



Office of Inspector General | United States Postal Service

Audit Report

U.S. Postal Service Processing Network Optimization

Report Number NO-AR-19-006 | September 9, 2019



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Highlights

Objective

Our objective was to evaluate trends and practices the U.S. Postal Service uses to optimize its processing network.

The Postal Service's processing network includes 285 facilities that processed 301 billion pieces of mail in fiscal year (FY) 2018, with an average staffing complement of 82,065. These facilities are responsible for processing mail for delivery to 159 million addresses.

As labor costs are 80 percent of the Postal Service's budget, it is important to manage personnel expenses. The Postal Service uses total operating expense and mail processing productivity (mailpieces processed per workhour) to manage costs. They also use the Function 1 (F1) Scheduler tool to establish staffing levels at plants.

Further, the Postal Service has implemented strategic initiatives to optimize the processing network. Specifically, the goal of the Ready Now → Future Ready Optimize Network Platform initiative was to help evaluate, right size, and equip the processing network to increase operating efficiency and reduce costs.

Additionally, the Operational Window Change (OWC) revised First-Class Mail service standards in January 2015. The initiative was intended to help align network processing capacity – processing machines and people – with declining mail volume and allow for more time to process certain types of mail. The Postal Service also eliminated excess mail processing capacity and plants through consolidations. Management calculated planned costs savings from plant consolidations by completing Area Mail Processing (AMP) feasibility studies. However, consolidations were suspended in FY 2015 due to operational considerations.

What the OIG Found

The Postal Service has not decreased mail processing costs at a rate consistent with the decline in mail volume. Mail processing workhours have not decreased since FY 2014, while overtime and penalty overtime workhours have increased significantly. As a result, the Postal Service is processing mail with lower productivity for manual, flats, and letters. Reducing mail processing costs and workhours is critical at a time when mail volume is declining.

Processing Costs

From FY 2014 to 2018, mail processing costs increased by \$301.3 million (or 4 percent). When adjusted for inflation, mail processing costs decreased by 2 percent. However, processed mail volume decreased by 9 percent (or 31 billion mailpieces).

In FY 2017, the Postal Service was able to decrease mail processing costs by \$6.9 million, but mail processing costs the following year, in FY 2018, increased by \$37.4 million. This volatility in costs was especially apparent in mail processing overtime and penalty overtime. In FY 2017, overtime and penalty overtime costs decreased by \$105.8 million but in FY 2018, these costs increased by \$256.9 million.

From FY 2014 to 2018, mail processing workhours increased by 11,987 (or 0.01 percent). The Pacific Area experienced the largest increase in mail processing workhours (5 percent) while the Eastern Area had the largest decrease (3 percent).

“Our objective was to evaluate trends and practices the U.S. Postal Service uses to optimize its processing network.”

Plant managers are responsible for planning, budgeting, and monitoring performance against their expense budgets. From FY 2014 to 2018, planned operating expenses increased each FY despite declining mail volume. However, 59 percent of plant managers did not meet their operating expense plan in FY 2018 and collectively exceeded the expense plan by \$164 million.

There is opportunity for plants to improve and meet operating expense plans. For example, in FY 2014, the Denver Network Distribution Center was 3 percent over its expense plan; however, it gradually improved and came under its expense plan by 10 percent in FY 2018.

Processing Productivity

Postal Service mail processing productivity (mailpieces processed divided by workhours charged) has been declining. Specifically, from FYs 2014 to 2018:

- Productivity for manual processing decreased by 20 percent. Manual mail volume declined but manual mail processing workhours and overtime increased. The Great Lakes Area experienced the largest drop in productivity and also saw a wide variation in productivity in the processing plants. For example, productivity at the Columbia, MO, Processing and Distribution Center (P&DC) decreased by 76 percent, while productivity at the Grand Rapids P&DC increased by 66 percent.
- Productivity for flats processing decreased by 18 percent. Flats volume declined while flats mail processing workhours and overtime workhours increased. The Eastern Area experienced the largest drop in productivity and also saw a wide variation in productivity in the processing plants. For example, productivity at the Cleveland P&DC decreased by 67 percent, while at the Pittsburgh P&DC it increased by 25 percent.
- Productivity for letters decreased by 5 percent. Letter processing had the largest decline in processed mail volume (9 percent) while processing workhours only decreased by 5 percent and overtime workhours increased by 34 percent. The Great Lakes Area had the largest decrease in productivity by 12 percent, while the Western Area increased productivity by 1 percent.

- Conversely, productivity for parcels has increased 67 percent. With parcel volume increasing by 2.1 billion (or 50 percent), the Postal Service has invested in additional parcel processing machines. Specifically, the addition of 41 Small Package Sorting Systems and two High Throughput Package Sorters have increased capacity, throughput, and runtime, and decreased the number of workhours by 3.1 million (or 10 percent) used to process parcels.

To address issues with productivity, the Postal Service established mail processing staffing complement levels using the F1 Scheduler. However, the F1 Scheduler did not always schedule the right people, in the right place, at the right time. While there was a decrease of, on average, 5,000 career mail processing positions in FY 2018, mail processing overtime and penalty overtime workhours increased by 5.1 million (or 23 percent) and about 917,000 (or 113 percent), respectively.

Processing Savings

The Postal Service's strategic initiatives to reduce costs and optimize the processing network have not achieved planned cost savings. Specifically:

- For the Ready Now → Future Ready Optimize Network Platform initiative, the Postal Service planned to save \$1.9 billion from FYs 2014 to 2018 but reported savings of only \$339.1 million.
- For consolidations, the Postal Service reported no cost savings in FY 2018 and has not updated AMP feasibility studies to determine if savings still exist.
- For the OWC, the Postal Service projected to save \$1.6 billion for FYs 2016 and 2017 but we could only verify \$90.7 million (or about 6 percent).

“The Postal Service’s strategic initiatives to reduce costs and optimize the processing network have not achieved planned cost savings.”

In a prior audit report, we recommended the Postal Service develop and implement annual tracking methodologies for any significant projected operational costs or savings and use a sensitivity analysis to account for such impacts as changes in mail volume and labor and transportation costs.

We plan to conduct additional audit work related to mail processing network efficiency and assess efforts to standardize operations.

What the OIG Recommended

We recommended management:

- Develop a plan to reduce costs and improve the number of managers at plants achieving their total operating expense goal.
- Utilize lessons learned and best practices from the significant increase in parcel productivity to develop a plan to increase productivity for manual, flats, and letter processing.
- Revise and update AMP feasibility studies to determine whether cost savings could be realized and consolidations should continue.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 9, 2019

MEMORANDUM FOR: ROBERT CINTRON
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Inspector General
VERIFY authenticity with eSign Desktop
Darrell E. Benjamin, Jr.

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – U.S. Postal Service Processing Network
Optimization (Report Number NO-AR-19-006)

This report presents the results of our audit of U.S. Postal Service Processing Network Optimization (Project Number 19XG004NO000).

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

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of U.S. Postal Service Processing Network Optimization (Project Number 19XG004NO000). The objective of our audit was to evaluate trends and practices used to optimize the Postal Service's processing network. See [Appendix A](#) for additional information about this audit.

Background

The Postal Service's processing network includes 285 facilities that processed about 301 billion mailpieces in fiscal year (FY) 2018, with an average staffing complement of 82,065. These facilities are responsible for processing mail for delivery to 159 million addresses.

As labor costs are about 80 percent of the Postal Service's total operating expense (TOE),¹ it is important to manage personnel expenses. The Postal Service uses TOE and mail processing productivity² to manage costs. It also uses the Function 1 (F1) Scheduler tool³ to establish staffing levels at plants.

Further, the Postal Service has implemented strategic initiatives to optimize the processing network. Ready Now → Future Ready⁴ Optimize Network Platform was one of the initiatives developed to help evaluate, right size, and equip the processing network to increase operating efficiency and reduce costs.

Additionally, the Operational Window Change (OWC) revised First-Class Mail service standards in January 2015. The initiative was intended to help align network processing capacity – processing machines and people – with declining mail volume and allow for more time to process certain types of mail. The Postal Service also eliminated excess mail processing capacity and plants through consolidations. Management calculated planned costs savings from plant consolidations by completing Area Mail Processing (AMP) feasibility studies.⁵ However, consolidations were suspended in FY 2015 due to operational considerations.

“The Postal Service’s processing network includes 285 facilities that processed about 301 billion mailpieces in fiscal year 2018.”

Finding #1: Processing Network Optimization and Costs

The Postal Service has not decreased mail processing costs⁶ at a rate consistent with the decline in mail volume. Mail processing workhours have not decreased since FY 2014, while overtime and penalty overtime workhours have increased significantly. As a result, the Postal Service is processing mail with lower productivity for manual, flats, and letters. Reducing mail processing costs and workhours is critical at a time when mail volume is declining.

1 Cost incurred as a result of Postal Service efforts to generate revenue, representing the cost of doing business and an indicator that measures the total of all expenses to plan.

2 Mailpieces processed per workhour.

3 A modeling tool the Postal Service uses at mail processing facilities nationwide to create job assignments for mail processing operations by employee labor code. The tool considers mail volume, the number and type of mail processing machines, transportation schedules, and productivity.

4 This was formerly known as Delivering Results, Innovation, Value, and Efficiency (DRIVE). In FY 2017, DRIVE was redefined as Ready Now → Future Ready.

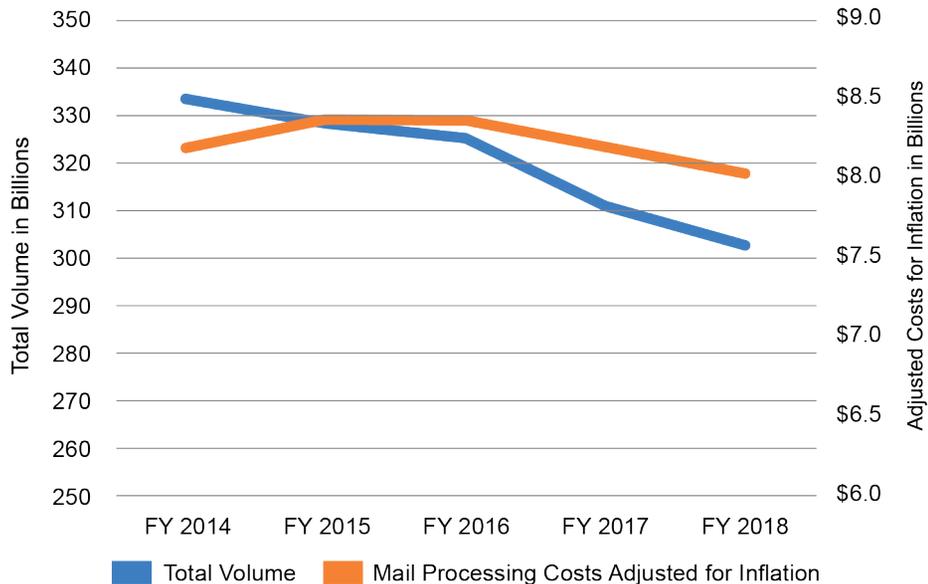
5 Determines whether there is a business case for relocating processing and distribution operations. The study includes an analysis of customer and service impacts, transportation costs, equipment relocation costs, and other significant cost savings impacts.

6 Mail processing costs presented in this report include only salaries and benefits for Operation 11 - Mail Processing.

Processing Costs

From FY 2014 to 2018, mail processing costs increased by \$301.3 million (or 3.69 percent). When adjusted for inflation,⁷ mail processing costs decreased by 2.02 percent (or \$164.9 million). However, processed mail volume (or total pieces handled)⁸ decreased by 9.20 percent (or 30.6 billion mailpieces) (see Figure 1).

Figure 1. Mail Processing Costs Adjusted for Inflation and Processed Mail Volume from FY 2014 to 2018



Source: Enterprise Data Warehouse (EDW), U.S. Bureau of Labor Statistics, and Postal Service Office of Inspector General (OIG) analysis.

⁷ The Consumer Price Index – All Urban Consumers from the U.S. Bureau of Labor Statistics was used to calculate mail processing costs adjusted for inflation.

⁸ The number of handlings necessary to distribute each mailpiece from the time of receipt to dispatch.

In FY 2017, the Postal Service was able to decrease mail processing costs by \$6.9 million, but mail processing costs the following year, in FY 2018, increased by about \$37.4 million. This volatility in costs was especially apparent in mail processing overtime and penalty overtime. In FY 2017, overtime and penalty overtime costs decreased by \$105.8 million (or 11.26 percent) but in FY 2018, these costs increased by about \$256.9 million (or 30.83 percent) (see Table 1).

Table 1. Mail Processing Costs and Overtime and Penalty Overtime from FY 2014 to 2018

Fiscal Year	Mail Processing Costs	Mail Processing Costs Percent Change	Overtime and Penalty Overtime	Overtime and Penalty Overtime Percent Change
2014	\$8,172,616,933	-	\$763,184,699	-
2015	\$8,386,419,883	2.62%	\$888,049,910	16.36%
2016	\$8,443,411,820	0.68%	\$939,288,353	5.77%
2017	\$8,436,537,079	-0.08%	\$833,501,540	-11.26%
2018	\$8,473,927,799	0.44%	\$1,090,433,943	30.83%
Difference FY 2014 and 2018	\$301,310,866	3.69%	\$327,249,244	42.88%

Source: EDW.

The Postal Service was able to reduce its mail processing regular workhours⁹ by 7.7 million (or 4.33 percent) from FY 2014 to 2018. However, for the same period, mail processing overtime workhours and penalty overtime workhours increased by 6.7 million (or 33.51 percent) and 1 million workhours (or 146.19 percent), respectively. This resulted in total mail processing workhours increasing by 11,987 workhours (or 0.01 percent) (see Table 2).

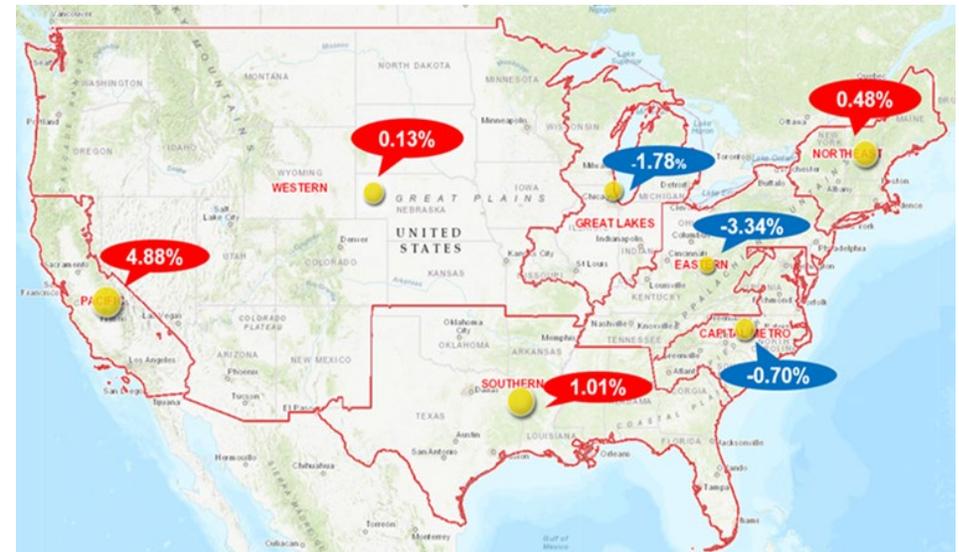
Table 2. Mail Processing Workhours from FY 2014 to 2018

FY	Regular Workhours	Overtime	Penalty Overtime	Total Workhours
2014	178,412,381	20,018,529	702,203	199,133,113
2015	177,987,355	22,919,371	961,919	201,868,645
2016	180,119,676	24,518,767	1,050,081	205,688,524
2017	180,940,617	21,672,679	811,984	203,425,280
2018	170,689,155	26,727,207	1,728,738	199,145,100
Difference FY 2014 and 2018	-7,723,226	6,708,678	1,026,535	11,987
% Difference FY 2014 and 2018	-4.33%	33.51%	146.19%	0.01%

Source: EDW and OIG analysis.

The Pacific Area experienced the largest increase in mail processing workhours (4.88 percent) while the Eastern Area had the largest decrease (3.34 percent) from FY 2014 to 2018 (see Figure 2).

Figure 2. Percent Change in Mail Processing Workhours by Area from FY 2014 to 2018



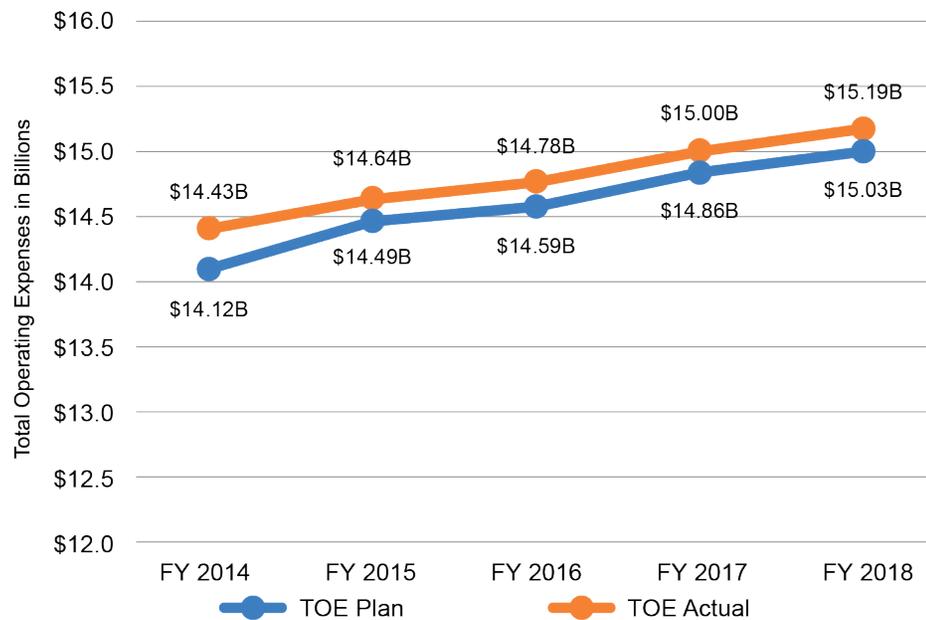
Source: EDW and OIG analysis.

⁹ All hours worked by an employee at his/her basic rate of pay during his/her scheduled workweek. All full-time employees and part-time regular employees working on their regular schedule will receive straight time hours pay for all workhours not exceeding 8 in a day or 40 in a week.

“The Postal Service planned for operating expenses to increase each FY despite declining mail volume.”

Plant managers are responsible for planning, budgeting, and monitoring performance against their operating expense budgets. From FY 2014 to 2018, the Postal Service planned for operating expenses to increase each FY despite declining mail volume. However, even with the increased operating expense budgets, the Postal Service exceeded their expense plan each FY. Specifically, in FY 2018, about 58.87 percent of plant managers did not meet their operating expense plan and collectively they exceeded the expense plan by about \$164.2 million (see Figure 3).

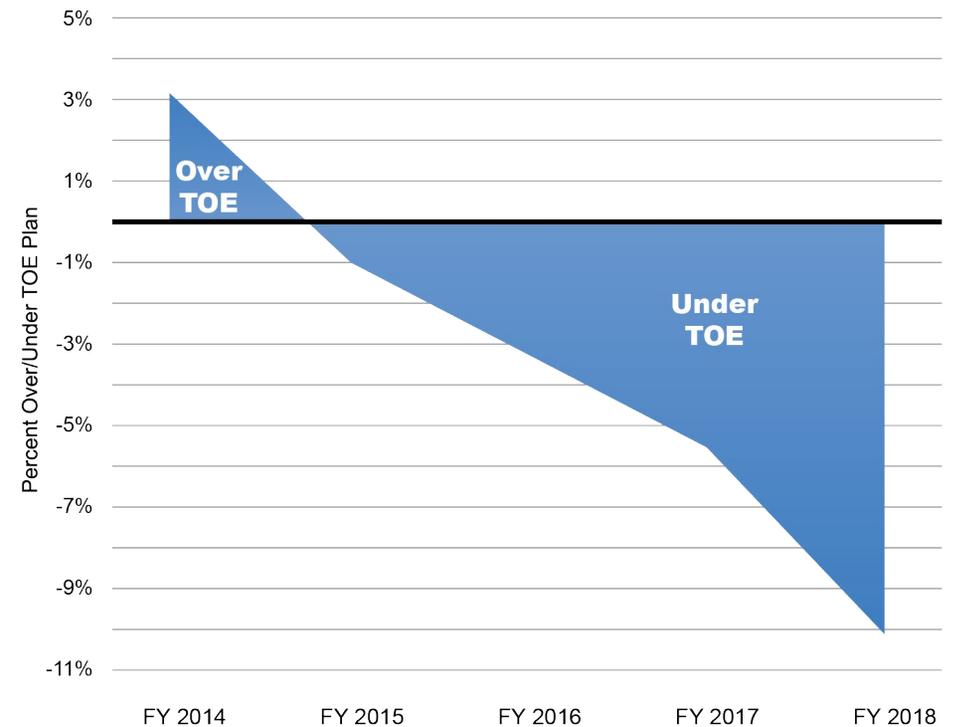
Figure 3. National Operating Expense Plan vs. Actual from FY 2014 to 2018



Source: EDW and OIG analysis.

There is opportunity for plants to improve and meet their operating expense plan. For example, in FY 2014, the Denver Network Distribution Center (NDC) was about 3.17 percent over its expense plan. The NDC was able to gradually improve and come under its expense plan over the next four FYs and were about 10.13 percent under their expense plan in FY 2018 (see Figure 4).

Figure 4. Denver NDC Over/Under TOE Plan for FYs 2014 to 2018



Source: EDW.

We also identified plants that came under their operating expense plan every FY from 2014 to 2018 (see Table 3).

Table 3. Plants Under TOE Plan for FYs 2014 to 2018

Plant Name	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Mt. Hood OR Processing and Distribution Center (P&DC)	-5.32%	-9.78%	-0.17%	-1.08%	-8.08%
Cataño Annex	-7.02%	-6.52%	-1.37%	-2.68%	-5.19%
Greensboro NDC	-0.57%	-4.62%	-3.43%	-0.32%	-4.53%
Wausau Processing and Distribution Facility (P&DF)	-2.52%	-5.22%	-4.16%	-0.95%	-4.16%
North Bay CA P&DC	-1.82%	-4.26%	-7.36%	-8.20%	-3.09%
Sioux Falls SD P&DC	-3.49%	-0.94%	-3.08%	-2.18%	-2.08%
Paducah P&DF	-1.58%	-2.39%	-7.80%	-1.18%	-1.44%
St. Louis MO P&DC	-1.89%	-0.84%	-0.97%	-1.99%	-1.39%
Traverse City MI P&DC	-2.51%	-2.59%	-1.22%	-4.38%	-0.09%

Source: EDW.

Recommendation #1

The **Vice President, Network Operations**, develop a plan to reduce costs and improve the number of managers at plants achieving their total operating expense goal.

Processing Productivity

The Management Operating Data System (MODS) program gathers, stores, and reports workload and workhour data. The operational data is entered into MODS and then compiled and communicated in reports to Postal Service plants for planning mail processing activities and projecting workhours and mail volumes.

¹⁰ Total pieces processed per hour. Productivity is calculated by dividing volume by workhours.

Using MODS data for FY 2014 to 2018, we were able to determine that letters had the largest decline in processed mail volume (27.2 billion mailpieces or 9.18 percent), while parcels had the largest increase (2.1 billion mailpieces or 49.50 percent). Further, mail processing productivity declined for manual processing, flats, and letters from FY 2014 to 2018; however, productivity for parcels increased significantly.

Manual Processing

Productivity for manual processing decreased by 20.02 percent from FY 2014 to 2018. Specifically, manual processed volume declined by 2.1 billion mailpieces (or 18.89 percent) but manual mail processing workhours and overtime workhours increased by 288,101 (or 1.42 percent) and 889,162 (or 43.52 percent), respectively (see Table 4).

Table 4. Manual Processed Volume, Workhours, Overtime Workhours, and Productivity from FY 2014 to 2018

FY	Processed Volume	Workhours	Overtime Workhours	Productivity ¹⁰
2014	11,174,642,609	20,316,907	2,043,295	550.02
2015	10,703,877,013	21,114,154	2,308,553	506.95
2016	11,117,353,348	20,829,519	2,395,155	533.73
2017	9,384,682,651	21,220,495	2,204,126	442.25
2018	9,063,885,215	20,605,008	2,932,457	439.89
Difference FY 2014 and 2018	-2,110,757,394	288,101	889,162	-110.13
% Difference FY 2014 and 2018	-18.89%	1.42%	43.52%	-20.02%

Source: MODS and OIG analysis.

See [Appendix B](#) for additional information on manual processing productivity.

Flats

Productivity for flats processing decreased by 18.11 percent from FY 2014 to 2018. Specifically, flats processed volume declined by 3.3 billion mailpieces (or 17.25 percent) while flats mail processing workhours and overtime workhours increased by 85,039 (or 1.06 percent) and 312,124 (or 45.59 percent), respectively (see Table 5).

Table 5. Flats Processed Volume, Workhours, Overtime Workhours, and Productivity from FY 2014 to 2018

FY	Processed Volume	Workhours	Overtime Workhours	Productivity
2014	19,362,934,445	8,054,964	684,595	2,403.85
2015	18,238,225,649	7,935,630	719,488	2,298.27
2016	17,653,729,446	8,103,593	773,230	2,178.51
2017	16,854,596,481	8,377,740	745,179	2,011.83
2018	16,023,479,902	8,140,002	996,719	1,968.49
Difference FY 2014 and 2018	-3,339,454,543	85,039	312,124	-435.37
% Difference FY 2014 and 2018	-17.25%	1.06%	45.59%	-18.11%

Source: MODS and OIG analysis.

See [Appendix B](#) for additional information on flats productivity.

Letters

Productivity for letters decreased by about 4.68 percent from FY 2014 to 2018. Specifically, processed volume decreased by 27.2 billion mailpieces (or 9.18 percent) while processing workhours only decreased by about 1.8 million (or 4.72 percent) and overtime workhours increased by 1.3 million (or 34.21 percent) (see Table 6).

Table 6. Letters Processed Volume, Workhours, Overtime Workhours, and Productivity from FY 2014 to 2018

FY	Processed Volume	Workhours	Overtime Workhours	Productivity
2014	296,713,568,077	38,100,016	3,832,033	7,787.75
2015	290,823,581,887	38,741,748	4,194,737	7,506.72
2016	289,472,200,255	39,562,830	4,637,606	7,316.77
2017	277,108,894,814	37,887,605	3,779,988	7,313.97
2018	269,476,718,993	36,301,072	5,142,887	7,423.38
Difference FY 2014 and 2018	-27,236,849,084	-1,798,944	1,310,854	-364.37
% Difference FY 2014 and 2018	-9.18%	-4.72%	34.21%	-4.68%

Source: MODS and OIG analysis.

See [Appendix B](#) for additional information on letters productivity.

Parcels

Conversely, productivity for parcels increased significantly at 66.69 percent nationwide from FY 2014 to 2018 (see Table 7).

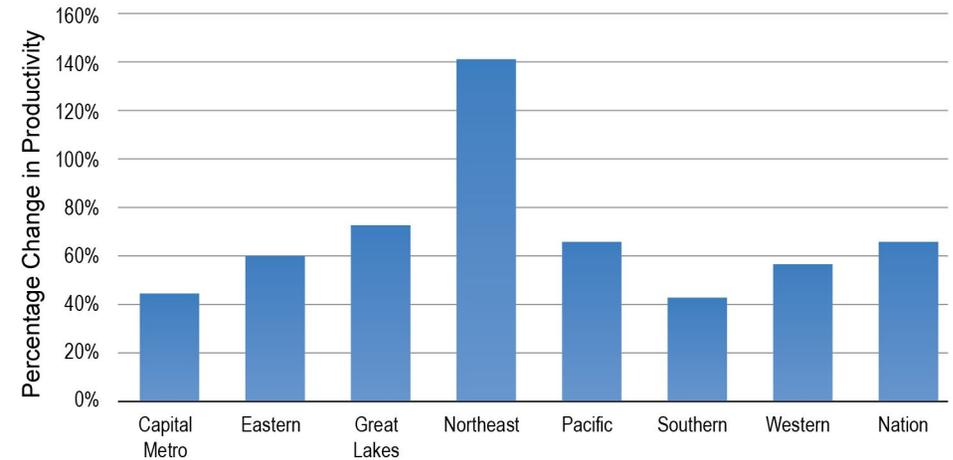
Table 7. Parcels Processed Volume, Workhours, Overtime Workhours, and Productivity from FY 2014 to 2018

FY	Processed Volume	Workhours	Overtime Workhours	Productivity
2014	4,343,625,761	30,444,275	3,248,391	142.67
2015	4,872,767,623	32,446,538	3,967,076	150.18
2016	5,524,080,856	36,462,330	4,597,101	151.50
2017	5,979,763,676	26,497,557	2,945,582	225.67
2018	6,493,606,390	27,304,639	3,861,827	237.82
Difference FY 2014 and 2018	2,149,980,629	-3,139,635	613,437	95.15
% Difference FY 2014 and 2018	49.50%	-10.31%	18.88%	66.69%

Source: MODS and OIG analysis.

All seven Postal Service areas had an increase in parcels productivity from FY 2014 to 2018. The Northeast Area had the greatest increase in parcels productivity at 141.31 percent (see Figure 5).

Figure 5. Parcels Percentage Change in Productivity from FY 2014 to 2018



Source: MODS and OIG analysis.

With parcels processed volume increasing by 2.1 billion (or 49.50 percent), the Postal Service has invested in additional parcel processing machines. Specifically, the addition of 41 Small Package Sorting Systems and two High Throughput Package Sorters (HTPS) have increased capacity, throughput, and runtime, and decreased the number of workhours by 3.1 million (or 10.31 percent) used to process parcels. Additionally, in May 2017, the Postal Service approved deployment of an Enhanced Package Processing Sorter which will have higher throughput and productivity than the HTPS.

F1 Scheduler

To address issues with productivity, the Postal Service established mail processing staffing complement levels using the F1 Scheduler. However, the F1 Scheduler did not always schedule the right people, in the right place, at the right time. While there was a decrease of, on average, 5,000 career mail processing

“All seven Postal Service areas had an increase in parcels productivity from FY 2014 to 2018.”

positions in FY 2018, mail processing overtime and penalty overtime workhours increased by 5.1 million (or 23.32 percent) and 916,754 (or 112.90 percent), respectively.

The Postal Service is currently rolling out an updated version of the F1 Scheduler to facilities addressing employee schedule and complement issues. We recently issued the *Mail Processing Overtime* report (Report Number NO-AR-19-005, dated June 13, 2019) and recommended the Postal Service evaluate and test the updated Function 1 Scheduler results on a periodic basis to ensure proper implementation of position bid assignments and accurate complement levels, and make adjustments as necessary. The Postal Service concurred and stated the F1 Scheduler is run annually, at a minimum, and the results are evaluated with each run of the model. The model establishes appropriate levels of staffing and provides proposed schedules to drive efficiency and operational compliance to operating plans.

Recommendation #2

The **Vice President, Network Operations**, utilize lessons learned and best practices from the significant increase in parcel productivity to develop a plan to increase productivity for manual, flats, and letter processing.

Processing Savings

From FY 2014 to 2018, the Postal Service did not achieve its planned cost savings from its strategic initiatives to reduce costs and optimize the processing network.

Delivering Results, Innovation, Value, and Efficiency and Ready Now → Future Ready

In April 2013, the Postal Service's Five-Year Business Plan identified DRIVE initiatives to address its financial challenges by saving about \$20 billion over the next five years. The DRIVE Initiatives were management's plan to provide long-term financial stability for the Postal Service.

In FY 2017, the Postal Service redefined DRIVE as Ready Now → Future Ready. The initiative is sponsored by the Postmaster General with direct oversight from

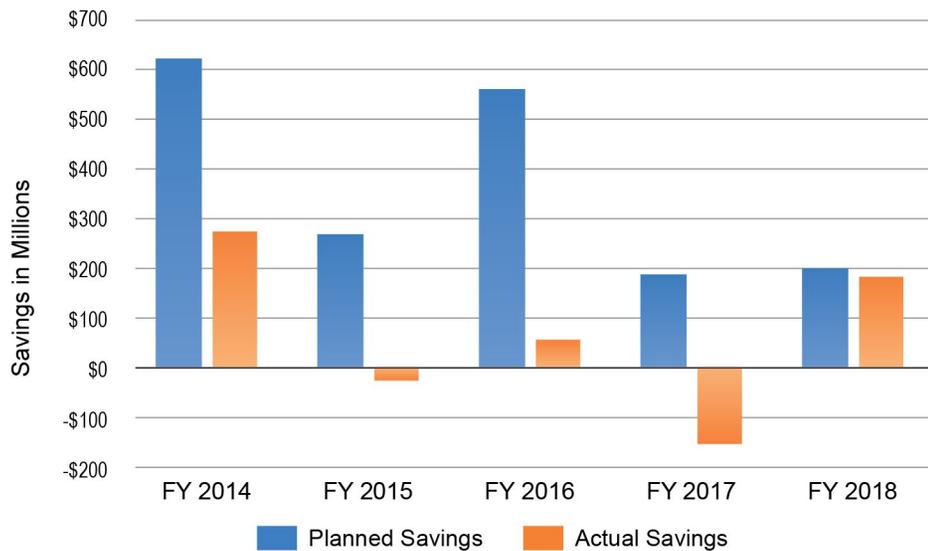
the Executive Leadership Team. Ready Now → Future Ready is based on a well-established methodology many corporations use to apply strategic and financial rigor to decision-making and to navigate through significant organizational changes. It focuses on a portfolio of strategic initiatives to meet performance and financial goals. The initiatives include cost cutting, revenue generation, and capability enhancement for the organization's success.

Specifically, the Optimize Network Platform initiative is responsible for evaluating and right-sizing the mail processing infrastructure to increase operating efficiency, reduce costs, and provide reliable and consistent service. The initiative includes:

- Future Network Consolidation Implementation — Define and implement an efficient network and supporting infrastructure that corresponds to an increasingly dynamic workload mix by adjusting workforce, facilities, vehicles, and equipment to support the network infrastructure. Savings will be achieved through mail processing workhour reductions resulting from plant consolidations.
- Mail Handling Automation Technology — Aims to reduce overall labor costs in the processing environment by reducing the labor involved in moving mail from inbound dock to automation, between automation processes, and in dispatch to delivery.
- Optimize Processing Operations — Optimize equipment and complement levels in all processing operations platforms — including P&DCs and NDCs — through repositioning, expanding and reducing equipment inventories, and adjusting complement and workhours.

For the DRIVE and Ready Now → Future Ready initiatives related to the processing network, the Postal Service planned to save about \$1.9 billion from FYs 2014 to 2018 but reported savings of only \$339.1 million. Specifically, from FY 2014 to 2016, planned savings for DRIVE were about \$1.5 billion but the Postal Service reported savings of \$307.4 million. Further, from FY 2017 to 2018, planned savings for Ready Now → Future Ready were about \$393.1 million but the Postal Service reported savings of \$31.7 million (see [Figure 6](#)).

Figure 6. DRIVE and Ready Now → Future Ready Planned vs. Actual Savings from FY 2014 to 2018



Source: Technology Management Office System (TMOS), DRIVE Portfolio Performance Report, and End of Year Ready Now → Future Ready Portfolio Performance Report and Lessons Learned.

During a House of Representatives Oversight and Reform Committee hearing in April 2019, the Postmaster General stated that the Postal Service will run out of cash by 2024. To address its financial issues, the Postal Service is developing a strategic plan aimed to outline a long-term business model. The Postal Service is working to finalize a 10-year plan by July that identifies initiatives necessary to operate long-term financially sustainable models. Additionally, the strategic plan will focus on the key public policy questions of what universal services the Postal Service should provide and how to pay for those services.

Consolidations

In 2011, the Postal Service announced its Network Rationalization Initiative (NRI) in response to its unsustainable financial situation. The purpose of the NRI was to align the Postal Service’s network processing capacity with its declining mail volume through equipment and plant consolidations and operational changes.

Phase I of the NRI involved potentially consolidating or closing 252 of 487 mail processing facilities. During 2012 and 2013, the Postal Service consolidated 141 mail processing facilities during Phase 1 of the NRI. For Phase II, which began in January 2015, the Postal Service planned to consolidate 82 facilities by October 2015. However, the Postal Service consolidated only 17 mail processing facilities and partially consolidated another 21 facilities during Phase II. The Postal Service postponed consolidations later in FY 2015 due to operational considerations so it could continue to provide prompt, reliable, and predictable service consistent with published service standards.

Management calculated planned cost savings from consolidations by completing AMP feasibility studies. In FY 2018, the Postal Service planned to start consolidations again; however, it did not resume consolidations, and has not updated AMP feasibility studies to determine if savings still exist.

Operational Window Change

Additionally, as part of Phase II of the NRI, on January 5, 2015, the Postal Service revised its First-Class Mail service standards, eliminating single-piece overnight First-Class Mail service and shifting mail from a 2-day to a 3-day service standard.

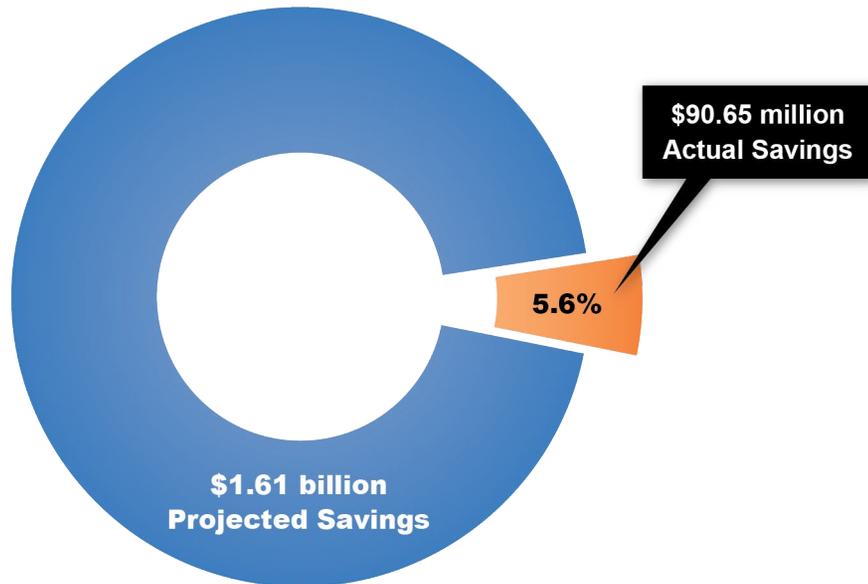
These revisions enabled the Postal Service to expand its mail processing operational window to process mail on fewer machines, thus using less facility square footage. This change is known as the OWC. Plants nationwide had to adjust their mail processing and transportation operations to meet critical entry

“During a House of Representatives Oversight and Reform Committee hearing in April 2019, the Postmaster General stated that the Postal Service will run out of cash by 2024.”

times (CET),¹¹ clearance times,¹² and dispatches of value¹³ associated with the OWC. Postal Service management described the OWC as one of their most significant changes since automating mail processing.

The OWC was projected to save over \$805 million annually through increased mail processing productivity, decreased premium (overtime) pay, additional delivery point sequencing of mail, less mail sorting at fewer facilities, and use of more efficient mail sorting machines. The OWC also required changes in mail transportation. The Postal Service projected the OWC would save \$1.61 billion from FY 2016 to 2017 but in our prior audit work we could verify about \$90.65 million (or 5.6 percent)¹⁴ of savings (see Figure 7).

Figure 7. OWC Planned vs. Actual Savings from FY 2016 to 2017



Source: *Operational Window Change Savings* (Report Number NO-AR-19-001, dated October 15, 2018).

¹¹ The latest time that mail must be available to be processed and dispatched in time to meet service standards.

¹² The latest time that mail must complete an operation to meet the CET for the next required operation.

¹³ The latest time of the day mail can be transported to meets its service standard.

¹⁴ *Operational Window Change Savings* (Report Number NO-AR-19-001, dated October 15, 2018).

¹⁵ An independent federal agency that provides transparency and accountability of the Postal Service's operations.

¹⁶ *Operational Window Change Savings* (Report Number NO-AR-19-001, dated October 15, 2018).

Outside of the projected savings presented to the Postal Regulatory Commission,¹⁵ the Postal Service identified an additional \$430.2 million in cost avoidance related to the OWC, but we were only able to verify \$232.8 million in additional cost avoidance related to the OWC.¹⁶

In the *Operational Window Change Savings* report (Report Number NO-AR-19-001, dated October 15, 2018), we recommended the Postal Service develop and implement, at a minimum, annual tracking methodologies for any significant projected operational costs or savings and use a sensitivity analysis to account for such impacts as changes in mail volume and labor and transportation costs.

We plan to conduct additional audit work related to mail processing network efficiency and assess efforts to standardize operations.

Recommendation #3

The **Vice President, Network Operations**, revise and update area mail processing feasibility studies to determine whether cost savings could be realized and consolidations should continue.

“We plan to conduct additional audit work related to mail processing network efficiency and assess efforts to standardize operations.”

Management's Comments

Management generally agreed with the finding and all three recommendations. See [Appendix C](#) for management's comments in their entirety.

Regarding recommendation 1, management stated they have a plan to address TOE using various financial reports, historical workhour data, and tools in Informed Visibility that give managers the information needed to effectively manage costs. Further, management stated that current FY 2019 TOE data show 94 plants currently operating under planned TOE and another 51 within 2 percentage points of their planned TOE. Management requested this recommendation be closed with issuance of this report.

Regarding recommendation 2, management stated the products with an increase in volume had a correlating increase in productivity, and products with a decrease in volume had a decrease in productivity. The increase in package volume required the need for additional package sorting equipment and the decrease in letter and flat mail volume required a reduction in equipment. From March 2017 through July 2019, the Postal Service reduced letter and flat sorting equipment which reduced maintenance costs and slowed the rate of productivity loss associated with reduced mail volume. Management requested this recommendation be closed with issuance of this report.

Regarding recommendation 3, management stated that while they have not updated AMP feasibility studies since the 2015 moratorium, they have plans to update the studies once a decision is made and approval is given to initialize consolidations. Management requested this recommendation be closed with issuance of this report.

The Postal Service also stated the report does not discuss and consider some of the business reasons and operational challenges the Postal Service faces today with increased package volume and decreased letter and flat volume.

Package processing is a much more labor intensive operation than letter and flat processing and has a much lower productivity level. For example, management stated that the amount of space needed to work packages and the amount of empty equipment needed to move packages is much higher. The additional container movement equates to significantly more mail handler workhours and associated costs.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

Regarding recommendation 1, we reviewed the June 2019 TOE data that management provided in their comments and recognize the progress of the number of managers at plants achieving their TOE goal. However, in their response management did not provide a plan or goal for reducing these costs and increasing the number of managers achieving the TOE going forward or a timeline for achieving this goal. In subsequent conversations with management, they agreed to provide this information with a target implementation date of September 30, 2019.

Regarding recommendation 2, we acknowledge the Postal Service has attempted to right size its mail processing equipment and has improved parcels processing productivity. However, management did not provide in their response a plan with goals or a timeline for increasing productivity for manual, letters, and flats processing going forward or describe how to apply lessons learned from productivity improvements for parcels processing to manual, letters and flats processing. In subsequent conversations with management, they agreed to provide this information with a target implementation date of September 30, 2019.

Regarding recommendation 3, because the Postal Service has not made a decision to approve and initialize consolidations, we will keep the recommendation open pending a decision.

Regarding additional points of clarification, we agree that parcel processing is a more labor intensive operation and that it is more costly to move parcels through the mail cycle than it is to move letters and flats. Additionally, the Postal Service is processing, transporting, and delivering more parcels as part of their mail mix. However, as we acknowledge in this report, the Postal Service was able to increase parcel productivity by investing in additional parcel processing machines and decreasing workhours by about 10 percent. These efforts to improve parcel productivity could provide some lessons learned for flats and letters, as we discussed in recommendation 2, which the Postal Service agreed with. We are currently reviewing costs associated with transporting and delivering mail in ongoing audit work.

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. 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

Click on the appendix title below to navigate to the section content.

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Appendix A: Additional Information

Scope and Methodology

The scope of our audit was to evaluate trends and practices used to optimize the Postal Service's processing network. We also identified and analyzed nationwide indicators and initiatives the Postal Service used during FYs 2014 through 2018 to reduce costs.

To accomplish our objective, we:

- Interviewed Postal Service headquarters management and identified indicators used to reduce costs and optimize the processing network.
- Analyzed data from EDW, MODS, TMOS, the Mail Image Reporting System (MIRS), and Field Staffing and Support.
- Analyzed mail processing costs and total operating expenses.
- Analyzed processed mail volume, mail processing workhours, overtime workhours, penalty overtime workhours, mail processing staffing, and mail processing productivity.
- Reviewed and summarized Postal Service initiatives to reduce mail processing costs and optimize its processing network. Determined the cost savings from the initiatives.

We conducted this performance audit from November 2018 through September 2019, 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 July 24, 2019, and included their comments where appropriate.

We assessed the reliability of the Postal Service's EDW, MODS, TMOS, MIRS, and Field Staffing and Support by interviewing knowledgeable agency officials, reviewing related documentation, testing for completeness, recalculating the data, and comparing data to other related data. We determined that the data from these systems were sufficiently reliable for the purposes of this report.

“The scope of our audit was to evaluate trends and practices used to optimize the Postal Service’s processing network.”

Prior Audit Coverage

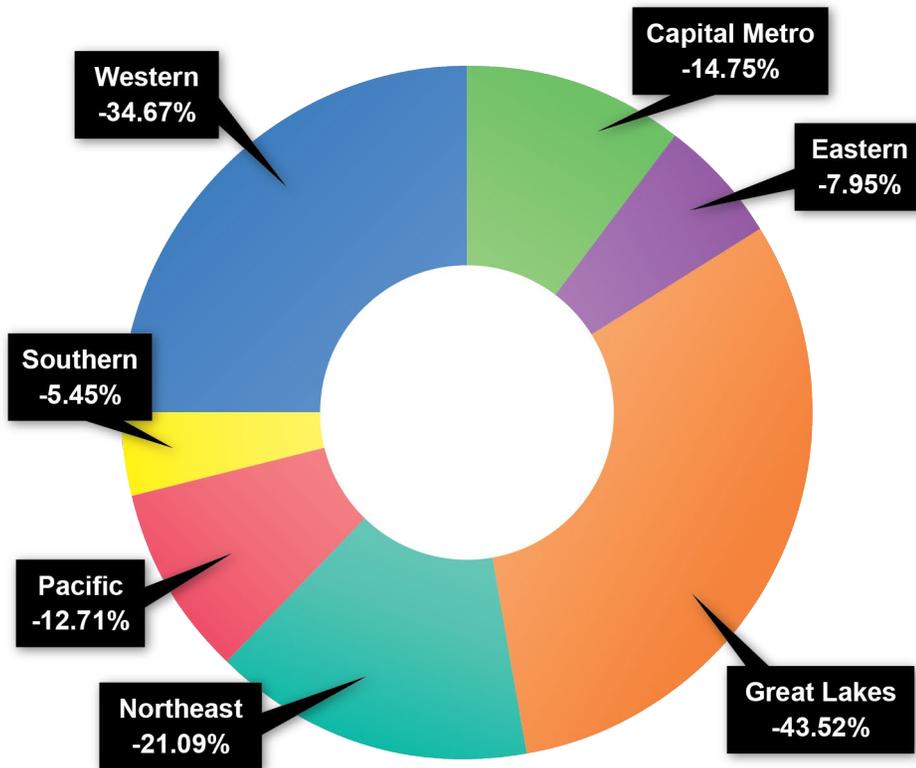
Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Mail Processing Overtime</i>	Assess the Postal Service's management of mail processing overtime during FY 2018.	NO-AR-19-005	6/13/2019	\$358
<i>Operational Window Change Savings</i>	Determine if the Postal Service achieved its projected savings for the OWC.	NO-AR-19-001	10/15/2018	\$232
<i>Mail Processing Facilities Staffing</i>	Determine if Postal Service mail processing facilities are optimally staffed based on its use of the F1 Scheduler.	NO-AR-18-004	3/30/2018	\$420
<i>Continuous Improvement of Mail Processing Operations</i>	Evaluate the efficiency of the Postal Service's FY 2015 mail processing operations.	NO-AR-16-012	9/29/2016	\$465
<i>Mail Processing and Transportation Operational Changes</i>	Determine the timeliness of mail processing and transportation since the January 5, 2015, service standard revisions. In addition, we reviewed whether the Postal Service realized the projected cost savings from the OWC.	NO-AR-16-009	9/2/2016	\$805

Appendix B: Processing Productivity

Manual Productivity

The Great Lakes Area experienced the largest decrease in manual productivity from FY 2014 to 2018 (see Figure 8). It also saw a wide variation in productivity in the processing plants. For example, productivity at the Columbia, MO P&DC decreased by about 76.43 percent, while productivity at the Grand Rapids P&DC increased by 65.56 percent.

Figure 8. Manual Productivity Percent Change from FY 2014 to 2018



Source: MODS and OIG analysis.

Further, the Western, Great Lakes, and Southern areas had the greatest decline in manual processed volume while increasing workhours and overtime workhours from FY 2014 to 2018. Specifically, the Western Area had a decrease in manual processed volume of 589.5 million mailpieces (or 28.40 percent) but an increase in workhours and overtime workhours of 328,020 (or 9.60 percent) and 137,383 (or 36.49 percent), respectively (see Table 8).

“The Great Lakes Area experienced the largest decrease in manual productivity from FY 2014 to 2018.”

Table 8. Manual Processed Volume, Workhours, and Overtime Workhours by Area from FY 2014 to 2018

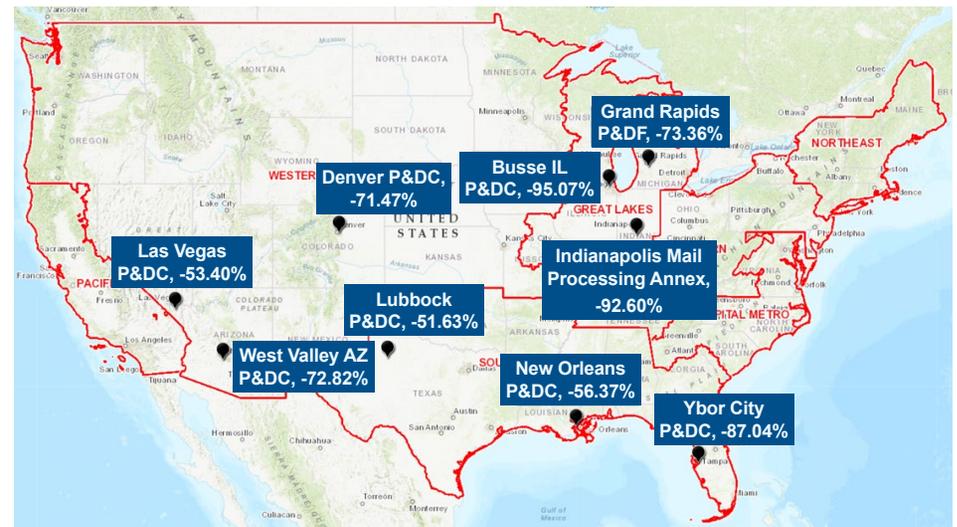
Area	Processed Volume	Volume Percent Change	Workhours	Workhours Percent Change	Overtime Workhours	Overtime Workhours Percent Change
Capital Metro	-278,409,946	-20.27%	-169,798	-6.47%	142,273	56.83%
Eastern	-192,485,908	-11.01%	-90,110	-3.33%	78,268	28.96%
Great Lakes	-553,842,020	-42.06%	72,172	2.57%	111,725	35.10%
Northeast	-321,703,442	-21.27%	-6,379	-0.23%	92,169	40.61%
Pacific	-151,992,287	-12.82%	-3,337	-0.13%	154,965	84.50%
Southern	-22,795,245	-1.16%	157,533	4.53%	172,381	41.29%
Western	-589,528,546	-28.40%	328,020	9.60%	137,383	36.49%
Nation	-2,110,757,394	-18.89%	288,101	1.42%	889,164	43.52%

Source: MODS and OIG analysis.

“The Western, Great Lakes, and Southern areas had a decline in manual processed volume, but increased workhours and overtime workhours associated with manual mail processing. We identified plants in those three areas with large declines in manual processed volume but with increased workhours and overtime workhours associated with manual mail processing from FY 2014 to 2018. The map shows those plants and the percent decrease in productivity from FY 2014 to 2018 (see Figure 9).”

The Western, Great Lakes, and Southern areas had a decline in manual processed volume, but increased workhours and overtime workhours associated with manual mail processing. We identified plants in those three areas with large declines in manual processed volume but with increased workhours and overtime workhours associated with manual mail processing from FY 2014 to 2018. The map shows those plants and the percent decrease in productivity from FY 2014 to 2018 (see Figure 9).

Figure 9. Percent Decrease in Manual Productivity from FY 2014 to 2018

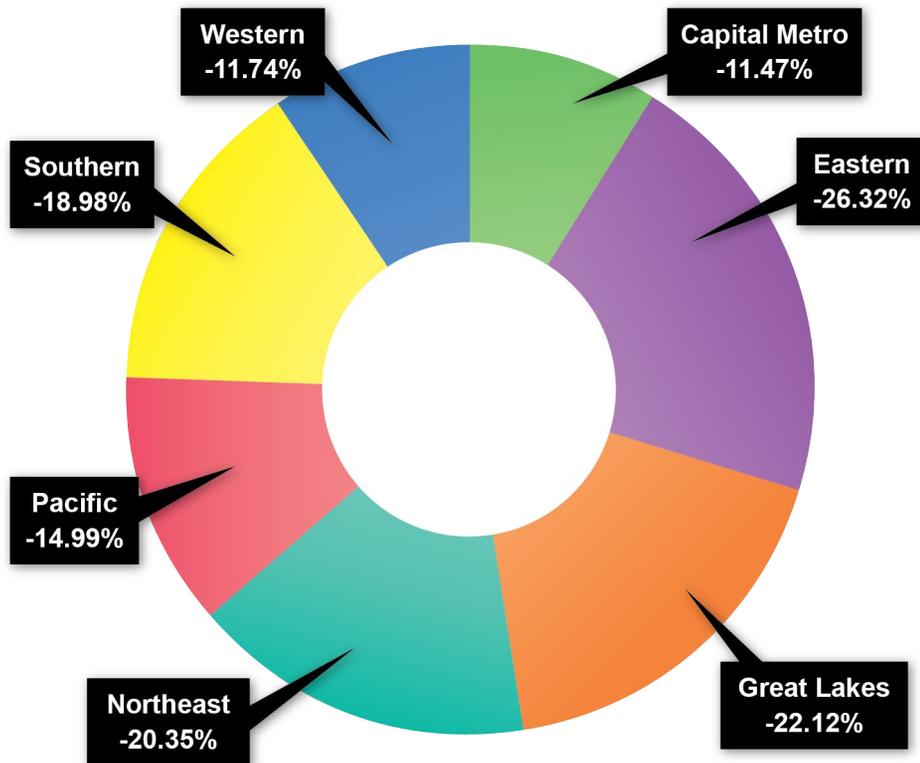


Source: MODS and OIG analysis.

Flats Productivity

The Eastern Area experienced the largest drop in productivity from FY 2014 to 2018 (see Figure 10). It also saw a wide variation in productivity in the processing plants. For example, productivity at the Cleveland P&DC decreased by about 67.32 percent, while productivity at the Pittsburgh P&DC increased by 25.06 percent.

Figure 10. Flats Productivity Percent Change from FY 2014 to 2018



Source: MODS and OIG analysis.

The Eastern, Northeast, and Great Lakes areas had the greatest decline in flats processed volume while increasing workhours and overtime workhours from FY 2014 to 2018. Specifically, the Eastern Area had a decrease in flats processed volume by 541.5 million mailpieces (or 18.66 percent) but an increase in workhours of 116,328 (or 10.40 percent) and overtime workhours of 46,385 (or 42.72 percent) (see [Table 9](#)).

“The Eastern, Northeast, and Great Lakes areas had the greatest decline in flats processed volume while increasing workhours and overtime workhours from FY 2014 to 2018.”

Table 9. Flats Processed Volume, Workhours, and Overtime Workhours by Area from FY 2014 to 2018

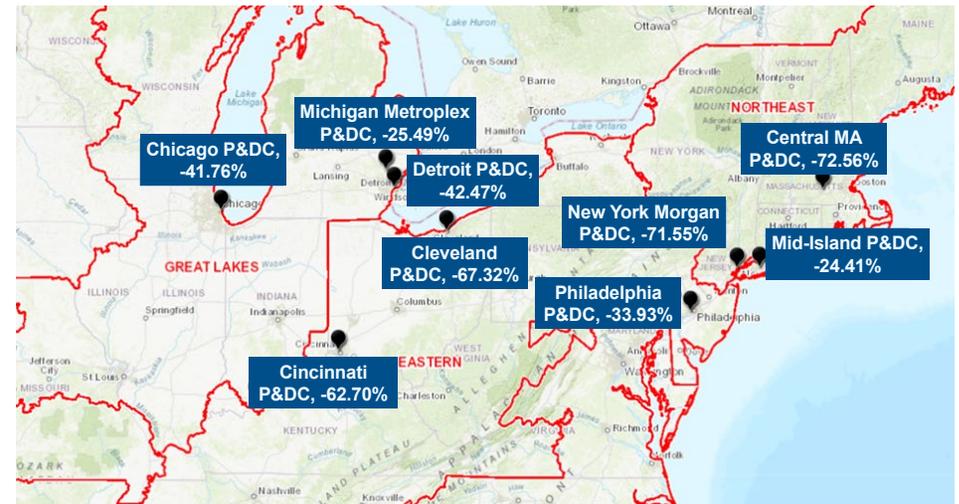
Area	Processed Volume	Volume Percent Change	Workhours	Workhours Percent Change	Overtime Workhours	Overtime Workhours Percent Change
Capital Metro	-339,477,214	-14.84%	-39,005	-3.81%	53,622	64.63%
Eastern	-541,496,332	-18.66%	116,328	10.40%	46,385	42.72%
Great Lakes	-477,593,544	-19.41%	28,822	3.48%	31,976	42.67%
Northeast	-485,845,435	-16.83%	51,544	4.43%	53,761	67.76%
Pacific	-389,685,380	-16.45%	-15,183	-1.72%	37,900	74.92%
Southern	-643,424,823	-19.32%	-6,521	-0.42%	52,360	31.73%
Western	-461,931,815	-14.77%	-50,946	-3.43%	36,119	29.33%
Nation	-3,339,454,543	-17.25%	85,039	1.06%	312,123	45.59%

Source: MODS and OIG analysis.

“The Eastern, Great Lakes, and Northeast areas had a decline in flats processed volume, but increased workhours and overtime workhours associated with flats mail processing.”

The Eastern, Great Lakes, and Northeast areas had a decline in flats processed volume, but increased workhours and overtime workhours associated with flats mail processing. We identified plants in those three areas with large declines in flats processed volume but with increased workhours and overtime workhours associated with flats mail processing from FY 2014 to 2018. The map shows those plants and the percent decrease in productivity from FY 2014 to 2018 (see Figure 11).

Figure 11. Percent Decrease in Flats Productivity from FY 2014 to 2018



Source: MODS and OIG analysis.

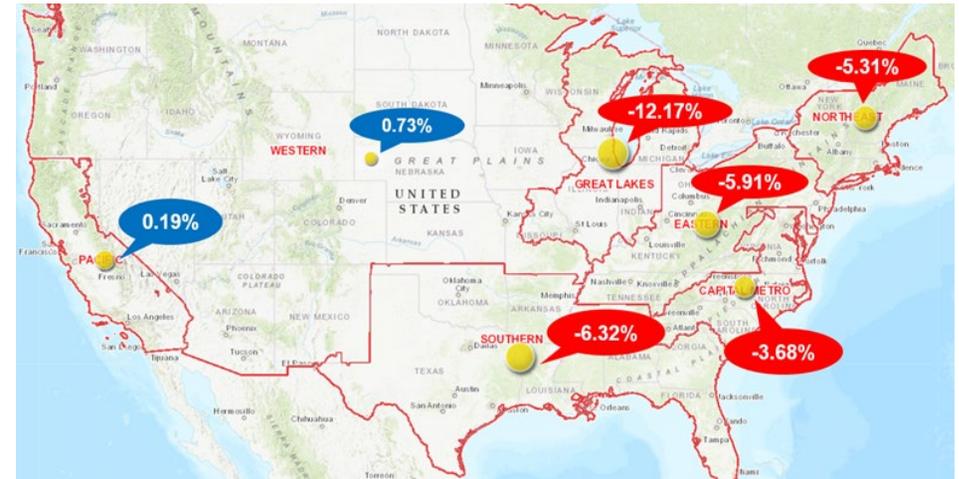
Letters Productivity

All Postal Service areas but the Great Lakes Area had a decline in processed letters volume and workhours but an increase in overtime workhours from FY 2014 to 2018. The Great Lakes Area had a decrease of 4.2 billion mailpieces in processed volume (or 11.70 percent) but an increase in both workhours of 22,999 (or 0.54 percent) and overtime workhours of about 229,424 (or 57.56 percent) (see Table 10).

From FY 2014 to 2018, the Great Lakes Area had the largest decrease in productivity by 12.17 percent, while the Western Area increased by 0.73 percent (see Figure 12).

“All Postal Service areas but the Great Lakes Area had a decline in processed letters volume and workhours but an increase in overtime workhours from FY 2014 to 2018”

Figure 12. Percent Change in Letters Productivity by Area from FY 2014 to 2018



Source: MODS and OIG analysis.

Table 10. Letters Processed Volume, Workhours, and Overtime Workhours by Area from FY 2014 to 2018

Area	Processed Volume	Volume Percent Change	Workhours	Workhours Percent Change	Overtime Workhours	Overtime Workhours Percent Change
Capital Metro	-2,219,422,734	-6.96%	-144,908	-3.40%	189,814	44.25%
Eastern	-5,129,210,243	-10.61%	-316,303	-4.99%	120,140	15.48%
Great Lakes	-4,264,992,830	-11.70%	22,999	0.54%	229,424	57.56%
Northeast	-3,467,222,401	-9.16%	-228,815	-4.06%	223,569	46.99%
Pacific	-3,173,859,370	-9.33%	-413,663	-9.50%	226,321	77.92%
Southern	-4,571,372,982	-7.71%	-101,448	-1.48%	239,166	28.13%
Western	-4,410,768,524	-9.04%	-616,807	-9.70%	82,420	13.47%
Nation	-27,236,849,084	-9.18%	-1,798,945	-4.72%	1,310,854	34.21%

Source: MODS and OIG analysis.

Appendix C: Management's Comments

ROBERT CINTRON
VICE PRESIDENT
NETWORK OPERATIONS



August 15, 2019

DARRELL E. BENJAMIN, JR.
DEPUTY ASSISTANT INSPECTOR GENERAL, MISSION OPERATIONS

SUBJECT: Draft Audit Report Response – US Postal Service Processing
Network Optimization
(Report Number – NO-AR-19-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report.

Following is the management response to the recommendations.

Recommendation #1:

The Vice President, Network Operations, develop a plan to reduce costs and improve the number of managers at plants achieving their total operating expense goal.

Management Response/Action Plan:

Management agrees with this recommendation. The Postal Service already has a plan in place to address TOE using the various financial reports and historical workhour data to drive performance. Additional analytical tools have also been deployed in IV such as the Operations Efficiency Dashboard, the Workhour Efficiency Dashboard, and the Performance to Plan Dashboard that give managers the information needed to effectively manage the costs in their facilities. Also, based on current FY-19 TOE data through the month of June, 94 plants are currently operating under planned TOE and another 51 plants are within 2 percentage points of making their planned TOE.

Target Implementation Date:

Request to close with the submission of this response to the recommendation.

Responsible Official:

Manager Processing Operations, Network Operations

Recommendation #2:

The Vice President, Network Operations, utilize lessons learned and best practices from the significant increase in parcel productivity to develop a plan to increase productivity for manual, flats, and letter processing.

Management Response/Action Plan:

Management agrees with this recommendation. As noted in the report, the Postal Service products that showed an increase in volume also showed a correlating increase in productivity. Likewise, the products that showed a decrease in volume also showed a correlating decrease in productivity. As a result of this correlation with mail volume and productivity, the Postal Service has taken drastic measures to right size the fleet of equipment used to process packages and mail. The increase in package volume required the need for additional package sorting equipment. The additional equipment has demonstrated a 66.69% improvement in overall productivity.

Conversely, the decrease in letter and flat mail volume required a reduction in equipment to reduce maintenance costs and slow the rate of productivity loss associated with reduced mail volume. From March of 2017 through July of 2019, the Postal Service reduced the letter and flat sorting equipment set by:

- 173 AFCS
- 409 DBCS
- 70 AFSM

Target Implementation Date:

Request to close with the submission of this response to the recommendation.

Responsible Official:

Manager Processing Operations, Network Operations

Recommendation #3:

The Vice President, Network Operations, revise and update area mail processing feasibility studies to determine whether cost savings could be realized and consolidations should continue.

Management Response/Action Plan:

Management agrees with this recommendation. While Network Optimization AMP feasibility studies have not been updated since the 2015 moratorium, plans are to update the AMP feasibility studies once a decision is made and approval is given to initialize consolidations.

Target Implementation Date:

Request to close with the submission of this response to the recommendation.

Responsible Official:

Manager Processing Operations, Network Operations

Additional Points of Clarification:

There are a few key points and topics in the audit that need further discussion and clarification from an objective viewpoint. The audit states that "the Postal Service has not decreased mail processing costs at a rate consistent with the decline in mail volume" and goes on to state "the Postal Service mail processing productivity (mailpieces processed divided by workhours charged) has been declining". What the audit did not discuss and take into consideration were some of the business reasons and operational challenges that the Postal Service faces today with the increase in package volume and decrease in letter and flat volume. Package processing is a much more labor intensive operation than letter and flat processing and has a much lower productivity level. Package volume (and the auxiliary workload that comes with it) continues to increase. The amount of space needed to work packages in a facility is much higher than letters or flats. The amount of empty equipment needed to move packages is also much higher. For example, a container of packages contains on average of 85 parcels while the same container of letters equates to 10,900 pieces. The additional container movement throughout large processing facilities equates to significantly more Mail Handler workhours and associated costs. There are also significantly more costs associated with the transportation to deliver packages to the downstream plants and delivery units.



Robert Cintron
Vice President, Network Operations

cc: Manager, Corporate Audit Response Management



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