

Office of Inspector General | United States Postal Service

Audit Report

Mail Processing Facilities Staffing

Report Number NO-AR-18-004 | March 30, 2018



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Highlights

Objective

Our objective was to determine if U.S. Postal Service mail processing facilities are optimally staffed based on its use of the Function 1 (F1) Scheduler.

The F1 Scheduler is a modeling tool the Postal Service uses at 265 mail processing facilities nationwide to create job assignments for mail processing operations by employee labor code. The tool takes into account mail volume, the number and type of mail processing machines, transportation schedules, and productivity.

“The F1 Scheduler is a modeling tool the Postal Service uses at 265 mail processing facilities nationwide to create job assignments for mail processing operations by employee labor code.”

What the OIG Found

We determined that mail processing facilities are not optimally staffed based on use of the F1 Scheduler.

At the beginning of fiscal year (FY) 2018, the actual nationwide mail processing complement was 4,879 employees, or over 6 percent higher than what the F1 Scheduler determined to be optimal staffing. Our review of staff levels at the 265 mail processing facilities that use the F1 Scheduler found:

- Nine matched their scheduler results.
- Eighty-seven were within plus or minus 5 percent of the scheduler results.
- One hundred and nine were at least 5 percent over the F1 Scheduler results and 17 were at least 20 percent over the scheduler results.

- Sixty were at least 5 percent below the scheduler results, with five being more than 20 percent below the scheduler results.

The Postal Service does not have a requirement that facilities match actual staff levels to F1 Scheduler results or a target percentage of the results. The Manager, Processing Operations, said the goal of the F1 Scheduler is to assist management in assigning the right people, at the right time, with the right work.

We conducted seven site visits in September and October 2017 at the Industry, CA; North Texas, TX; Philadelphia, PA; Portland, OR; and St. Louis, MO, Processing and Distribution Centers; and the New Jersey, NJ, and Washington, MD, Network Distribution Centers. We found that area and local management used their own targets for staffing based on F1 Scheduler results for each of the seven facilities and were in the process of reassigning employees' schedules to align with those targets.

When the Postal Service does not optimally staff its mail processing facilities nationwide based on the F1 Scheduler, there is an increased risk of incurring additional overtime and lower productivity. In FY 2017, facilities with complements greater than the F1 Scheduler results had 15.7 percent lower productivity, while facilities with complements under F1 Scheduler results incurred about 18 percent more overtime.

The Postal Service does not use the results of the F1 Scheduler when determining a facility's mail processing workhour budget. Instead, headquarters allocates workhours to Postal Service areas based on the workhours used in the previous fiscal year and makes adjustments for operational improvements, changes in mail volume, and *Ready Now Future Ready* initiatives (strategic initiatives and management processes used to improve performance). Headquarters' mail processing budgeted workhours are allocated to each area which, in turn, allocates them to individual mail processing facilities.

When the F1 Scheduler and budget process are not combined, budgeted workhours will not align with facility staff levels and the Postal Service will not realize savings from staff realignment. We found that the budgeted workhours for FY 2018 exceeded F1 Scheduler results by more than 10.2 million workhours, or about 6 percent, which resulted in about \$420.1 million in labor costs.

“When the F1 Scheduler and budget process are not combined, budgeted workhours will not align with facility staff levels and the Postal Service will not realize savings from staff realignment.”

While we concluded that the F1 Scheduler is useful in staffing mail processing operations, the Postal Service has not completed a Verification, Validation, and Accreditation (VV&A) process for the F1 Scheduler to determine if it is functioning as intended. Since management was not aware of the VV&A process, we provided them specific steps to use to complete the verification. The VV&A verification process is a business practice used in government and private industry when implementing modeling tools. The VV&A is a documented process used to ensure the tool:

- Is executed (verification)
- Operates as intended (validation) and
- Is acknowledged by a process owner as appropriate for its intended purpose (accreditation)

Ensuring the F1 Scheduler functions as intended would help Postal Service management validate that processing facilities have adequate staff to meet operational and budget requirements.

What the OIG Recommended

We recommended management:

- Establish nationwide criteria for using Function 1 Scheduler results.
- Include Function 1 Scheduler results in headquarters' annual budget process.
- Implement and document the Verification, Validation, and Accreditation process for the Function 1 Scheduler.



Transmittal Letter

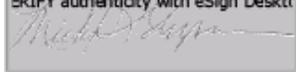


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 30, 2018

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING

E-Signed by Michael Thompson
VERIFY authenticity with eSign Desktop


FROM: Michael L. Thompson
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Mail Processing Facilities
Staffing (Report Number NO-AR-18-004)

This report presents the results of our audit of U.S. Postal Service Mail Processing Facilities Staffing (Project Number 17XG025NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Margaret B. McDavid, Director, Network Processing, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management
Chief Operating Officer and Executive

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Mail Processing Facilities Staffing (Project Number 17XG025NO000). Our objective was to determine if U.S. Postal Service mail processing facilities are optimally staffed based on use of the Function 1 (F1)¹ Scheduler. See [Appendix A](#) for additional information about this audit.

Background

The F1 Scheduler is a modeling tool the Postal Service uses at 265 mail processing facilities nationwide to create job assignments for mail processing operations by employee labor code. Mail processing is an integrated group of functions required to sort and distribute mail for delivery. The tool takes into account mail volume, the number and type of mail processing machines, transportation schedules, and productivity. The overall objective of the F1 Scheduler modeling tool is to determine the optimal complement needed to maximize resources while improving productivity and limiting overtime.

Since fiscal year (FY) 2015, total mail volume has decreased over 5 percent while mail processing workhours have increased by 0.4 percent. In FY 2017, mail processing facilities used over 200 million workhours.

During a Business Focus video on July 6, 2017, the Postmaster General stated the Postal Service needs to match workhours and complement to workload to offset the higher than expected mail volume loss.

Finding #1: Function 1 Scheduler

We determined that mail processing facilities are not optimally staffed based on use of the F1 Scheduler.

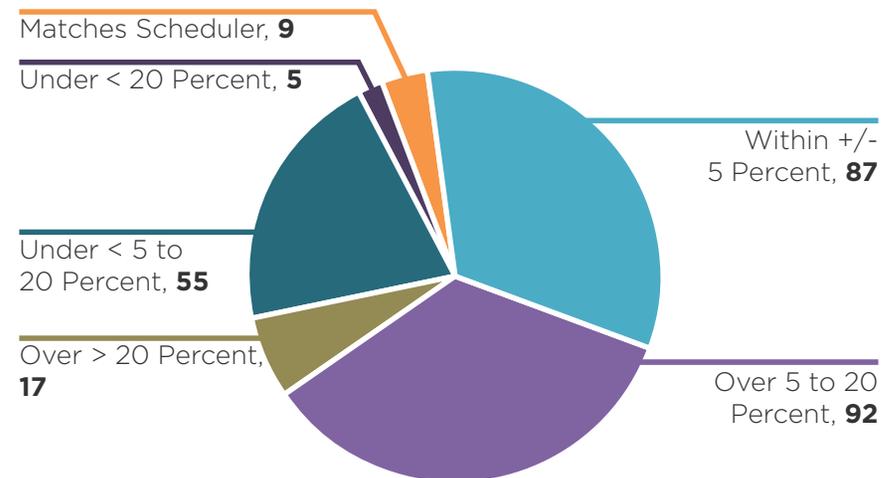
At the beginning of FY 2018, the actual nationwide mail processing complement was 4,879 employees, or over 6 percent higher than what the F1 Scheduler

determined to be optimal staffing. Of the 4,879 employees, 2,702 were clerks² and 2,177 were mail handlers.³

Our review of staff levels at the 265 mail processing facilities that use the F1 Scheduler found:

- Nine matched their scheduler results.
- Eighty-seven were within plus or minus 5 percent of the scheduler results.
- One hundred and nine were at least 5 percent over the scheduler results, including 17 that were at least 20 percent over the scheduler results.
- Sixty were at least 5 percent below the scheduler results, with five being more than 20 percent below the scheduler results (see Figure 1).

Figure 1. Number of Facilities' Compliance to F1 Scheduler



Source: *F1 Scheduler Compliance Report* and Office of Inspector General (OIG) calculations.

¹ Function 1 workhours are all workhours related to mail processing operations.

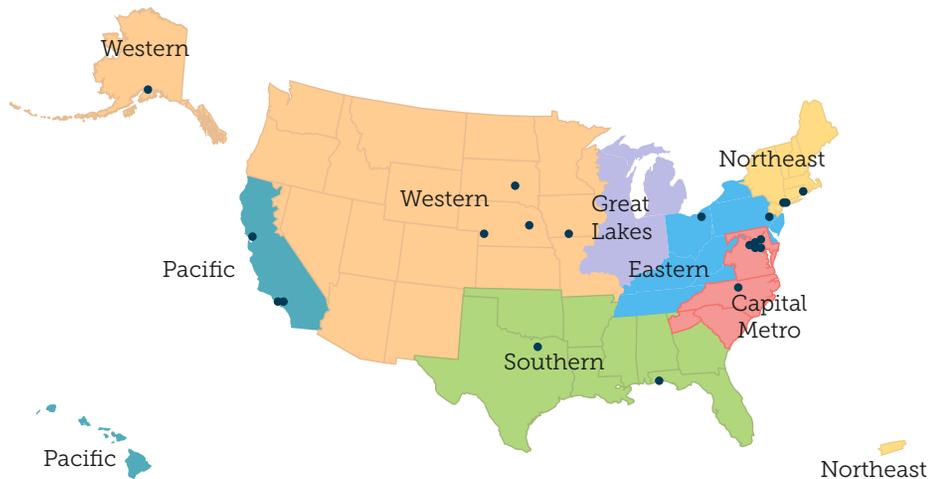
² An employee who distributes or sorts mail and performs other mail processing functions.

³ An employee who loads, unloads, and moves mail containers; cancels postage stamps; and performs other duties related to the moving and processing of mail.

Of the 22 facilities that were at least 20 percent over or under the scheduler results:

- Six were in the Capital Metro Area.
- Five were in the Western Area.
- Four were in the Northeast Area.
- Three were in the Pacific Area.
- Two were in the Eastern Area.
- Two were in the Southern Area. (see Figure 2).

Figure 2. Facilities' F1 Scheduler Results



Source: *F1 Scheduler Compliance Report* and OIG calculations.

The Postal Service does not require facilities to match actual staff levels to F1 Scheduler results or a target percentage of the results. The Manager, Processing Operations, said the goal of the F1 Scheduler is to assist management in assigning the right people, at the right time, with the right work.

We conducted seven site visits in September and October 2017 at the Industry, CA; North Texas, TX; Philadelphia, PA; Portland, OR; and St. Louis, MO, Processing and Distribution Centers (P&DC); and the New Jersey, NJ, and Washington, MD, Network Distribution Centers (NDC). We found all seven facilities were in the process of reassigning employees' schedules to align with scheduler results. However, responsible area managers had different requirements for the facilities in matching job assignments to F1 Scheduler results. The Western Area set a target of 60 percent⁴ job assignment match to the F1 Scheduler results, while the Pacific Area had a target of 80 percent job assignment match. The remaining five areas did not have specific targets, rather facility managers were asked to match the maximum number of job assignments possible without being detrimental to service. Specifically, area management asked facility management to review their F1 Scheduler result and implement changes they felt would positively affect service performance or financial metrics.

When the Postal Service does not optimally staff its mail processing facilities nationwide based on the F1 Scheduler, there is an increased risk of incurring additional overtime and lower productivity. Based on current F1 Scheduler results, facilities with complements greater than F1 Scheduler results had almost 16 percent lower productivity⁵ in FY 2017, while facilities with complements under

“The Postal Service does not require facilities to match actual staff levels to F1 Scheduler results or a target percentage of the results.”

⁴ The Western Area was attempting to get to 60 percent by December 1, 2017.

⁵ We calculated productivity by dividing total pieces handled, in distribution and non-distribution operations, by workhours.

F1 Scheduler results incurred about 18 percent higher overall overtime and 23 percent penalty overtime⁶ in FY 2017 (see Table 1).

Table 1. Comparison of F1 Scheduler Results to Productivity and Overtime

	Facilities Over Scheduler Results	Facilities Under Scheduler Results	Percentage Difference
Number of Facilities	160	96	
Overall Overtime	10.59%	12.85%	17.58%
Penalty Overtime	0.41%	0.54%	22.96%
Productivity	2171	2574	-15.68%

Source: Enterprise Data Warehouse (EDW)⁷, *F1 Scheduler Compliance Report*, and OIG calculations.

Recommendation #1:

The Vice President, Network Operations, should establish nationwide criteria for using Function 1 Scheduler results.

Finding #2: Budget Process

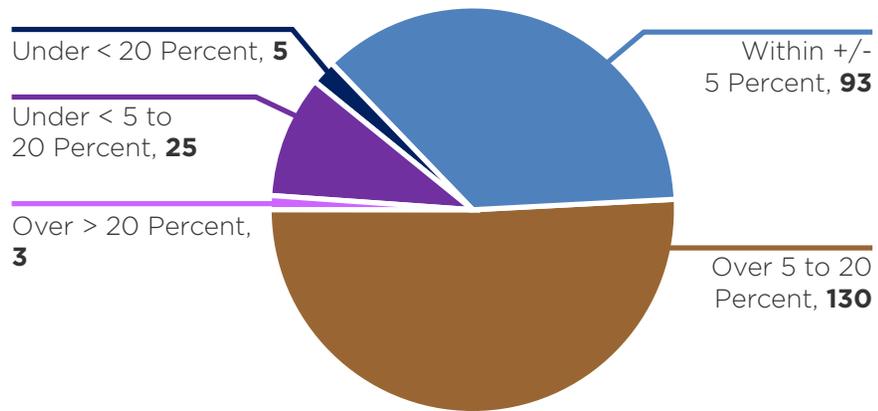
The Postal Service does not use the results of the F1 Scheduler when determining a facility’s mail processing workhour budget. Instead, headquarters allocates budgeted workhours to Postal Service areas based on workhours used in the previous fiscal year, and then makes adjustments for operational improvements, changes in mail volume, and Ready Now Future Ready⁸ initiatives. The areas, in turn, allocate budgeted workhours to districts and individual mail processing facilities.

In comparing F1 Scheduler workhours⁹ to facilities’¹⁰ budgeted workhours, we found:

- Ninety-three were within plus or minus 5 percent of the scheduler workhours.
- One hundred and thirty-three were at least 5 percent over F1 Scheduler workhours, with three at least 20 percent over the scheduler workhours.
- Thirty were at least 5 percent below the scheduler workhours, including five being more than 20 percent below the scheduler workhours (see [Figure 3](#)).

6 Penalty overtime pay is paid at two times an employee’s hourly rate when they work overtime for any of the following: more than four of their five scheduled days in a week, over six days in a week, over 10 hours on a regularly scheduled day or over eight hours on a non-scheduled day.
 7 The repository intended for all data and the central source for information on retail, financial, and operational performance.
 8 *Ready Now Future Ready* is the Postal Service’s portfolio of strategic initiatives and management process for strategy development and execution to improve its performance.
 9 We calculated F1 Scheduler workhours by using complement information including the flexible workforce obtained from the Postal Service’s *F1 Scheduler Compliance Report* and applying yearly workhours as identified in Postal Service’s National Average Labor Rate document found on the Finance Page. We then trended the quarterly plan workhours and applied those percentages to F1 Scheduler Hours.
 10 Out of the 265 facilities that utilize the F1 Scheduler, 256 had budgeted workhours assigned directly to them. The remaining nine facilities were not included in this analysis.

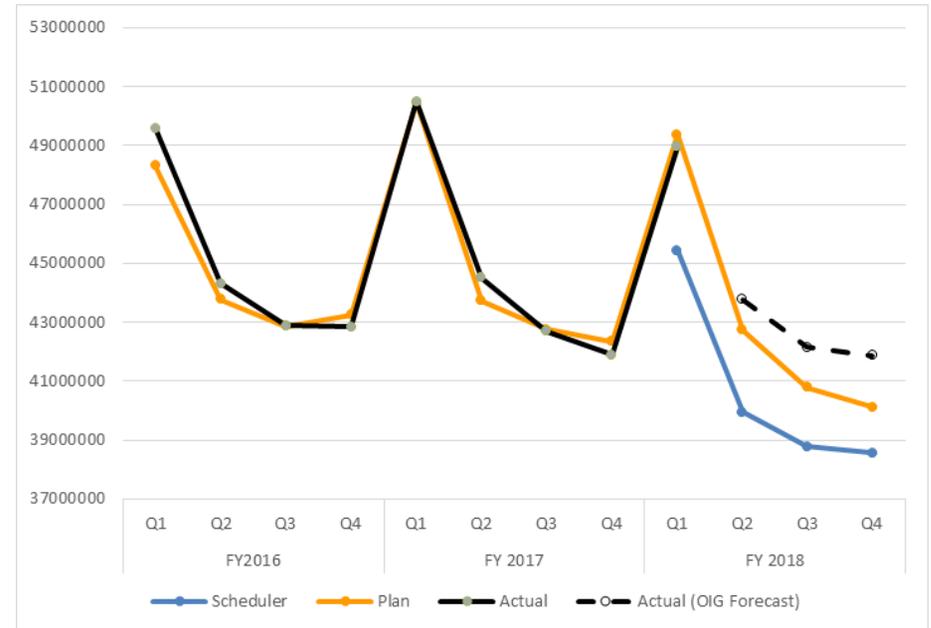
Figure 3. Facilities' Comparison of F1 Scheduler Hours to Budgeted Hours



Source: EDW, *F1 Scheduler Compliance Report*, and OIG calculations.

The budgeted workhours for FY 2018 are more than 10.2 million hours, or about 6 percent over F1 Scheduler workhours (see Figure 4).

Figure 4. FYs 2016, 2017, and 2018 F1 Scheduler, Budget, and Actual



Source: *F1 Scheduler Compliance Report*, EDW, and OIG calculations.

When the F1 Scheduler and budget process are not combined, budgeted workhours will not align with facility staff levels and the Postal Service will not realize savings from staff realignment. We found that the budgeted workhours for FY 2018 exceeded F1 Scheduler results by more than 10.2 million workhours, or about \$420.1 million in labor costs. We made this calculation based on the latest, unvalidated F1 Scheduler model and it could change when the model is validated. The Postal Service is currently basing staffing decisions on this model.

Recommendation #2:

The **Vice President, Finance and Planning**, should include Function 1 Scheduler results in headquarters' annual budget process.

Finding #3: Verification, Validation, and Accreditation

While we concluded the F1 Scheduler is useful in staffing mail processing operations, the Postal Service has not completed a Verification, Validation, and Accreditation (VV&A) process for the F1 Scheduler to determine if it is functioning as intended.

Since management was not aware of the VV&A process, we provided them specific steps to use to complete the verification. The VV&A verification process is a business practice used in government and private industry when implementing modeling tools.¹¹ The VV&A is a documented process used to ensure the tool:

“While we concluded the F1 Scheduler is useful in staffing mail processing operations, the Postal Service has not completed a VV&A process for the F1 Scheduler to determine if it is functioning as intended.”

- Is executed (verification)
- Operates as intended (validation)
- Is acknowledged by a process owner as appropriate for its intended purpose (accreditation)

Ensuring the F1 Scheduler functions as intended would help Postal Service management validate that processing facilities have adequate staff to meet operational and budget requirements.

Recommendation #3:

The **Vice President, Network Operations**, should implement and document the Verification, Validation, and Accreditation process for the Function 1 Scheduler.

Management's Comments

Postal Service management disagreed with our findings, recommendations, and monetary impact.

Regarding the monetary impact, management said they strongly disagreed with the monetary impact because it assumes the budget for F1 workhours should be based solely on results from the F1 Scheduler. Management said the Postal Service must adhere to the collective bargaining agreements for the bidding of facilities and of employees. Additionally, they noted that the F1 Scheduler was formalized after the start of FY 2018 and this erodes the validity of the monetary impact. Finally, they said that employing the methodologies suggested by the OIG's monetary impact statement would result in a budget that was not achievable and materially misstated.

Regarding recommendation 1, management said that they strongly disagreed with the recommendation of establishing nationwide criteria for using F1 Scheduler results. Management said that the F1 Scheduler is a tool to assist management and it can be tailored to fit operational requirements from

¹¹ The VV&A process is used by Department of Defense, Army, Airforce, Department of Navy, National Security Agency, and National Aeronautics and Space Administration.

facility to facility, but the ability for the model to produce results that match these operational requirements can vary significantly. Management said that establishing nationwide criteria would be irresponsible and target an overall compliance rather than allowing local management the ability to create efficient operations. For that reason, the Postal Service will continue to allow each area to work with local facilities and establish their own criteria.

Regarding recommendation 2, management said they strongly disagreed with the recommendation to include the results of the F1 Scheduler in headquarters' annual budget process. Management said they use the F1 Scheduler as a tool and do not believe it should be used to establish the national budget. Management added that, due to the dynamic nature of their facilities, the requirements of the collective bargaining agreements and the point-in-time nature of the scheduler, would result in budgets that do not represent operations. Therefore, management will continue to use the current method of budgeting stretch targets based on projected volume changes and efficiency improvements over the prior year. Management also said they disagreed with the premise in the monetary impact statement that their current method of budgeting F1 hours leads to facility overspending. Management added that this suggests they will not try to reduce usage if it is not in the budget and said there are certain facilities running below their budgets.

Regarding recommendation 3, management said they strongly disagreed with the recommendation to implement and document the VV&A process for the F1 Scheduler. Management said they use the F1 Scheduler as a tool to assist management that can be tailored to fit operational requirements from facility to facility, but the ability of the model to produce results that match these operational requirements can vary significantly. Additionally, they said they do not find any benefit from using the VV&A process.

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

Evaluation of Management's Comments

Regarding management's disagreement with the monetary impact, the OIG considers the monetary impact calculation to be conservative because the F1 Scheduler results included staff for both the full-time and the supplemental

workforce. The OIG used the Postal Service's actual supplemental workforce in addition to the F1 Scheduler results to calculate a workhour budget. Regarding management's comment about the F1 Scheduler being formalized after the start of FY 2018, the OIG calculated monetary impact based on the most recent F1 Scheduler obtained on October 26, 2017. We found that facilities had begun realigning staffing and scheduling in FY 2017 based on an earlier version of the F1 Scheduler. The OIG recognizes that the F1 Scheduler is a tool designed to determine staffing and scheduling at each facility. The results of the F1 Scheduler are agreed upon at the local, area, and headquarters level as the preferred complement for each facility.

Our analysis determined that the budgeting process at the headquarters level does not take into account facilities' staffing level data. Management could use the results of the F1 Scheduler when developing their budgets to help determine if budget results are reasonable.

Regarding management's disagreement with recommendation 1, managers at all facilities we visited were reassigning employees' schedules to align with the F1 Scheduler results. Five of the seven areas did not have a specific target of how close the re-assignment and new staffing levels should be to the F1 Scheduler results. F1 Scheduler results and any requested changes must be agreed to by local, area, and headquarters management. These agreed upon results should be the most efficient use of staff resources. Without nationwide criteria of how closely facilities should be aligned with the F1 Scheduler results, the Postal Service cannot objectively measure staffing levels and reduce costs. As noted in [Table 1](#), the Postal Service is at risk of incurring a higher rate of overtime and lower productivity when it does not have predetermined staffing targets for each facility.

Regarding management's disagreement with recommendation 2, the OIG did not recommend replacing the current Postal Service budgeting process with the F1 Scheduler, but to include it in the budgeting process. The Postal Service's current budgeting process of using same period last year workhours as a baseline assumes there were no inefficiencies or outliers in workhours. It is reasonable to use the F1 Scheduler to determine the desired staffing and scheduling to assist in calculating budgetary workhours.

Regarding management's disagreement with recommendation 3, management appears to be contradicting their response to recommendation 1. Management said that the F1 Scheduler was contracted out by a reputable third party and the results have been internally validated; however, their response to recommendation 1 was that the F1 Scheduler's ability to produce results that match operational requirements can vary significantly from facility to facility. The VV&A process verifies that the results are correct and validates that the model performed as intended. If management believes the F1 Scheduler does not always provide results that match operational requirements, then the model needs validation to identify and correct management's identified variability. Further, the model was created in 2013 and the Postal Service has developed several different versions since then. One of the requirements of the VV&A process is to update the results each time a model changes. After receiving

management's comments, we met with them to discuss any verifications that were completed on the F1 Scheduler. Management said they worked closely with the developer to verify the output was correct; however, the results have not been validated by a person independent of the F1 Scheduler process. The OIG's recommendation would ensure the current F1 Scheduler and any future updates are producing the desired results.

We view the disagreement with recommendations 1, 2, and 3 as unresolved and they will remain open as we coordinate resolution with management. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Scope and Methodology

To accomplish our objective, we:

- Interviewed Postal Service Headquarters and area management to determine:
 - How the F1 Scheduler is used.
 - How budgeted F1 workhours are calculated.
 - If there are other staffing tools used for mail processing operations.
 - If the Postal Service has a strategic plan to optimize its staffing at all facilities.
- Obtained and analyzed FYs 2017 and 2018 F1 Scheduler calculated staffing levels and compared them to actual staffing levels at all facilities.
- Compared budgeted and actual mail processing workhours for all facilities to calculated outputs of the F1 Scheduler and determined the difference.
- Analyzed and correlated actual mail processing workhour, overtime, penalty overtime, and productivity in mail processing operations to F1 Scheduler calculated staff levels.
- Conducted observations at selected facilities and determined if calculated and/or actual staffing levels are sufficient to complete processing operations.
- During observations we:
 - Interviewed plant managers, in-plant support staff, and operations managers and supervisors related to the F1 Scheduler and budgeted workhours.
 - Observed different operations staffing levels and compared them to the recommended staffing levels at each operation.
- Interviewed mail handler and clerk union representatives to determine their concerns about the F1 Scheduler.

To determine the facilities for observation, we:

- Analyzed FY 2016 and FY 2017 budgeted workhours by quarter and compared to F1 Scheduler calculated workhours at all facilities.
- Stratified the universe of facilities based on the standard deviation¹² between F1 Scheduler calculated hours and budgeted workhours.
- Determined the number of facility observations required to provide a reasonable basis for determining whether the F1 Scheduler calculates optimal staff levels.
- Selected one P&DC or NDC from each Postal Area for announced observations. Facilities were determined based upon the highest frequency of being about one standard deviation and above from the mean concerning F1 Scheduler calculated hours versus budgeted workhours for FY 2016 and 2017 (see [Table 2](#)).

¹² The standard deviation is an index of how closely the individual data points cluster around the mean.

Table 2. Site Selections

Postal Facility ¹³	Postal Area ¹⁴	Sum of Budgeted Hours	Sum of Scheduler Hours	Number of Times at About One Standard Deviation or Above
Cleveland, OH, P&DC	Eastern	4,408,200	3,491,114	7
Industry, CA, P&DC	Pacific	2,111,517	1,790,132	5
Jacksonville, FL, NDC	Southern	2,493,636	2,082,544	4
New Jersey, NJ, NDC	Northeast	5,800,638	5,331,170	5
North Texas P&DC	Southern	3,685,160	3,377,002	3
Philadelphia, PA, P&DC	Eastern	4,485,127	4,222,144	4
Portland, OR, P&DC	Western	2,081,617	1,800,830	3
Queens, NY, P&DC	Northeast	2,550,759	2,121,770	7
St. Louis, MO, P&DC	Great Lakes	3,388,988	3,052,496	4
Washington, MD, NDC	Capital Metro	1,647,681	1,412,136	3

Source: *F1 Scheduler Compliance Report*, EDW, and OIG calculations.

We conducted this performance audit from August 2017 through March 2018, 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 on February 1, 2018, and included their comments where appropriate.

We used computer-processed data from the *F1 Scheduler Compliance Report*, Web Complement Information System, and EDW when performing our analysis. We assessed the reliability of computer-generated data by interviewing agency officials knowledgeable about the data and reviewing related documentation. We determined that the data were sufficiently reliable for the purposes of this report.

¹³ We did not visit the Cleveland and Queens P&DCs and the Jacksonville NDC for observations.

¹⁴ Certain facilities were excluded in order to visit one facility from each postal area.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Mail Processing Variance Model</i>	Determine whether the Postal Service effectively used the Mail Processing Variance model to increase mail processing productivity.	NO-AR-17-010	6/19/2017	\$239
<i>Use of the Run Plan Generator</i>	Determine whether Postal Service mail processing facilities use the run plan generator to maximize processing efficiency.	NO-AR-17-004	1/26/2017	\$1.8
<i>New York Morgan Processing and Distribution Center Efficiency</i>	Assess the efficiency of NY Morgan P&DC mail processing operations.	NO-AR-16-008	5/4/2016	\$93.1

Appendix B: Management's Comments



February 26, 2018

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Mail Processing Facilities Staffing (Report Number NO-AR-18-DRAFT)

The Postal Service strongly disagrees with the OIG's narrative analysis, recommendations and finding of monetary impact.

Finding of Monetary Impact:

The Postal Service strongly disagrees with the monetary impact statement.

The calculation of monetary impact is in direct opposition to the OIG's recommendation #2. The monetary impact calculation assumes that the budget for Function 1 (F1) is based solely on results from the F1 scheduler. The Postal Service would therefore be unable to consider any other variables as it relates to F1 budgeting if it attempts to close the hypothetical "monetary impact" presented by the OIG. The OIG is asking the Postal Service to establish a budget utilizing an operational tool never intended to be used for budgeting purposes.

The Postal Service considers many factors throughout the planning process, including our negotiated contractual provisions as it relates to aligning our workforce to changes in volume. Our collective bargaining agreements establish timelines and processes for the bidding of facilities and movement of employees that we must adhere to. The basis of the OIG's monetary impact would have us ignore all of these obligations. These requirements, and the fact that the F1 Scheduler was formalized after the start of FY18, further erodes the validity of the monetary impact. In fact, the planning timeline associated with the F1 Scheduler used by the OIG for their analysis explicitly specified February 2018 as the first opportunity for employee movement. The Postal Service's annual budget formulation takes into account these requirements while establishing budgets which are reasonable and achievable while positioning the organization for stretch improvements.

Employing such methodologies suggested by the OIG's monetary impact statement would result in a budget that was not achievable and materially misstated. The Postal Service will continue to recognize workload realities, the dynamic nature of our plants, along with our contractual obligations.

The Postal Service also disagrees with the premise in the monetary impact statement that our method of budgeting F1 hours, leads to an overspending in the plants. This suggests that management will not try to reduce usage if it's not in the budget. This runs counter to actual results where certain plants are running below their budgets, and also disregards incentives tied to our Pay for Performance program, which rewards higher performance. To state affirmatively that, "The Postal Service will not realize savings from staff realignment," if the F1 scheduler and budget process are not combined, is a gross exaggeration.

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The specific recommendations in this draft report are addressed below.

Recommendation #1

The VP, Network Operations, should establish nationwide criteria for using F1 Scheduler results

Response:

Management strongly disagrees with this recommendation. The F1 Scheduler was created as a tool to assist management in aligning workforce to workload. Just like any other tool, the scheduler can be tailored to fit operational requirements which vary greatly from plant to plant. The ability for the model to produce results that match these operational requirements can therefore vary significantly from plant to plant. To establish nationwide criteria for using the model results would be irresponsible and target only an overall compliance with disregard to local management's ability to create efficient operations that meet service requirements. For that reason, we intend to continue to allow each Area to work with local plants and establish their own criteria as they see appropriate with the goal of improving operational efficiency while delivering excellence in service to the general public.

Target Implementation Date: N/A

Responsible Manager: N/A

Recommendation #2

The VP Finance and Planning should include F1 Scheduler results in Headquarters annual budget process.

Response:

Management strongly disagrees with this recommendation. The Postal Service utilizes the F1 Scheduler as a tool to help achieve the overall plan, but we do not believe it should be used to establish the national budget. The dynamic nature of our plants, along with the requirements of our collective bargaining agreements, and the point-in-time nature of the scheduler, will result in budgets that are not representative of our operations. Therefore, we intend to continue with our current method of budgeting stretch targets based on projected volume changes and efficiency improvements over the prior year. To be clear, the absence of F1 Scheduler results in our budget formulation process has no impact on the efforts of managers and employees in the Field working as hard as they can to efficiently process mail and packages in a dynamic and volatile product environment.

Target Implementation Date: N/A

Responsible Manager: N/A

Recommendation #3

The VP, Network Operations, should implement and document the Verification, Validation, and Accreditation process for the F1 Scheduler.

Response:

Management strongly disagrees with this recommendation. The F1 Scheduler was contracted out to a reputable third party group and we have internally validated its results. The model was designed to meet requirements set forth by HQ with inputs from various subject matter experts. Verifying that the model actually produces the desired results has been accomplished at several levels ranging from local plants by the modeler, to Area level by Area coordinators, and to HQ level by HQ coordinator. Various meetings and reviews of model results have been completed to validate the results of these models. The HQ subject matter experts have not discovered any unintended behaviors outside expectations. We do not find any additional benefits of using the VV&A process in view of the validations already achieved.

Target Implementation Date: N/A

Responsible Manager: N/A



Luke T. Grossmann
Vice President, Finance & Planning



Robert Cintron
Vice President, Network Operations



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