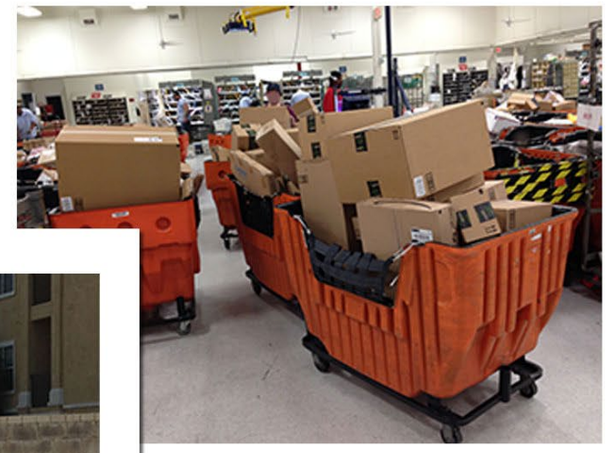
OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Managing Package Growth – Southern Area

Management Advisory Report

Report Number
DR-MA-15-003

August 21, 2015



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

The Southern Area implemented strategies in their districts to manage increased package volumes in city delivery operations.

Background

Shipping and Packages volume is expected to grow 13 percent, to 4.5 billion pieces in 2015. Priority Mail®, Parcel Select®, and First-Class® package service, the three largest Shipping and Packages categories, are expected to grow by double-digit rates, driven by their highly competitive prices and consistent, reliable, services.

The Southern Area covers eight states, has 24,516 city delivery routes, and over 17 million possible deliveries in fiscal year (FY) 2014. City delivery operations averaged 720 possible deliveries per route, 15 percent higher than the national average of 624, and the highest average of all areas. Southern Area had a 13 percent growth in packages on city delivery routes, increasing from 150 million in FY 2013 to 170 million in FY 2014. Our objective was to assess the Southern Area's package growth management strategies in city delivery operations.

What The OIG Found

The Southern Area implemented strategies in their districts to manage increased package volumes in city delivery operations. Their strategies included redesigning workroom floor space, maximizing delivery vehicle capacity, and utilizing an alternate package delivery option during the holiday season. Management has available data to monitor routes in real-time and to forecast volumes. They can also use flexibility when making operational decisions to manage the expected continued package growth.

However, our assessment of a selected city delivery unit showed actual package volumes were higher than route base package volume estimates, ranging from 18 to 242 percent in FY 2014. Therefore, we concluded additional strategies could be employed to improve the use of workhours. The Southern Area could evaluate and modify route base package volume estimates, and use dedicated package routes during peak seasons and on high-volume days during non-peak seasons. It could also add shelving units in vehicles, reallocate existing larger vehicles, and use alternate delivery times for delivering packages.

Other strategies for future implementation include gopost® locker units, next generation mail boxes, and delivery unit automated sortation equipment. Management stated they did not pursue the future strategies because of a lack of funding. Implementation of these strategies could help city delivery operations meet both business and residential package delivery needs.

What The OIG Recommended

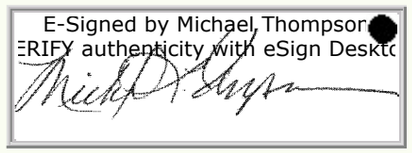
We recommended the vice president, Southern Area, evaluate city delivery actual package volume and modify route base package volume estimates on routes, use dedicated package routes during peak and non-peak seasons, add shelving units in vehicles, reallocate larger vehicles and use alternate delivery times. We also recommended requesting from Postal Service Headquarters funding assistance for gopost locker units, and inclusion in pilot tests for next generation mailboxes and delivery unit automated sortation equipment.

Transmittal Letter

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 21, 2015

MEMORANDUM FOR: JOANN FEINDT
VICE PRESIDENT, SOUTHERN AREA OPERATIONS



for

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

SUBJECT: Management Advisory Report – Managing Package Growth – Southern Area (Report Number DR-MA-15-003)

This management advisory report presents the results of our review of package growth in city delivery operations in the Southern Area (Project Number 15XG021DR000).

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, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

Table of Contents

Findings

Introduction

This report presents the results of our audit[1] of package[2] growth in city delivery operations in the Southern Area (Project Number 15XG021DR000). Our objective was to assess the Southern Area's package growth management strategies in city delivery operations. See Appendix A for additional information about this audit.

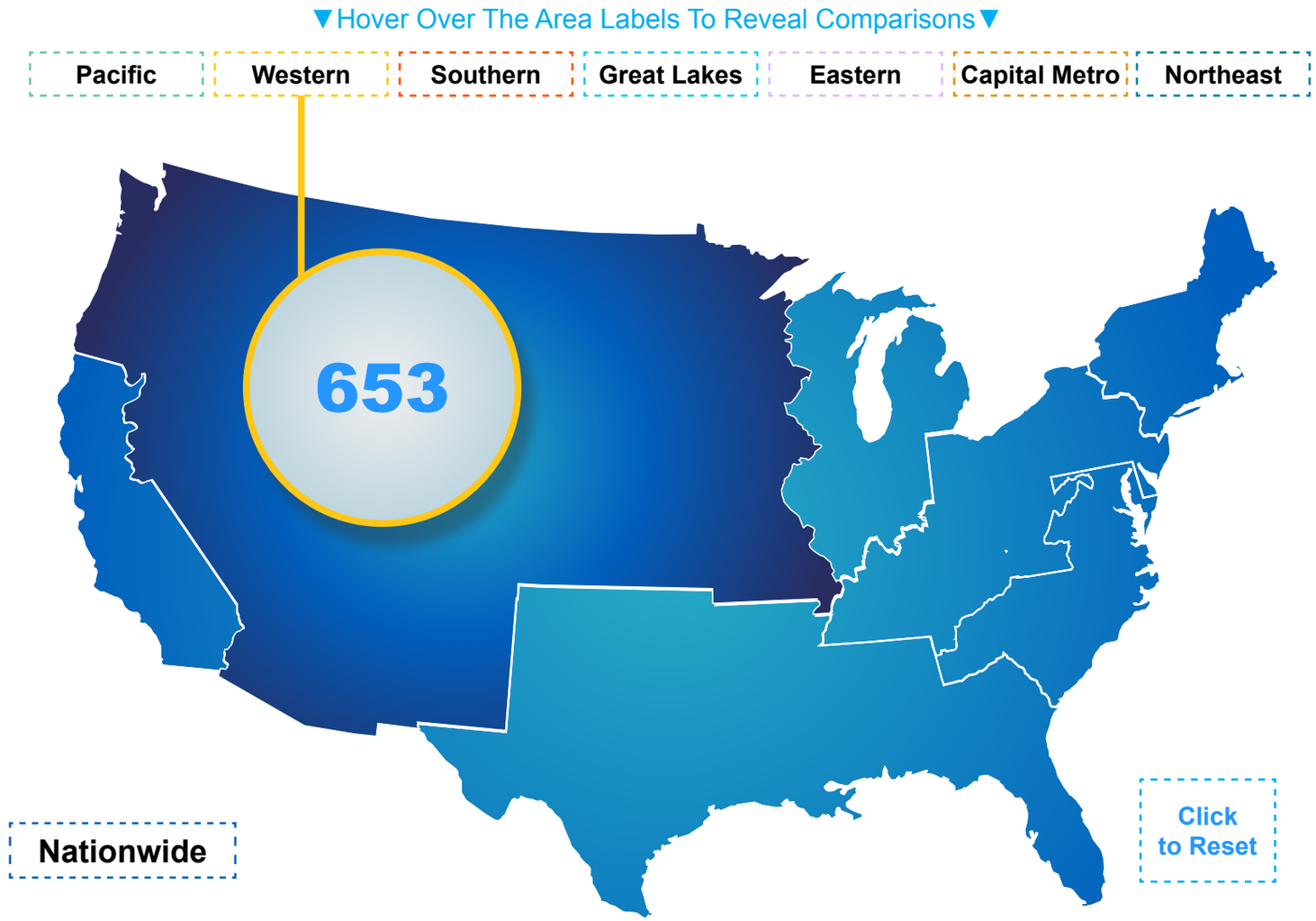
U.S. Postal Service shipping and packages volume is expected to grow 13 percent, to 4.5 billion pieces in 2015, resulting from the strong year-over-year growth in e-commerce and the Postal Service's own growth initiatives. Priority Mail®, Parcel Select®, and First-Class® package service, the three largest shipping and packages categories, are expected to grow by double-digit rates, driven by their highly competitive prices and consistent, reliable services.

U.S. Postal Service shipping and package volume for the Southern Area

City Delivery Operations in the Southern Area includes over 24,000 city delivery routes with over 17 million possible deliveries[3] (PD), an average of 720 PDs per route. The PD average per route is 15 percent higher than the national average of 624, and the highest average of all areas (see Figure 1).

1 This audit responds to a request from the Southern Area manager, Operations Support, to identify strategies for managing package growth.
2 Publication 32, *Glossary of Postal Terms*, defines packages as mail that does not meet the mail processing category of letter-size or flat-size mail. Packages are usually enclosed in a mailing container, such as a carton or parcel. For the purpose of this review, we consider Priority Mail, Parcel Select Mail, Parcel Return Service Mail, Package Service Mail, First-Class Mail® packages, First-Class package service, Single-Piece Parcel Post, and Express Mail to be packages.
3 A possible delivery could be an active delivery point, a vacant address (designated as such if vacant for more than 90 days and flagged in the address database), or a Post Office Box throwback (designated in the address database as an address that receives free Post Office Box service at a Post Office that has no carrier delivery service or at a Post Office in which the address is within a quarter mile of the Post Office).

Figure 1. Fiscal Year (FY) 2014 Area Average PDs per Route[4]



Sources: eFlash[5] and U.S. Postal Service Office of Inspector General (OIG).

The Southern Area had a 13 percent growth in packages on city delivery routes, increasing from 150 million in FY 2013 to 170 million in FY 2014.

Conclusion

The Southern Area implemented strategies in their districts to manage increased package volumes in city delivery operations. Their strategies included redesigning workroom floor space, maximizing delivery vehicle capacity, and utilizing an alternate package delivery option during the holiday season. Management has available data to monitor routes in real-time, and to forecast volumes. They can also use flexibility when making operational decisions to manage the expected continued package growth.

4 Average PDs per route for total mail volume.
5 An operating reporting management system that, on a weekly basis, reports data from delivery, mail processing, customer service, and other functions.

The Southern Area could evaluate and modify route base packages, and use dedicated package routes during peak seasons and on high-volume days during non-peak seasons.

However, our assessment of a selected city delivery unit showed the actual package volumes were higher than route base[6] package volume estimates, ranging from 18 to 242 percent in FY 2014. Therefore, we concluded additional strategies could be employed to improve the use of workhours. The Southern Area could evaluate and modify route base package volume estimates, and use dedicated package routes during peak seasons and on high-volume days during non-peak seasons. It could also add shelving units in vehicles, reallocate larger vehicles, and use alternate delivery times for delivering packages.

Other strategies for future implementation include gopost® locker units, next generation mail boxes, and delivery unit automated sorting equipment. Management stated that they did not pursue the future strategies because of a lack of funding.

Implementation of these strategies could help city delivery operations meet both business and residential package delivery needs.

Managing Package Growth

Existing Strategies

Southern Area implemented several strategies in their districts to manage increased package volumes in city delivery operations. The strategies included redesigning workroom floor space in delivery units, maximizing delivery vehicle capacity and utilizing an alternate package delivery option during the holiday season.

- Facility Space. The Southern Area modified workroom floor space in units and also rented trailers as additional space for delivery units to sort packages. Specifically, the Southern Area completed a Lean Six Sigma Mail Delivery[7] initiative at most of their delivery units to reconfigure workroom floor space. Manual distribution clerks used the empty trailers during November and December 2014 for staging and sorting packages during periods of high package volume. Management indicated the Lean Six Sigma initiative resulted in more efficient use of workroom floor space, which we observed at Spring Valley Station. We observed some of the trailers at two units visited (see Figure 2 and Figure 3).

Figure 2. Brookhollow Station

Figure 3. Allen Main Post Office

Source: OIG photographs taken April 22, 2015.

6 The number of route base packages based on data from the implementation date of an inspection and/or adjustment.
7 Lean Six Sigma Mail Delivery is an initiative implemented nationwide to increase efficiency at delivery unit facilities.

In addition to the rented trailer at Allen Main Post Office, the delivery unit also has an attached package annex. Unit management indicated the annex is approximately 10 years old and they use it to sort packages (see Figure 4).

Figure 4. Allen Main Post Office – Attached Package Annex

Source: OIG photograph taken April 22, 2015.

- Delivery Vehicle Capacity. Due to limited vehicle capacity, management stated that carriers sometimes left their routes to return to the delivery unit for more packages. They did this because their delivery vehicles were not large enough to accommodate all of the packages scheduled for delivery on their route that day. We did not observe carriers making multiple trips during our 5 days of site visits.[8] Furthermore, to accommodate increased package volumes on routes, delivery supervisors also used a pivoting feature in the Delivery Operations Information System[9] which transfers a portion of a route's street deliveries to one or more carriers for that day. Additionally, we observed carriers loading their vehicles to full capacity to accommodate their total mail volume for the day (see Figure 5).

Figure 5. Delivery Vehicle at Spring Valley Station

Source: OIG photograph taken April 22, 2015.

8 Dallas District management informed us that returning to the delivery unit should not be occurring. If a carrier's business customer has a large collection pick-up volume, the carrier should contact their supervisor. The supervisor will contact Brookhollow Station management to perform the business collection mail pick-up. We observed that Brookhollow Station had 15 two-ton trucks on the day of our observation. Dallas District management stated that they have the two-tons because the unit serves as a centralized collection mail pick-up delivery unit.

9 A national computer application that helps supervisors manage delivery unit office tasks such as preparing mail before delivery, planning street activities from the office, and handling route inspections and adjustments.

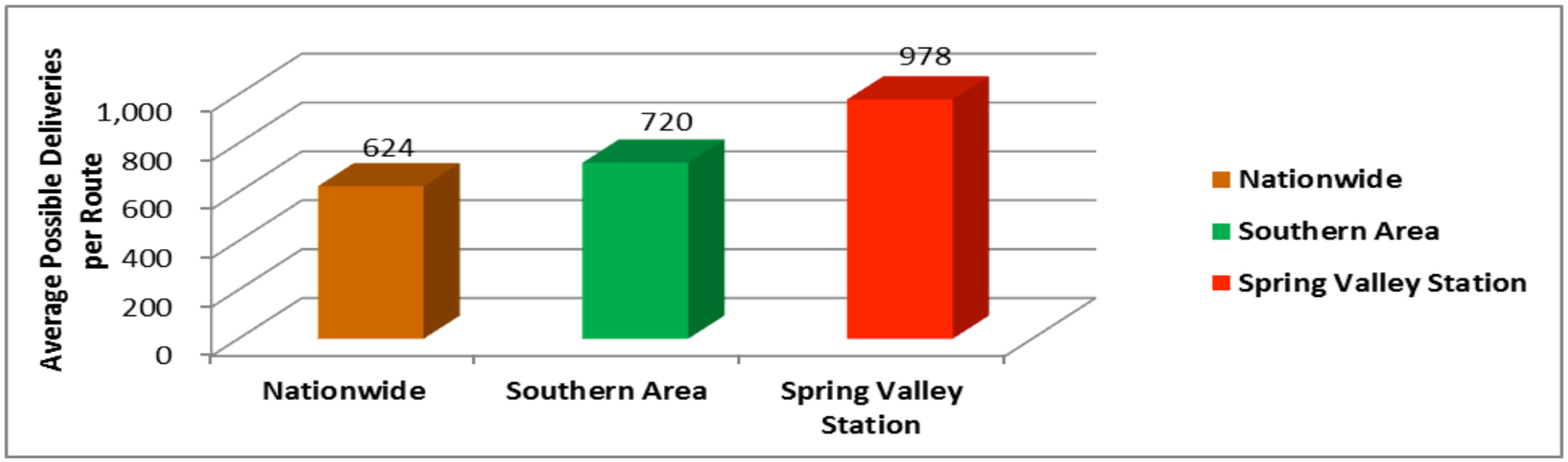
- Alternate Package Delivery Option. For the November and December 2014 holiday season, Postal Service Headquarters implemented an alternate package delivery option. Delivery units had the option to deliver packages in the early morning and late evening hours to help reduce volumes delivered during normal delivery hours. Southern Area management stated they felt the alternative was a success because they were able to deliver the increased package volumes during the holidays. Southern Area management discontinued the daily use of the early morning and late evening alternate package delivery option after the 2014 holiday season but stated that some delivery units in South Florida District continue to use it because of large package volumes.[10]

Management has available data to monitor routes in real-time and to forecast volumes. They can also use flexibility when making operational decisions to manage the expected package growth.

City Delivery Unit Analysis

The actual route base package volume at the Spring Valley Station[11] in the Dallas District exceeded the route base volume estimate ranging from 18 to 242 percent since the last route inspection.[12] Package volumes increased 12 percent, from 227,715 packages in FY 2013, to 255,905 packages in FY 2014. For FY 2014, city delivery operational data showed the Spring Valley Station[13] had 27 city delivery routes, 26,403 PDs, and an average of 978 PDs per route.[14] Their total PDs per route were 57 percent higher than the nationwide average of 624, and 36 percent higher than the Southern Area's average of 720 (see Figure 6).

Figure 6. Comparison of Average PDs per Route for FY 2014



Sources: eFlash and OIG analysis.

10 Management indicated the South Florida District uses package routes due to the results of a route inspection that computed routes over 8 hours because of the large package volumes.
11 Management implemented strategies in their districts but a delivery unit assessment would provide more in-depth and specific solutions to manage workhours associated with continued package growth.
12 Per Section 211.1 of Postal Service Manual 39, *Management of Delivery Services*, in order to achieve and maintain an appropriate daily workload for delivery units and routes, management will make route and unit reviews consisting of an analysis of workhours, volumes, and PDs. The reviews verify adjustments taken by management, or need to be taken by management, in order to maintain efficient service. The last route inspection for Spring Valley Station was May 2013.
13 Southern Area management suggested the Spring Valley Station because the delivery unit had a mixture of different delivery modes and routes. Our subsequent analysis of the data supported this assessment.
14 Average PDs per route for total mail volume (letters, flats, and packages).

OIG analyzed nine city delivery variables[15] for the Spring Valley Station, which included:

- Business and residential routes with various modes of delivery.[16]
- Vehicles types.
- Staffing levels.
- Delivery time estimates for packages.
- Carrier productivity.
- Clerk productivity.
- PDs per route.
- Package volumes.
- Overtime workhours.

We found that throughout FY 2014, Spring Valley Station's routes, vehicles, and staffing levels remained constant. Additionally, the delivery time estimate[17] per package, and carrier and clerk productivity performance indicators were not significant. Therefore, we focused our review on PDs per route, package volumes, and overtime workhours.

Furthermore, the analysis of city routes showed the existing lower route base package volumes impacted workhours for Spring Valley Station. For example, one route showed route base package volumes of 17 deliveries per delivery day for a total of 5,151 packages delivered annually on the route. However, we determined that actual deliveries for the route were 10,224 packages (or 34 packages per delivery day), which is a 98 percent increase from the route base package volume. Using a delivery time estimate of 1.5 minutes per package, the difference of 5,073 annual packages represents about 126.83 additional hours on the route per year.[18] If the full-time carrier assigned to the route were to use overtime to deliver the 5,073 packages, it would cost the unit about $8,795 annually in overtime for the route. See Appendix B for route-by-route examples.

Also, our analysis of overtime workhours showed that they paid $344,759 to carriers for 14,707 overtime workhours, both full-time regular and part-time city carrier assistants[19] (CCA). The analysis also showed that the overtime workhours remained constant over the year and averaged about 1,226 hours per month, with an increase to an average of 1,300 per month in FY 2015 Quarter I (see Table 1).

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15 We worked with Southern Area management to determine the best city delivery variables to use for our review.
16 Section 631 of *Postal Operations Manual*, dated March 3, 2015, defines delivery mode as a delivery service option, which includes deliveries to door mailboxes, curbline (curbside) mailboxes, or central delivery points or receptacles.
17 The standard is 1.5 minutes per package (established by Postal Service Headquarters).
18 We subtracted 5,151 route base packages from 10,224 actual packages, and then multiplied the difference by 1.5 minutes per package to obtain 7,609.5 total minutes. We then divided the 7,609.5 minutes by 60 seconds to obtain 126.83 hours.
19 A new job classification was created in January 2013 as part of the labor agreement with the National Association of Letter Carriers. This new position adds flexibility in staffing to assist management in aligning its delivery cost structure with declining revenue and delivering outside the typical 9 to 5 delivery window.

Table 1. FYs 2014 and 2015 Quarter I Overtime Workhours for the Spring Valley Station

	FY 2014		FY 2015 Quarter I	
Month	**Overtime Hours**	**Overtime Pay**	**Overtime Hours**	**Overtime Pay**
October	1,114	$34,738.39	1,221	37,515.64
November	1,123	28,709.01	1,317	44,919.19
December	1,426	18,707.06	1,362	26,060.94
January	1,195	38,804.94		
February	1,226	32,564.27		
March	1,438	37,415.99		
April	1,189	25,034.60		
May	1,165	22,149.46		
June	1,195	25,319.38		
July	1,328	26,672.17		
August	1,249	41,583.71		
September	1,059	13,060.02		
Totals	**14,707**	**344,759.00**	**3,900**	**$108,495.77**
Averages	**1,226**	**28,729.92**	**1,300**	**$36,165.26**

Source: eFlash and Enterprise Data Warehouse (EDW).[20]

Of the $344,759 in overtime payment, about $196,444[21] (or 57 percent) may be the result of city route base packages being too low (see Appendix B). Southern Area management agreed that the Spring Valley Station's actual package volume carriers are delivering on routes is higher than the existing city delivery route base package volume information. However, with the implementation of City Delivery Route Alternative Adjustment Process (CDRAAP)[22] in 2014, management indicated it no longer conducts annual route inspections for all routes, which would facilitate modifying the route base information.

Additional Strategies

Our unit level assessment at the Spring Valley Station identified additional strategies for the Southern Area to manage increased package growth with dedicated package routes, optimizing the use of existing vehicles, reallocating larger existing vehicles and alternate delivery times.

20 The repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sales, and other sources.
21 If Spring Valley Station used full-time letter carriers, at an overtime rate, to deliver the packages that exceeded route base packages.
22 CDRAAP is the Memorandum of Understanding (MOU) between the Postal Service and the National Association of Letter Carriers (NALC) to appoint district NALC/Postal Service teams to do the inspections for selected zones during the term of the MOU (2014 to 2015). Each district NALC/Postal Service team jointly determines at which zones they will do the inspections. Local offices can also request route adjustment reviews by the team.

The Southern Area has an opportunity to manage continued package growth with the use of dedicated package routes during peak season[23] and on high-volume days during non-peak season. Using volume arrival profile (VAP)[24] data, management could forecast when to use package routes in peak and non-peak seasons. For example, Spring Valley Station averaged 30 packages per route during non-peak season, and 39 packages per route during peak season, an increase of 32 percent. Our analysis of month-to-month package volume data identified possible thresholds for routes (see Appendix C),[25] which were higher than established route base packages (see Appendix D). When package volumes exceed the threshold, it could indicate the need to establish a dedicated package route at the Spring Valley Station. This would allow an opportunity to use CCAs to deliver only packages. The benefit of this option is that CCAs can work at an hourly rate of $20.64.[26] If the CCA exceeds 8 hours, their overtime hourly rate would be lower than a full-time regular carrier hourly rate of $46.23.[27] Additionally, the Spring Valley Station could also use CCAs for dedicated routes during non-peak season on high package volume days.

The Southern Area also has an opportunity to manage continued package growth by optimizing the use and utility of existing vehicles. Specifically, they could add shelving units to delivery vehicles. We visited a delivery unit that successfully used the shelving units in their existing vehicles (see Figure 7). The retrofit shelving units are normally not part of the delivery vehicles. Management and carriers indicated that the shelving units saved time related to loading vehicles and reduced instances of carriers having to return to the unit for additional volumes.

Figure 7. Vehicle at Allen Main Post Office with Shelving Units

Source: OIG photograph taken April 22, 2015.

23 Peak season is the period of highest demand. For purposes of our review, we used the months of November and December as peak season because of increased package service demands during the holidays.
24 Per Publication 32*, Glossary of Postal Terms*, dated July 2013, VAP is an aggregation of various data based on the arrival of mail that helps determine staffing and other operational resources. VAP data comes from mail volume, scale transaction logs, conversion statistics by mail class and product, and available personnel and is used for Management Operating Data System operations.
25 We computed possible thresholds for each route based on average packages per route during non-peak season.
26 FY 2014 Postal Service Workhours Rates Table.
27 FY 2014 Postal Service Workhours Rates Table.

There may also be opportunities to reallocate existing larger vehicles to high volume package units in Southern Area and use alternate delivery times. For example, the Dallas District has in their vehicle inventory, 1- and 2-ton vehicles with higher volume capacity.[28] We observed 15 2-ton vehicles currently assigned to Brookhollow Station (see Figure 8 for a photo of a 2-ton vehicle). District management stated that the Brookhollow Station serves as a centralized mail collection unit and does not receive package volumes. The Brookhollow Station uses the 2-ton vehicles for mail collections. Further, if the delivery unit does not have a sufficient number of delivery vehicles, CCAs, with flexible schedules, could deliver packages during alternate delivery times such as during the early morning and late evening hours.

Figure 8. 2-Ton Delivery and Collection Vehicle

Source: USPS website.

Future Opportunities

There are strategies that the Southern Area could pursue in the future to help manage increased package growth. According to Southern Area management, additional funding is required for implementation. These strategies include gopost® locker units, next generation mail boxes and delivery unit automated sortation equipment.

- gopost® Lockers. These are self-service locker units located in easy access areas that allow customers to retrieve or ship packages 24-hours a day. Deliveries to the gopost lockers would help reduce the need for additional vehicle capacity.[29] Specifically, it could reduce the number of packages returned to the delivery unit because of a failed delivery attempt, as well as reduce the number of workhours associated with processing a failed delivery attempt.

28 A Long-Life Vehicle (LVV) has a capacity of 130 cubic feet, a 1-ton vehicle has a capacity of 300 cubic feet, and a 2-ton vehicle has a capacity of 493 cubic feet.
29 The OIG report, *U.S. Postal Service Parcel Lockers* (Report Number DA-MA-13-002, dated May 6, 2013), assessed the Postal Service's pilot test of gopost lockers.

- Next Generation Mail Boxes. Postal Service Headquarters is pilot-testing a larger residential mailbox that can handle more than 70 percent of the packages sent through the mail. If customers in Southern Area were to use these mail boxes, it could help to reduce the number of failed delivery attempts. The failed delivery attempt impacts vehicle capacity when the carrier has to return the mailpiece back to the delivery unit for customer pick-up.

- Delivery Unit Automated Sortation Equipment. The new package sorting equipment is in its pilot-testing stage by Postal Service Headquarters. The new sorter will allow sorting of packages at delivery units to route segment order.[30] The anticipated benefits include more efficient clerk sortation to the carrier, and quicker delivery vehicle loading times.

In discussions with Southern Area management about these additional strategies, management agreed they were viable options. Implementation of these strategies could help city delivery operations meet both business and residential package delivery needs.

30 The sorter will place mail in the scheduled course or order of the route based on the ZIP+4® code.

Recommendations

We recommend the vice president, Southern Area:

1. Evaluate actual package volume data for city delivery units and modify route base package volume estimates on routes through route adjustments or minor route adjustments.

2. Evaluate package volumes and possible deliveries and implement dedicated package routes during peak seasons.

3. Evaluate package volumes and possible deliveries and implement dedicated package routes on high-volume days during non-peak seasons.

4. Add shelving units in delivery vehicles.

5. Reallocate existing larger vehicles to units with high package volumes.

6. Use alternate delivery times as necessary.

7. Request from Postal Service Headquarters funding assistance for gopost® locker units and inclusion in pilot tests for the next generation mailboxes and delivery unit automated sortation equipment.

Management's Comments

Management agreed with the findings and recommendations.

In response to recommendation 1, area officials agreed to evaluate package volume data for city delivery units. They will make adjustments, where necessary, through the Minor Route Adjustments process per Postal Service Handbook M-39, Management of Delivery Services, in coordination with the National Association of Letter Carriers Memorandum of Understanding guidelines. Officials stated that they are also developing a Lean Six Sigma Project Charter to provide an overview of route base information that does not reflect actual parcel volume, which increased from the delivery unit base. The target implementation date is January 1, 2016.

In response to recommendation 2, area officials agreed to implement dedicated package routes during peak season. Officials stated that their peak season plan alternative to parcel delivery is using [redacted] as a strategy designed to improve management of package volumes, while delivering parcels from [redacted]. Officials stated that the process was referred to as the [redacted] Parcel Delivery, which allowed for staggering of carrier schedules, improved delivery/customer service targets, and flexibility with respect to maximizing vehicle use. The target implementation date is November 15, 2015.

In response to recommendation 3, area officials agreed to implement dedicated package routes on high-volume days during non-peak season. Officials stated that in addition to continuing with strategies to address growth and managing possible deliveries that impact the city route structure, they will create [redacted] to help manage increased parcel growth. The target implementation date is September 1, 2015.

In response to recommendation 4, area officials agreed to add shelving units to delivery vehicles. Officials stated that Postal Service Headquarters manager, Fleet Operations initially contracted and purchased 10,000 shelving units for nationwide deployment, and at this time, there is no date for deployment of the shelving units to Southern Area. Officials also stated that Postal Service Headquarters is administering the process for ordering, deployment, and modifications of the vehicle shelving units, and district vehicle maintenance facilities will retrofit postal vehicles. The target implementation date is based on feedback from Postal Service Headquarters Supply Management.

In response to recommendation 5, area officials agreed to reallocate existing larger vehicles to units with high package volumes. Officials stated that this is a continual process to review existing vehicle utilization, and reallocate larger vehicles throughout the area in delivery from city/rural routes to high parcel volume operations thereby managing costs and increasing carrier street efficiency. Officials further stated that movement of vehicles must be cost effective and suitable, taking into consideration the age of the existing fleet and any possible modifications which will save time and reduce instances of carriers having to return to the unit for additional volumes. The target implementation date is January 1, 2016.

In response to recommendation 6, area officials agreed to use alternate delivery times as necessary. Officials stated that in conjunction with reviews of vehicle utilization and reallocation of LLVs, 1-ton, and 2-ton vehicles, the opportunity will exist in high volume parcel delivery units to implement alternate delivery times throughout the year, as was implemented during peak season in FY 2015. Officials stated that they also have authorization for leased vehicles for improved package delivery for peak season FY 2016. The target implementation date is January 1, 2016.

For recommendation 7, area officials agreed to request funding assistance for gopost® locker units and inclusion in pilot sites for the next generation mailboxes and delivery unit automated sortation equipment. Officials stated that if they receive authorization for funding or pilot testing, they will pursue opportunities for the programs to help manage increased packaged growth to meet both business and residential package growth needs. The target implementation date is based on feedback from Postal Service Headquarters manager, Delivery Strategy and Planning.

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.

The OIG considers recommendations 1, 2, 3, and 7 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These 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 to the right to navigate to the section content.

Appendix A: Additional Information

Background

Strong customer demand for goods purchased over the Internet has continued to drive growth in the package market, and additional opportunities for the Postal Service to expand services and increase revenue. Shipping and Packages volume is expected to grow 13 percent, to 4.5 billion pieces in 2015, led by the strong year-over-year growth in e-commerce and growth initiatives. Priority Mail®, Parcel Select®, and First-Class® package services, the three largest Shipping and Packages categories, are all expected to grow by double-digit rates, driven by their highly competitive prices and consistent, reliable services. It will take an ecosystem[31] of delivery variables to survive in the growing package delivery environment (see Figure 9).

Figure 9. Package Delivery Ecosystem[32]

Source: OIG analysis.

The Southern Area covers eight states and has 24,516 routes and over 17 million PDs in FY 2014. In addition, the Southern Area experienced a 13 percent growth in packages on city delivery routes since 2013. They have the highest average number of PDs in the nation (see Figure 1).

31 Per the Investopedia website, the idea of a business ecosystem is that each business in the "ecosystem" affects and is affected by the others, creating a constantly evolving relationship in which each business must be flexible and adaptable in order to survive.

32 MDD is a handheld device with an integrated barcode scanner for data collection. RIMS captures geo-location data from wireless Intelligent Mail Devices and displays that information on a web interface for Delivery supervisors to use. DMS enables supervisors to see "at a glance" the location of each mail carrier and determine whether the carrier is ahead of or behind their scheduled delivery time. AVUS is an online tool linked to carrier scans and inputs of vehicle mileage, hours, and reason for use. AVUS helps local management optimize vehicle.

Objective, Scope, and Methodology

Our objective was to assess the Southern Area's package growth management strategies in city delivery operations. To accomplish our objective, we:

- Reviewed Postal Service documentation, including applicable policies and procedures and prior audit reports on topics related to packages, such as routing tools, vehicles, delivery equipment, and staffing.
- Reviewed and analyzed package volume, technology, workhours, staffing, routes, vehicles, and other Southern Area and Spring Valley Station city delivery operational data for FYs 2013 and 2014 and Q1, 2015.
- Analyzed city delivery performance data from EDW and eFlash related to identifying and exploring additional options on routes to manage the increased package volume for city delivery units.
- Interviewed management in the Southern Area, the Dallas District, and the Spring Valley Station to discuss managing package growth.

We conducted this review from March 2015 through August 2015 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 July 8 and 15, 2015, and included their comments where appropriate.

We assessed the reliability of EDW and eFlash data by confirming our results with management, and by interviewing agency management knowledgeable about the data. 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-Delivery Operations	DR-MA-14-001	12/11/2013	None
Report Results: The report determined that Postal Service 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, establishing a vehicle shelving system, and using parcel data will further bolster package readiness. Meeting these challenges will help the Postal Service manage package growth, improve its competitiveness in the package business, and better meet customers' needs. Management agreed with our findings and recommendations and set forth its plans for corrective actions.			
Package Delivery Growth	MS-AR-12-003	5/4/2012	$647
Report Results: The report determined 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 sales 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 has increased sales by focusing on higher value sales and sales execution.			

Appendix B: Route Base Package Volumes vs Actual Packages for Spring Valley Station

		FY 2014 Base		FY 2014 Actual		Potential Impact of Increased Package PD Volumes				
#	Route #	Route Base Packages[33]	Route Base Package Volume for FY[34]	Actual Packages per Route[35]	Actual Package Volume for FY[36]	Percentage Difference[37]	Increased Packages per Route per Delivery Day[38]	Increased Package Volume for FY[39]	Potential Increase in Annual Workhours[40]	Potential Increase in Annual Overtime Pay[41]
1	1	20	6,060	24	7,189	18.63%	4	1,129	28	$1,957
2	2	17	5,151	34	10,224	98.49%	17	5,073	127	$8,795
3	3	19	5,757	31	9,271	61.04%	12	3,514	88	$6,092
4	6	19	5,757	30	9,153	58.99%	11	3,396	85	$5,887
5	11	7	2,121	24	7,263	242.43%	17	5,142	129	$8,914
6	12	20	6,060	36	10,769	77.71%	16	4,709	118	$8,164
7	18	17	5,151	26	7,872	52.82%	9	2,721	68	$4,717
8	20	17	5,151	37	11,105	115.59%	20	5,954	149	$10,322
9	21	18	5,454	31	9,272	70.00%	13	3,818	95	$6,619
10	23	18	5,454	30	9,049	65.91%	12	3,595	90	$6,232
11	24	16	4,848	28	8,610	77.60%	12	3,762	94	$6,522
12	25	10	3,030	27	8,080	166.67%	17	5,050	126	$8,755
13	27	20	6,060	35	10,613	75.13%	15	4,553	114	$7,893
14	28	19	5,757	28	8,595	49.30%	9	2,838	71	$4,920
15	31	8	2,424	27	8,032	231.35%	19	5,608	140	$9,722
16	33	13	3,939	33	10,060	155.39%	20	6,121	153	$10,612
17	34	21	6,363	28	8,605	35.23%	7	2,242	56	$3,887
18	35	21	6,363	33	10,011	57.33%	12	3,648	91	$6,324
19	38	23	6,969	33	9,906	42.14%	10	2,937	73	$5,092
20	43	18	5,454	29	8,706	59.63%	11	3,252	81	$5,638
21	46	15	4,545	37	11,333	149.35%	22	6,788	170	$11,768
22	50	20	6,060	37	11,211	85.00%	17	5,151	129	$8,930
23	53	14	4,242	33	9,996	135.64%	19	5,754	144	$9,975

#	Route #	FY 2014 Base: Route Base Packages[33]	FY 2014 Base: Route Base Package Volume for FY[34]	FY 2014 Actual: Actual Packages per Route[35]	FY 2014 Actual: Actual Package Volume for FY[36]	Potential Impact of Increased Package PD Volumes: Percentage Difference[37]	Increased Packages per Route per Delivery Day[38]	Increased Package Volume for FY[39]	Potential Increase in Annual Workhours[40]	Potential Increase in Annual Overtime Pay[41]
24	64	17	5,151	39	11,762	128.34%	22	6,611	165	$11,461
25	65	Note: No route base package data for this route.								
26	70	20	6,060	37	11,154	84.06%	17	5,094	127	$8,831
27	71	13	3,939	29	8,793	123.23%	16	4,854	121	$8,415
						Totals	**374**	**113,314**	**2,833**	**$196,444**

Source: EDW and OIG analysis.

33 We obtained base volume data from EDW.
34 We multiplied the Route Base Packages by 303 Delivery Days to obtain Route Base Package Volumes for the fiscal year.
35 We divided the Actual Package Volume for the fiscal year by 303 Delivery Days to obtain Actual Packages per Route.
36 We obtained actual volume data from EDW.
37 We subtracted Route Base Package Volume for the fiscal year from Actual Package Volume for the fiscal year, and then divided it by Route Base Package Volume for the fiscal year to obtain Percentage Difference.
38 We subtracted Route Base Packages from Actual Packages per Route to obtain Increased Packages per Route per Delivery Day.
39 We subtracted Route Base Package Volume for the fiscal year from Actual Package Volume for the fiscal year to obtain Increased Package Volume for the fiscal year.
40 We multiplied Increased Package Volume for the fiscal year by 1.5 minutes per Package, and then divided it by 60 seconds to obtain Potential Increase in Annual Hours.
41 We multiplied Potential Increase in Annual Hours by $68.45 Overtime Rate for a Full-Time Letter Carrier to obtain Potential Increase in Annual Overtime Pay. The $69.35 overtime rate equals $46.23 standard rate multiplied by a 1.5 rate. The figures in this column may appear slightly incorrect due to rounding up for figures in both columns.

Appendix C: FY 2014 Package Statistics for Spring Valley Station

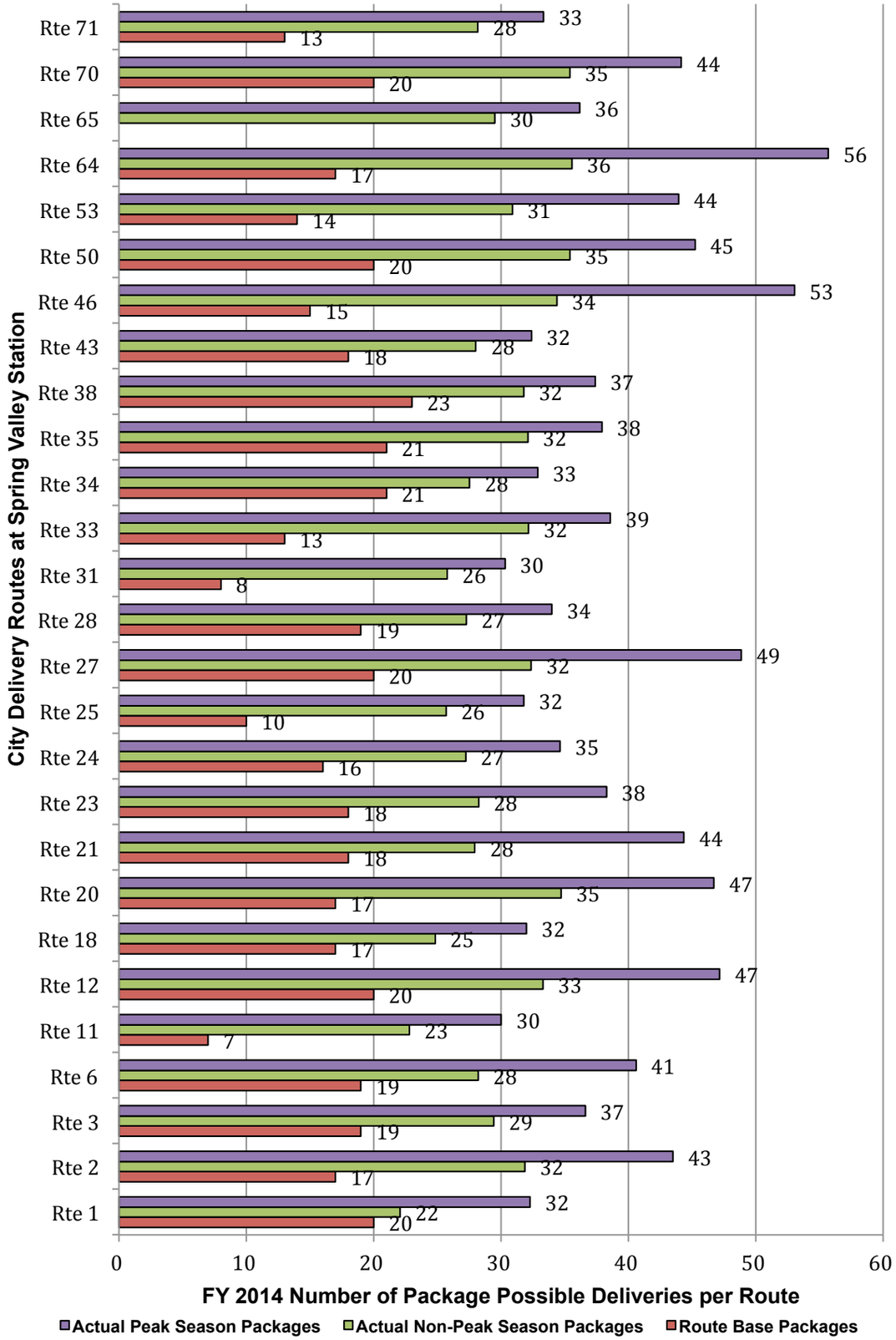
	Actual Package Volumes During Non-Peak Season Months (254 Delivery Days)												Actual Package Volumes During Peak Season Months (49 Delivery Days)				
Route #	October	January	February	March	April	May	June	July	August	September	Total[42]	Average Package Deliveries Per Delivery Day[43] (Potential Threshold)	November	December	Total[44]	Average Package Deliveries Per Delivery Day[45]	Percentage Change in Package Deliveries During Peak Season[46]
1	652	571	583	530	521	632	497	537	534	550	5,607	22	673	909	1,582	32	46.26%
2	1,002	828	793	799	833	889	621	772	802	754	8,093	32	953	1,178	2,131	43	36.49%
3	885	730	725	728	758	848	596	722	765	720	7,477	29	828	966	1,794	37	24.37%
6	819	735	670	667	686	771	580	731	737	768	7,164	28	813	1,176	1,989	41	43.92%
11	660	547	547	561	585	649	519	546	592	586	5,792	23	667	804	1,471	30	31.65%
12	977	845	787	817	848	943	705	867	830	839	8,458	33	975	1,336	2,311	47	41.63%
18	696	618	593	612	648	723	537	576	657	644	6,304	25	733	835	1,568	32	28.93%
20	982	909	863	857	850	972	718	903	870	892	8,816	35	1,024	1,265	2,289	47	34.59%
21	774	758	640	655	669	770	637	707	730	758	7,098	28	759	1,415	2,174	44	58.77%
23	842	729	650	711	729	808	633	648	727	696	7,173	28	835	1,041	1,876	38	35.57%
24	766	676	604	665	702	814	634	633	716	703	6,913	27	765	932	1,697	35	27.25%
25	683	598	583	618	652	768	647	588	706	679	6,522	26	688	870	1,558	32	23.83%
27	954	774	750	815	844	944	746	768	824	800	8,219	32	950	1,444	2,394	49	50.99%
28	776	675	685	678	685	782	626	669	657	696	6,929	27	736	930	1,666	34	24.64%
31	694	618	594	647	664	770	596	625	673	666	6,547	26	684	801	1,485	30	17.58%
33	900	757	832	824	806	893	724	836	820	777	8,169	32	830	1,061	1,891	39	19.99%
34	770	654	643	657	684	761	668	724	712	721	6,994	28	737	874	1,611	33	19.40%
35	925	785	755	832	864	913	683	783	827	786	8,153	32	856	1,002	1,858	38	18.13%
38	934	740	805	792	813	872	709	827	789	793	8,074	32	827	1,005	1,832	37	17.62%
43	756	629	657	698	699	814	666	732	729	739	7,119	28	733	854	1,587	32	15.56%
46	953	850	790	858	896	945	749	887	917	889	8,734	34	1,355	1,244	2,599	53	54.25%
50	1,021	875	874	916	890	988	765	903	883	880	8,995	35	958	1,258	2,216	45	27.70%
53	838	745	749	785	808	880	689	761	804	784	7,843	31	836	1,317	2,153	44	42.30%
64	1,022	886	888	906	900	975	784	912	878	882	9,033	36	987	1,742	2,729	56	56.61%

Route #	October	January	February	March	April	May	June	July	August	September	Total[42]	Average Package Deliveries Per Delivery Day[43] (Potential Threshold)	November	December	Total[44]	Average Package Deliveries Per Delivery Day[45]	Percentage Change in Package Deliveries During Peak Season[46]
	Actual Package Volumes During Non-Peak Season Months (254 Delivery Days)												Actual Package Volumes During Peak Season Months (49 Delivery Days)				
65	824	723	737	724	735	816	723	709	737	770	7,498	30	779	994	1,773	36	22.57%
70	980	850	832	922	940	993	829	869	919	856	8,990	35	943	1,221	2,164	44	24.78%
71	763	673	680	700	734	790	706	703	692	718	7,159	28	733	901	1,634	33	18.31%

Source: EDW and OIG analysis.

42 Total actual volumes for October, January, February, March, April, May, June, July, August, and September. Monthly package volume data was retrieved from EDW.
43 We divided Total Volumes for Non-Peak Season Months by 254 delivery days during this timeframe to obtain Average Package Deliveries per Delivery Day.
44 Total actual volumes for the months of November and December.
45 We divided Total Volumes for Peak Season Months by 49 delivery days during this timeframe to obtain Average Package Deliveries per Delivery Day.
46 We subtracted the Average Package Deliveries per Delivery Day for Non-Peak Season, from the Average Package Deliveries per Delivery Day for Peak Season, and divided the difference by the Average Package Deliveries per Delivery Day for Non-Peak Season to obtain the Percentage Change in Package Deliveries. The resulting percent will appear slightly incorrect due to rounding up for the Average Package computations.

Appendix D: FY 2014 Package Deliveries per Route Comparison for Spring Valley Station



Source: EDW and OIG analysis.

Appendix E: Management's Comments

MANAGER, OPERATIONS SUPPORT
SOUTHERN AREA

UNITED STATES POSTAL SERVICE

August 14, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Managing Package Growth in City Delivery Operations in the Southern Area
(Project Number 15XG021DR000, dated July 30, 2015)

In response to your Recommendations of your letter on subject matter: Draft Management Advisory – Managing Package Growth – Southern Area (Project Number 15XG021DR000, dated July 30, 2015), Management agrees with the recommendations.

Strategies will be implemented to improve the use of workhours in addition to current methods. The Southern Area will evaluate and modify route base package volume estimates and utilize dedicated package routes during Peak Season and further evaluate to use on high volume days during non-peak seasons. Existing larger vehicles will be repositioned to higher parcel volume locations, additional shelving will be installed upon availability, and alternate delivery times will be reviewed.

Additionally, other strategies for future implementation including gopost® locker units, next generation mail boxes, and delivery unit automated sortation equipment will be used as issued by Headquarters. Southern Area has requested to pilot programs intended to improve workhours related to package delivery.

It is the intention of the Southern Area to implement strategies to help city delivery operations meet both business and residential package delivery needs.

Thank you,

Eric D. Chavez

cc: Lisse Fish

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Managing Package Growth – Spring Valley Station, Dallas District

Recommendation #1

Evaluate actual package volume data for city delivery units and modify base package volume estimates on routes through any formal route adjustment or Minor Route Adjustment (MRA).

Management Response/Action Plan:

Management agrees with the recommendation. Package Volume data for city delivery units will be evaluated and where necessary will be adjusted thru the Minor Route Adjustment (MRA) Process, per USPS Handbook, M-39, Section 141 and consideration for National Association of Letter Carriers (NALC) Memorandum of Understanding (MOU) guidelines. The Southern Area will provide oversight for district compliance with minor route adjustments.

In addition, a Lean Six Sigma (LSS) Project Charter is being developed to provide an overview of: DOIS Route Base Information that does not reflect actual parcel volume, which has increased from the delivery unit base. [redacted] MRA and parcel volume should be correct, in order to correctly evaluate package volume for city delivery units.

Target Implementation Date: January 1, 2016

Responsible Official: Manager of Delivery

Recommendation #2

Evaluate package volumes and possible deliveries and implement dedicated package routes during peak season.

Management Response/Action Plan:

Management agrees with the recommendation. A Peak Season plan alternative to parcel delivery is using [redacted] as a strategy designed to improve management of package volumes, while delivering parcels from [redacted]. This process was referred to as [redacted] Parcel Delivery, which allowed for staggering of carrier schedules and improved delivery/customer service targets. Utilizing this strategy also provides the delivery unit flexibility with respect to maximizing vehicle utilization.

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Managing Package Growth – Spring Valley Station, Dallas District

Target Implementation Date: November 15, 2015

Responsible Official: Manager of Delivery

Recommendation #3

Evaluate package volumes and possible deliveries and implement dedicated package routes on high-volume days during non-peak seasons.

Management Response/Action Plan:

Management agrees with the recommendation. In addition to continuing with strategies to address growth and management of possible deliveries, impacting the city route structure, [redacted] to help manage increased parcel growth. Changes in possible delivery oversight will be partnered with Operations Programs Support, Address Management System (AMS).

Target Implementation Date: September 1, 2015

Responsible Official: Manager of Delivery

Recommendation #4

Add shelving units in delivery vehicles.

Management Response/Action Plan:

Management agrees with recommendation. Per Manager, Mr. Thomas Smith, Fleet Operations, Headquarters, the USPS initially contracted and purchased 10,000 shelving units, for nationwide deployment, at a cost of [redacted]; the manufacturer, Wheeler Brothers, has been authorized to produce additional shelving (currently in process with an ETA of mid-August 2015). At this time, there is no date for deployment of the shelving units to USPS Southern Area; however, the process for ordering, deployment and modifications of the vehicle shelving units will be administered through Headquarters Fleet Operations and the Southern Area. District Vehicle Maintenance Facilities (VMF) will retrofit postal vehicles.

Target Implementation Date: To be determined based on Headquarters, Supply Management

Responsible Official: Manager of Delivery

2

Managing Package Growth – Spring Valley Station, Dallas District

Recommendation #5

Reallocate existing larger vehicles to units with high package volumes.

Management Response/Action Plan:

Management agrees with recommendation. There is a continual process to review existing vehicle utilization and reallocate larger USPS vehicles throughout the Southern Area in delivery, from city/rural routes, in high parcel volume operations thereby managing costs and increasing carrier street efficiency. The assignment, reassignment or transfer of vehicles is based on delivery service requirements; increase of vehicle functionality and utilization; potential reduction of driver hours; and operational changes in route structure. Movement of vehicles must be cost effective and suitable, taking into consideration the age of the existing fleet and any possible modifications which will save time and reduce instances of carriers having to return to the unit for additional volumes.

Target Implementation Date: January 1, 2016

Responsible Official: Manager of Delivery

Recommendation #6

Use alternate delivery times as necessary.

Management Response/Action Plan:

Management agrees with recommendation. In conjunction with reviews of vehicle utilization and reallocation of Long-Life Vehicle (LLV), 1-Ton and 2-Ton Vehicles, the opportunity will exist in high volume parcel delivery units to implement alternate delivery times, throughout the year, as was implemented during Peak Season in FY 2015. In addition, lease vehicles have been authorized for improved package delivery for Peak Season 2016. (Please refer to Response, Question #2)

Target Implementation Date: January 1, 2016

Responsible Official: Manager of Delivery

Recommendation #7

Request from Postal Service Headquarters funding assistance for gopost® locker units and inclusion in pilot sites for the next generation mailboxes and delivery unit automated sortation equipment.

Management Response/Action Plan:

3

Managing Package Growth – Spring Valley Station, Dallas District

Management agrees with recommendation. An inquiry, based on recommendation made, has been escalated to Mr. Scott Hooper, Manager, Delivery Strategy and Planning, Headquarters, for information regarding potential funding assistance for gopost® locker units, next generation mailboxes and delivery unit automated sortation equipment, Southern Area. If funding or pilot testing is authorized, opportunities for these programs will be pursued to help manage increased package growth to meet both business and residential package delivery needs.

Target Implementation Date: To be determined based on Headquarters, Manager of Delivery Strategy and Planning

Responsible Official: Manager of Delivery

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