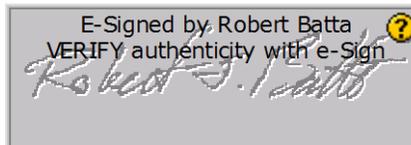




August 13, 2015

MEMORANDUM FOR: LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



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

SUBJECT: Management Alert – Substantial Increase in Delayed Mail
(Report Number NO-MA-15-004)

This management alert focuses on a substantial increase in delayed mail over the last several months (Project Number 15XG023NO001). The U.S. Postal Service considers mail delayed when it is not processed in time to meet its established delivery day. The issue came to our attention during our audit of Mail Processing and Transportation Operational Changes (Project Number 15XG023NO000). Our objective was to assess the timeliness of mail processing after the January 5, 2015, service standard revisions. These revisions were expected to affect about 14 billion pieces of total mail volume, and up to 16 percent of First-Class Mail.

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

Attachment

cc: Corporate Audit and Response Management

Introduction

The purpose of this alert¹ is to bring to your attention the need to immediately address the timeliness of mail processing following the January 5, 2015, service standard² revisions. These revisions were expected to affect about 14 billion pieces of total mail volume and up to 16 percent of First-Class Mail[®]. These revisions enabled the U.S. Postal Service to expand the mail processing operational window,³ allowing mail to be processed over a longer period of time than previously. They also paved the way to reduce the number of machines and locations required to process the mail.

The service standard revisions included the elimination of single-piece overnight First-Class Mail service and also shifted a portion of mail from a 2-day service standard to a 3-day service standard. According to a June 2014 Postal Service commissioned study,⁴ more than 80 percent of consumers say that adding one delivery day to local and national mail would have “no effect” or it would be a “change (they) could easily adapt to.” This alert includes analysis of First-Class Mail service following the service standard revisions. We plan to analyze service performance for other classes of mail during our audit of mail processing and transportation operational changes.

Processing and distribution centers nationwide had to adjust their mail processing and transportation operations to meet the critical entry times (CET),⁵ clearance times,⁶ and dispatches of value⁷ associated with the new, expanded operational window. This was the largest change that has ever been made to the nationwide network of mail processing and transportation operations.

These changes took place during a major effort to align plants with mail volume, which is known as Network Rationalization. Phase I involved consolidating 141 mail processing facilities between 2012 and 2013. Under Phase II, begun in January 2015, the Postal Service planned to consolidate 82 additional facilities by October 2015. However, many stakeholders have voiced concerns that delayed mail is increasing and service is declining as a result of major network changes. In May 2015, the Postal Service’s chief operating officer (COO) announced that, in response to customers’ concerns about the need to stabilize service performance, the Postal Service would delay implementation of Phase II consolidations. However, the COO did not provide a definite date for resuming the consolidations.

¹ We observed the impacts of this issue during our audit of mail processing and transportation operational changes, including increases in delayed mail.

² A service standard is defined as a stated goal for service achievement for each mail class. Also, service standards represent the level of service that the Postal Service strives to provide to customers.

³ The operational window is the time allotted to sort and process mail at a Postal Service processing facility.

⁴ HSR Associates study with a sample size of 1,093, representative of the U.S. households based on demographics.

⁵ The latest time that committed mail must be available for an operation if the mail is to complete its planned distribution in the operation by its scheduled clearance time.

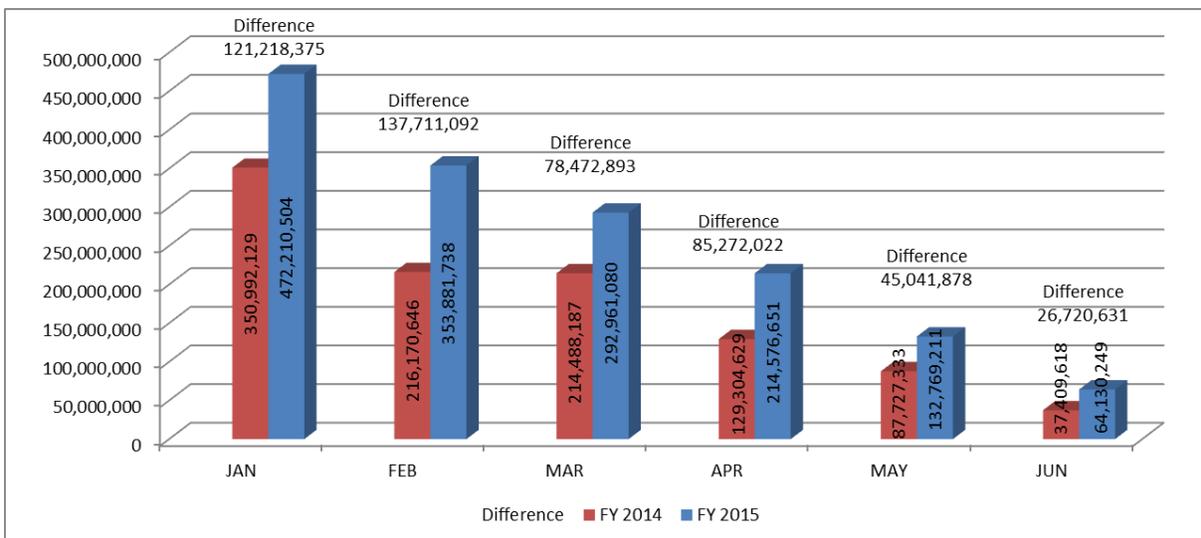
⁶ This is the latest time that committed mail must complete an operation if it is to meet the CET for the next required operation.

⁷ This is the designated scheduled trip that departs at/or after the facility’s clearance time and arrives at/or before the destinating facility’s CET.

Conclusion

Mail was not being processed timely⁸ throughout the country. We found in the first 6 months of 2015 delayed processing increased by about 494 million mailpieces (a 48 percent increase), as compared to the same period last year (SPLY) (see Figure 1).

Figure 1. National Delayed Processing Mail Compared to SPLY



Source: Delayed mail data obtained from Mail Condition Reporting System database.
Note: Service standards changed January 5, 2015.

Several factors caused the delayed mail processing:

- Weather:** Postal Service management stated a large number of winter storms disrupted service from January through March 2015, particularly for mail requiring air transportation. Further, management asserted weather related delays increased significantly for February through March 2015 compared to February through March 2014. Additionally, winter storms shut down highways on the East Coast and closed a contractor's hub in Memphis, TN, delaying mail across the country.
- Network and Operational Changes:** Significant changes to the Postal Service's mail processing network took place over a short period of time. These included the service standard revisions, the mail processing consolidations, and the operational window expansion. While some of the operational impacts were anticipated, other impacts were not fully understood prior to these network changes. The Postal Regulatory Commission encouraged the Postal Service to study the effects of service standard revisions during the initial implementation phase to make informed decisions before moving forward with full implementation.⁹

⁸ The Postal Service considers mail delayed when it is not processed in time to meet its established delivery day.

⁹ Postal Regulatory Commission Advisory Opinion, Docket No. N2012-1.

The service standard revisions impacted the schedules for nearly all processing and transportation activities nationwide. Specifically, the revisions allowed the Postal Service to expand its operational window, which allowed mail to be processed much earlier and resulted in over 5,000 employees transitioning from night to day shifts. This required staffing realignments and training of mail processing employees on new jobs. The Postal Service could not immediately shift mail processing clerks' and mail handlers' scheduled workhours to mirror the processing times of the new operational window. Moreover, the job bidding process established between the Postal Service and its unions can take several months to complete, and larger plants had to re-bid hundreds of jobs to those with start times concurrent with the new processing times.

The impacts on customer service and employees have been considerable. There is no longer overnight service for single-piece First-Class Mail®. We found the External First-Class Measurement¹⁰ (EXFC) scores declined by as much as 6.71 percent for 2-day service right after the service standard revisions as compared to the SPLY.¹¹ Likewise, scores declined by as much as 38.60 percent for 3-day service¹² right after the service standard revisions as compared to the SPLY.¹³ See Figures 2 and 3.

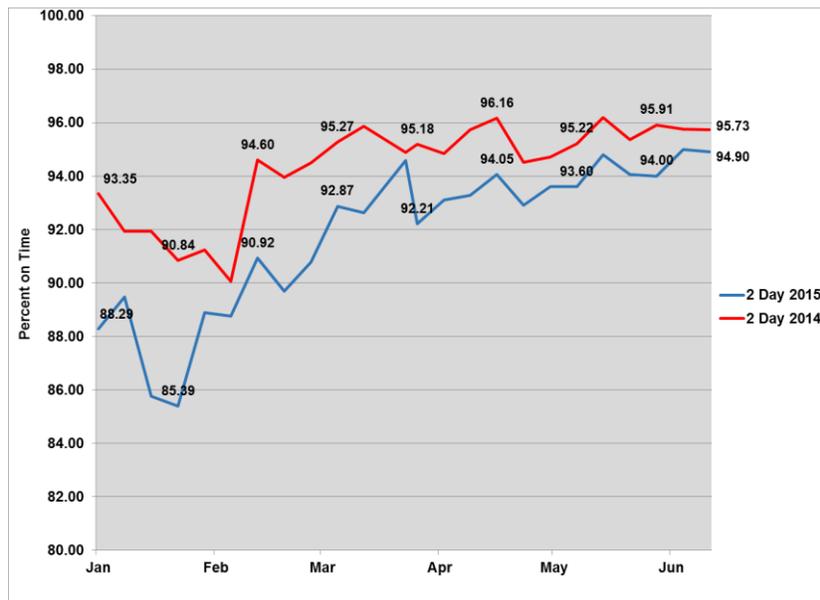
¹⁰ A component of the Single-Piece First-Class Mail measurement system. The system is designed to measure service performance from a customer perspective. A contractor measures the transit time of single-piece First-Class Mail (letters, flats, and postcards) from the deposit of mail into a collection box or business lobby chute until its delivery to a home or business. EXFC results are compared with Postal Service service standards to produce national, area, and district level estimates of service performance.

¹¹ For the week ending January 30, 2015, the 2-day EXFC score was 85.77 percent. For the SPLY, the score was 91.94 percent.

¹² This service score includes all 3-day First-Class Mail service standards and 4- and 5-day First-Class Mail service standards to/from continental U.S. to/from Alaska, Hawaii, and U.S. territories.

¹³ For the week ending March 13, 2015, the 3-day EXFC score was 53.34 percent. For the SPLY, the score was 86.88 percent.

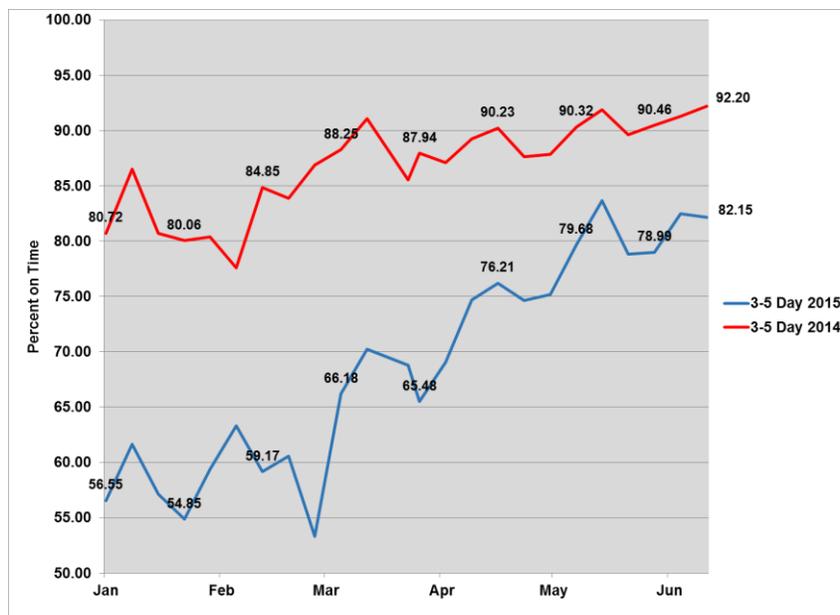
Figure 2. National 2-Day EXFC Scores Compared to SPLY



Source: Weekly EXFC system for 2-day service standard from January 10 through June 20 as of July 13, 2015.

Note: Service standards changed January 5, 2015.

Figure 3. National 3-Day EXFC Scores Compared to SPLY



Source: Weekly EXFC system for 3-day service standard from January 10 through June 20 as of July 13, 2015.

Note: Service standards changed January 5, 2015.

The impact on employees was significant. Many employees' start times and assigned days off have changed as a result of the expanded operational window. This has led, in many cases, to a decrease in differential pay for employees that moved from the night

shift to the day shift. Many of these employees have been assigned to new supervisors and new jobs. Additionally, over 15,000 employees could be re-assigned as a result of the Phase II mail processing consolidations.

In the months since the service standard revisions went into effect, the Postal Service has improved the timeliness of mail processing. Delayed mail nationwide has decreased in each subsequent month since January 2015. Likewise, service scores have begun to rebound for both 2- and 3-day mail. For example, as of June 26, 2015, 2- and 3-day scores were within .9¹⁴ and 10.9 percent,¹⁵ respectively, of where they were during SPLY. See Figures 1, 2, and 3. Nevertheless, service is not where it was during the SPLY, as the network still needs to stabilize. During the course of the ongoing audit, we will continue to monitor delays and service and make recommendations as necessary.

Management Actions:

Management has taken some steps to alleviate the service issues. For example, after the initial spike in delayed processing mail in January 2015, the Postal Service sent teams to 20 sites to identify and resolve problems. It also added transportation to help meet the new service standards.¹⁶

Moreover, in May 2015, the Postal Service's COO announced that, in response to customers' concerns about the need to stabilize service performance, the Postal Service would delay implementation of Phase II consolidations. The COO did not indicate when the consolidations will resume.

Recommendations

We recommend the vice president, Network Operations:

1. Continue to monitor and mitigate delayed mail processing as appropriate.
2. Assign appropriate staffing and conduct training to ensure timely processing of the mail.
3. Ensure appropriate transportation is in place to help meet the new service standards.
4. Establish criteria for determining if the network has stabilized and ensure the criteria are met prior to resuming the Phase II consolidations or conducting any other optimization efforts.

¹⁴ For the week ending June 26, 2015, the 2-day EXFC score was 94.90 percent. For the SPLY, the score was 95.73 percent.

¹⁵ For the week ending June 26, 2015, the 3-day EXFC score was 82.15 percent. For the SPLY, the score was 92.20 percent.

¹⁶ The U.S. Postal Service Office of Inspector General (OIG) plans to evaluate added transportation as part of the ongoing audit of mail processing and transportation operational changes.

Management's Comments

Management did not state whether they agreed or disagreed with the findings, however management stated they had already taken significant steps to address the findings prior to the issuance of this alert. These steps include educating field managers on the nature of service standard changes and operational impacts; forming and deploying tiger teams to address operational deficiencies and ensure standardized processes; adding and expanding network air and surface transportation lanes to support the timely receipt of mail; and deferring consolidation activities to provide time to stabilize operational and service performance. Management agreed with recommendations 1, 2 and 3 and partially agreed with recommendation 4.

Regarding recommendation 1, management agreed and stated they will continue their daily practice of monitoring mail conditions and making improvements where appropriate. Management noted a target implementation date of September 2015, recognizing that even after this date they will continue to monitor mail conditions and drive improvements.

Regarding recommendation 2, management agreed and stated they actively evaluate staffing levels and training requirements, allocating resources as warranted. Management noted a target implementation date of September 2015.

Regarding recommendation 3, management agreed and stated they regularly review the network, continually evaluating opportunities for adjustments to ensure appropriate transportation is in place to provide a service responsive network. Management noted a target implementation date of September 2015.

Management partially agreed with recommendation 4. Management stated they do not agree that all other optimization efforts must cease. Management noted some optimization efforts, particularly within individual facilities, may be required to continue to meet customer or business requirements. Further, they noted that activities associated with the Phase II consolidation effort are the only activities deferred at this time.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 2, 3, and 4 and corrective actions should resolve the issues identified in the alert. Regarding recommendation 4, the OIG understands that in order to meet customer and business requirements, the Postal Service may need to make adjustments at individual facilities, such as adding and expanding network air and surface transportation lanes to support the timely receipt of mail. As management noted, the service standard revisions and related window changes were the greatest operational changes the Postal Service has experienced since the inception of automation. The OIG continues to believe that no

further significant national network or operational changes should take place prior to establishing criteria and stabilizing the network. We will continue to monitor delayed mail and evaluate service performance in our ongoing work.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed for all recommendations. 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.

Appendix A. Management's Comments

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



August 11, 2015

LORI LAU DILLARD
Director, Audit Operations

SUBJECT: Management Alert – Substantial Increase in Delayed Mail
(Report Number NO-MA-15-DRAFT)

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

As noted in the alert, Management had already taken significant steps to address the findings prior to the issuance of this report. From January to June, the Postal Service has reduced delayed volumes by 86%. These steps are part of the normal response protocols the Postal Service uses to identify and correct errant processes as early as possible. Actions included but are not limited to the following:

- The development of additional materials to educate field managers on the nature of the service standard changes and the operational impacts.
- The formation and deployment of tiger teams to address operational deficiencies and ensure standardized processes.
- The addition and expansion of network air and surface transportation lanes to support the timely receipt of mail.
- The deferment of consolidation activities to provide time to stabilize operational and service performance.

The service standard change that took place in January 2015 and ensuing change to operational processing windows were the greatest operational changes the Postal Service has experienced since the inception of automation. While management anticipated many challenges, and put plans in place to minimize impacts, there were some exceptions. As such, management has made extensive efforts to stabilize operations and restore performance, and will continue activities to exceed service expectations.

Equally noteworthy was the winter weather in early 2015 which caused processing, delivery and transportation delays of lengthy duration that adversely impacted service performance. The Postal Service has been evaluating additional options to increase alternative air carriers; adding new air lanes where feasible; and diverting volumes to surface transportation that is service responsive.

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Tiger teams composed of select individuals with experience in both processing and transportation were deployed to impact sites. These teams were given specific key indicators to diagnose and correct. Individual findings were discussed with local and Area level management and action plans were enacted and tracked to ensure positive results.

The results of these efforts are evident in the charts provided in the management alert. Furthermore, sizeable reductions in delayed mail processing can be seen in figure 1 of the alert. From January to June, the Postal Service has reduced delayed volumes by 86%. In addition, there has been substantial improvement in service performance as seen in figures 2 & 3 of the alert. The trends on these charts are positive throughout the first six months of 2015 and demonstrate rates of improvement that are better than Same Period Last Year (SPLY) rates. These improvements began prior to this OIG audit and management alert, and are continuing today.

Recommendation 1:

Continue to monitor and mitigate delayed mail processing as appropriate.

Management Response/Action Plan:

Management agrees with this recommendation. Management will continue its daily practice of monitoring mail conditions and making improvements where appropriate.

Target Completion Date:

These activities occur daily at the Postal Service. For the purposes of this alert, we will stipulate a target completion date of September, 2015 recognizing that even after this date we will continue to monitor mail conditions and drive improvements.

Responsible Official:

Manager, Processing Operations

Recommendation 2:

Assign appropriate staffing and conduct training to ensure timely processing of the mail.

Management Response/Action Plan:

Management agrees with this recommendation. Management actively evaluates staffing levels and training requirements, allocating resources as warranted.

Target Completion Date:

Management routinely assesses staffing and scheduling for aligning resources to workload and optimizing operations. Management will continue to perform these duties, but for the purpose of this alert will stipulate a target completion date of September, 2015.

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Responsible Official:

Manager, Processing Operations

Recommendation 3:

Ensure appropriate transportation is in place to help meet the new service standards.

Management Response/Action Plan:

Management agrees with this recommendation. Management regularly reviews the network, continually evaluating opportunities for adjustments to ensure appropriate transportation is in place to provide a service responsive network.

Target Completion Date:

Management reviews forecasted volumes against actual capacities on our transportation network daily. Management uses this information to determine whether additional transportation is warranted. For the purposes of this alert September, 2015 will be the target completion date.

Responsible Official:

Manager, Logistics

Recommendation 4:

Establish criteria for determining if the network has stabilized and ensure the criteria are met prior to resuming the Phase II consolidations or conducting any other optimization efforts.

Management Response/Action Plan:

Management partially agrees with this recommendation. Management does not agree that all *other* optimization efforts must cease. The activities associated with the Phase 2 consolidation effort are the only activities deferred at this time. Some optimization efforts, particularly within individual facilities, may be required to continue to meet customer or business requirements.

Target Completion Date:

For the purposes of this alert January, 2016 will be the target completion date.

Responsible Official:

Manager, Processing Operations



Linda M. Malone
Vice President, Network Operations

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cc: Mr. Williams
Corporate Audit and Response Management