



March 25, 2011

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

SUBJECT: Management Advisory - Benchmarking Mail Distribution to Carriers
(Report Number EN-MA-11-001)

This report presents the results of our review of mail distribution to carriers in city delivery operations (Project Number 10XG043EN000). The objective of our review was to identify opportunities for improving mail distribution to carriers by benchmarking with the commercial mailing industry. This review was self-initiated and addresses strategic, financial, and operational risks. See [Appendix A](#) for additional information about this audit.

Recent reports by independent consultants¹ and government agencies² recognize the financial crisis the U.S. Postal Service faces, due largely to accelerated electronic communications and bill payment, as well as economic events. In earlier reports³ we benchmarked Postal Service parcel processing productivity and letter processing with commercial entities and identified best practices. In this report, we benchmarked Postal Service delivery unit operations with FedEx and United Parcel Service (UPS), two companies that deliver to businesses and homes throughout the U.S.

Conclusion

The Postal Service and industry carriers are similar in that individuals perform some sorting of volumes for delivery, load their own vehicles, and assume additional delivery points when a colleague is absent or mail volumes require it. However, the Postal Service is unique among the companies we visited in that carriers deliver a more varied mix of mail, including letters, flats, and parcels; and must comply with a Universal Service Obligation.⁴ If the Postal Service incorporated the assignment of some delivery unit activities to part-time employees, additional savings could be achieved.

¹ McKinsey and Company, *USPS Future Business Model*, March 2, 2010.

² Government Accountability Office (GAO)-10-624T, *U.S. Postal Service: Action Needed to Facilitate Financial Viability*, April 15, 2010.

³ Management Advisory Report – *Benchmarking Postal Service Parcel Productivity* (Report Number EN-MA-09-002, dated March 31, 2009); Management Advisory Report – *Benchmarking Best Practices with Presort Bureaus* (Report Number EN-MA-10-004, dated June 7, 2010).

⁴ Title 39 U.S.C. 101(a) states, "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."

Workforce Flexibilities

The Postal Service may have opportunities to improve operations by adopting some industry best practices for distributing mail to carriers. We noted commercial delivery businesses have staffing flexibilities, such as the ability for employees to work across craft assignments, which allow managers to more efficiently match workhours with workload and offset overtime by using more part-time employees. See [Appendix B](#) for our detailed analysis of this topic

Flexible Delivery Unit Assistants⁵

Postal Service city delivery carriers⁶ have office time allowances built into their 8-hour days to case and prepare mail for their route. Based on workload trends, vacancies, absences, and mail volume, the carrier may perform these activities for other routes. A small percentage of delivery units use full-time carrier craft “routers” to case and prepare the mail for delivery exclusively; Postal Service management stated the use of routers is declining. Routers typically case and prepare the mail prior to the assigned carrier’s arrival; routers may or may not perform street duties later in the day, depending on need. See [Appendix B](#) for our detailed analysis of this topic.

If the Postal Service used part-time delivery unit assistants to perform most in-office work, these employees could absorb all carrier morning activities except loading and driving delivery vehicles. Having part-time employees case and prepare mail within delivery units could result in annual reduced workhour costs between \$621 million and \$2.3 billion 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. See [Appendix C](#) for our analysis of monetary impacts.

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

1. Pursue a delivery unit assistant initiative to have transitional employees or part-time flexible employees perform in-office activities including casing and preparing mail for carriers.

⁵ Delivery unit assistants would case mail; withdraw, tray or strap out mail; obtain parcel post; and complete other required office duties

⁶ Delivery by carriers of mail addressed to residence and business addresses within the city delivery limits of the post office.

Management's Comments

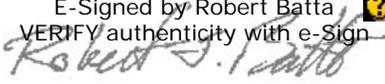
Management disagreed with the recommendation because of the complexity of labor relations and existing contractual issues with the National Association of Letter Carriers (NALC). Management further stated that the Postal Service is currently working with NALC to examine how city delivery routes might be structured in the future. The parties are working on a test that will attempt to separate the casing and delivery functions to the extent possible while operating within the current work rules. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

Management stated they could not adopt our recommendation to have part-time employees perform in-office activities including casing and preparing mail for carriers. We recognized that current contract stipulations limit the number of part-time employees. The intent of our recommendation was for management to separate casing and delivery functions and pursue additional workforce flexibility. Management's actions include testing to separate the casing and delivery functions. Management also indicated in a separate discussion that the Postal Service will pursue additional flexibility in the workforce and provided a target date of May 2012 for their ongoing test to separate the casing and delivery functions. The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and actions planned by management address the intent of our recommendation.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are 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.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael A. Magalski, director, Network Optimization, or me at 703-248-2100.

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is required by law to provide prompt, reliable, and efficient service to, as nearly as practicable, the entire U.S. population.⁷ The Postal Service is further required to maintain an efficient mail collection system. Provisions in Postal Service appropriations mandate 6-day-a-week delivery and certain levels of rural mail delivery.⁸ The Postal Service establishes delivery service within this framework and manages the associated facilities, transportation, and employee network.

The efficiency and cost of delivery operations depend on a variety of factors, including the following:

- Mail volume and type.
- The type of carrier route.
- The number, location, and mode of delivery.
- Transportation.
- Other factors (weather conditions, terrain, sick leave usage, and carrier turnover).

One of the Postal Service’s core strengths is what is referred to as “the last mile” of mail delivery — that is, its carrier delivery network reaches millions of business and residential addresses 6 days every week. Carriers perform a variety of activities each workday to support this delivery network. Each delivery facility’s mail volume, mail arrival and dispatch times, and office and street route workhours vary daily.

Table 1: Postal Service Carrier Workforce as of October 2010

	Rural	City
Non-Career	51,918	13,652
Career	67,233	189,496
Total	119,151	203,148

Source: Web Complement Information System (webCOINS)

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to identify opportunities for improving mail distribution to carriers by benchmarking with the commercial mailing industry. To accomplish our objective we:

- Reviewed Postal Service documentation including applicable policies, procedures, and contracts; and interviewed headquarters officials on issues related to the Postal Service’s use of router hours and mail preparation for carriers in city delivery operations.

⁷ Title 39 U.S.C. §101 and 403.

⁸ Title 39 U.S.C. The Postal Service is to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.

- Visited the Greater Boston performance cluster in the Northeast area. We judgmentally selected the delivery units based on analysis of Postal Service locations using router hours. We interviewed management officials to determine the reasons for using router hours to prepare the mail for delivery.
- Benchmarked Postal Service delivery unit operations with FedEx and UPS. We interviewed managers, observed operations, and documented our observations.

We conducted this review from June 2010 through March 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on January 11, 2011, and included their comments where appropriate.

We relied on data obtained from Postal Service database systems, the Enterprise Data Warehouse (EDW), and webCOINS. We did not test controls over these systems; however, we checked the reasonableness of results by confirming our analysis and results with management and other data sources. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>City Letter Carrier Operations – National Capping Report</i>	DR-AR-06-004	3/31/2006	Morning Standard Operating Procedures were introduced to delivery units in 2005 and are described as being focused on matching workhours to workload. In addition, Managed Service Points, are described as a program aimed at managing carrier consistency in the field, but inadvertently provide some information on carrier overtime. We made no recommendations.
<i>Delivery and Retail Standard Operating Procedures – National Capping Report</i>	DR-MA-07-003	2/22/2007	All nine Postal Service areas had implemented Delivery and Retail Standard Operating Procedures for city and rural delivery and Function 4 operations. Managers were addressing challenges to scores using the “vital few” concept – facilities with hours above standard that have the largest impact on national performance. There was no monetary impact for this report and management agreed with recommendations to reiterate standard operating procedures.
<i>U.S. Postal Service: Mail Delivery Efficiency Has Improved, but Additional Actions Needed to Achieve Further Gains</i>	GAO 09-696	7/2009	The Postal Service has a variety of tools for monitoring delivery efficiency, including office and street hours. Differences in management and operations result in varying degrees of efficiency throughout the network and delivery efficiency has been improved, but lack of performance information and implementation challenges may limit future savings.
<i>U.S. Postal Service: Action Needed to Facilitate Financial Viability</i>	GAO-10-624T	4/15/2010	The Postal Service and Congress must urgently address challenges to achieve financial viability by restructuring retiree health benefit funding. In addition, there must be a requirement that any binding arbitration resulting from collective bargaining would take the Postal Service's financial condition into account.
<i>City Delivery Operations Workforce Planning</i>	DR-AR-11-001	11/22/2010	The Postal Service workforce planning process for city letter carriers did not always optimize available resources. In fiscal year (FY) 2009, the Postal Service could have avoided paying almost 7 million of the 28 million overtime hours for full-time city letter carriers by maximizing available, lower cost carrier resources to deliver the mail. Management agreed in principle with the recommendation, but disagreed with the findings and monetary impact.

APPENDIX B: DETAILED ANALYSIS

Workforce Flexibilities

The Postal Service may have opportunities to improve operations by adopting some industry best practices for distributing mail to carriers. We noted commercial delivery businesses have staffing flexibilities that allow managers to more efficiently match workhours with workload and offset overtime by using more part-time employees (see Table 1).

**Table 2: Postal Service and Industry Contrast
Workforce Flexibility**

	Postal Service	Benchmarked Entities
Task Assignments	<ul style="list-style-type: none"> ▪ Clerks, mail handlers, and carriers transfer mailpieces to cases. ▪ Carriers case mail, transfer mail in hampers to vehicles, and load vehicles. 	<ul style="list-style-type: none"> ▪ Mail handlers sort volumes and start before drivers arrive on site. ▪ Couriers/drivers pull volumes from conveyor belts and load to vehicles. ▪ Mail handlers sort volumes to conveyor belts and load vehicles.
Working Across Craft Assignments	Crossing-crafts is generally not permitted. ⁹	Crossing crafts (except driving) is encouraged as needed to meet departure times.
Workhours	<ul style="list-style-type: none"> ▪ Full-Time Carriers are guaranteed 8-hour days. ▪ Most full-time mail handlers/clerks are guaranteed 8-hour days. 	<ul style="list-style-type: none"> ▪ Couriers/drivers work 37 to 40 hours a week. ▪ Mail handlers work part-time, up to 20 hours a week.

Delivery Unit Assistants

Postal Service city delivery carriers have an office time allowance built into their 8-hour day to case and prepare the mail for their route.¹⁰ In FY 2010, carriers spent approximately 27 percent of their time in the office. Based on workload trends, vacancies, absences, and mail volume, the carrier may perform these activities for other routes. Some delivery units use carrier craft “routers” to case and prepare the mail for

⁹ The Postal Service’s *Corporate Complement Management Guidelines* defines crossing crafts as, “The assignment of an employee from one craft to work in a different craft because of insufficient work in the employee’s assignment or a light workload period in one craft and a heavy workload period in another craft/occupational group; consistent with the provisions of Article 7.”

¹⁰ Handbook 38, *Management of Delivery Services*, states the carrier’s leave time is determined by workload; availability of mail; necessary office time (time required to case mail, withdraw, tray or strap out mail, obtain parcel post, and complete other required office duties); and business hours.

delivery exclusively;¹¹ routers may or may not perform street duties later in the day, depending on need. Routers typically case and prepare the mail prior to the assigned carrier's arrival.

If the Postal Service adopted the use of part-time delivery unit assistants to perform in-office work, these employees could absorb all carrier morning activities except loading and driving the delivery vehicles.

Prior to leaving a carrier station, the key core daily function of Postal Service letter carriers is manually sorting mail into the precise order in which it is delivered. Delivery Point Sequencing (DPS) uses machines to automatically sort mail into the order in which it is delivered by a letter carrier and eliminates the manual sorting process. In the mid 1990's, the Postal Service implemented high-speed automated equipment to perform DPS for letter mail. Today, more than 87 percent of all letters are sequenced using automated equipment. As a result of letter automation, the Postal Service avoids costs of over \$5 billion annually.

The Flats Sequencing System (FSS) is designed to perform the same automatic sequencing function for flat-sized mail, which includes large envelopes, newspapers, catalogs, circulars and magazines. The mail processed on the FSS will arrive at the delivery unit in walk sequence order, ready for delivery by the carrier, without additional mail movement or manual sorting required. The FSS Decision Analysis Report proposed a decrease in several delivery unit employee categories (supervisors, manual distribution clerks, carriers) as a result of the walk-sequenced flats. Annual savings attributed to carrier office time was 15,440,195 workhours, which we deducted from our workhour estimate to avoid duplication.

In addition, we recognize that carriers may need some office time to meet with managers and retrieve scanners before starting their deliveries. We reduced our workhour savings estimate by 10 percent of carrier office time to allow for necessary delivery unit activities.

Factoring in these workhour savings, we determined that having part-time employees case and prepare mail within delivery units could result in reduced labor costs between approximately \$621 million and \$2.3 billion annually (see Tables 3 through 5 below), along with greater flexibility. Savings would also be generated from carrier route adjustments resulting from more street time and less office time for the carriers. Although current contract stipulations limit the number of transitional and part-time employees,¹² this strategy should be considered as the Postal Service moves forward with cost savings efforts in the future.

¹¹ Routers work at City Carrier 1 wage rate per hour.

¹² Current contract stipulations limit the use of transitional employees to 3.5 percent of city carriers. Additional contract stipulations limit part-time positions to 12 percent of carriers in larger facilities.

Table 3: Delivery Unit Assistant Concept

Workhours			City Carrier Office Time ¹³	Savings Opportunity
	FY 2010 Actual		106,545,731	
	Adjustments	FSS Savings	(15,440,195)	
		Office Activities	(9,110,554)	
	Adjusted Workhours		81,994,982 ¹⁴	
Salary and Benefits	FY 2010 Actual		\$5,736,610,084	
	Adjusted Cost		\$4,417,189,765 ¹⁵	
	Adjusted at Transitional Employee Rate		\$2,121,210,195	\$2,295,979,570
	Adjusted at Part-time Flexible Employee Rate		\$3,796,367,685	\$620,822,080

¹³ Includes all regular, overtime and penalty overtime carrier in-office hours (Labor Distribution Code (LDC) 21 and LDC 29).

¹⁴ Adjusted workhours equate to 77 percent of the FY 2010 actual workhours.

¹⁵ The Salary and Benefits Adjusted Cost is 77 percent of actual FY 2010 salary and benefits.

**Table 4: Wage Rate by Employee Type
Including salaries and benefits**

Employee Category	Wage Rate per Hour
Transitional	\$25.87
Part-time Flexible	\$46.30

Source: *Workhour Rates FYs 2009 – 2011*, Postal Service Finance

APPENDIX C: MONETARY IMPACTS

Finding	Impact Category	Amount
Use of Part Time Employees	Funds Put to Better Use ¹⁶	\$518,517,299

We estimated a monetary impact of \$518,517,299 in funds put to better use if part-time employees are used to perform in-office work currently performed by carriers. This amount is net of savings claimed by the Postal Service in the FSS DAR; an allowance of 10 percent of daily workhours for necessary delivery unit activities (see Table 3 above).

In addition, we adjusted the claimed amount for savings already claimed by the OIG for Carrier Overtime and Penalty Overtime.¹⁷ Table 5 below includes the reduction for the workhours claimed in that report.

Table 5: Savings After Deducting Workhours Recently Claimed by the OIG

	Workhours	Costs	Savings Opportunity
Adjusted Workhours and Costs from Table 3	81,994,982	\$4,417,189,765	
Less FY 2010 Overtime and Penalty Overtime Identified in OIG report	12,658,497		
Net Workhours and Costs	69,336,485 ¹⁸	\$3,728,796,554 ¹⁹	
Costs at the Transitional Employee Rate		\$1,793,734,866	\$1,935,061,688
Costs at the Part-time Flexible Employee Rate		\$3,210,279,255	\$518,517,299

We used a conservative methodology in calculating potential monetary impact and recognize not all costs or savings may be included in our projection. Savings generated from using part-time/non-carrier employees to case and prepare the mail and resulting

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

¹⁷ *City Delivery Operations Workforce Planning report* (Report Number DR-AR-11-009 dated November 22, 2010).

¹⁸ Net workhours equate to 65 percent of the FY 2010 actual workhours of 106,545,731 shown in Table 3.

¹⁹ Costs are 65 percent of the FY 2010 actual costs of \$5,736,610,084 shown in Table 3.

adjustments to carrier routes would need to offset additional costs that could be incurred to implement this initiative. We were not able to determine the amount of any potential offsetting costs during our review.

APPENDIX D: MANAGEMENT'S COMMENTS

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DELIVERY AND POST OFFICE OPERATIONS



March 16, 2011

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Arlington, VA 22209-2020

SUBJECT: Audit Report – Benchmarking Mail Distribution to Carriers
(Report Number EN-MA-11)

Thank you for the opportunity to provide resolution and closure to the recommendations contained in the Benchmarking Mail Distribution to Carriers (Report Number EN-MA-11) conducted by the Office of the Inspector General (OIG). The audit attempts to identify opportunities for improving mail distribution to carriers by benchmarking with the commercial mailing industry. This would be accomplished by incorporating the use of routers and a part-time delivery unit assistant to perform most in-office work. The OIG asserts that \$518,516,743 of monetary impact could be put to better use by the U.S. Postal Service USPS).

However, the audit does not fully acknowledge the complexity of the Labor Relations issues posed to the USPS by establishing a new employee type or the ability of the current workforce to cross crafts to perform these duties. The audit does not consider the history of the negotiations with all of the bargaining unions of the Postal Service related to; employees, wages and work standards.

Most importantly, the audit fails to consider the full scope of the contractual issues related to *Article 7 Employee Classifications*, of the National Agreement between the USPS and the National Association of Letter Carriers (NALC). This article addresses such items as:

- Article 7, section 3.A. *The employer shall staff all postal installations which have 200 or more workyears of employment in the regular work force as of the date of this Agreement with 88% full-time employees in the letter carrier craft.*
- Article 7, section 3.B. *The Employer shall maximize the number of full-time employees and minimize the number of part-time employees who have no fixed work schedules in all postal installations; however, nothing in this paragraph B shall detract from the USPS' ability to use the awarded full-time/part-time ration as provided for in paragraph 3.A. above.*

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Audit recommendations are addressed in the following narrative with additional information described. We provide the following response to the OIG recommendation for the Vice President, Delivery and Post Office Operations:

Recommendation 1

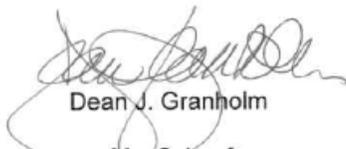
Pursue a delivery unit assistant initiative to have transitional employees or part-time flexible employees perform in-office activities including casing and preparing mail for carriers.

Response

Not Adopted.

The USPS currently utilizes router assignments where the current mail flows and volumes allow for this type of processing. With more mail being placed in the automated mail stream which includes all classes of mail being sorted to the carrier routes the ability to use routers has been decreased.

City Delivery routes are currently inspected and adjusted with consideration for both office and street functions. The Postal Service is currently working together with the NALC to look at how the city delivery routes might be structured in the future. The parties are working on a test that will attempt to separate the casing and delivery functions to the extent possible, while working within the current work rules.



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cc: Ms. Schaefer
Mr. Knoll