



February 1, 2011

DAVID E. WILLIAMS, JR.
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Management Advisory Report – Follow-Up on the Assessment of Overall Plant Efficiency 2010 (Report Number NO-MA-11-001)

This report presents a follow-up on the U.S. Postal Service's progress in reducing workhours based on the workhour recommendation made in our prior report¹ (Project Number 11XG013NO000). This is a cooperative effort with the Postal Service and addresses operational risk. The objective of this review was to follow-up on the Postal Service's progress in reducing workhours, as of fiscal year (FY) 2010. See [Appendix A](#) for additional information about this review.

Last year, we reported on efficiency levels and mail volume in processing and distribution centers (P&DCs) and processing and distribution facilities (P&DFs) and recommended the Postal Service reduce almost 16.2 million workhours by FY 2012. The goal of the previous effort was to report on the Postal Service's efforts to "raise the bar" on productivity levels for those plants that were the least productive in the network nationwide. This report follows up on the Postal Service's progress in this effort.

Conclusion

The Postal Service made substantial progress by reducing workhours in the network from the previous year. Plants that were the least productive in FY 2009 reduced over 13.3 million workhours (achieving 82.78 percent of the recommended workhour savings) and improved productivity by over 9.3 percent. See [Appendix B](#) for more information.

Significant Workhour Reductions and Service Improvements

The Postal Service made significant reductions in workhours and improvements to operational efficiency in FY 2010. For instance, from FYs 2009 to 2010, management

¹ Management Advisory Report – *Assessment of Overall Plant Efficiency 2010* (Report Number NO-MA-10-001, dated June 11, 2010).

used over 26 million fewer workhours in mail processing.² Plants that had below-median productivity levels in FY 2009 accounted for 13.3 million of this workhour reduction and achieved 82.78 percent of the recommended workhour savings and improved productivity by over 9.3 percent. Overall, total mail processing productivity also improved by more than 7.2 percent over the prior fiscal year.

The Postal Service made these workhour reductions while improving service in the External First-Class (EXFC) measurement system categories of overnight and 2- and 3-day service. In addition, we found that First Handling Piece (FHP) productivity increased at a higher rate than non-farm business sector³ productivity as reported by the Bureau of Labor Statistics in the first three quarters of calendar year 2010. See [Appendix B](#) for our detailed analysis of this topic.

Changing Economic Trends

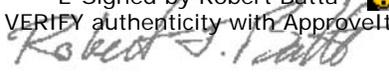
The Postal Service faces the challenge of making additional workhour reductions while continuing to deal with declining mail volumes and a deteriorating financial condition. The Postal Service ended FY 2010 with a net loss of over \$8.5 billion. Without the expenses of the Postal Service Retiree Health Benefits Fund and the increases to Workers' Compensation costs, the net loss was \$505 million. Mail volume in FY 2010 totaled 170.6 billion pieces, a decline of 3.5 percent, or 6.2 billion pieces, compared to FY 2009. Declining mail volume was attributed mainly to the continuing sluggish economy and the lingering effects of the recent recession and electronic diversion of mail. Total operating revenue decreased from \$68 billion in FY 2009 to \$67 billion in FY 2010 (a 1.5 percent decrease) while expenses totaled \$75.4 billion (a 5 percent increase). See [Appendix B](#) for our detailed analysis of this topic.

We are not making any recommendations in this report. However, we will make recommendations for additional workhour savings based on FY 2010 workhour usage in a subsequent report on the assessment of overall plant efficiency. Management agreed with the report but chose not to comment because there were no recommendations.

² These hours are recorded in a category referred to as Function 1. Total Function 1 hours include Network Distribution Centers (NDCs), International Service Centers (ISCs), Logistics and Distribution Centers (L&DCs), Priority Hubs, P&DCs, and P&DFs.

³ The non-farm business sector is a subset of the domestic economy and excludes the economic activities of the following: general government, private households, nonprofit organizations serving individuals, and farms.

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

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Megan J. Brennan
Frank Neri
Corporate Audit and Response Management

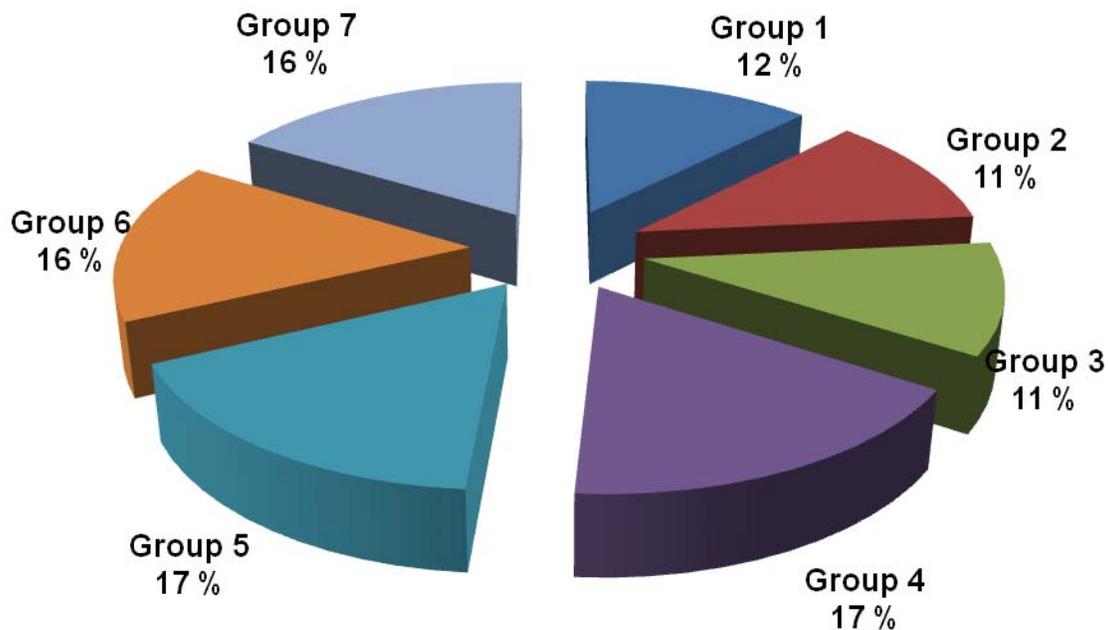
APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Mail processing is an integrated group of activities⁴ required to sort and distribute mail for dispatch and eventual delivery. Post offices, stations, and branches send outgoing mail to P&DCs and P&DFs for processing and dispatch for a designated service area. The Postal Service had more than 300 facilities with mail processing responsibilities in FY 2010.

We divided the facilities that process mail into seven groups ranked by mail volume outlined in the Breakthrough Productivity Initiative (BPI).⁵ Chart 1 shows the percentage of mail processing facilities in each group.

**Chart 1. PLANT GROUPING BASED ON
FY 2006 BPI GROUPINGS (WORKLOAD)**



⁴ Mail processing activities include culling, edging, stacking, facing, canceling, sorting, tying, pouching, and bundling.

⁵ The Postal Service established the BPI to drive costs out of the organization while creating continuous improvement capability. The BPI uses comparative monitoring and performance ranking in operating units across the country. Higher performing units are sometimes used as models to identify best practices. Standard procedures are based on best practices and training is developed to share performance expectations. Targets are set to drive performance toward the highest levels.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to follow-up on the Postal Service's progress in reducing workhours based on recommendations made in our prior report. This audit is a cooperative effort with the Postal Service.

To accomplish our objective, we identified trends in mail volume, workhours, overtime, and productivity for each of the seven plant groups for FY 2010.

To conduct this review, we relied on computer-processed data maintained by Postal Service operational systems, which included the Management Operating Data System and the Enterprise Data Warehouse System. We did not test the validity of controls over these systems. However, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers and other data sources.

We conducted this review from December 2010 through February 2011 in accordance with the *Quality Standards for Inspections*.⁶ We discussed our conclusions with management on January 25, 2011, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Assessment of Overall Plant Efficiency</i>	NO-MA-09-002	5/8/2009	\$969,495,708
<i>Assessment of Overall Plant Efficiency 2010</i>	NO-MA-10-001	6/11/2010	743,961,610

As shown in the preceding table, we have conducted two reviews assessing overall plant efficiency. These reviews showed that management had not evaluated operational efficiency by assessing performance against productivity targets and other plants and adjusting staff and equipment resources in response to workload changes. Consequently, more workhours than necessary were used to process the mail. These reviews identified opportunities to improve efficiency and reduce more than 39 million workhours that would produce \$1,713,457,318 in savings over 10 years. In response to our recommendations, management reduced workhours to better align with budgeted workhours.

⁶ The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) last promulgated these standards in January 2005. Since then, The Inspector General Act of 1978 as amended by the IG Reform Act of 2008 created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

APPENDIX B: DETAILED ANALYSIS

Follow-Up to Prior Audit

In the *Assessment of Overall Plant Efficiency 2010* report,⁷ we recommended workhour savings of 16,150,495, with an associated economic impact of \$743,961,610. We compared the performance of the plants identified as having below-median productivity levels in FY 2009 with their performance in FY 2010. We found plants that were below-median in FY 2009 improved productivity by 9.35 percent. These plants achieved 82.78 percent of our recommended workhour reduction and reduced workhours by 13,369,970 (12.32 percent) as shown by plant group in Table 1.

TABLE 1. BELOW-MEDIAN PLANTS' WORKHOUR SAVINGS FYs 2009 TO 2010

Plant Group	FY 2009 Workhours	FY 2010 Workhours	Savings Achieved	Recommended Savings	Percentage of Recommended Savings Achieved
1	43,887,481	37,972,218	5,915,263	6,605,764	89.55%
2	20,433,679	18,610,164	1,823,515	2,593,725	70.30
3	13,927,424	12,184,883	1,742,541	2,176,348	80.07
4	15,423,286	13,656,078	1,767,208	2,962,436	59.65
5	7,725,942	6,929,585	796,357	1,127,394	70.64
6	4,718,013	3,799,418	918,595	445,597	206.15
7	2,375,766	1,969,275	406,491	239,232	169.91
Total	108,491,592	95,121,622	13,369,970	16,150,495	82.78%

We also compared the performance of all plants in FY 2009 against performance in FY 2010. These sites do not include NDCs, ISCs, L&DCs, and Priority Hubs and, therefore, only represent 80.44 percent of total Function 1 workhours. The plants reduced workhours by 22,257,954 from FYs 2009 to 2010.

Significant Workhour Reductions and Service Improvements

The Postal Service made significant reductions in workhours and improvements to operational efficiency. For instance, from FYs 2009 to 2010, management used

⁷ Management Advisory Report – *Assessment of Overall Plant Efficiency 2010* (Report Number NO-MA-10-001) dated June 11, 2010.

26.1 million fewer workhours in mail processing.⁸ Overall mail processing productivity improved from an average 789 mailpieces per hour in FY 2009 to an average 849 mailpieces per hour in FY 2010, representing a productivity increase of over 7.6 percent. Mail processing overtime increased 43.72 percent from FYs 2009 to 2010.

We found that FHP productivity increased at a higher rate than the non-farm business sector productivity as reported by the Bureau of Labor Statistics in the first 3 quarters of calendar year 2010 as shown in Table 2.

TABLE 2. PERCENTAGE PRODUCTIVITY CHANGES BY QUARTER 2009 TO 2010

Calendar Quarter	Percentage Change in FHP Productivity 2009 - 2010	Percentage Change in Non-Farm Business Sector Productivity 2009 - 2010
1 (January - March)	9.0%	6.1%
2 (April - June)	7.8%	3.7%
3 (July - September)	7.9%	2.5%

The Postal Service made these gains and improved service in EXFC measurement system categories of overnight, 2-day, and 3-day service as shown in Table 3.

TABLE 3. EXFC SERVICE SCORES

Fiscal Year	Overnight	2-Day	3-Day
2009	96.19	93.68	90.89
2010	96.37	93.74	91.61

Despite continuing economic challenges, the Postal Service continued to deliver high levels of service according to its residential customers, with 86.8 percent of customers surveyed rating the Postal Service as “very satisfied or mostly satisfied” in the period July 1 to September 30, 2010. In addition, the Ponemon Institute⁹ named the Postal Service the “Most Trusted Government Agency” for the 6th year in a row. More than

⁸ These hours are recorded in a category referred to as Function 1, which includes hours worked in NDCs, ISCs, L&DCs, Priority Hubs, P&DCs, and P&DFs. There was a total 26.1 million workhour savings in Function 1 hours, 21.7 million of which were attributable to all plants and 12.9 attributable to plants with below-median productivity.

⁹ The Ponemon Institute is a research center dedicated to privacy, data protection, and information security policy.

87 percent of the 9,000 Americans surveyed in the *2010 Privacy Trust Study of the United States Government* ranked the Postal Service first among 75 agencies. Top ranking means Americans trust the Postal Service as the government agency best able to keep their information safe and secure.

Title 39, U.S.C. Part 1, Chapter 1, § 101, states that the Postal Service “. . . shall provide prompt, reliable, and efficient services to patrons in all areas” Further, the September 2005 *Postal Service Strategic Transformation Plan* states “The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates.” The Postal Accountability and Enhancement Act, P.L. 109-435, Title II dated December 20, 2006, highlights “. . . the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services. . . .”