OFFICE OF
# INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

# Readiness for Package Growth – Customer Service Operations

# Management Advisory Report

March 31, 2014

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

**HIGHLIGHTS**

March 31, 2014

**Readiness for Package Growth – Customer Service Operations**

Report Number DR-MA-14-003

## BACKGROUND:

Strong customer demand for goods purchased over the Internet has driven growth in the package market, despite an otherwise declining mail market. This growing segment provides the U.S. Postal Service an opportunity to expand services and increase revenue. From fiscal year (FY) 2010 to FY 2012, Postal Service package revenue increased by $1.4 billion, or 14 percent, and volume increased by 445 million pieces, or 14 percent. Package volume also increased by 13.7 percent in the first 3 quarters of FY 2013, compared with the same period last year.

The Postal Service's retail component, Customer Service Operations, processes about 34 percent of its annual package volume during the holiday mailing season (November and December). About 75,000 Customer Service Operations' employees work at post offices and destination delivery units. Employees accept packages at over 31,000 post offices for dispatch to mail processing facilities and receive them at over 24,000 destination delivery units to sort for final delivery.

This report is one in a series of U.S. Postal Service Office of Inspector General products that addresses the Postal Service's readiness for growth in the package business. Our objective was to evaluate operational readiness for package growth in Customer Service Operations.

## WHAT THE OIG FOUND:

Customer Service Operations has successfully managed periods of package growth, employee workhours, and scan rates at delivery units. However, opportunities exist to enhance readiness by improving acceptance scan rates, decreasing customer wait time in line during the holiday mailing season, enabling the Passive Adaptive Scanning System revenue-protection function, and reducing the number of non-barcoded packages to provide end-to-end tracking for customers. Overcoming these challenges could improve the Postal Service's competitiveness in the package business.

## WHAT THE OIG RECOMMENDED:

We recommended the vice president, Delivery and Post Office Operations, reinforce that Customer Service Operations' employees perform acceptance scans to support the 100 percent product visibility strategy. We also recommended the vice presidents, Engineering Systems and Product Information, enable the Passive Adaptive Scanning System revenue protection function and implement a comprehensive strategy to reduce non-barcoded packages. Finally, we recommended the vice president, Mail Entry and Payment Technology, define a solution for notification and collection of shortpaid postage for packages.

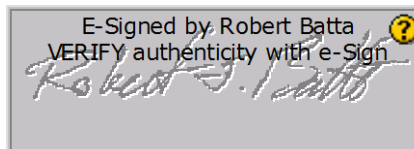*Link to review the entire report*

March 31, 2014

**MEMORANDUM FOR:**     EDWARD F. PHELAN, JR.
VICE PRESIDENT, DELIVERY AND POST OFFICE
  OPERATIONS

MICHAEL J. AMATO
VICE PRESIDENT, ENGINEERING SYSTEMS

ROBERT CINTRON
VICE PRESIDENT, PRODUCT INFORMATION

PRITHA N. MEHRA
VICE PRESIDENT, MAIL ENTRY AND PAYMENT
  TECHNOLOGY

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

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

**SUBJECT:**     Management Advisory Report – Readiness for Package
Growth – Customer Service Operations
(Report Number DR-MA-14-003)

This report presents the results of our review of Readiness for Package Growth in Customer Service Operations (Project Number 13XG026DR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita F. Oliver, director, Delivery and Post Office Operations, or me at 703-248-2100.

Attachment

cc:   Corporate Audit and Response Management

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## Introduction

This report presents the results of our self-initiated review of Readiness for Package Growth in Customer Service Operations. This report is one in a series of U.S. Postal Service Office of Inspector General (OIG) products that addresses the Postal Service's readiness for growth in the package business.[1] Our objective was to evaluate operational readiness for package growth in Customer Service Operations (Project Number 13XG026DR000). See Appendix A for additional information about this review.

Strong customer demand for goods purchased over the Internet has driven growth in the package market. In an otherwise declining mail market, growth in the package segment provides the Postal Service an opportunity to expand services and increase revenue. In the April 2013 *Five-Year Business Plan*, the Postal Service projected package volume growth of 5 to 6 percent per year through fiscal year (FY) 2017. Similarly, the Postal Service projects that revenue from packages will grow by 6 to 7 percent annually during this same period (see Figure1).

**Figure 1. Annual Projected Package Volume and Revenue**
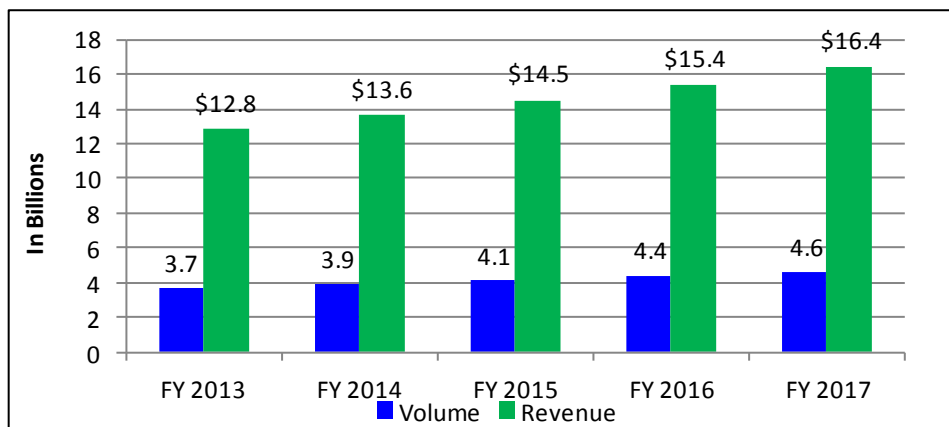


Source: Postal Service *Five-Year Business Plan*, April 2013.

About 75,000 Customer Service Operations employees work at over 31,000 post offices (PO) and 24,000 destination delivery units (DDU).[2] PO employees accept packages at retail counters and dispatch them to mail processing plants for sortation. DDU employees receive packages from mail processing plants[3] to sort by routes for final address delivery.

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[1] The OIG is conducting a series of reviews on various aspects of readiness for package growth.
[2] DDUs are frequently co-located with POs.
[3] DDUs also receive packages from approved companies to complete final address delivery for the "last mile" of their shipments. For example, FedEx Corp. and United Parcel Service, Inc. use the Postal Service's "last mile" delivery service for their SmartPost and SurePost packages.

## Conclusion

Customer Service Operations has successfully managed periods of package volume growth, employee workhours, and scan rates at DDUs.[4] However, opportunities exist to improve readiness for package growth by:

- Improving acceptance scan rates at POs for packages entering the Postal Service's mailstream;

- Improving customer service by reducing customer wait time in line (WTIL) during the holiday mailing season;

- Enabling the Passive Adaptive Scanning System (PASS) revenue protection function to identify additional revenue opportunities; and

- Ensuring barcodes are on all packages.[5]

By overcoming these challenges, the Postal Service could better manage package growth and, by better meeting customers' needs, improve its competitiveness in the package business.

## Readiness for Package Growth

Customer Service Operations has successfully managed periods of package volume growth, workhours, and package scan rates at DDUs.

Mail Volume. Customer Service Operations adjusted operations to manage periods of package volume growth. Since FY 2010, overall package volume has increased an average of 40 percent,[6] from 228 million to 319 million (see Figure 2). For the same period, package volume[7] for the 2-month holiday peak season increased an average of 38 percent,[8] from 548 million to 759 million (see Figure 3). Customer Service Operations has successfully managed package volume growth, in part, due to volume declines of about 34 percent[9] for flat mail and about 16 percent for letter mail. Customer Service Operations management also made strategic operational decisions to accommodate package growth. These decisions included hiring non-career employees, adjusting work schedules, increasing overtime workhours, and coordinating shipment schedules and volume projections with mailers.

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[4] DDU employees perform an Arrival at Unit (AAU) scan and sort packages to the specific carrier routes for barcoded packages received from mail processing facilities and customers approved for dropped shipment.
[5] According to Postal Service management, about ■ percent of packages are not barcoded because the Postal Service ▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬▬. Management has ongoing initiatives to reduce the number of packages without barcodes.
[6] We calculated package volume for the non-holiday season from FY 2010 through June 2013.
[7] Holiday package volume includes the months of November and December, part of the first quarter of the fiscal year.
[8] We calculated package volume for the holiday season from FY 2010 through June 2013.
[9] Flats and letter volume includes all volume received at the DDUs, which includes carrier and Post Office box volume. We calculated flats and letter volume from FYs 2010 to 2012.

**Figure 2. Average Package Volume for FYs 2010 to 2013[10]**
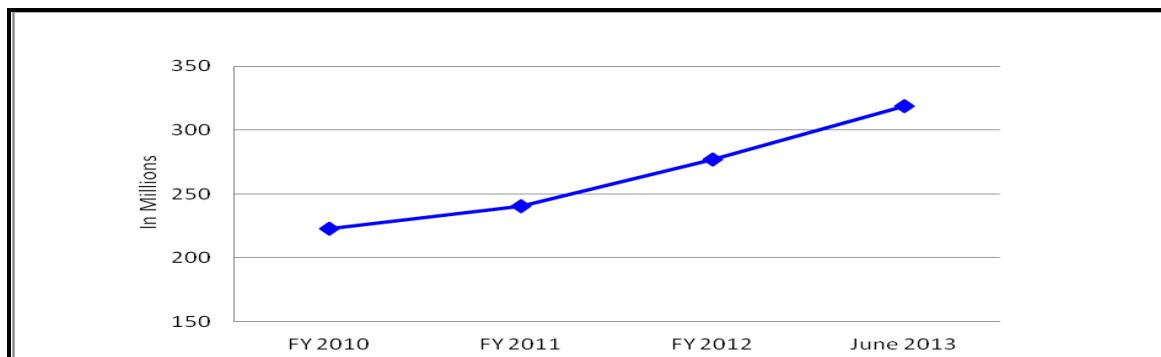


Source: Postal Service eFlash System.

**Figure 3. Average Holiday Package Volume for FYs 2010 to 2013**
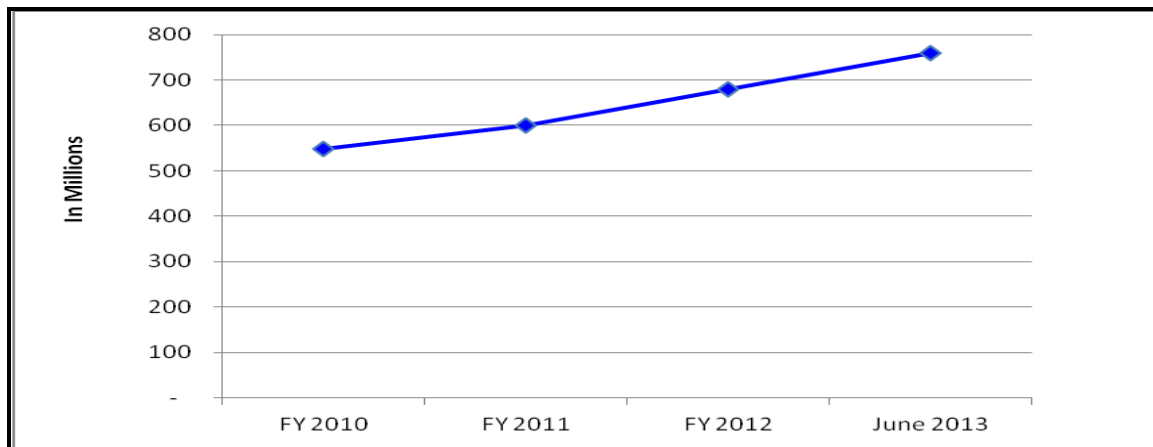


Source: Postal Service eFlash System.

<u>Workhours</u>. The Postal Service did not experience an overall increase in Customer Service Operations workhours[11] due to package growth. Our analysis showed regular workhours decreased by 9 percent from FY 2011 to June 2013,[12] while overtime workhours increased[13] by the same percentage for the same period (see Figure 4).

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[10] FY 2013 is through June 2013.

[11] We calculated Customer Service Operations' regular and overtime workhours by including labor distribution codes (LDC) 43, 45, and 48. To be conservative, we adjusted LDC 45 and LDC 48 workhours by dividing package volume by total mail volume in our calculation to arrive at 24 percent. We included 100 percent of LDC 43 workhours.

[12] The 9 percent is as of June 2013 and the same period for FYs 2011 and 2012.

[13] According to an OIG report, *Overtime Use During Fiscal Years 2011 and 2012* (Report Number HR-AR-13-002, dated July 5, 2013), the Postal Service stated that in any year when there are consolidations, closures, or organizational changes, overtime will go up and the key is to reduce overall workhours.

### Figure 4. Customer Service Workhours, FY 2011 to June 2013
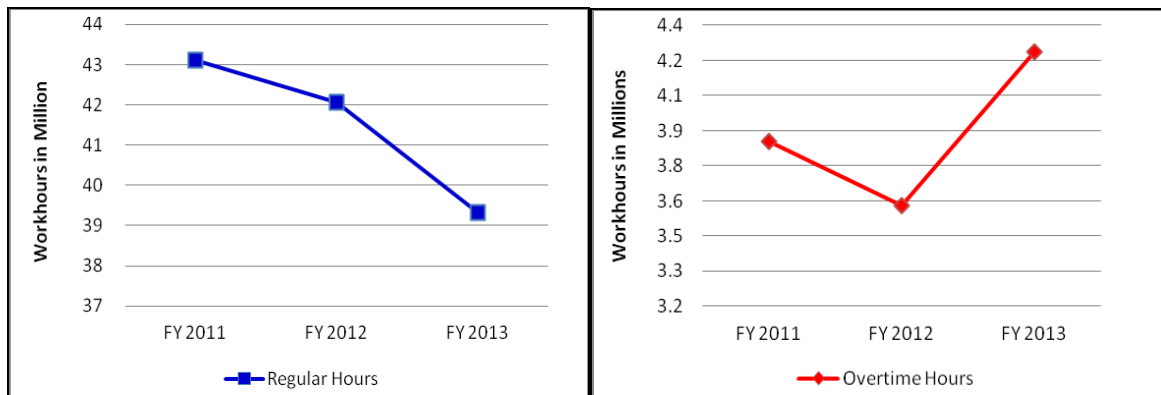


Source: Postal Service eFlash System.

AAU Scans. Customer Service Operations consistently achieved AAU[14] scan rates at DDUs above the 98 percent goal for FY 2013 (see Figure 5). DDU employees scan barcoded packages as part of the unit's distribution process and sort them to carrier routes prior to delivery. The Postal Service established AAU scan performance and compliance measures to ensure employees are accountable for completing the AAU scan.

### Figure 5. National AAU Scan Rate Performance Goal
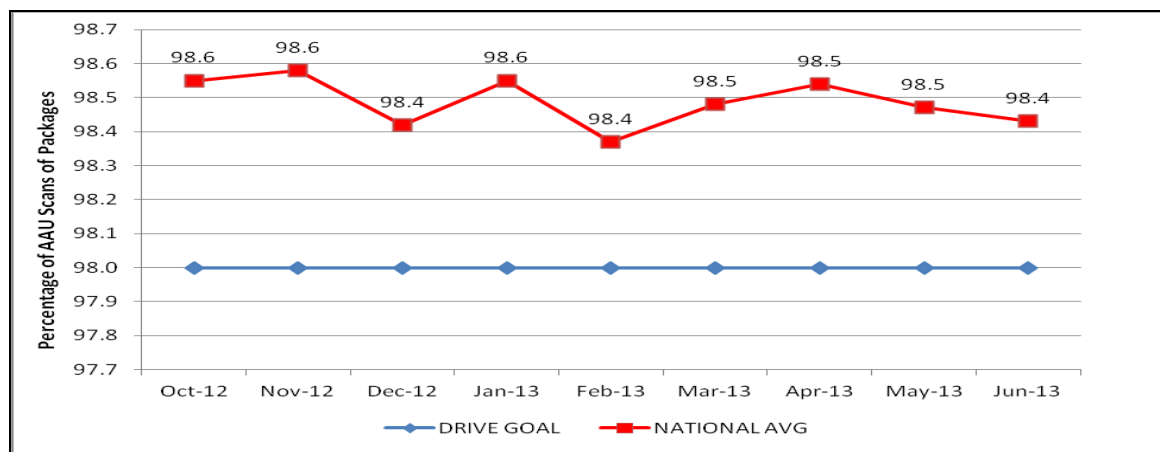


Source: Enterprise Date Warehouse (EDW) – Every Delivery Scan Report 2.

We concluded that opportunities exist to improve readiness for package growth by increasing acceptance scan rates at POs for packages entering the Postal Service mailstream, including during the holiday season; enabling the PASS revenue protection function to identify additional revenue opportunities; and ensuring every package has a barcode.

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[14] An AAU scan is performed by clerks for all trackable mailpieces arriving at delivery units prior to distribution  to letter carriers.

Acceptance Scans. PO employees did not always scan barcoded packages received from customer drop points, such as street collection boxes, PO lobby boxes, and the PO receiving dock. We observed 36 POs[15] and identified that employees at 22 of them (see Appendix B) did not always have time to scan barcoded packages prior to dispatch to mail processing plants. Postal Service officials said they did not review acceptance scan performance at some of these selected locations because meeting dispatch time took priority. While the Postal Service's goal is to scan every barcode that enters the system to achieve 100 percent visibility, its guidance[16] directs employees to perform acceptance scans for barcoded packages as time permits to meet dispatch time.

OIG analysis of the national acceptance scan rates for packages showed scan rates fell below the FY 2013 national goal of 98 percent. From October 2012 to June 2013, the national acceptance scan rates ranged from 90.70 percent to 92.61 percent (see Figure 6). In October 2013, the Postal Service expanded its package reporting measurements to include acceptance scans for Package Services, Parcel Select, and Standard Post™[17] mail. At the end of October 2013, the national acceptance scan rate showed an incremental increase to 94.8 percent.

**Figure 6. National Acceptance Scan Rate Performance Goal**
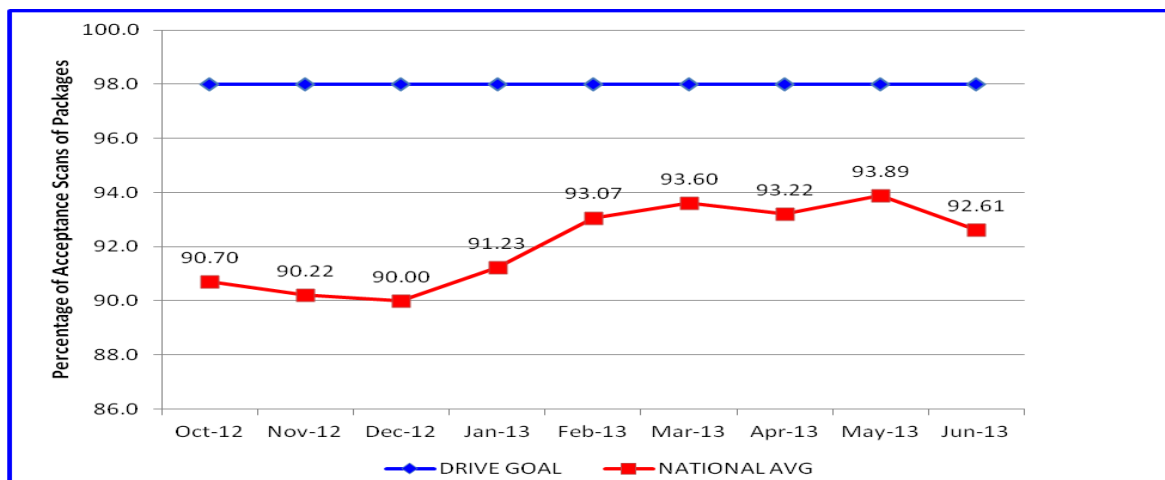


Source: EDW – Every Delivery Scan Report 2.

Holiday Package Acceptance. The Postal Service could improve customer service by reducing WTIL during the holiday mailing season. We judgmentally selected 66 retail units to observe package acceptance during the holiday season[18] (see Appendix C). During our observations, the Sales and Service associates at the retail units were friendly, barcoded and scanned flats and packages, and offered additional products and services.

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[15] Of the 51 Customer Service Operations units we visited, we conducted acceptance scan observations at 36 POs and AAU scan observations at 25 DDUs.

[16] *Scanning at a Glance Delivering 100% Visibility Guide*, dated August 2011.

[17] Prior to October 2013, the Postal Service measured scan performance for Priority Mail, Priority Mail Express, First-Class Mail, and International Mail.

[18] The OIG conducted observations from December 12 through18, 2013.

We observed WTIL during several intervals[19] in the Capital Metro, Eastern, Great Lakes, and Southern areas[20] (see Figure 7).

**Figure 7. Number and Percentage of Observations**
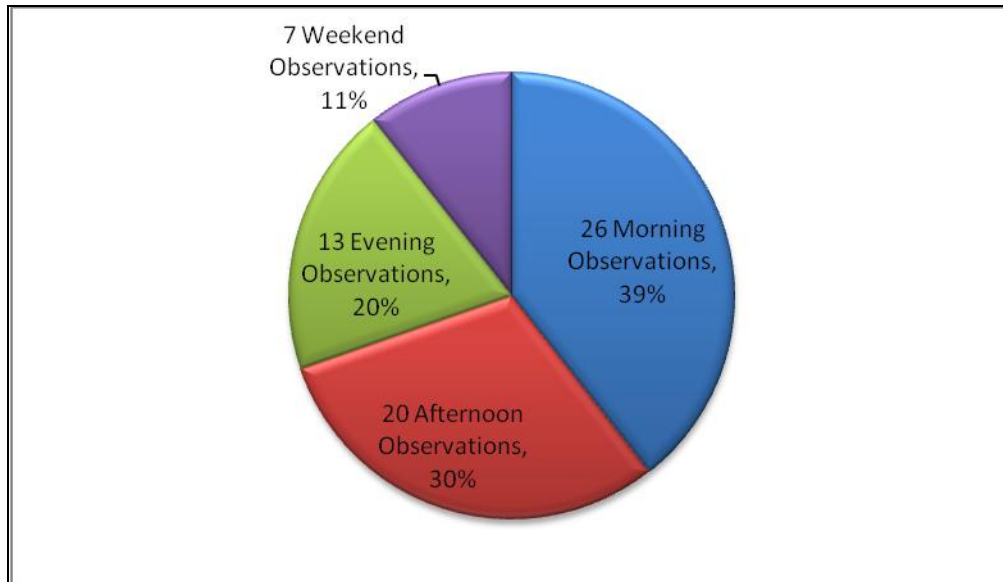


Source: OIG observations.

The Postal Service standard[21] is to provide a level of service that produces a WTIL of less than 5 minutes. However, during our observations we documented 58 percent of the WTIL to mail various packages and flat-size items was over 5 minutes (see Figure 8).

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[19] We defined morning hours as opening until 11:59 a.m., afternoon hours as 12 p.m. to 3:59 p.m., evening hours as 4 p.m. to closing, and weekend hours for Saturday and Sunday as anytime during hours of operation.
[20] We visited the Appalachian, Atlanta, Baltimore, Capital, Chicago, Dallas, Fort Worth, Northern Virginia, and Richmond districts.
[21] Handbook PO-209, *Retail Operations Handbook*, dated October 2012.

## Figure 8. WTIL Percentage Results
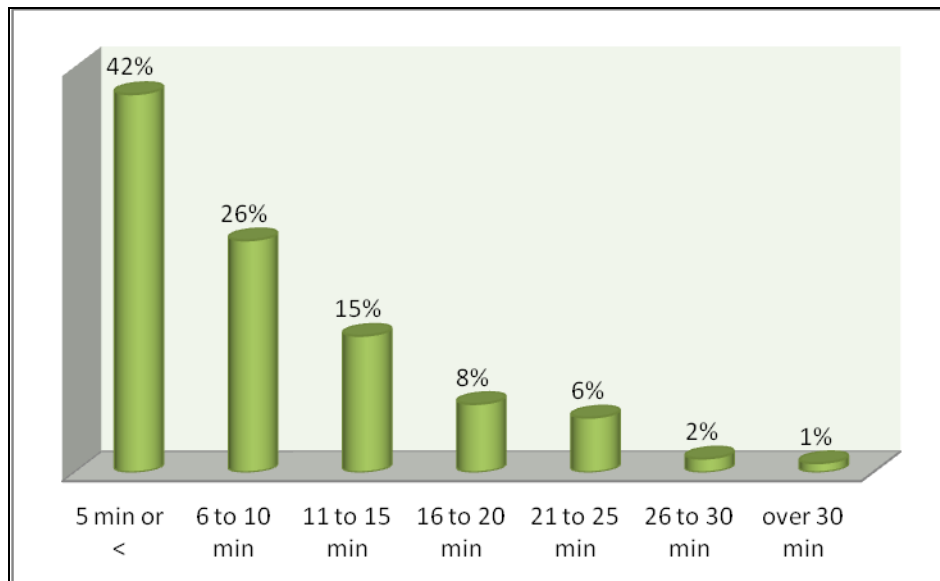


Source: OIG observations – the abbreviation "min" refers to minutes.

During our limited observations, we noted longer wait times occurred because retail windows were not always fully staffed during peak traffic times. Also, lobby assistants[22] were not always monitoring the lines to identify customers' mailing needs. Sometimes, the Postal Service uses a lobby assistant to manage WTIL and direct customers to self-service alternatives.[23] Lobby assistants help reduce the average customer wait time by assisting customers before they reach the retail service counter. Postal Service policy requires the presence of lobby assistants during peak traffic periods during the day. We are not making a recommendation in this report because we made limited observations and also made a previous recommendation[24] to management on WTIL.

PASS. The Postal Service did not enable all technological solutions for revenue protection in PASS.[25] In 2012, the Postal Service purchased this equipment and, as of May 2013, deployed over 1,000[26] PASS units at DDUs.[27] PASS was designed to improve AAU scan rates for barcoded packages and increase mail visibility for tracking package

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[22] A lobby assistant is a postal employee who helps customers prepare their retail transaction while they wait in the lobby.

[23] Only 33 of the 66 retail units contained a self-service kiosk (SSK) enabling customers to perform some basic transactions normally conducted at the retail counter, such as shipping packages and buying stamps.

[24] The OIG report, *Retail Customer Experience Program* (Report Number MS-AR-13-010, dated July 9, 2013) made a recommendation to management to reassess the Retail Customer Experience Program by including additional emphasis on customer satisfaction and revenue generation, including the 5-minute WTIL standard. Management indicated in its comments it is looking at the WTIL criteria.

[25] Per an approved FY 2010 Decision Analysis Report (DAR), PASS's primary goals are capturing AAU scans, protecting revenue, claiming postage due for packages, and routing feedback for distribution operations. Phase I PASS workhour costs appear at two types of postal facilities:  Remote Encoding Centers and DDUs.

[26] According to management, over 2,000 units are planned for deployment by 2015.

[27] As of May 2013, the Postal Service had install dates for 1,017 units covering all seven areas, with the Pacific Area having the most ▮▮▮▮ and the Great Lakes Area the fewest ▮▮▮▮ The Postal Service installed PASS at DDUs in ▮▮ of the ▮▮ districts (the ▮▮▮▮▮▮▮ District was the exception).

movement in the mailstream. PASS can also increase revenue protection by identifying and notifying DDU employees of packages with potential shortpaid[28] or unpaid postage identified in the Transaction Record Processor (TRP)[29] (see Figure 9).

**Figure 9. Example of PASS Process for a Potential Shortpaid Package**
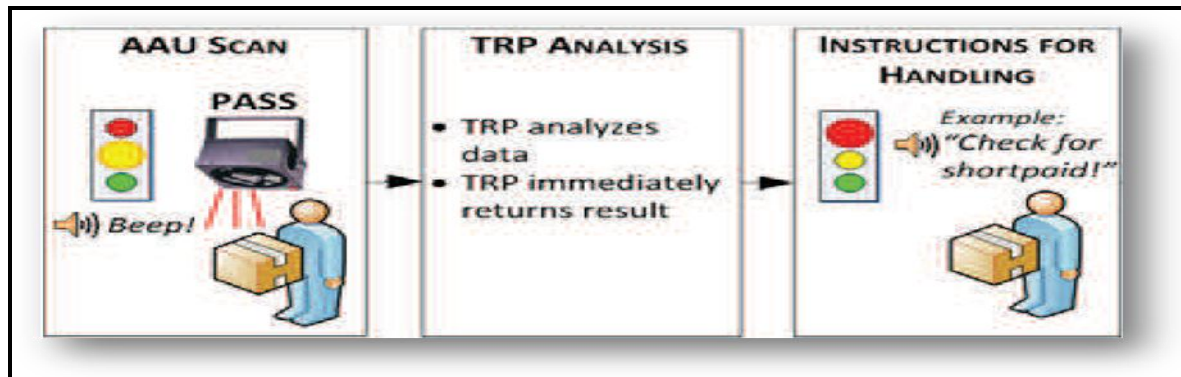


Source: PASS and DAR, June 2010.

According to the FY 2010 DAR,[30] PASS will enhance revenue-protection efforts by capturing additional information from multiple barcodes applied to packages destined for DDUs.[31] According to Postal Service Headquarters (HQ) management, PASS data provides the Postal Service with information and options for assessing and collecting shortpaid or unpaid postage and detecting fraudulent activity. For example, DDUs may assess the data to collect shortpaid postage as postage due from the mailpiece recipient. Alternatively, the Postal Service may use the data to notify and collect shortpaid postage from mailers (senders) who use PC Postage and postage meters. Also, PASS provides information on ▮▮▮▮▮▮IBI[32] scans that help detect fraudulent activity.

Management also stated they are assessing system integration requirements to support options for handling shortpaid postage; and are working to define operating policy, processes, and procedures for shortpaid detection parameters, accounting for reclaimed shortpaid postage, notifying and collecting shortpaid postage from mailers, and assessing shortpaid or unpaid packages at DDUs.

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[28] Mailpieces with insufficient postage.
[29] Employees capture an AAU scan by moving a package under the PASS camera. The scanned data for tracking is immediately transmitted to the TRP system. TRP identifies whether the package has shortpaid or unpaid postage. A key source of unpaid postage is the use of ▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮▮ PASS can visually and verbally notify the employee to take revenue-protection action, as necessary.
[30] A document an organization prepares to recommend an investment for approval. The DAR describes the problem or opportunity and details the need for the expenditure. All investment projects must be justified either as an economic opportunity or as a means of sustaining existing postal operations into the future by correcting or eliminating a problem.
[31] In prior work, we reported the Postal Service should use PASS machines to identify shortpaid parcels within a certain threshold at delivery units and require carriers to request additional postage from the recipient at the time of delivery (*Electronic Parcel Payment Systems Internal Control Requirements*, Report Number MS-AR-13-012, dated September 27, 2013).
[32] Postage that appears in digital format on a mailpiece. Customers purchase IBI using a computer or from an Automated Postal Center.

According to an OIG report,[33] the Postal Service estimated about ▉▉▉ million in shortpaid postage loss nationwide in FY 2012 for mailpieces with visible postage.[34] The absence of the revenue-protection technology solution results in a missed opportunity to identify and recover revenue owed to the Postal Service.

<u>Non-Barcoded Packages</u>. Although the Postal Service reported incremental increases in closing the gap on non-barcoded packages, there is no comprehensive strategy to barcode all packages. The barcode gives the Postal Service information regarding network reliability between facilities while providing the valued visibility and end-to-end tracking that customers have grown to expect. According to HQ management, from January to June 2013, the Postal Service reduced the number of non-barcoded packages by ▉▉ million — from ▉▉ million to ▉▉ million pieces. This represents a drop from ▉▉ percent to ▉ percent. Since January 2013, the Postal Service implemented three initiatives to further help reduce the number of non-barcoded packages.

- In January 2013, the Postal Service issued guidance[35] for Customer Service Operations employees to apply a Label 400,[36] USPS Tracking # Label (see Figure 10) to non-barcoded packages. The guidance states that, as time permits, employees are to affix a Label 400 to packages as part of the normal dispatch preparation without causing a delay in dispatch.

- In August 2013, the Postal Service standardized workflow for Point-of-Sale (POS) retail offices by replacing the postal validation imprint (PVI) tracking barcodes with Label 400s. POS terminals will no longer print the PVI tracking barcode label. Management implemented this change to ensure that every package entered through a POS transaction will have either a Label 400 or another barcoded Extra Service label, such as Insured or Signature Confirmation. The POS terminal will prompt employees to affix and scan a Label 400 to all packages that do not have an extra service barcode.

- In December 2013, the Postal Service published postal regulations in the *Federal Register* to strengthen requirements for commercial mailers. Mailers are required to use Intelligent Mail® package barcodes (IMpb) on all commercial parcels, and transmit supporting electronic documentation including address or ZIP+4® Code information. Full implementation of the Postal Service's package strategy relies on the standardized workflow using IMpb capabilities.

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[33] *Shortpaid Postage – Information-Based Indicia Packages, Southern Area* (Report Number MS-AR-13-011, dated September 17, 2013).
[34] According to management, packages were a subset of mailpieces with shortpaid postage.
[35] *Affixing Label 400, USPS Tracking to Non-Barcoded Packages, Standard Operating Procedures*, dated March 28, 2013.
[36] The Postal Service uses Label 400 to track packages entering the Postal Service network without a Postal Service barcode. The label is manually applied as opposed to the PVI tracking labels, which are generated at offices with retail printers for Postal Service tracking service.

**Figure 10. Label 400, USPS Tracking # Label**



Source: Postal Service.

According to HQ management, the Postal Service established a cross-functional working group to analyze and test procedures to determine by the end of FY 2014 the best operational location and time to apply barcodes to packages. Management stated they will work towards the100 percent barcoded goal for packages, but there will always be packages entering the mailstream without barcodes.

## Recommendations

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

1. Reinforce that Customer Service Operations employees perform acceptance scans on barcoded packages to support the strategy of 100 percent package visibility.

We recommend the vice presidents, Engineering Systems and Product Information:

2. Enable the Passive Adaptive Scanning System's revenue protection function and document and communicate procedural changes to employees.

3. In coordination with the vice president, Delivery and Post Office Operations, develop a comprehensive strategy to further reduce the percentage of non-barcoded packages.

We recommend the vice president, Mail Entry and Payment Technology:

4. Define and implement a solution for the notification and collection of shortpaid postage for packages.

## Management's Comments

Management agreed with our findings and recommendations and disagreed with the operational and judgmental assumptions the OIG made for improving Postal Service competitiveness. Management stated the OIG did not address or substantiate the costs or financial implications associated with the recommendations.

Regarding recommendation 1, management stated that Customer Service Operations' employees may perform acceptance scans on barcoded packages when this activity will not delay the dispatch of mail or preclude the performance of other operational duties. Management added that they have implemented system enhancements in the Product Tracking System to generate acceptance scans on barcoded mailpieces that do not receive acceptance scans before handling at a mail processing facility. The target implementation date is October 2014.

Regarding recommendation 2, management will collaborate with other functional groups to determine the feasibility and financial implications of enabling the PASS revenue protection function and review other alternatives. The target implementation date is October 2014.

Regarding recommendation 3, management will continue to evaluate the costs and benefits of achieving 100 percent barcoding of packages and has initiatives underway in retail and with commercial customers to achieve this goal. Management stated that, over the past 3 years, the Postal Service has steadily increased the rate of barcoded packages from ▮▮ percent in FY 2011 to ▮▮▮ percent in FY 2013. Management added that, as of December 2013, ▮▮▮ percent of all packages had barcodes, representing a ▮▮▮ percent increase since FY 2011. The target implementation date is October 2014.

Regarding recommendation 4, management will determine the feasibility and the financial implications of defining and implementing a solution for the notification and collection of shortpaid postage for packages. The target implementation is October 2015.

See Appendix E for management's comments, in their entirety.

## Evaluation of Management's Comments

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

Management noted their disagreement with the operational and judgmental assumptions in our report that we based our conclusion for improving Postal Service competitiveness. The OIG based the conclusion on our review and analysis of Postal Service operational data, interviews with management, and observations at selected locations. We also reviewed the strategies, goals, and initiatives management has established for packages and scanning. Our assessment of this data resulted in conservative, objective recommendations that would enhance the Postal Service's presence in the competitive package marketplace.

The OIG considers all the recommendations significant, and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed for these recommendations. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that they can be closed.

## Appendix A: Additional Information

### Background

The Postal Service identified "competing for package business" as one of the core business strategies for improving its financial position. To this end, it implemented two Delivery Results, Innovation, Value, and Efficiency (DRIVE) initiatives[37] — DRIVE Initiative 20, Achieve 100 percent Product Visibility in FY 2011, and DRIVE Initiative 43, Building a World-Class Package Platform in FY 2013. These two initiatives established measurable metrics to help the Postal Service become the shipper of choice and dominate the market for business-to-customer packages. The Postal Service shipping and package volume grew 7 percent, from 3.5 billion pieces in FY 2012 to 3.71 billion pieces in FY 2013.

Packages arrive in the Postal Service network at several entry points for induction into the mailstream (see Appendix D). About 75,000 Customer Service Operations' employees accept mail at retail counters at over 31,000 POs and conduct final mail processing at over 24,000 DDUs. Retail employees accept and scan[38] barcoded packages presented at retail counters, collect packages from lobby drop boxes and self-service kiosks and dispatch them to mail processing plants for sortation, and serve customers. Further, DDU employees receive and scan barcoded packages from mail processing facilities and customers approved for dropped shipment. Customer wait times are monitored by the WTIL tool, which informs the Postal Service of the customer's entire experience at the PO.

### Objective, Scope, and Methodology

Our objective was to evaluate operational readiness for package growth in Customer Service Operations. To accomplish our objective, we:

- Examined criteria for world-class package retail components, including volume, capacity, systems, resources, and equipment. We used competitors' metrics, such as acceptance processes, procedures for applying barcodes to packages, the customer-focused tracking process, and scanning technology.

- Reviewed package volume and workhour data in Postal Service systems for FYs 2010 through 2013.

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[37] DRIVE is a portfolio of active strategic key initiatives that have been reviewed and selected by the Postal Service's Executive Leadership Team (ELT) to achieve short- and long-term goals. The ELT establishes objectives, timelines, and metrics for each initiative; conducts scheduled ELT reviews; and facilitates cross-functional collaboration and communication.
[38] Customer Service Operations' employees use various types of equipment to scan packages:  POS Terminal, Integrated Retail Terminal, Intelligent Mail Device, Bluetooth Ring Scanner, and PASS.

- Reviewed Postal Service documentation, including applicable policies and procedures and prior audit reports on topics related to packages, such as scanning equipment, workhours, and package volume data.

- Observed employee-performed acceptance and AAU scans at 51 Customer Service Operations units.

- Interviewed officials at HQ and seven areas and the Dallas, Greater Indiana, Northland, and Fort Worth districts to discuss managing package growth, staffing, and scanning.

- Conducted 64 test mailings of flats and packages from December 12 through December 18, 2013, in the Capital Metro, Eastern, Great Lakes, and Southern areas to determine customer WTIL during the holiday mailing season.

We conducted this review from February 2013 through March 2014 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on January 21, 2014, and included its comments where appropriate.

To conduct this review, we used computer-processed data from eFlash, Variance Programs, and scan performance reports. We did not test the controls over these systems; however, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers and other postal data sources. We determined that the data were sufficiently reliable for the purposes of this report.

## Prior Audit Coverage

| Report Title | Report Number | Final Report Date | Monetary Impact (in millions) |
|---|---|---|---|
| *Readiness for Package Growth – Processing Capacity* | NO-AR-14-002 | 1/21/2014 | None |

**Report Results:**
The Postal Service has sufficient machine capacity to process all non-peak period package volume. It can process an average of about 29 million packages daily, which is more than sufficient to process the 24 million packages it receives. During the December peak period, the Postal Service augments its machine capacity with manual processing. The Postal Service does this to avoid having excess machine capacity and its associated costs for the other 11 months of the year. But, to meet anticipated package growth, the Postal Service could improve machine throughput by properly staffing machines and adjusting the mail arrival schedule. We recommended the Postal Service ensure package processing equipment is adequately staffed, standardize package processing operations where feasible, and adjust mail arrival schedules as necessary.

| | | | |
|---|---|---|---|
| *Readiness for Package Growth – Delivery Operations* | DR-MA-14-001 | 12/11/2013 | None |

**Report Results:**
The Postal Service's Delivery Operations organization has successfully managed package growth from a mail volume and workhour standpoint. However, opportunities exist to improve readiness by implementing dynamic routing and modifying package compartments on cluster box units. Improving the retention of city carrier assistants, using parcel data, and establishing a vehicle shelving system will further bolster package readiness. Meeting these challenges will help the Postal Service manage growth and improve its competitiveness in the package business to better meet customers' needs. Management agreed with the findings and recommendations. Management noted that these issues were discussed during meetings with the OIG and corrective actions are being developed by the program offices.

| Report Title | Report Number | Final Report Date | Monetary Impact (in millions) |
|---|---|---|---|
| *Retail Customer Experience Program* | MS-AR-13-010 | 7/9/2013 | $15.4 |

**Report Results:**
The report concluded that the Postal Service can improve the Retail Customer Experience Program's effectiveness by increasing the emphasis on customer satisfaction and revenue-generation variables in its scoring system. The Postal Service's scoring system discounts a portion of the visit that is key to customers' overall satisfaction — the face-to-face portion. Research from a leading customer experience organization indicated that positive interactions between clerks and customers can offset longer wait times. The Postal Service's WTIL Chronicle dated May 2012 affirmed that WTIL measured alone was not predictive of actual customer engagement and loyalty. Management set the 5-minute WTIL standard in the 1990s, which does not consider other factors that have a significant impact on WTIL. We estimated the Postal Service could generate $15.4 million in additional revenue in FY 2014 if it placed greater emphasis on revenue generation and customer satisfaction variables in the scoring system. Management disagreed with our finding, recommendation, and monetary impact.

| | | | |
|---|---|---|---|
| *Package Delivery Growth* | MS-AR-12-003 | 5/4/2012 | $647 |

**Report Results:**
The report concluded that the Postal Service's strategies for growing its package business have helped it keep pace with competitors in growing domestic and international package markets. Although the strategies are sound, their effectiveness has been impacted by lack of a strategic decision-making process for evaluating new sale opportunities, sales tracking system shortcomings, and chronic Sales staff vacancies. The Postal Service can grow its package business by stabilizing Sales staffing levels and adding new products. Management agreed with our findings and recommendations and set forth its plans for corrective actions. Management disagreed with the monetary impact of $647 million in subsequent correspondence stating that, even with a reduced Sales force, it increased sales by focusing on higher value sales and sales execution.

## Appendix B: Acceptance and Arrival at Unit Observation Sites

| | Facility Information | | | Scan Event | |
|---|---|---|---|---|---|
| | District | Facility Name | Facility Type | Acceptance | AAU |
| 1 | Dallas | Brookhollow | Station | | X |
| 2 | Dallas | Cedar Hill | Post Office | X | |
| 3 | Dallas | Dallas | Post Office | X | |
| 4 | Dallas | DeSoto | Post Office | X | |
| 5 | Dallas | Lancaster | Post Office | X | |
| 6 | Dallas | Richland | Station | X | X |
| 7 | Fort Worth | Bardin | Station | X | X |
| 8 | Fort Worth | Denton | Post Office | X | |
| 9 | Fort Worth | Green Oaks | Station | X | |
| 10 | Fort Worth | Melear | Station | X | X |
| 11 | Greater Indiana | Amo | Post Office | X | X |
| 12 | Greater Indiana | Anderson | Post Office | | X |
| 13 | Greater Indiana | Circle City | Station | X | X |
| 14 | Greater Indiana | Clayton | Post Office | X | X |
| 15 | Greater Indiana | Clermont | Branch | X | X |
| 16 | Greater Indiana | Coatesville | Post Office | X | X |
| 17 | Greater Indiana | Cumberland | Branch | X | X |
| 18 | Greater Indiana | Fillmore | Post Office | X | X |
| 19 | Greater Indiana | Lawrence | Branch | X | X |
| 20 | Greater Indiana | Linwood | Station | X | X |
| 21 | Greater Indiana | Park Fletcher | Station | | X |
| 22 | Greater Indiana | Plainfield | Post Office | X | |
| 23 | Greater Indiana | Rainbow | Station | | X |
| 24 | Greater Indiana | Speedway | Branch | | X |
| 25 | Northland | Air Mail Center | Post Office | X | |
| 26 | Northland | Anoka | Post Office | X | |
| 27 | Northland | Apple Valley | Branch | X | |
| 28 | Northland | Coon Rapids | Branch | X | |
| 29 | Northland | Dayton's Bluff | Station | X | |
| 30 | Northland | Eagan | Branch | | X |
| 31 | Northland | Eastern Heights | Branch | X | |
| 32 | Northland | Elk River | Carrier Annex | | X |

| | Facility Information | | | Scan Event | |
|---|---|---|---|---|---|
| | District | Facility Name | Facility Type | Acceptance | AAU |
| 33 | Northland | Elway | Station | X | |
| 34 | Northland | Fridley | Branch | X | |
| 35 | Northland | Fridley | Carrier Annex | | X |
| 36 | Northland | Golden Valley | Branch | | X |
| 37 | Northland | Industrial | Station | X | |
| 38 | Northland | Lost Lake | Branch | X | |
| 39 | Northland | Minneapolis | Post Office | X | |
| 40 | Northland | New Brighton | Carrier Annex | | X |
| 41 | Northland | North Saint Paul | Carrier Annex | | X |
| 42 | Northland | Oak Park Heights | Carrier Annex | | X |
| 43 | Northland | Rice | Station | X | |
| 44 | Northland | Riverview | Station | X | |
| 45 | Northland | Roseville | Branch | X | |
| 46 | Northland | St. Paul | Post Office | X | |
| 47 | Northland | University | Station | X | |
| 48 | Northland | Vadnais Heights | Carrier Annex | | X |
| 49 | Northland | White Bear Lake | Branch | X | |
| 50 | Northland | Woodbury | Branch | | X |
| 51 | Northland | Zimmerman | Post Office | X | |

Source: OIG observations at Post Office Operations facilities.

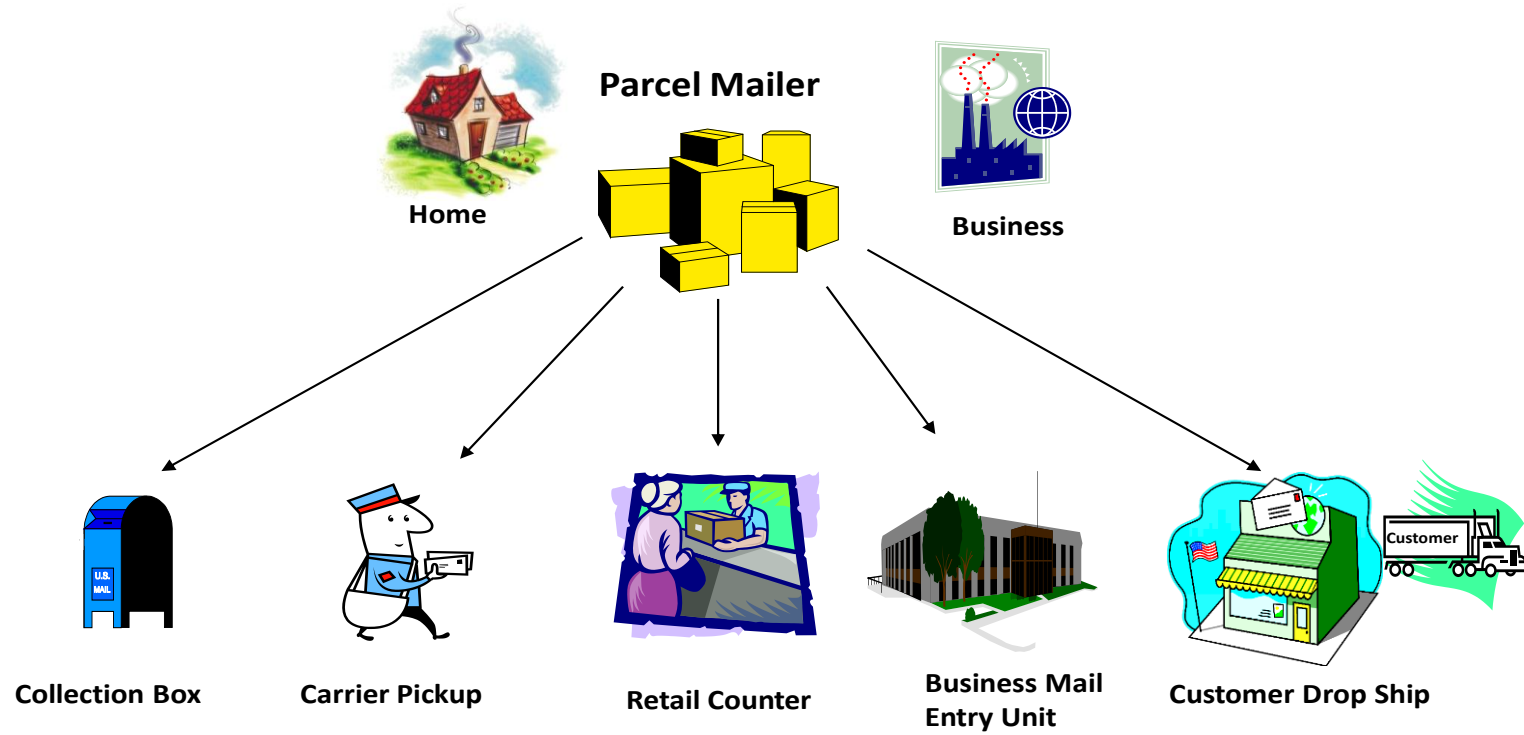## Appendix C: Holiday Mailing Season Observation Sites

| | Area | District | Location | City | State | Period | WTIL in Minutes | Number of SSKs |
|---|---|---|---|---|---|---|---|---|
| 1 | Capital Metro | Atlanta | Buford Main Post Office | Buford | GA | Afternoon | ■ | 1 |
| 2 | Capital Metro | Atlanta | Decatur Main Post Office | Decatur | GA | Morning | ■ | 0 |
| 3 | Capital Metro | Atlanta | Lithonia Main Post Office | Lithonia | GA | Morning | ■ | 0 |
| 4 | Capital Metro | Atlanta | Sprayberry Branch Station | Marietta | GA | Morning | ■ | 1 |
| 5 | Capital Metro | Atlanta | McDonough Main Post Office | McDonough | GA | Afternoon | ■ | 1 |
| 6 | Capital Metro | Atlanta | Powder Springs Main Post Office | Powder Springs | GA | Morning | ■ | 1 |
| 7 | Capital Metro | Atlanta | Roswell Main Post Office | Roswell | GA | Morning | ■ | 1 |
| 8 | Capital Metro | Atlanta | Smyrna Main Post Office | Smyrna | GA | Morning | ■ | 1 |
| 9 | Capital Metro | Atlanta | Stockbridge Main Post Office | Stockbridge | GA | Morning | ■ | 1 |
| 10 | Capital Metro | Atlanta | Suwanee Main Post Office | Suwanee | GA | Afternoon | ■ | 1 |
| 11 | Capital Metro | Baltimore | Crownsville Post Office | Crownsville | MD | Weekend | ■ | 0 |
| 12 | Capital Metro | Baltimore | Eastport  Station | Annapolis | MD | Weekend | ■ | 1 |
| 13 | Capital Metro | Baltimore | Ellicott City Main Post Office | Ellicott City | MD | Morning | ■ | 1 |
| 14 | Capital Metro | Baltimore | Enchanted Forest Postal Store | Ellicott City | MD | Weekend | ■ | 0 |
| 15 | Capital Metro | Capital | Callaway Main Post Office | Callaway | MD | Morning | ■ | 0 |
| 16 | Capital Metro | Capital | Clinton Main Post Office | Clinton | MD | Evening | ■ | 1 |
| 17 | Capital Metro | Capital | District Heights Branch | District Heights | MD | Afternoon | ■ | 0 |
| 18 | Capital Metro | Capital | Huntingtown Post Office | Huntingtown | MD | Morning | ■ | 0 |
| 19 | Capital Metro | Capital | Leonardtown Main Post Office | Leonardtown | MD | Morning | ■ | 0 |
| 20 | Capital Metro | Capital | Prince Frederick Main Post Office | Prince Frederick | MD | Morning | ■ | 0 |
| 21 | Capital Metro | Capital | Temple Hills Main Post Office | Temple Hills | MD | Evening | ■ | 0 |
| 22 | Capital Metro | Capital | Upper Marlboro Main Post Office | Upper Marlboro | MD | Morning | ■ | 1 |
| 23 | Capital Metro | Capital | Kettering Finance Station | Upper Marlboro | MD | Afternoon | ■ | 0 |
| 24 | Capital Metro | Capital | Largo Kettering Branch Station | Upper Marlboro | MD | Afternoon | ■ | 1 |
| 25 | Capital Metro | Capital | Union Station Station | Washington | DC | Morning | ■ | 1 |
| 26 | Capital Metro | Capital | Lammond-Riggs Station | Washington | DC | Morning | ■ | 0 |
| 27 | Capital Metro | Northern Virginia | Alexandria Main Post Office | Alexandria | VA | Afternoon | ■ | 1 |
| 28 | Capital Metro | Northern Virginia | Trade Center Station | Alexandria | VA | Morning | ■ | 1 |
| 29 | Capital Metro | Northern Virginia | Annandale Main Post Office | Annandale | VA | Morning | ■ | 1 |
| 30 | Capital Metro | Northern Virginia | Dumfries Main Post Office | Dumfries | VA | Morning | ■ | 0 |
| 31 | Capital Metro | Northern Virginia | Gainesville Post Office | Gainesville | VA | Afternoon | ■ | 0 |
| 32 | Capital Metro | Northern Virginia | Manassas Park Branch | Manassas Park | VA | Afternoon | ■ | 0 |
| 33 | Capital Metro | Northern Virginia | Merrifield Main Post Office | Merrifield | VA | Morning | ■ | 2 |
| 34 | Capital Metro | Northern Virginia | Occoquan Main Post Office | Occoquan | VA | Afternoon | ■ | 0 |
| 35 | Capital Metro | Northern Virginia | North Springfield Branch | Springfield | VA | Morning | ■ | 0 |
| 36 | Capital Metro | Northern Virginia | Stephenson Main Post Office | Stephenson | VA | Evening | ■ | 0 |

| | Area | District | Location | City | State | Period | WTIL in Minutes | Number of SSKs |
|---|---|---|---|---|---|---|---|---|
| 37 | Capital Metro | Northern Virginia | Winchester Main Post Office | Winchester | VA | Evening | ▪ | 3 |
| 38 | Capital Metro | Northern Virginia | Prince William Branch | Woodbridge | VA | Morning | ▪ | 5 |
| 39 | Capital Metro | Richmond | Stafford Main Post Office | Stafford | VA | Evening | ▪ | 1 |
| 40 | Eastern | Appalachian | Charles Town Main Post Office | Charles Town | WV | Afternoon | ▪ | 0 |
| 41 | Eastern | Appalachian | Martinsburg Main Post Office | Martinsburg | WV | Afternoon | ▪ | 1 |
| 42 | Great Lakes | Chicago | Jackson Park Station | Chicago | IL | Evening | ▪ | 0 |
| 43 | Great Lakes | Chicago | Lake Park Postal Store Station | Chicago | IL | Evening | ▪ | 0 |
| 44 | Southern | Dallas | Cedar Hill Main Post Office | Cedar Hill | TX | Evening | ▪ | 1 |
| 45 | Southern | Dallas | Lovers Lane Station | Dallas | TX | Evening | ▪ | 1 |
| 46 | Southern | Dallas | Dallas Main Post Office | Dallas | TX | Weekend | ▪ | 1 |
| 47 | Southern | Dallas | Irving Main Post Office | Dallas | TX | Morning | ▪ | 1 |
| 48 | Southern | Dallas | Lancaster Post Office | Dallas | TX | Morning | ▪ | 0 |
| 49 | Southern | Dallas | Dr Caesar A W Clark Sr Station | Dallas | TX | Morning | ▪ | 0 |
| 50 | Southern | Dallas | Highland Hills Station | Dallas | TX | Morning | ▪ | 0 |
| 51 | Southern | Dallas | Joe Pool Station | Dallas | TX | Afternoon | ▪ | 0 |
| 52 | Southern | Dallas | Northaven Station | Dallas | TX | Evening | ▪ | 0 |
| 53 | Southern | Dallas | Northwest Dallas Station | Dallas | TX | Evening | ▪ | 0 |
| 54 | Southern | Dallas | Preston Station | Dallas | TX | Afternoon | ▪ | 1 |
| 55 | Southern | Dallas | Richland Station | Dallas | TX | Morning | ▪ | 1 |
| 56 | Southern | Dallas | DeSoto Main Post Office | DeSoto | TX | Evening | ▪ | 1 |
| 57 | Southern | Dallas | Duncanville Main Post Office | Duncanville | TX | Evening | ▪ | 1 |
| 58 | Southern | Dallas | Garland Main Post Office | Garland | TX | Afternoon | ▪ | 0 |
| 59 | Southern | Dallas | North Garland Station | Garland | TX | Afternoon | ▪ | 1 |
| 60 | Southern | Dallas | Midlothian Post Office | Midlothian | TX | Afternoon | ▪ | 0 |
| 61 | Southern | Dallas | Red Oak Post Office | Red Oak | TX | Afternoon | ▪ | 0 |
| 62 | Southern | Dallas | The Colony Station Branch | The Colony | TX | Afternoon | ▪ | 0 |
| 63 | Southern | Dallas | Wilmer Main Post Office | Wilmer | TX | Morning | ▪ | 0 |
| 64 | Southern | Fort Worth | Pantego Finance Unit | Arlington | TX | Afternoon | ▪ | 0 |
| 65 | Southern | Fort Worth | Colleyville Main Post Office | Colleyville | TX | Afternoon | ▪ | 1 |
| 66 | Southern | Fort Worth | North Richland Hills Branch | North Richland Hills | TX | Morning | ▪ | 1 |

Source: OIG observations at Post Office Operations facilities.

## Appendix D: Mail Acceptance Points

## *Parcel Entry Point*

**Parcel Mailer**

**Home**

**Business**

**Collection Box**

**Carrier Pickup**

**Retail Counter**

**Business Mail Entry Unit**

**Customer Drop Ship**

Customer

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Source: Postal Service Blue Pages.

## Appendix E: Management's Comments

**UNITED STATES**
**POSTAL SERVICE**

March 26, 2014

Judith Leonhardt
Director, Audit Operations

SUBJECT: Draft Management Advisory Report – Readiness for Package Growth – Customer Service Operations. (DR-MA-14-DRAFT) 2nd Mgmt Response – Original revised per OIG request.

The U.S. Postal Service has reviewed the findings and recommendations contained therein, a collective response is as follows:

USPS expresses disagreement with the operational and judgmental assumptions. OIG findings which *"could improve competitiveness"*, do not address nor substantiate the costs or financial implications associated with the recommendations. As previously addressed in the prior audits, management disagreed with OIG findings, methodology and refuted any subsequent monetary results as statistically valid data was absent.

RECOMMENDATIONS:

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

1. Reinforce that Customer Service Operations employees perform acceptance scans on barcoded packages to support the strategy of 100 percent package visibility.
    Agree: Customer Service Operations employees perform acceptance scans on barcoded packages when operationally feasible. Acceptance scans may be performed when this activity will not delay the dispatch of mail or preclude the performance of other duties. System enhancements have been implemented by the PTS to generate acceptance scans on barcoded mail pieces that do not receive acceptance scans before being handled at a mail processing facility. Management will provide said communication in support of this recommendation, with the intention of adhering to USPS policies and procedures..
Responsible Official: Delivery & Post Office Ops. Target Implement Date: Oct. 2014

We recommend the vice presidents, Engineering Systems and Product Information:

2. Enable the Passive Adaptive Scanning System's revenue protection function and document and communicate procedural changes to employees.
    Agree: We will collaborate with the other functional groups to review in its entirety, determine feasibility as well as the financial implications. Implementation will be based on the results of the review. Other alternatives will also be reviewed before final implementation.
Responsible Official: Product Information. Target Implementation Date: Oct. 2014

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202-268-5848

- 2 -

3. In coordination with the vice president, Delivery and Post Office Operations, develop a comprehensive strategy to further reduce the percentage of non-barcoded packages.

    Agree:  The Postal Service has steadily increased the rate of packages barcoded for the past three years.  In FY11, ▮▮▮▮ of packages were barcoded.  This figure increased to ▮▮▮▮ in FY12 and ▮▮▮▮ in FY13.  As of FY14 December, ▮▮▮▮ of all packages had barcodes, representing a ▮▮▮▮ increase from FY11.  Product Information will continue to evaluate the costs and benefits of achieving 100% barcoding of packages.  Initiatives are underway in retail and with commercial customers to achieve the goals.

<u>Responsible Official</u>:  Product Information.  <u>Target Implementation Date</u>:  Oct. 2014

We recommend the vice president, Mail Entry and Payment Technology:

4. Define and implement a solution for the notification and collection of short paid postage for packages.

    Agree:  To review the recommendation in its entirety, determine the feasibility as well as the financial implications.  Implementation is contingent on the review.

<u>Responsible Official</u>:  Mail Entry & Payment Tech.  <u>Target Implem. Date</u>:  Oct. 2015

This report and managements' response contains information that may be exempt from disclosure under the Freedom of Information Act.  It is requested that highlighted redactions be made per the attached document.


Edward F. Phelan, Jr.
Vice-President
Delivery and Post Office Operations


Michael Amato
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Product Information


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Mail Entry & Payment Technology