OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Business Mail Acceptance Centralization Process

Audit Report

September 23, 2011

Report Number FF-AR-11-015

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 23, 2011

Business Mail Acceptance Centralization Process

Report Number FF-AR-11-015

IMPACT ON:

Location of bulk business mail acceptance (BMA) facilities, operational efficiency, and customers who enter mail at BMA facilities.

WHY THE OIG DID THE AUDIT:

Our objectives were to evaluate U.S. Postal Service efforts to centralize the BMA process and assess opportunities for additional centralization.

WHAT THE OIG FOUND:

We determined approximately one-third of Postal Service districts successfully centralized business mail entry network to varying degrees. In return, districts reported workhour savings, improved customer service, enhanced revenue protection, increased productivity, and improved compliance with Sarbanes-Oxley. However, the Postal Service did not adopt BMA centralization nationally by requiring field units to conduct and act on centralization feasibility studies. Consequently, we identified opportunities to further centralize BMA and increase operational efficiency, saving approximately $60 million annually related to overtime.

WHAT THE OIG RECOMMENDED:

We recommended revising and clarifying centralization feasibility study guidance; requiring districts to conduct such studies, review and document results, and take action based on the results; developing tools to monitor and manage BMA workhour performance to achieve a 93 percent efficiency rate; and establishing annual goals for business BMA workhour efficiency to include measuring performance against goals.

WHAT MANAGEMENT SAID:

Management partially agreed with the four recommendations, indicating they will update guidance, evaluate additional centralization opportunities following network optimization, develop a tool to assist the field with staffing and scheduling, and develop performance metrics. Management disagreed with the monetary impact and believed a 93 percent efficiency goal was too high, as was the monetary impact calculation.

AUDITORS' COMMENTS:

Management's comments were generally responsive to the recommendations and should resolve the issues identified in the report. We believe the 93 percent goal and associated monetary impact are reasonable and attainable. In fiscal year (FY) 2010, BMA operations in 16 districts achieved or were close to achieving 93 percent efficiency. Further, in FY 2009, the lowest retail efficiency goal was 93 percent. With increased focus, we believe BMA operations can achieve the same efficiency.

Link to review the entire report

September 23, 2011

MEMORANDUM FOR: PRITHA MEHRA
VICE PRESIDENT, MAIL ENTRY AND PAYMENT
TECHNOLOGY
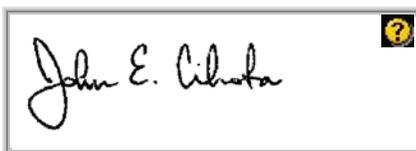
FROM: John E. Cihota
Deputy Assistant Inspector General
  for Financial Accountability

SUBJECT: Audit Report – Business Mail Acceptance
Centralization Process (Report Number FF-AR-11-015)

This report presents the results of our audit of the Business Mail Acceptance
Centralization Process (Project Number 11BD004FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any
questions or need additional information, please contact Kevin H. Ellenberger, director,
Field Financial, East, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan
      Ellis A. Burgoyne
      Joseph Corbett
      All Area Operations Vice Presidents
      Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the business mail acceptance (BMA) centralization process (Project Number 11BD004FF000). This audit addresses financial risk. Our objectives were to evaluate U.S. Postal Service efforts to centralize BMA operations and assess the opportunity for additional centralization. See Appendix A for additional information about this audit.

Permit Imprint and Periodicals business mailings accounted for $31.2 billion in Postal Service revenue in fiscal year (FY) 2010. This revenue was reported for 19,639 units nationwide. Permit Imprint and Periodicals mailings have no postage affixed to them and must meet preparation standards to qualify for discounted rates.[1] Properly accepting these and other business mailings is critical for the Postal Service to ensure that processing costs align with associated revenue. Business mail entry units (BMEUs) have dedicated acceptance staff with specialized training. Local retail units can also accept business mail; however, retail unit personnel may receive mailings infrequently and often have little mail acceptance training. Although Postal Service Headquarters BMA officials developed *Business Mail Entry Centralization Standard Operating Procedures (SOP)* in November 2008, only 26 districts decided to centralize BMA at larger units with more experienced personnel and better controls*.*

Conclusion

The Postal Service did not consistently centralize BMA operations and opportunities exist for additional centralization. Although management provided suggested guidance, they did not require field units to conduct and act on centralization feasibility study results but rather allowed field managers to decide whether centralization was appropriate. We determined that approximately one-third of Postal Service districts (26 of 74[2]) successfully centralized the business mail entry network to varying degrees. Districts reported workhour savings, improved customer service, enhanced revenue protection, increased productivity, and improved compliance with Sarbanes-Oxley (SOX) requirements. Additionally, districts that previously centralized could benefit from further centralization. Consequently, we believe the Postal Service could save about $60 million annually by more efficiently using mail acceptance workhours.

Centralizing BMA

Management did not require field units to conduct and act on centralization feasibility study results. Rather, the Postal Service allowed area and district managers to decide whether to study the feasibility of mail acceptance centralization and centralize as appropriate. The Postal Service issued the Business Mail Entry Centralization SOP in

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[1] The Postal Service publishes preparation requirements and rate charts in the *Domestic Mail Manual*.
[2] The number of districts that existed prior to the March 2011 realignment. Currently, there are 67 districts in the nation.

November 2008 to address requests from field offices for a standardized process to centralize their business mail operations.

BMA managers stated they did not want to require centralization because Postal Service area personnel manage BMA workhours. However, other headquarters functional areas developed and implemented strategies to consolidate operations and achieve gains in efficiency. For example, Area Mail Processing (AMP)[3] and Delivery Unit Optimization (DUO)[4] initiatives use capacity at larger facilities by shifting the workload from smaller sites. At the headquarters level, the vice president, Network Operations, can initiate the AMP process[5] and the Postal Service Facilities group created a sophisticated mapping and DUO candidate office identification tool.[6] Therefore, we believe BMA managers can appropriately initiate efforts in conjunction with the Postal Service areas to study and act on centralizing BMA.

Additionally, the SOP appeared complete and thorough but may have included too much detail and, therefore, hindered area and district management from conducting centralization studies. Specifically, the SOP contained duplicate and outdated procedures and prescribed tasks did not always flow in chronological order. For example, we identified 10 duplicate tasks out of 115 individual tasks in the SOP. In addition, the SOP was confusing at times, stating, "There must be no premature communications with customers regarding centralization plans prior to final AVP[7] approval." However, the feasibility study conducted before approval includes sections asking for a mailer impact analysis and an evaluation of how to mitigate customer concerns.

BMA personnel stated they did not issue the SOP as a management instruction and did not go through corporate publishing for agency-wide approval. Rather, they issued the SOP as a guide. BMA used the AMP[8] and *Post Office Discontinuance Guide*[9] as a template to develop the SOP and attempted to give centralization teams the opportunity to consider all possible scenarios when conducting centralization studies. BMA did not intend all SOP tasks to apply in all instances, such as the centralization of very small units to larger units nearby. This intent was not always clear to district management responsible for conducting centralization tasks. For example, one manager who centralized some units prior to SOP issuance stated that if the district had to adhere to the current process no centralizing would occur. The manager stated that the work the SOP requires goes too far. Other district BMEU managers and acceptance personnel indicated awareness of the SOP but did not strictly adhere to it when centralizing.

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[3] The AMP initiative is the consolidation of all originating and/or destination distribution operations from one or more Post Offices/facilities into other automated processing facilities for the purpose of improving operational efficiency and/or service.
[4] DUO is designed to increase operational efficiency by relocating delivery operations into "hub facilities" within a district.
[5] Handbook PO-408, *Area Mail Processing Guidelines*, Section 1-4, March 2008.
[6] *Delivery Unit Optimization Guidelines*, Version 1.1, December 2010.
[7] Area Operations Vice President.
[8] Handbook PO-408.
[9] Handbook PO-101, *Post Office Discontinuance Guide*, August 2007.

As a result, and as discussed below, we found that significant opportunities exist to further centralize BMA, realize operational benefits by centralizing BMA, and greatly improve operational efficiencies.

Opportunities to Further Centralize BMA

We contacted all 74 districts to determine the extent of BMA centralization nationwide. We determined that 26 districts centralized the BMA process to varying degrees. These districts discontinued acceptance at 2,003 affected units, merging them into 355 centralized acceptance centers (CACs). Ten districts reported extensive centralization, while 16 other districts reported limited efforts.[10]

We identified 19,639 finance units nationwide that reported Permit Imprint and Periodicals revenue during FY 2010.[11] We judgmentally selected three districts that represented varying degrees of centralization to analyze and determine whether opportunities existed to further centralize BMA:

- The Northern New England District reported a limited centralization effort in which three units were centralized into one CAC.

- The Westchester District reported centralizing 165 units into 11 CACs.

- The Western Pennsylvania District reported no centralization performed.

We mapped and analyzed all sites that reported business mail revenue in the Western Pennsylvania, Northern New England, and Westchester Districts; and then reviewed the results to determine whether districts could conduct initial or additional centralizations. Based on SOP guidelines,[12] the potential exists to move nearly all acceptance operations to *PostalOne!* units, which are generally staffed with more experienced personnel using automated processes and controls to conduct mail acceptance. For example, we found the Western Pennsylvania District could centralize 422 of 425 (99.3 percent) non-*PostalOne!* units into 87 *PostalOne!* units. We observed similar results when we mapped permit revenue units in the Northern New England District. Our review of the permit revenue map indicated that an overwhelming number of units not using *PostalOne!* were within a 10-mile radius of existing *PostalOne!* units and almost all of the remaining units fell within a 20-mile radius. Although the Westchester District previously performed a significant amount of centralization, we found 25 of the 38 units not using the *PostalOne!* reporting technology were within a 10-mile radius of 18 existing *PostalOne!* units and only four of those 38 were outside a 20-mile radius. Table 1 provides details of our analysis.

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[10] We classified districts that centralized 50 or fewer units as "limited efforts."
[11] Approximately 13,000 of these are retail units not using *PostalOne!* reporting technology.
[12] The SOP recommends a 20-mile limit on centralization.

Table 1 – Analysis of Business Mail Revenue Locations

District	Number of Units Reporting Permit Revenue	Number of *PostalOne!* Units Reporting Permit Revenue	Number of Non-*PostalOne!* Units Reporting Permit Revenue	Number of Non-*PostalOne!* Units within a 10-mile Radius of Existing *PostalOne!* Units	Number of Non-*PostalOne!* Units outside a 20-mile Radius of Existing *PostalOne!* Units
Northern New England	614	171	443	342	11
Westchester	56	18	38	25	4
Western Pennsylvania	512	87	425	316	3

Source: Enterprise Data Warehouse (EDW) in the Postal Service Corporate Reporting Portal.

Map 1 shows FY 2010 business mail revenue sites in the Westchester District with 20-mile radius rings around the blue highlighted *PostalOne!* sites. Yellow highlighted points represent sites outside a 20-mile radius of existing *PostalOne!* sites.

Map 1 – Westchester District Business Mail Revenue Sites
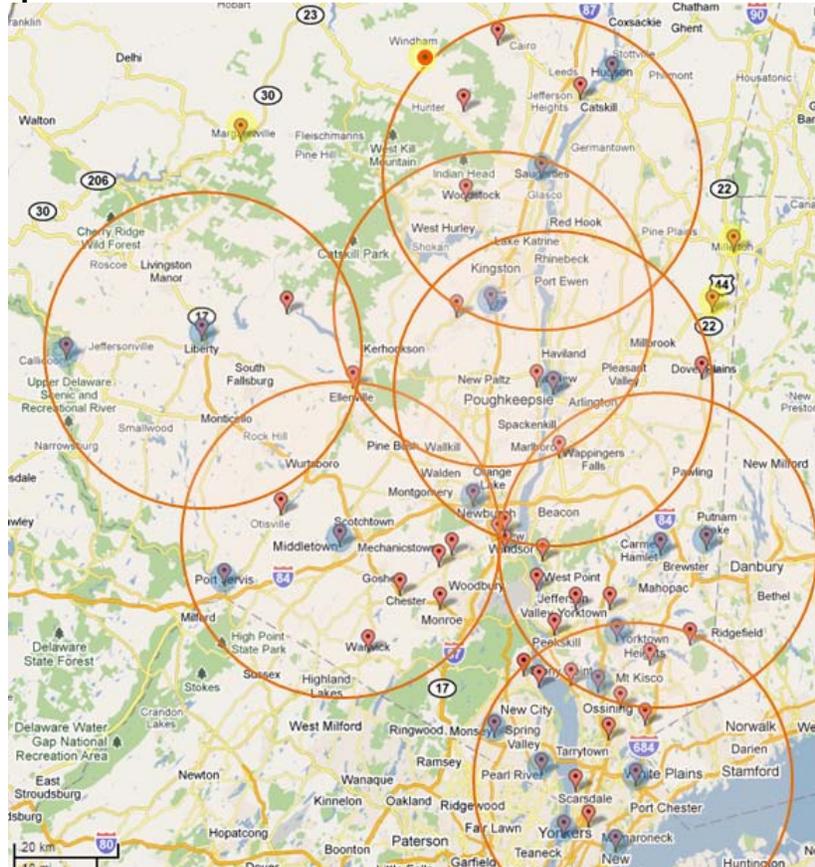
Source: Revenue sites by reporting technology plotted using the BatchGeo application.

Operational Benefits of Centralizing BMA

We visited two districts that previously centralized acceptance functions. We interviewed management, clerks, and customers from two judgmentally selected CACs and two impacted units in each district. District management stated the goals of the centralization effort included improved efficiency, revenue protection, better visibility, and accountability. Both districts stated that centralization met their expectations. All four receiving units reported they were able to absorb the additional volume without adding workhours because the increased workload was minimal. Comments from affected units indicated centralization alleviated the burden of staying current with changing business mail regulations and eliminated daily SOX reporting that is required even when units accepted no mailings.

In one district which centralized units beyond the 20-mile limitation suggested in the SOP, customers adapted well to the changes. The district sent letters explaining the changes and directions to the new unit and made extensive use of Convenience Deposit Points (CDPs) to mitigate customer inconvenience. By establishing CDPs at affected sites located farther away from the CACs, customers could continue to drop mailings of five trays or less at or near the units they previously used. District personnel also linked Point-of-Service (POS) terminals at the affected sites to the new unit's *PostalOne!* system, allowing customers to continue making deposits and paying fees locally.[13]

We surveyed BMEU management in all 74 districts to determine the extent of centralization, obtained their opinions on the SOP, and ascertained how they used the SOP. We received 71 responses from 65 districts,[14] including 23 responses from 21 of the 26 centralized districts.[15] Managers stated that they realized many benefits from centralization and that 11 of the 21 districts are considering more centralization. District BMEU managers provided us with the following benefits:

- Increased revenue protection
- Improved customer service
- Greater SOX compliance
- Workhour savings
- Ability to better focus mail acceptance resources
- Better information consistently provided to customers

In December 2010, the U.S. Postal Service Office of Inspector General (OIG) hosted an external blog for the public to comment on BMA entry points. Sixty-seven percent of the responses supported the Postal Service limiting business mail entry points to those units on *PostalOne!* and with personnel familiar with complex mailing requirements.

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[13] The POS system is the primary hardware and software system used to conduct sales transactions. Units cannot post fee payments and trust fund deposits directly to *PostalOne!*, which is the primary trust management application with built-in controls over mail acceptance.

[14] Six districts provided duplicate responses.

[15] We received responses from both the marketing manager and business mail entry manager for two of the 21 previously centralized districts.

Bloggers commented that BMA requirements are complicated and acceptance personnel may interpret requirements differently. Others expressed concern that untrained personnel at some units accept mail that does not meet standards for the discounted rates claimed.

Improving Operational Efficiency

Current BMA units do not always have sufficient workload to match workhours and the Postal Service did not have metrics in place to effectively manage mail acceptance workhours.

We identified 1,773 finance numbers nationwide reporting approximately 7.1 million business mail entry (Labor Distribution Code (LDC) 79)[16] workhours during FY 2010. Units associated with these finance numbers processed approximately 10.4 million business mailings. These units may be BMEUs, detached mail units (DMUs), or retail units. We noted that centralized CAC sites in districts we visited absorbed additional workload resulting from impacted sites without a corresponding increase in workhours. To understand why units absorb the additional work following centralization, we assessed the efficiency of LDC 79 workhours by requesting the rate and standards from BMA.

We determined that BMA did not measure how efficiently acceptance personnel perform acceptance tasks and only provided tools to monitor compliance with tasks such as Mail Evaluation Readability and Lookup INstrument (MERLIN)[17] verifications and completion of SOX certification documentation. Although BMA is developing time measurements for a staffing and scheduling tool in *PostalOne!,* the application is incomplete and there are no efficiency goals for use after that tool is available. Further, BMA reported they did not establish efficiency measurement factors, such as average mailings per hour or average minutes per mailing.

A previously issued OIG audit report[18] determined that each Postal Service area established goals for retail efficiency and in FY 2009 the lowest retail efficiency goal was 93 percent. Retail units received earned workhour credit for BMA activities in the efficiency calculation at a rate of 28.4 minutes per mailing. We determined that LDC 79 units nationwide achieved overall efficiency rates[19] of approximately 66 percent in FY 2009 and 69 percent in FY 2010.[20] We believe it is reasonable for the Postal Service to improve the efficiency of LDC 79 workhour usage to 93 percent by centralizing acceptance, re-allocating budgeted workhours, and right-sizing staffing levels. This

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[16] Business mail entry workhours are reported in Labor Distribution Code (LDC) 79. An LDC is a 2-digit code that identifies major work assignments of employees. The first number identifies the function within an office and the second identifies the type of activity being performed. LDC 79 workhours are part of the marketing and communications function and are used for mailing requirements and business mail entry activities.

[17] An automated tool that assists BMA employees with verification processes by comparing certain mail characteristics against established Postal Service standards.

[18] *Efficiency of Retail Customer Service Operations* (Report Number MS-AR-10-004, dated July 28, 2010).

[19] Efficiency rate calculations includes mail acceptance activity at DMUs.

[20] We divided the actual number of postage statements processed by the potential number of postage statements processed based on the number of LDC 79 workhours at a rate of 28.4 minutes per mailing.

would save the Postal Service approximately $60 million annually. See Appendix B for information on the monetary impact.

Other Matters

BMA is currently conducting a redesign study that may include redefining the rules for preparing, accepting, and verifying mail. They are considering a streamlined acceptance process where customers can present mail with Intelligent Mail Barcodes (IMB) and electronic documentation at any Postal Service access point and pay postage using an automated process from a central account. Mail preparation is verified electronically during processing, using passive sorting machine scans and little or no manual intervention. Therefore, basic business mail could have relaxed preparation requirements; however, the redesign is in the early stages and not fully developed. BMA was unable to provide a timeline for implementation other than to say it would be implemented in stages. Additionally, as the process evolves, some basic business mail not meeting streamlined acceptance requirements may still require manual verification. Therefore, centralizing BMA could be a valuable component of the streamlined acceptance process. For example, reducing the number of locations that would accept mail that requires manual verification could incentivize customers to use IMB barcodes and electronic documentation if the Postal Service linked that use to expanded streamlined acceptance access points.

Recommendations

We recommend the vice president, Mail Entry and Payment Technology, in conjunction with the vice presidents, Area Operations:

1. Adopt a standardized, clear process to guide each district on how to conduct a centralization feasibility study and update the *Business Mail Entry Centralization Standard Operating Procedure* accordingly.

2. Require each district to conduct a centralization feasibility study, document the results, and take action based on the results of the study, as appropriate.

3. Manage business mail entry workhour usage to achieve 93 percent efficiency and develop tools to monitor performance.

4. Establish annual goals for business mail entry workhour efficiency to include measuring performance against goals.

Management's Comments

Management agreed with recommendations 1 and 4, indicating BMA is currently updating the SOP to reduce the overall complexity of the original process outlined. BMA will distribute the SOP for field use by March 30, 2012, to coincide with the start of network optimization deployment. In addition, BMA will devise performance metrics by September 30, 2012, based on a staffing tool currently in development.

Management partially agreed with recommendation 2, stating that during FY 2012, BMA will follow the network optimization timeline and focus centralization efforts on reacting to the projected impact on BMA operations and mailers. They will evaluate the need for additional centralization beginning October 1, 2012, following the completion of network optimization. The target completion date is October 1, 2013.

Management partially agreed with recommendation 3 and stated the Postal Service is currently developing, vetting, and validating a management tool, scheduled for deployment by September 30, 2012. The tool will help determine recommended staffing levels. Management disagreed with a targeted efficiency rate of 93 percent, stating that similar systems use an 80 percent efficiency rate to account for inherent randomness and variability in customer arrival times and processing requirements. Further, they disagreed with the monetary impact amount because it was based on the 93 percent efficiency rate.

See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to recommendations 1, 2, and 4, and management's actions should resolve the issues identified in the report.

The OIG considers management's comment on recommendation 3 to be partially responsive because they plan to implement a tool enabling Postal Service management to make more informed staffing decisions and enable monitoring. However, the OIG disagrees that 80 percent is the most efficient rate achievable for business mail entry operations. For FY 2010, the OIG identified nine districts that met or exceeded the proposed 93 percent goal, and an additional seven districts have achieved between 83 and 93 percent efficiency. Further, the Postal Service can control much of the randomness and variability which management states are the obstacles in achieving greater efficiencies. For example, the Postal Service has control over the hours of operation, can manage staffing levels to match service needs, and can schedule appointments for mailers. Additionally, as stated in the report, 93 percent was the lowest retail efficiency goal. The OIG considers the 93 percent efficiency goal attainable for business mail entry operations and, the monetary impact calculations based on the 93 percent efficiency rate, to be conservative and reasonable.

The OIG considers all the recommendations 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.

Appendix A: Additional Information

Background

In FY 2010, the Postal Service reported approximately $31.2 billion in Permit Imprint and Periodicals business mailings revenue from 19,639 facilities, which include BMEUs and retail units.[21] A BMEU is an area at a postal facility designated to accept bulk business mail. Bulk business mail must meet minimum quantities and specific preparation requirements to receive certain discounts. BMEUs use the *PostalOne!* system for recording business mail and Periodicals transactions. *PostalOne!* has built-in controls that assist acceptance personnel with properly accepting the mail and managing the daily business of the unit.

Postal Service retail units provide an array of postal products and services to the general public and business customers, including:

- Selling stamps and mailing supplies.
- Accepting all classes of mail and individual mailpieces.
- Selling money orders.
- Providing post office box and caller service.
- Accepting application for passports.

Some retail units also accept limited amounts of bulk business mail; however, mailings may be infrequent. In FY 2010, we determined that approximately 13,000 retail units nationwide reported Imprint Permit and Periodicals revenue using systems other than *PostalOne!*.[22]

Clerks at BMEUs are eligible to receive basic training consisting of an extensive 2-week mail acceptance training session for accepting business mail offered at the National Center for Employee Development in Norman, OK. Conversely, personnel in retail units are only eligible for approximately 12 hours of online training as a base. Regardless of the system and the level of training, it is critical that all employees accepting business mail adhere to Postal Service policies to ensure the Postal Service receives proper compensation for business mail services.

The Postal Service reported losses of $3.8 billion and $8.5 billion in FYs 2009 and 2010, respectively, due, in part, to decreased mail volume and increased competition. Within this environment, the Postal Service must continue to explore opportunities to improve its processes and eliminate redundancies in its system. Several functional areas within the Postal Service required area management to study and centralize operations to achieve gains in efficiency. For instance, the Postal Service continues to consolidate mail processing facilities and delivery units to better utilize excess capacity and realize cost savings and is contracting the retail network. The Postal Service has not required area management to study and centralize BMA.

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[21] Retail units include Postal Service offices, stations, and branches.
[22] Non-*PostalOne!* systems include POS, Integrated Retail Terminal, and eMoves.

Objectives, Scope, and Methodology

Our objectives were to evaluate the Postal Service's efforts to centralize the BMA process and assess the opportunity for additional centralization. To accomplish these objectives we:

- Conducted site visits at two judgmentally selected districts that previously centralized the acceptance function to gain an understanding of the impacts on the Postal Service and its stakeholders.

- Analyzed the potential for additional centralization for three judgmentally selected districts by mapping permit and Periodicals revenue reported in the EDW[23] for FY 2010. We discussed the results with one district that did not previously centralize acceptance.

- Analyzed the SOP by breaking the process into tasks and organized the tasks according to what it is, who performs it, what steps are involved, and how those steps are accomplished.

- Conducted a nationwide survey of district BMEU management to determine the extent of BMA centralization, how the SOP was perceived, and how it was used. We discussed the results with the Postal Service.

- Computed the LDC 79 efficiency rates for FYs 2009 and 2010 by:

  - Obtaining and analyzing Postal Service facilities' LDC 79 workhours from the eFlash[24] System by area and obtaining business mailings attributable to those LDC 79 workhours from Application System Reporting (ASR) in the Postal Service Corporate Reporting Portal.[25]

  - Calculating LDC 79 efficiency percentages using the time credited for mail acceptance activities in the retail Customer Service Variance (CSV)[26] application and a 93 percent efficiency goal.

- Hosted online discussions on whether or not the Postal Service should limit business mail entry points and reviewed 23 responses.

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[23] A warehouse that provides a single repository for managing the Postal Service's corporate data assets and a common source of corporate data across Postal Service organizations.

[24] A weekly reporting management system that combines data from Delivery, Mail Processing, Employee Relations, Labor Relations, and Finance.

[25] Consolidates reporting applications hosted under the EDW and ASR banners. ASR supports application-specific reporting for data not captured within EDW.

[26] A management tool that provides earned workload using nationally established factors. This model analyzes the number of employees, workhours, workload, and productivity performance using automated data sources. Managers and supervisors can use the reports generated from this model to right-size the number of employees needed to support the earned workload.

We conducted this performance audit from October 2010 through September 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on July 28, 2011, and included their comments where appropriate.

We relied on data obtained from EDW, ASR, CSV and eFlash. We assessed the reliability of the data by tracing and verifying recorded transactions to source data and interviewing knowledgeable officials about the data. For example, we compared source data in *PostalOne!* to the number of postage statements reported by ASR queries. 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	Report Results
Efficiency of Retail Customer Service Operations	MS-AR-10-004	7/28/2010	$613 million	Opportunities exist to reduce retail Customer Service workhours by 14.3 million and increase operational efficiency to 93 percent. Some district offices consolidated BMA operations but others have yet to do so. Management agreed with our results.
Mail Processing Network Initiatives Progressing, and Guidance for Consolidating Area Mail Processing Operations Being Followed	GAO-10-731	6/16/2010	None	The Postal Service developed several initiatives to reduce costs and increase efficiency; however, moving forward on some initiatives has been challenging because of the complexities involved in consolidating operations. Further, it has followed Postal Service guidance and consistently applied criteria in consolidating its AMP facilities.

Appendix B: Monetary Impact

Finding	Impact Category	Amount
Centralizing BMA	Questioned Costs[27]	$ 113,009,745
Centralizing BMA	Funds Put to Better Use[28]	118,969,551
Total		**$ 231,979,296**

The Postal Service monitors retail operations from headquarters and provides tools for managing staffing levels and measuring efficiency. One of those tools, CSV, presents retail efficiency as a percentage.[29] We chose CSV standards to measure LDC 79 performance because part of the retail unit efficiency measurement relates to BMA. In addition, a previously issued OIG audit report[30] determined that each Postal Service area established goals for retail efficiency and, in FY 2009, the lowest retail efficiency goal was 93 percent. Retail units received earned workhour credit for BMA activities in the efficiency calculation at a rate of 28.4 minutes per mailing.

Clerks in LDC 79 offices are generally more proficient with BMA because of the number and variety of mailings they accept and the extensive mail acceptance training offered. Because of the experience and training available to LDC 79 clerks, we believe a workhour credit factor of 28.4 minutes per mailing for acceptance activities is reasonable, and 93 percent efficiency is attainable for LDC 79 workhours.

By achieving a 93 percent LDC 79 workhour efficiency at BMA units, excluding mail acceptance at DMUs, the Postal Service could have saved over 2.9 million overtime hours[31] in FYs 2009 and 2010, or $60 million in FY 2009 and $53 million FY 2010. Further, the Postal Service could save an additional $59 million in FY 2012 and $60 million FY 2013.[32]

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[27] Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etc. May be recoverable or unrecoverable and is usually a result of historical events.

[28] Funds that could be used more efficiently by implementing recommended actions.

[29] Retail efficiency in the CSV application is calculated by dividing Function 4 earned workhour credit by the actual workhours used in a retail unit. Earned workhours are calculated using established time factors and actual workload. Workload data is input manually by a review team or through automatic feeds from Postal Service databases. Efficiency is calculated as a percentage. Area offices determine annual goals.

[30] *Efficiency of Retail Customer Service Operations* (Report Number MS-AR-10-004, dated July 28, 2010).

[31] Based on excess capacity of 1,568,549 workhours in FY 2009 and 1,359,642 workhours in FY 2010 at a 93 percent efficiency rate from a base of 28.4 minutes per mailing.

[32] We adjusted our monetary impact calculation for a possible reduction related to workhours used in DMUs related to our audit of Mail Verification Procedures at DMUs (Project Number 11RG013MS000).

Appendix C: Management's Comments

PRITHA MEHRA
VICE PRESIDENT
MAIL ENTRY & PAYMENT TECHNOLOGY

UNITED STATES
POSTAL SERVICE

September 9, 2011

Shirian Holland
Acting Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-202

SUBJECT: Draft Audit Report – Business Mail Acceptance Centralization Process (Report Number FF-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We are in partial agreement with recommendation(s) 1- 4 of the report and attached is our response.

We are not in agreement with the monetary impact calculations because the OIG report uses an efficiency rate of 93% that we believe may not account for the inherent randomness and variability of the overall business mail acceptance process. The 93% efficiency rate would require a 27% decrease in LDC 79 workhours at current workload levels which we cannot validate at this time. We believe the current staffing tool in development will allow us to determine the proper complement levels and, therefore, the corresponding efficiency.

The subject report and this response does not contain any information related to potential security vulnerabilities that, if released, could be exploited and cause substantial harm to the U.S. Postal Service.

We do not believe that this report contains any proprietary or business information prohibiting disclosure pursuant to the Freedom of Information Act.

If you have any questions or comments regarding this response please contact Deborah Cumbo, Mail Entry at (202) 268-6393.

Pritha Mehra

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Ellis Burgoyne
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Area Vice Presidents
Corporate Audit and Response Management

Business Mail Centralization Process
Audit Report No. FF-AR-11-DRAFT
Project Number: 11BD004ff000

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

1. **Adopt a standardized, clear process to guide each district on how to conduct a centralization feasibility study and update the** *Business Mail Entry Centralization Standard Operating Procedure* **accordingly.**

   Management Response
   We are in the process of updating the *Business Mail Entry Centralization Standard Operating Procedure*. The SOP is being reformatted to reduce the overall complexity of the original process outline. Much of the narrative is being replaced with Implementation Task Checklists and step-by-step instructions which will be easier to follow and comprehend by the broad group of process users.

   The SOP will be updated and distributed for field use by the end of PQ 2 FY 12 to coincide with the start of the Network Optimization deployment.

   Target Completion Date: March 2012

   Responsible Official: Pritha Mehra

2. **Require each district to conduct a centralization feasibility study, document the results, and take action based on the results of the study, as appropriate.**

   Management Response
   As a result of the FY 12 Network Optimization, we will focus all Centralization efforts on impacted facilities only in order to react to the projected impact on Business Mail Acceptance operations and our mailers. We believe this to be the more prudent approach given the anticipated staff workload associated with the planned downsizing of our mail processing network.

   The Network Optimization timeline will be followed when implementing Centralization in FY 12. We will evaluate the need for additional Centralization following the completion of the Network Optimization beginning Oct 1, 2012.

   Target Completion Date: October 1, 2013

   Responsible Official: Pritha Mehra

3. **Manage business mail entry workhour usage to achieve 93 percent efficiency and develop tools to monitor performance.**

   Management Response
   We are developing a *PostalOne!* staffing tool which will be used to determine recommended staffing levels for Business Mail Acceptance. The tool must be vetted and validated before deployment which is planned for PQ 4 of FY 12.

   We believe the assumption of a 93% efficiency rate is on the higher side from a practical stand point. We also believe this rate may not account for the inherent randomness and variability in the

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arrival, processing and clearance of the mail. Customers by nature arrive at random times and, therefore, there will be varied levels of workload during different times of the day. In addition, the time required to process a mailing may also vary significantly. The arrival and processing rates in other similar systems are usually modeled as exponential distribution. Most systems retain some excess capacity and operate at about 80% efficiency to account for the randomness and variability just described.

Target Completion Date: September 2012

Responsible Official: Pritha Mehra

4. Establish annual goals for business mail entry workhour efficiency to include measuring performance against goals.

Management Response
We will use the *PostalOne!* staffing tool to develop performance metrics. We will determine the appropriate performance metrics by the end of FY 12.

Target Completion Date: September 30, 2012

Responsible Official: Pritha Mehra