vehicles for the pilot, but as discussed later in this report, did not realize any savings.

⁸ Fixed office time is composed of the administrative duties associated with the route.

⁹ Base hours are calculated during the route inspection process to determine the hours needed to complete the office and street duties on a route. This is also known as the projected time in the Delivery Operations Information System

¹⁰ We compared actual hours to SPLY to review workhour performance under the pilot against the workhour performance under the traditional operating structure during SPLY; however, we did not base our conclusions regarding savings on the results of this comparison.

Table 1. Summary of Actual, Base, and SPLY Office Hours

Area	District	Delivery Unit	Actual Office Hours	Base Office Hours	SPLY Office Hours	Percent Variance in Actual Hours to Base	Percent Variance in Actual Hours to SPLY
Phase 1¹¹							
Eastern	Northern Ohio		4,798	2,691	6,550	78%	-27%
Great Lakes	Central Illinois		3,179	2,283	4,157	39%	-24%
Northeast	Greater Boston		4,821	3,294	6,764	46%	-29%
Pacific	San Francisco		7,933	5,400	10,576	47%	-25%
Total			20,732	13,668	28,047	52%	-26%
Phase 2¹²							
Eastern	Northern Ohio		1,267	1,067	1,370	19%	-8%
Great Lakes	Central Illinois		1,261	1,035	1,204	22%	5%
Northeast	Albany		1,922	1,956	2,013	-2%	-5%
Pacific	San Francisco		2,829	2,451	2,642	15%	7%
Total			7,279	6,509	7,229	12%	1%

Source: Enterprise Data Warehouse (EDW).

Office efficiency did not improve during the pilot. As shown in Table 2, our review of the office percent-to-standard¹³ indicated casing was less efficient during the pilot in comparison to SPLY. Percent-to-standard increased by an average of 40 percent in Phase 1 and 9 percent in Phase 2. We also found that five of the sites did not reconfigure casing equipment.

¹¹ We reviewed Phase 1 workhour and performance indicator for the period October 29, 2011 – April 27, 2012.

¹² We reviewed Phase 2 workhour and performance indicator for the period February 25 – April 27, 2012.

¹³ Percent-to-standard is determined by dividing actual office hours by standard office hours. By using fewer hours than standard (percent-to-standard below 100 percent), the office will show it is working at a high efficiency level.

Table 2. Office Casing Efficiency Actual and SPLY Percentages

Area	District	Delivery Unit	Actual Percent-to-Standard	SPLY Percent-to-Standard	Percent Variance	Reconfigured Casing Equipment During Pilot
Phase 1						
Eastern	Northern Ohio		141.79%	107.56%	32%	Yes
Great Lakes	Central Illinois		157.06%	115.96%	35%	Yes
Northeast	Greater Boston		181.42%	113.92%	59%	No
Pacific	San Francisco		157.86%	117.81%	34%	No
Total Average			159.53%	113.81%	40%	
Phase 2						
Eastern	Northern Ohio		122.33%	115.53%	6%	No
Great Lakes	Central Illinois		117.25%	105.70%	11%	Yes
Northeast	Albany		98.73%	96.09%	3%	No
Pacific	San Francisco		123.90%	108.62%	14%	No
Total Average			115.55%	106.48%	9%	

Source: EDW.

An examination of workhours in Phase 1 was difficult, because only new FSS sites were included, which made setting a baseline difficult. Area and district officials stated that the Phase 1 sites did not demonstrate the potential for increased office efficiency due to the fluctuations in cased mail volume from FSS processing issues. Because management implemented FSS and the pilot simultaneously, it was difficult to distinguish which initiative had the greater impact on workhour performance for Phase 1. Although site selection expanded to include non-FSS sites in Phase 2, area and district officials stated that workhour savings did not occur due to the learning curve for carriers casing multiple routes. In both phases, casers received assistance from deliverers to complete casing duties timely.

Street Time Impact

Our review found an increase in carrier street workhours and overtime, amounting to no savings in both phases of the pilot. Management expected to expand street time by creating full-time street assignments and anticipated more consistent delivery times through reductions in overtime and delivery inconsistencies associated with splitting routes among several carriers in the unit.

We found that management adjusted routes, the delivery unit's total street time value, or street base hours by removing all office time except clocking in, signing for keys, obtaining accountable mail and scanners, receiving instructions, and conducting vehicle safety checks. To create full-time street assignments, street time was added to routes

based on the amount of office time removed. Based on the eight sites, management created 117 full-time street assignments on 160 routes and assigned about 4 hours of street time from the remaining routes to casers who also assisted with street delivery. However, our analysis of the street workhour data indicated no workhour savings in either phase of the pilot. Specifically:

- Actual hours exceeded base hours and SPLY by 13 and 5 percent, respectively, during Phase 1.
- During Phase 2, actual hours exceeded base hours by 3 percent while SPLY was exceeded by less than 1 percent.
- Actual overtime hours exceeded SPLY in Phases 1 and 2 by 38 and 41 percent, respectively (see Table 3).

Table 3. Summary of Actual, Base, and SPLY Street Hours

Area	District	Delivery Unit	Actual Street Hours	Base Street Hours	SPLY Street Hours	Percent Variance in Actual Hours to Base	Percent Variance in Actual Hours to SPLY	Actual Overtime Hours	SPLY Overtime Hours	Percent Variance
Phase 1										
Eastern	Northern Ohio		27,623	24,701	27,684	12%	-0.20%	5,852	5,719	2%
Great Lakes	Central Illinois		16,796	16,151	15,714	4%	7%	2,448	1,434	71%
North-east	Greater Boston		19,589	18,269	18,859	7%	4%	4,208	2,811	50%
Pacific	San Francisco		32,731	26,831	29,590	22%	11%	7,003	4,208	66%
Total			96,739	85,950	91,847	13%	5%	19,511	14,172	38%
Phase 2										
Eastern	Northern Ohio		5,903	5,848	6,051	1%	-2%	577	382	51%
Great Lakes	Central Illinois		5,723	5,445	5,593	5%	2%	1,331	641	108%
North-east	Albany		8,587	8,247	8,496	4%	1%	1,559	1,420	10%
Pacific	San Francisco		8,159	7,878	7,996	4%	2%	943	690	37%
Total			28,373	27,418	28,136	3%	0.80%	4,411	3,134	41%

Sources: OIG and EDW.

Furthermore, street process efficiencies were not realized. We analyzed deliveries per hour (DPH)¹⁴ and carriers returning after 5 p.m.¹⁵ to measure street delivery efficiency before and during the pilot. Our analysis showed there was minimum impact to street delivery service during the pilot compared to SPLY, as DPH increased slightly — by 4 percent in Phase 1 and 1 percent in Phase 2 (see Table 4). However, carriers returning after 5 p.m. increased by 76 percent and less than 7 percent during Phases 1 and 2, respectively.

Table 4. Summary of DPH and Carriers Returning After 5 p.m.

Area	District	Delivery Unit	Actual DPH	SPLY DPH	Percent Variance	Actual Carriers After 5 p.m.	SPLY Carriers After 5 p.m.	Percent Variance
Phase 1								
Eastern	Northern Ohio		49	48	3%	2,512	1,109	127%
Great Lakes	Central Illinois		64	61	5%	615	81	659%
Northeast	Greater Boston		68	65	5%	508	213	138%
Pacific	San Francisco		55	53	3%	2,164	1,900	14%
Total			237	228	4%	5,799	3,303	76%
Phase 2								
Eastern	Northern Ohio		62	62	0%	89	28	218%
Great Lakes	Central Illinois		57	56	2%	187	32	484%
Northeast	Albany		79	77	2%	282	425	-34%
Pacific	San Francisco		57	57	0%	308	322	-4%
Total			255	253	1%	866	807	7%

Sources: OIG and EDW.

District officials stated that minimal impact to delivery service occurred because there was no change to street operations except for carriers delivering mail for a longer period. However, management stated that increased workhours and overtime were due to carrier sick leave, increases in office time, errors in Carrier Optimal Route¹⁶ adjustments, vacant routes,¹⁷ and some carriers protesting the concept by deliberately performing less efficiently, and lack of management oversight at the unit level.

Vehicle mileage did not meet target mileage for the reduced routes and vehicles. Based on our review, management reduced 14 routes and six vehicles¹⁸ at the selected sites after completing the pilot route adjustments and used fewer miles in comparison to

¹⁴ DPH is the cumulative deliveries divided by total city delivery workhours over a given period.

¹⁵ A carrier's return time is based upon a combination of their leaving time, the route's street time, and any additional street duties assigned to the carrier for that day. The goal is that all carriers return by 5 p.m.

¹⁶ A management tool that assists with adjusting letter carrier routes.

¹⁷ These routes have no permanent carrier assigned. Supervisors manage vacant routes by distributing the workload among other carriers (pivoting), using available part-time staff, or carriers on their over-time desired list.

¹⁸ The vehicles removed from the sites as part of the pilot will be returned at the end of the pilot when the sites revert to their traditional route structure.

SPLY.¹⁹ However, our analysis showed that actual mileage exceeded base mileage by 31 percent in Phase 1 and 20 percent in Phase 2 (see Table 5). Although vehicles were transferred, cost for fuel and maintenance were still incurred.

Table 5. Summary of Actual, Base, and SPLY Vehicle Mileage

Area	District	Delivery Unit	Pilot Actual Mileage	Pilot Base Mileage	SPLY Mileage	Percent Variance in Actual Mileage to Base	Percent Variance in Actual Mileage Over SPLY
Phase 1							
Eastern	Northern Ohio		39,504	30,451	49,292	30%	-20%
Great Lakes	Central Illinois		44,653	32,792	42,295	36%	6%
Northeast	Greater Boston		53,279	43,198	62,472	23%	-15%
Pacific	San Francisco		46,210	33,515	61,243	38%	-25%
Total			183,646	139,956	215,302	31%	-15%
Phase 2							
Eastern	Northern Ohio		10,640	9,526	12,216	12%	-13%
Great Lakes	Central Illinois		9,435	9,298	10,886	1%	-13%
Northeast	Albany		12,510	8,868	12,878	41%	-3%
Pacific	San Francisco		16,245	12,894	16,315	26%	-0.4%
Total			48,830	40,586	52,295	20%	-7%

Sources: OIG and EDW.

District officials stated that additional vehicles were assigned to allow for carrier auxiliary assistance with street delivery and street supervision and might have contributed to additional mileage.

Additional Costs Incurred During the Pilot

Additional costs were incurred to implement the pilot at some of the selected sites. The concept paper did not contain details pertaining to costs to implement the pilot; however, one district incurred \$50,000 in costs to restructure the transportation network in order for mail to arrive at the selected unit in time for casers to prepare the mail for delivery. Additionally, carriers filed grievances for out-of-schedule premium pay due to time worked outside of their regularly scheduled workday, which may result in additional pay to these carriers.

¹⁹ The reduction in routes and vehicles for Phase 1 are directly related to the pilot and do not include reductions associated with FSS adjustments.

Route Optimization Going Forward

There is potential for the pilot concept to achieve significant savings if the Postal Service had more workforce flexibility built into the labor agreement. In March 2011, the OIG issued a report supporting a business case for the Postal Service to separate office and street duties using part-time staff to perform office assignments.²⁰ Our analysis also showed that the pilot was successful in locations where there was more flexibility in using part-time staff. Additionally, we obtained a cost model from one district that demonstrated the reduction of carriers, routes, and vehicles under the concept.²¹ The model shows the reduction of routes from 41 to 36, with an equivalent number of vehicles and seven²² carrier positions. The district concluded that the changes would result in annual savings of \$611,000²³ from the reduced fixed office time associated with fewer carriers casing mail.

The Postal Service could maximize workhour savings by using part-time letter carriers for office assignments and full-time carriers for street assignments. Although our analysis of the pilot data indicated a reduction in routes and vehicles, district officials could not reduce full-time staff use or maximize part-time staff use due to the letter carrier labor agreement restrictions.²⁴

Based on our analysis of workhours and staff, discussed earlier in the report, the Colvin delivery unit used six part-time casers and showed actual office workhour savings compared to base and SPLY office hours of 2 and 5 percent, respectively.²⁵ As mentioned before and shown in Table 6, the Colvin delivery unit demonstrated that savings could be achieved with increased flexibility in part-time staff use.

²⁰ *Benchmarking Mail Distribution to Mail Carriers* (Report Number EN-MA-11-001, dated March 25, 2011).

²¹ The model was not used during the pilot.

²² This includes five regulars, one T-6 (a carrier who is assigned to a string of five different regular routes and carries these routes on the off day of the regular carrier), and one part-time/transitional carrier.

²³ The annual savings figure is based on a projected carrier performance of 90 percent-to-standard in the office. The same reduction in carriers, routes, and vehicles would occur if carriers performed at 100 percent-to-standard; however, the annual savings would be reduced to \$580,000.

²⁴ A national level arbitration award established that management may not assign employees across crafts except in the restrictive circumstances defined in the agreement. Management cannot cross craft lines to maximize efficient use of personnel.

²⁵ Management stated that the local union allowed more flexibility in assigning part-time staff.

Table 6. Summary of Carrier Staffing and Caser Assignments

Area	District	Delivery Unit	Number of Full-Time Carriers	Number of Part-Time Carriers	Number of Part-Time Casers	Number of Limited/Light-Duty Carriers	Number of Cross-Craft Staff
Phase 1							
Eastern	Northern Ohio		23	5	1	0	0
Great Lakes	Central Illinois		18 ²⁶	3	0	0	0
Northeast	Greater Boston		18	0	0	0	0
Pacific	San Francisco		33	6	0	0	0
Total			92	14	1	0	0
Phase 2							
Eastern	Northern Ohio		17	5	0	0	0
Great Lakes	Central Illinois		18 ²⁷	3	0	1	0
Northeast	Albany		19	10	6	0	0
Pacific	San Francisco		26	8	0	0	0
Total			80	26	6	1	0
Grand Total			172	39	7	1	0

Source: Postal Service.

However, management could not reduce staff, maximize use of part-time staff, or cross craft during the pilot due to labor agreement restrictions. District officials stated that using part-time staff and assigning caser positions based on the criteria of “best-qualified”²⁸ instead of seniority would help increase savings. Moreover the city letter carrier national labor agreement requires full-time carriers to be paid for 8 hours of work per day even if their actual work day consists of fewer than 8 hours. Part-time carriers have flexible schedules of less than 8 hours per day. Due to the labor agreement’s seniority requirements, part-time carriers might not be eligible to perform office assignments.

Headquarters officials recognize the potential savings that could result from reducing carriers and using part-time carriers in the office assignment; however, they focused on

²⁶ The number of full-time carriers includes two T-6 carries and two unassigned regulars.

²⁷ The number of full-time carriers includes three T-6 carriers.

²⁸ Best qualified positions are those awarded to the applicant whose total qualifications, rated against the job requirements, best meets the qualifications for the position as determined by management.

restructuring carrier assignments during the pilot. Headquarters officials stated the goal for implementing the pilot was to understand how to manage within the existing work rules, and they did not anticipate cost savings due to limitations in restructuring the staff. Also, headquarters officials stated they included sites with vacant routes to absorb workhours to simulate staff reductions.

Consequently, the workforce structure and rules limited the success of the pilot. Additionally, the gains achieved during the pilot in reducing routes and vehicles were not great enough to overcome increases in workhours and other associated costs.

Other Issues

Physical access control and safeguarding of assets require additional management attention. Specifically, at Colvin delivery unit, stamp stock inventory and cash were not properly safeguarded, and safes were not properly locked.²⁹ One safe contained stamp stock inventory and cash valued at \$23,735.³⁰ Physical access controls reduce the security risk of Postal Service employees while safeguarding controls reduce the potential for loss or misappropriation of assets. We brought these control issues to the attention of station managers, supervisors, or other personnel who took immediate action to correct the situation. As a result, we are making no recommendations on these issues.

Recommendations

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

1. Discontinue the route optimization pilot under the existing work environment and work rules.
2. Execute a new initiative to maximize savings by using lessons learned and data results from the pilot with the goal of optimizing the full- and part-time staff mix.

Management's Comments

Management generally agreed with the findings and recommendations.

For recommendation 1, management stated they ended the pilot effective June 30, 2012. Field managers and the OIG were informed of the decision.

Regarding recommendation 2, management stated they would like to test the concept discussed in the report, without the current labor restrictions; however, they are bound by the contract obligations. Further, future testing would be in a different labor environment with changes in their current flexibility. In addition, management stated

²⁹ *Handbook F-101, Field Accounting Procedures, May 2012* establishes that safes are required to be locked except when authorized personnel are getting their contents for use.

³⁰ There was \$3,561.64 in working stamps, \$19,873.74 in stamp reserve, and about \$300 in daily operating cash.

they are committed to striving for more flexibility in conjunction with the Labor Relations Group in contract negotiations and upcoming interest arbitration with the National Association of Letter Carriers (NALC). See [Appendix E](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

Regarding recommendation 1, the OIG reviewed management's documentation and concurs that this action sufficiently addresses the recommendation. The OIG considers the recommendation closed with the issuance of this report. The OIG considers recommendation 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Additional Information

Background

The Postal Service faces the most difficult operating period in its 235-year history. Mail volume in fiscal year (FY) 2011 declined by 3 billion pieces to 168 billion, dropping total mail volume to levels not seen since 1992. Since 2007, mail volume has dropped by about 44 billion pieces. The Postal Service must improve operational efficiency to reduce costs while facing financial losses from declining mail volumes.

Delivery operations are the highest fixed cost in the system, making up more than 30 percent of the Postal Service's operating expenses. As shown in Table 7, cased letter and flat mail volumes experienced annual declines from FYs 2007-2011 with letters declining by 63 percent and flats by 31 percent. In view of these trends, the Postal Service recognizes the need to explore options to the traditional office and street assignment structure where a city carrier cases and delivers mail on one route assignment.

Table 7. Cased Letter and Flat Mail Volumes FYs 2007-2011

Fiscal Year	Total Cased Letters	Total Cased Flats	Letter Difference Over the Prior Fiscal Year (Pieces)	Flat Difference Over the Prior Fiscal Year (Pieces)	Letter Percent Change Over the Prior Fiscal Year	Flat Percent Change Over the Prior Fiscal Year
2007	13,337,278,015	27,803,008,447				
2008	9,263,653,899	25,789,835,425	-4,073,624,116	-2,013,173,022	-31%	-7%
2009	6,332,941,862	22,035,202,866	-2,930,712,037	-3,754,632,559	-32%	-15%
2010	5,648,251,937	21,185,236,639	-684,689,925	-849,966,227	-11%	-4%
2011	4,987,286,253	19,258,535,231	-660,965,684	-1,926,701,408	-12%	-9%
Total			-8,349,991,762	-8,544,473,216	-63%	-31%

Source: EDW...

In June 2010, the Postal Service presented the Postal Regulatory Commission with the "100 Percent Street Time" concept as part of its operational strategy for responding to the dramatic decline in mail volume by minimizing office time and maximizing street time. The Postal Service and the NALC began negotiating a memorandum of understanding to jointly develop and pilot the concept during FY 2011. The Postal Service developed a concept paper outlining the general guidelines for site selection, establishing office time and caser assignments, and establishing street time and delivery assignments. The Postal Service initially planned to jointly conduct the pilot with

the NALC; however, they could not agree on site selection so the Postal Service moved forward with a separate pilot³¹ in October 2011.

Objective, Scope, and Methodology

Our objective was to validate savings from the pilot. To accomplish our objective, we:

- Reviewed the pilot concept paper and other guidance used for implementation of the pilot.
- Interviewed Postal Service Headquarters, area, and district officials to discuss issues related to the development, implementation, and oversight of the pilot.
- Conducted site visits to eight judgmentally selected delivery units participating in Phases 1 and 2 of the pilot to observe implementation of the concept.
- Analyzed route, workhour, and vehicle information to assess whether cost savings were realized or not realized. Data analyzed for Phase 1 represented the pilot time period October 29, 2011–April 27, 2012, and Phase 2 represented pilot period February 25–April 27, 2012.

We conducted this review from February through August 2012 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on July 9, 2012, and included their comments where appropriate.

We assessed the reliability of EDW data by confirming the results with Postal Service officials. We determined that the data were sufficiently reliable for the purposes of this report.

³¹ Implementation of the route optimization pilot supports the Delivery Optimization DRIVE (Delivering Results, Innovation, Value, and Efficiency) initiative to optimize carrier routes by reducing office time and the number of routes. DRIVE is a management process the Postal Service is using to improve business strategy development and execution.

Prior Audit Coverage

The OIG identified two audit reports related to our objective.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>National Assessment of City Delivery Efficiency-Office Performance</i>	DR-MA-11-002	7/19/2011	\$88,192,128	Our benchmarking comparison determined that 21 districts operated at a percent to standard above the national average by using more minutes per route than the average carrier route in the nation. If the Postal Service's least productive districts were brought up to the average productivity level, it could save more than \$88 million in 1 year. Management agreed with the finding and recommendations but disagreed with the source system (eFlash) used for calculating workhour savings.
<i>Benchmarking Mail Distribution to Carriers</i>	EN-MA-11-001	3/25/2011	\$518,517,277	We reported that having part-time employees case and prepare mail within delivery units could result in annual reduced workhour costs and greater flexibility for the Postal Service. Additional savings could be generated from carrier route adjustments resulting in longer routes and less office time for the carriers. Management disagreed with the recommendation and monetary impact, because the letter carrier labor agreement restricts their ability to implement the recommendation.

Appendix B: Route Optimization Concept Paper Guidelines

Caser Office Assignment	Deliverer Street Assignment
<ul style="list-style-type: none"> ▪ Average office time should be 3 hours and 15 minutes. ▪ Divide the earned office time by the total office window of operation time. ▪ Casing configuration should be reconfigured in U-shape or a line to maximize casing time. ▪ Start time at 6 a.m. ▪ Case and prepare the mail for three to four routes. ▪ Pull down and withdraw mail. ▪ May have 3-5 hours of street delivery for full-time carriers. 	<ul style="list-style-type: none"> ▪ Average street time should be 7 hours and 30 minutes. ▪ Divide total street time by the length of street time to determine the number of deliverers. ▪ Start time between 8:40-9 a.m. ▪ Obtain accountable items and scanner. ▪ Conduct vehicle checks. ▪ Load vehicle. ▪ Deliver mail on route.

Source: Postal Service.

Appendix C: Lists of Pilot Sites

Area	District	Delivery Unit	Pilot Start Date	Pilot End Date	FSS Site
Phase 1					
Eastern	Philadelphia		10/29/11	5/1/12	√
	Philadelphia		10/29/11	5/1/12	√
	Northern Ohio		10/26/11	5/18/12	√
	Northern Ohio		10/27/11	5/18/12	√
Great Lakes	Central Illinois		10/27/11	5/5/12	√
Northeast	Greater Boston		11/1/11	4/26/12	√
	Connecticut Valley		10/29/11	3/3/12	√
	Northern New Jersey		10/29/11	6/27/12	√
Pacific	Los Angeles		10/31/11	6/10/12	√
	San Diego		11/3/11	7/26/12	√
	San Diego		10/26/11	7/26/12	√
	San Francisco		10/18/11	7/11/12	√
	Santa Ana		10/29/11	6/2/12	√
Phase 2³²					
Capital Metro	Northern Virginia		2/25/12	6/22/2012	√
	Northern Virginia		3/20/12	6/22/2012	√
	Mid Carolinas		3/28/12	6/22/2012	
Eastern	Appalachian		3/10/12	6/22/2012	
	Central Pennsylvania		2/27/12	6/22/2012	
	Cincinnati		3/17/12	6/22/2012	
	Kentuckiana		2/29/12	6/22/2012	
	Northern Ohio		2/29/12	6/22/2012	
	Philadelphia Metropolitan		2/28/12	6/22/2012	
	Tennessee		2/25/12	6/22/2012	
	Western New York		2/25/12	6/22/2012	
	Western Pennsylvania		2/15/12	6/22/2012	
	South Jersey		2/25/12	6/22/2012	
Great Lakes	Lakeland		2/25/12	6/22/2012	
	Gateway		2/25/12	6/22/2012	
	Gateway		2/25/12	6/22/2012	
	Central Illinois		2/25/12	6/22/2012	
	Greater Indiana		3/17/12	6/22/2012	
	Detroit		2/25/12	6/22/2012	
	Greater Michigan		3/3/12	6/22/2012	
	Greater Michigan		3/3/12	6/22/2012	
Northeast	Albany		2/25/12	6/22/2012	
	Northern Northeast		2/25/12	6/22/2012	
Pacific	Santa Ana		3/3/12	6/22/2012	
	Santa Ana		2/25/12	6/22/2012	
	San Francisco		2/28/12	6/22/2012	
	San Francisco		2/28/12	6/22/2012	
	Honolulu		3/1/12	6/22/2012	
	Sacramento		3/31/12	6/22/2012	
	Sacramento		2/25/12	6/22/2012	
Southern	Suncoast		2/25/12	6/22/2012	√

³² The Postal Service notified the NALC in June 2012 the pilot was being discontinued.

Area	District	Delivery Unit	Pilot Start Date	Pilot End Date	FSS Site
Phase 2 Continued					
	Suncoast		2/25/12	6/22/2012	√
	Suncoast		2/25/12	6/22/2012	√
	Houston		4/14/12	6/22/2012	
Western	Dakotas		3/10/12	6/22/2012	
	Mid-America		3/15/12	6/22/2012	√
	Portland		3/10/12	6/22/2012	
	Salt Lake City		3/10/12	6/22/2012	
	Seattle		3/24/12	6/22/2012	

Source: Postal Service Headquarters.

Appendix D: Other Impacts

This audit also identified assets at risk totaling \$23,735 at one delivery unit due to inadequate asset safeguards. Management immediately initiated corrective action on these security matters.

Finding	Impact Category	Amount
Safeguarding of Assets	Assets at Risk ³³	\$23,735

³³ Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

Appendix E: Management's Comments

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS



August 15, 2012

Lucine M. Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Management Advisory Report – City Delivery Route
Optimization Pilot Initiative (Report Number DR-MA-12-DRAFT)

Thank you for the opportunity to review and comment on this subject draft management advisory report.

The objective of this report was to validate savings realized or not realized from the two pilot test phases for the route optimization concept conducted from October 2011 through June 30.

As pointed out in this report there were many factors precluding savings capture. Also, the OIG recognized those units that were most successful and achieved savings were those that incorporated the notion of part-time employees' filling the casing assignments

While the OIG objective was to validate savings, management's intent behind the test was not all about achieving savings. A key objective was learning how to manage in this type of environment and prepare strategies for managing delivery units in the future. Lessons learned from this test will assist with planning and implementing future efforts.

Following is the response to your recommendations to the Vice President, Delivery and Post Office Operations:

Recommendation 1

We recommend that the Vice President, Delivery and Post Office Operations:

1. Discontinue the route optimization pilot under the existing work environment and work rules.

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Response:

Agree. This decision was already made prior to receiving this recommendation effective June 30. Copies of communication to field managers regarding termination of this effort were previously sent to the Office of Inspectors Generals office.

Recommendation 2

2. Execute a new initiative to maximize savings by using lessons learned and data results from the pilot with the goal of optimizing the full- and part-time staff mix.

Response:

Agree in principle. While we would have liked to test this concept without the current labor restrictions mentioned in the Advisory Report we are bound by our contractual obligations. Committing to testing this concept in the future in a different labor environment would assume achievement of changes in present flexibility. This is of course our desire and we commit to continue striving for achievement of more flexibility working with our unions through our Labor Relations group in contract negotiations and upcoming interest arbitration.



Dean J. Granholm

cc. Vice Presidents, Area Operations
Ms. Schaefer
Mr. Knoll