



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

Expedited Packaging Supplies Program

Audit Report

December 28, 2011

Report Number FI-AR-12-001



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

Expedited Packaging Supplies Program

Report Number FI-AR-12-001

HIGHLIGHTS

IMPACT ON:

U.S. Postal Service Domestic Products operations, the Product Integration group, and mailers and shippers that use packaging supplies.

WHY THE OIG DID THE AUDIT:

To evaluate the efficiency and effectiveness of the expedited packaging supplies program. The program provides packaging supplies specifically designed for use with its domestic and international Express Mail® and Priority Mail® services at no additional cost to customers.

WHAT THE OIG FOUND:

The Postal Service did not have an efficient and effective process to identify and reduce waste associated with its expedited packaging supply program or a clear process in place to inform customers of return procedures for unused supplies. In addition, it did not update guidance to reflect changes to return policies, have standard operating procedures for major programs and processes, or fully implement audit recommendations from a 2005 audit in this area.

WHAT THE OIG RECOMMENDED:

We recommended implementing a procedure to determine the quantity of expedited packaging supplies retained by major mailers, post offices, and facilities that distribute supplies to customers; developing a plan to monitor usage and identify and reduce waste;

including return procedures on each order and updating guidance to reflect changes in return policies; creating and maintaining written policies and procedures for all major programs and processes associated with the expedited packaging supplies initiative; and creating periodic reports to compare distributed volume with usage volume.

WHAT MANAGEMENT SAID:

Management agreed with the findings and recommendations to revise Publication 22 and create policies and procedures for major expedited packaging supplies programs and processes. Management agreed in part with the other recommendations, but acknowledged the need to monitor supplies usage and reduce waste. They are currently using systems to monitor supply inventory and/or orders. They will launch the Solution for Enterprise Asset Management in fiscal year 2013 to further assist in inventorying and monitoring and will reevaluate programs and reports to compare distributed volume with usage volume.

AUDITORS' COMMENTS:


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

[Link to review the entire report](#)



December 28, 2011

MEMORANDUM FOR: GARY C. REBLIN
VICE PRESIDENT, DOMESTIC PRODUCTS

E-Signed by Denice Millett 
VERIFY authenticity with e-Sign
Denice M. Millett

FROM: *for*
John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Audit Report – Expedited Packaging Supplies Program
(Report Number FI-AR-12-001)

This report presents the results of our audit of the U.S. Postal Service's expedited packaging supplies program (Project Number 11BG010FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Denice Millett, director, Policy Formulation and Financial Controls, or me at 703-248-2100.

Attachments

cc: Paul Vogel
Deborah Giannoni-Jackson
Margaret L. Choiniere
John F. Gullo
Donna Coburn
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the U.S. Postal Service's expedited packaging supplies program (Project Number 11BG010FF000). This self-initiated audit addresses financial and operational risks. Our objective was to evaluate the efficiency and effectiveness of the expedited packaging supplies program. See [Appendix A](#) for additional information about this audit.

In 1995, the Postal Service began the Expedited Packaging Supplies Program with the introduction of flat rate envelopes and, in 2004, expanded the program with flat rate boxes. The program provides packaging supplies specifically designed for use with its domestic and international Express Mail® and Priority Mail® services at no additional cost to customers. The program allows the Postal Service to:

- Generate new revenue by attracting new customers while growing business with existing customers.
- Increase efficiency and improve on-time delivery through clear identification of Express Mail and Priority Mail items in the mailstream.
- Increase customer retention and loyalty by providing packaging that fits the customer's specific shipping needs.
- Reduce the number of incorrectly packaged and weak shipping containers.

In fiscal year (FY) 2010, the Postal Service spent more than \$158 million¹ in Express Mail and Priority Mail packaging supplies and reported over \$7.6 billion in revenue for these products.

Expedited packaging is Postal Service property and should only be used to send Express and Priority Mail packages. However, because the supplies are free and readily available at all post offices, some customers use the boxes, envelopes, and labels for other purposes.

Conclusion

Our review disclosed that the Postal Service did not have an efficient and effective process in place to identify and reduce waste associated with its expedited packaging supply program. Specifically, the Postal Service could not account for at least 370 million Express and Priority Mail boxes and envelopes, at a cost of approximately \$87 million, from FYs 2008 through 2010. This represents 19 percent² of the total

¹ Costs associated with purchasing packaging supplies include manufacturing, shipping, and fulfillment costs.

² The percentage of unused or unaccounted for packaging may be much higher because customers are allowed to mail Express and Priority Mail using their own packaging and the Post Office has no method to monitor usage when a customer provides their own packaging. The percentage excludes international packaging.

expedited packaging supplies³ produced for this timeframe. Consequently, we identified nearly \$29 million annually as assets at risk.

In addition, management did not have a clear process in place to inform customers of the return procedures for unused packaging supplies, did not update Publication 22⁴ to reflect current changes in return policies for co-branded packaging;⁵ did not have standard operating procedures for all the expedited packaging supply group's major programs and processes, and did not fully implement recommendations from a prior U.S. Postal Service Office of Inspector General (OIG) report regarding expedited packaging supplies.⁶

Inventory Control System Needs Improvement

The Postal Service does not have an effective inventory control system over its expedited packaging supplies. An effective system includes a process for developing inventory accountability, monitoring usage, and establishing return procedures.

Developing Inventory Accountability

Management does not currently have effective procedures in place to determine the quantity of expedited packaging supplies that post offices retain. A stated goal in the Postal Service's *Supply Management Three-Year Strategic Plan 2010-2012*⁷ is to improve asset management by establishing inventory visibility. In line with that goal, management is preparing to launch the Solution for Enterprise Asset Management (SEAM).⁸ The SEAM system is intended to streamline and standardize processes, increase accountability, optimize inventory levels, and reduce procurement and fulfillment operating costs incurred by the Postal Service. The system will be implemented at Point-of-Service (POS) offices,⁹ which represent 48 percent of all post offices and 92 percent of revenue. Management is considering the possibility of enhancing the SEAM system to include non-POS offices and contract postal units.¹⁰ The SEAM system implementation was originally scheduled for FY 2009; however, because of development delays, the system is now scheduled for implementation in June 2012. The Postal Service's future plans include establishing alternative locations for customers to conduct Postal Service business, such as Village Post Offices

³ For this audit, packaging supplies refers to Express Mail and Priority Mail boxes and envelopes only.

⁴ *Expedited Packaging Supplies Standard Operating Procedures*, December 2007.

⁵ Co-branded packaging involves printing the brand identity of the customer on the packaging along with the service brand identity of the Postal Service.

⁶ *Expedited Packaging Supplies* (Report Number MS-AR-05-002, dated September 28, 2005).

⁷ *Supply Management Three-Year Strategic Plan 2010–2012*, dated May 18, 2010.

⁸ An Oracle-based application developed to optimize inventory at distribution centers, vehicle maintenance facilities (spare parts), and post offices (Ready Post products, including expedited packaging supplies).

⁹ POS offices contain terminals that are the primary hardware and software system used to conduct sales transactions during the post office check-out process.

¹⁰ A contract postal unit is a Post Office located inside a retail establishment and operated by the retailer's employees.

(VPOs);¹¹ therefore, if expedited packaging supplies are distributed to customers at VPO locations, the Postal Service will need to consider implementing an inventory tracking system for these locations.

We believe the SEAM system, if implemented as intended,¹² will significantly enhance inventory monitoring and accountability of expedited packaging supplies. Additionally, if management developed a more complete automated inventory system for facilities that distribute expedited packaging supplies, it would improve the tracking of Postal Service products and help reduce waste. Specifically, improved inventory accountability helps optimize inventory levels, reduce procurement and fulfillment operating costs, lessen the risk of misuse, and provide management with data to make their supply chain as effective as possible. The following picture is one example of misuse:

Picture 1: Postal Service Box Being Turned Inside Out for Reuse



Source: *The Consumerist*, dated May 1, 2008.¹³

Another example of misuse involves customers using Postal Service expedited packaging boxes to ship products using a competitor's services.

Monitoring Usage

Management has not developed or implemented a comprehensive system to monitor the use of expedited packaging supplies. Although management has implemented programs to monitor some segments of the expedited packaging supply chain, including fulfillment centers and major mailers,¹⁴ these programs have not been effective in

¹¹ Potential replacement options for communities either lacking a Postal Service retail facility or affected by retail optimization efforts. VPOs will operate in non-Postal Service establishments and can provide a range of postal services.

¹² The SEAM system is intended to improve inventory management, forecasting, and auto replenishing of expedited packaging supplies at post offices with POS.

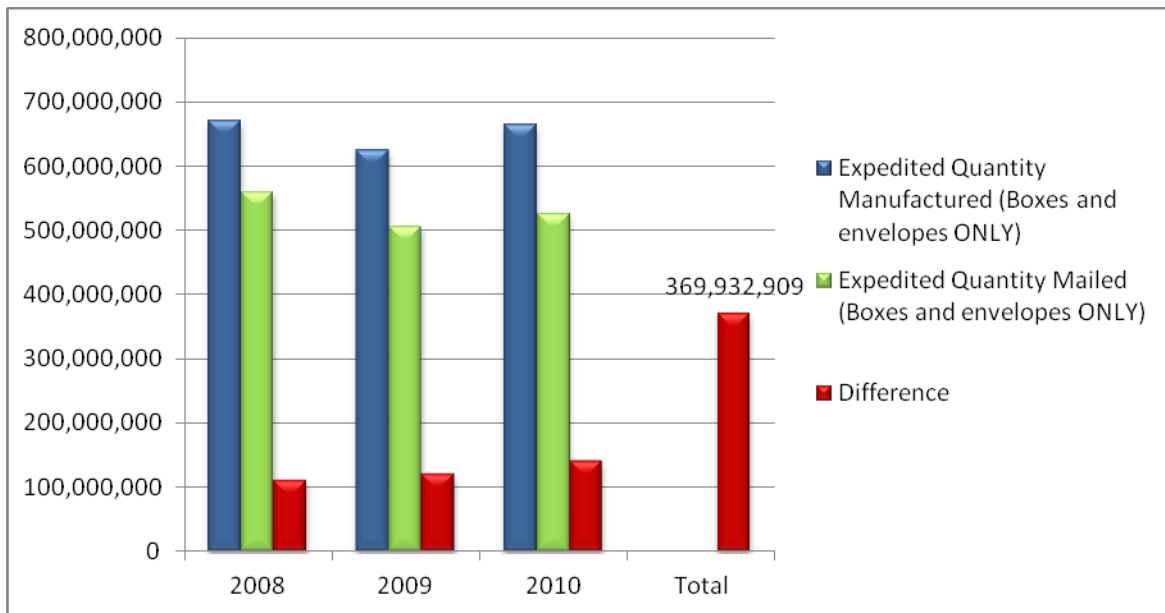
¹³ [Don't Reuse That USPS Priority Box, It's Illegal](#), by Jay Slatkin.

¹⁴ Fulfillment centers are contractor-operated distribution centers. They are responsible for processing and filling expedited packaging supply orders for post offices and major mailers. The term "major mailers" refers to mailers who order six pallets or more of supplies in a single order.

reducing the percentage of unaccounted for¹⁵ packaging supplies. See [Appendix A](#) for additional information about the programs management has implemented.

In FY 2005,¹⁶ the OIG performed an audit of the expedited packaging supplies¹⁷ and determined that 17 percent of the supplies¹⁸ were unaccounted for. In this audit, we reviewed packaging supply usage during FYs 2008 through 2010 and determined the Postal Service could not account for approximately 370 million, or 19 percent,¹⁹ of Express and Priority Mail boxes and envelopes,²⁰ at an estimated cost of approximately \$87 million (see Table 1 for more details).

Table 1: Unaccounted For Expedited Packaging Supplies



Source: Revenue, Pieces, and Weight (RPW) system; Origin Destination Information System – Revenue, Pieces and Weight (ODIS-RPW) System;²¹ and manager, Business Solutions.

Management has implemented numerous programs and processes to monitor and reduce waste associated with the expedited packaging supplies program (see [Appendix A](#) for more details on these programs). Despite these initiatives, the percentage of unaccounted for packaging has increased. Consequently, we identified

¹⁵ The term “unaccounted for” represents manufactured packaging supplies that did not enter the mailstream.

¹⁶ The audit period for the FY 2005 audit was FYs 2000 through 2003.

¹⁷ *Expedited Packaging Supplies* (Report Number [MS-AR-05-002](#), dated September 28, 2005).

¹⁸ Supplies include domestic Express and Priority Mail boxes and envelopes only.

¹⁹ During FYs 2008 through 2010, the Postal Service purchased approximately 2 billion domestic Express and Priority Mail boxes and envelopes at a cost of over \$459 million; however, only 1.6 billion mailpieces entered the mailstream during this time.

²⁰ Due to Postal Service system limitations, the Express Mail volume data include other packaging supply items such as tapes and labels. As a result, these items are included in the calculation.

²¹ Volume data for Express and Priority Mail were obtained from the RPW and ODIS-RPW systems, respectively.

Both Priority and Express Mail data included domestic boxes and envelopes that entered the mailstream for FYs 2008 through 2010. However, due to system limitations, Express Mail data also included other categories of supplies such as labels and tape.

\$28,925,734 annually as assets at risk (see [Appendix B](#)). Management stated they could not determine the specific reason for the increase.

We acknowledge the Postal Service's efforts to monitor pieces and validate revenue;²² however, we believe these efforts have not successfully reduced the percentage of unaccounted for expedited packaging supplies due, in part, to inadequate inventory system at post offices and the following weaknesses in the process:

- Management cannot accurately determine the specific type and corresponding quantity of customized and specialized packaging²³ mailed by a customer to accurately determine whether additional shipments are needed. Management uses several reports to identify the number of pieces mailed, the revenue generated since the last shipment of supplies, and whether the customer is on track to meet their revenue commitment²⁴ for the year. If necessary, management contacts the customer to determine whether additional supplies are needed. Once a justification is deemed valid, management authorizes additional shipments of customized and specialized packaging; however, our review disclosed that the reports management use include pieces and revenue for all types of mailings. For example, the report may indicate that 10,000 items of Priority Mail have been mailed, but it does not distinguish what type of Priority Mail was shipped (flat rate boxes, envelopes, non-flat rate priority, customized, specialized, for example). Without the breakout by type, management will not know which product the customer used.
- Management does not review revenue commitments for co-branded standard, customized, and specialized packaging. Revenue commitments for co-branded products require generating \$250,000 or more of revenue annually.²⁵ By not reviewing revenue commitments, the Postal Service may incur additional costs producing co-branded packaging for customers who are not generating the required annual revenue.
- The marketing specialist uses a judgmental determination based on knowledge and experience to determine whether additional fulfillment of supplies is warranted and revenue commitments are achieved. This determination is made prior to authorizing additional shipments of expedited packaging supplies that require revenue commitments. The use of a systematic method would provide a more consistent, objective approach to identifying acceptable thresholds and guidelines for fulfillment of supplies.

²² See [Appendix A](#) for a list of the 13 programs and processes.

²³ Customized packaging consists of boxes, envelopes, cohesive packaging, and address labels that are created to meet a customer's specific dimensional needs. Specialized packaging consists of a predetermined set of expedited packaging items that have proven popular with customers. These items are not maintained in inventory but instead are produced on-demand and shipped directly to the customer.

²⁴ Specialized packaging customers have a minimum revenue requirement of \$50,000. Customized packaging customers have a minimum revenue requirement of \$250,000.

²⁵ Publication 22, pages 7, 13, and 23.

- The Postal Service does not monitor the mailing activity of customers who order less than six pallets²⁶ of expedited packaging supplies directly from the fulfillment center. As a result, the Postal Service cannot identify and monitor customers who repeatedly order less than six pallets of packaging supplies and have not mailed a reasonable number of pieces since their last shipment.

The Postal Service provides expedited packaging supplies to its customers at no charge and does not control distribution of the supplies to its customers from post offices. Management contends that the complimentary packaging supplies are a unique selling tool and major factor in the growth of the packaging business. However, our review of the major competitors indicates an opportunity to enhance controls and reduce waste. Specifically, in a recent OIG-sponsored web log (blog) soliciting comments from the public on the expedited packaging supply services,²⁷ 74 percent of the respondents supported the Postal Service's monitoring of packaging supplies to control costs. Also, a review of the Postal Service's competitors indicates they provide free shipping supplies only for customers who have accounts; for customers who do not have accounts, prices for boxes range from \$1.75 to more than \$20. If the Postal Service were to implement a similar practice to monitor usage for customers who have accounts and charge customers who do not have an account for supplies, management could improve controls over distribution and waste.

Developing a comprehensive plan to monitor the ordering and usage of packaging supplies will enable the Postal Service to reduce costs and identify waste related to the expedited packaging supplies program. Misuse of expedited packaging supplies results in additional cost to the Postal Service and violates federal law.²⁸

Establishing Return Procedures

Our review disclosed two weaknesses in the expedited packaging supplies return procedures. Specifically, the Postal Service does not have a clear process in place to inform customers of the return procedures for unused packaging supplies and has not updated Publication 22 to reflect current changes in return policies for co-branded packaging.

- Return Procedures — the Postal Service has specific return procedures for packaging supplies;²⁹ however, these procedures are not clearly disseminated to the general public. For example, during our on-site visit to one of the expedited packaging supply fulfillment centers, the audit team confirmed that a standard customer order³⁰ does not contain return instructions. Non-standard orders,³¹ which are packaged into bundles, contain packaging slips listing a toll-free number to

²⁶ Management performed a study and determined it was cost advantageous to ship six pallets or more of supplies directly from the manufacturer to the customer.

²⁷ Expedited packaging supplies blog, <http://blog.uspsaig.gov/?p=4846#>.

²⁸ U.S.C. Title 18, § 1707.

²⁹ Publication 22, pages 7, 12, 22, and 23.

³⁰ Standard orders are pre-bundled expedited packaging supplies.

³¹ Non-standard orders are single pieces used to fill orders.

report problems with the order. The audit team called the toll-free number and determined that, while there was a prompt for other matters, there was no specific prompt for processing returns. One individual, who identified himself as a mail service provider, posted the following comment on our OIG external blog about his difficulty in returning expedited packing supplies:

I have been sent USPS (packaging materials) in excess of my needs. I have two pallets of Priority Drop Ship Open and Distribute tray boxes that I do not use. I have had them in my warehouse for almost two years. I have contacted the USPS in an attempt to return the (packaging) materials, but oddly there is no system for returns...of these materials. I have cartons of flat rate Priority envelopes and boxes as well left over from mailing projects. I must have several thousand dollars worth of postal packaging in my warehouse not creating anything but cost to the USPS.

- Co-branded Packaging — management has not updated Publication 22³² to reflect current changes in return policies. Specifically, Publication 22 currently does not allow co-branded customized and specialized packaging to be returned, nor does it provide specific information for standard³³ co-branded packaging returns. However, Postal Service Headquarters implemented a process in which customers can return co-branded packaging supplies, which the Postal Service then uses internally to ship stamp stock from stamp distribution offices to post offices. Management stated that the current process implemented by headquarters is an unofficial policy created in an effort to use returned co-branded packaging. In the past, management has not had procedures in place to accommodate co-branded packaging returns from customers who requested product changes or no longer need the packaging. We believe the Postal Service's internal reuse of returned co-branded packaging supplies is a creative, cost-effective, and environmentally friendly way to use returned customer supplies. The changes management implemented should be documented in Postal Service policies to provide consistency and transparency in the procedures and guidance for customers who may not be familiar with the unofficial process.

The May 17, 2011 testimony of the postmaster general outlined guiding principles for ensuring the future growth of the Postal Service by improving the customer experience and making it easy and convenient for people to do business with the Postal Service.³⁴ By not developing clear and concise return procedures, the Postal Service could incur additional expenses by purchasing unnecessary expedited packaging supplies and jeopardize its goodwill with the public.

³² Publication 22, pages 7, 12, and 22.

³³ Standard packaging includes in-stock envelopes, boxes, and tubes.

³⁴ Statement of Patrick R. Donahoe, postmaster general, chief executive officer, before the U.S. Senate Subcommittee – May 17, 2011.

Standard Operating Procedures

The Expedited Packaging Supplies group does not maintain complete written policies and procedures for all its operations. Our research indicated that an effective management control system³⁵ includes development of policies, procedures, and practices that ensure management can achieve their objectives. Specifically, management could not provide standard operating procedures or guidelines for five³⁶ of the 13 programs and processes they identified to monitor and reduce waste associated with expedited packaging supplies. Management stated they rely on employees' experience, personal knowledge, and information gained from on-the-job training to perform the duties and responsibilities associated with these programs and processes. However, without written policies and procedures, management cannot maintain an effective management control system, ensure that work is performed consistently, and use the programs and processes effectively.

Some types of work completed by the Expedited Packaging Supplies group, such as revenue validation and monthly calendar procedures, are performed routinely and could benefit from having written procedures. Development of written policies and procedures would also help focus the work on the core functions of the organization and set standards for products and services. In addition, management can use these policies and procedures to train employees who join the Expedited Packaging Supplies group and as a reference source for current employees on their roles and how to perform their assigned tasks. Furthermore, written policies and procedures can assist management in assessing performance and establishing accountability. Written policies and procedures would allow the Expedited Packaging Supplies group to be more productive and allow management to focus more time on strategic development and less on day-to-day operations.

Prior OIG Audit Recommendations

Management did not fully address a previous audit recommendation to conduct an annual review of customer use of expedited packaging supplies.³⁷ Management agreed to institute a revised method of measuring customer supply usage via mail sampling data. The anticipated result was to produce periodic reports comparing distributed volume with usage volume. During our audit, management stated they created the *Flat Rate Packaging Report* to address the recommendation. Management produces the report monthly to track revenue and volume for flat rate boxes. However, we determined the report only encompasses flat rate boxes, which averaged 10 percent of the total expedited packages shipped between FYs 2008 and 2010. By not conducting an annual review of customer use of all types of expedited packaging supplies, the Postal Service

³⁵ In 1992, the Committee of Sponsoring Organizations of the Treadway Commission issued a report on internal control framework. This framework has been widely accepted as providing a sound basis for establishing internal control systems and determining their effectiveness. One of the five key elements of the framework is development of policies and procedures.

³⁶ The five programs include: revenue validation, minimum shipments, monthly calendar, reuse of supplies, and design of cost-effective customized packaging.

³⁷ *Expedited Packaging Supplies* (Report Number [MS-AR-05-002](#), dated September 28, 2005).

cannot determine whether the cost of unaccounted for expedited packaging supplies is acceptable.

Recommendations

We recommend the vice president, Domestic Products, direct the program manager, Expedited Packaging Supplies group, to:

1. Implement a comprehensive, integrated procedure to determine the quantity of expedited packaging supplies retained by major mailers, post offices, and other facilities that distribute the Postal Service's expedited packaging supplies to customers.
2. Develop a comprehensive plan to monitor usage and identify and reduce waste associated with expedited packaging supplies.
3. Include clear and concise return procedures on each order and update Publication 22, *Expedited Packaging Supplies Standard Operating Procedures*, to reflect current changes in return policies.
4. Create and maintain written policies and procedures for all major programs and processes associated with the expedited packaging supplies initiative.
5. Create periodic reports to compare distributed volume with usage volume for all types of expedited packaging supplies.

Management's Comments

Overall, management generally agreed there are opportunities for improvement in managing and monitoring expedited packaging supplies. Management noted they have initiatives underway to address these opportunities as well as other programs already implemented such as the priority mail flat rate boxes, specialized envelopes, and forever postage rates for priority mail flat rate packages. For recommendations 1 and 2, management agreed, in part, and acknowledged the need for comprehensive automated procedures to monitor supplies and reduce waste associated with expedited packaging materials. Management uses the fulfillment center's warehouse management system to determine the quantity of expedited packaging supplies located at the fulfillment centers and the quantity sent to every address. In addition, the marketing information system is currently used for revenue validation for all reorders of customized and specialized packaging and direct vendor deliveries. Further, management will launch the SEAM as a pilot by June 2012 and nationally in early FY 2013. SEAM will improve inventory management, forecasting, and auto replenishing of expedited packaging supplies at post offices with POS systems.

Management agreed with recommendations 3 and 4 and stated they are currently reviewing and revising Publication 22 to include clear and concise return procedures.

Management estimates releasing the revised publication in January 2012. In addition, management will reevaluate Publication 22 and create new written policies and procedures for all major programs and processes associated with standard, specialized, and customized packaging.

For recommendation 5, management agreed, in part, and stated they produce a variety of reports that cover standard, specialized, and customized packaging programs but agreed to reevaluate these programs and reports to measure their effectiveness and update as necessary.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and the corrective actions should resolve the issues identified in the report. The OIG considers recommendations 1, 2, and 3 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.

Management did not provide an estimated completion date for reevaluating and updating, as necessary, reports that cover packaging programs (recommendation 5). We believe timely review and creation or update of these reports will further enhance the Postal Service's monitoring of the expedited packing supply program and further reduce associated waste. Because of management's planned efforts, we will not pursue resolution of this recommendation.

Finally, we agree that management has made major strides in offering several new and innovative packaging options, but believe the Postal Service could realize additional savings and/or revenue by tightening internal controls over expedited packaging supplies.

Appendix A: Additional Information

Background

The Postal Service offers a variety of domestic shipping products and services, from overnight delivery to media mail. Their vision is to grow overall annual package revenue by 5 percent. The Postal Service claims they can increase their market share by offering customers excellent service, innovative products, and competitive pricing. Their delivery network reaches every household and business in the nation and they are committed to being the market leader in delivery of small packages. Their mission is to build on their core shipping capabilities to increase market share and profitability.

The Postal Service provides packaging supplies specially designed for use with its domestic and international Express Mail and Priority Mail at no additional cost to customers. Packaging items include corrugated containers, Tyvek®, and paperboard envelopes; as well as a range of pressure sensitive labels, tapes, and decals.

The Postal Service's average cost of packaging supplies is included in the current rate structure of the corresponding delivery service. Although the customer receives the packaging items at no added cost, Postal Service employees should be aware that these packaging items create real cost to the Postal Service — costs offset only by revenue generated by the corresponding service. The customer must, therefore, use items in their intended manner in order for the cost to be recovered.

Management has implemented the following 13 programs and processes to monitor usage and reduce waste:

- Warehouse Data Management System.
- Monthly production calendar.
- Flat Rate Packaging Report.
- Revenue validation (large supply requests).
- Reuse of unused packaging supplies.
- Repeat order validation.
- Training for customer service representatives.
- Fulfillment center returns.
- Analysis of specialized packaging program.
- Examine minimum shipments of custom/co-branded packaging.
- Designing cost-effective customized packages.
- Direct vendor deliveries for six pallets or more.
- SEAM system.

To comply with the Postal Accountability and Enhancement Act (Postal Act) of 2006, Shipping Services, also known as competitive products, which include Express and Priority Mail, must produce sufficient revenue above a price floor that covers attributable costs³⁸ for each competitive product, for the competing products collectively, and for

³⁸ Direct and indirect costs associated with each postal product.

shipping services as a whole; and to cover an appropriate share of institutional costs.³⁹ During FY 2010, revenue generated from Express and Priority Mail services exceeded corresponding attributable costs, resulting in a net profit of approximately \$2.2 billion.⁴⁰

In 2005, the fulfillment center contract was awarded through a competitive bidding process to supply expedited packaging products to customers and post offices. The contract was granted for 4 years with three 2-year options; two of the three options have already been exercised.

The fulfillment centers are in Plainfield, IN and Hayward, CA. According to fulfillment center management, these locations process 81 percent and 19 percent, respectively, of all expedited packaging orders. The Plainfield fulfillment center receives all orders via several channels: telephone, facsimile, mail, and online. The processed orders are sent to the Postal Service's national distribution centers and are then handled as regular mail.

Objective, Scope, and Methodology

The objective of our audit was to evaluate the efficiency and effectiveness of the expedited packaging supplies program. To accomplish our objectives we:

- Interviewed Marketing, Expedited Packaging Supplies group, and Supply Management personnel at Postal Service Headquarters; and fulfillment center personnel.
- Obtained and reviewed expedited packaging supply data for FYs 2008 through 2010.
- Evaluated compliance with the Postal Act of 2006.
- Evaluated procedures the Postal Service implemented to identify and reduce waste related to expedited packaging supplies.
- Researched the benefits of maintaining written policies and procedures.
- Hosted a blog related to expedited packaging supplies.
- Benchmarked with competitors to determine policies and procedures related to packaging supplies.

We conducted this performance audit from December 2010 through December 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

³⁹ The shared overhead costs of the Postal Service.

⁴⁰ This amount does not include Inbound International Expedited Services (foreign express mail service).

evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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 November 4, 2011, and included their comments where appropriate.

We assessed the reliability of the RPW system, Cost and Revenue Analysis system, and Electronic Data Warehouse system data by judgmentally comparing system data to source documentation. We determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Our *Expedited Packaging Supplies*⁴¹ report identified that the Expedited Packaging Supplies group effectively provided supplies to customers but could not monitor customer supply usage and did not have effective controls over ordering. Also, management needed stronger controls over expedited packaging tape to deter potential waste. During the audit, the Postal Service changed its policy over expedited packaging tape, resulting in 2-year projected savings of \$4 million.

The OIG recommended management conduct reviews of customer use of expedited packaging supplies and minimum and maximum customer orders, clarify the Business Service Network's⁴² ordering authority, and direct district managers to eliminate local product fulfillment operations. Management agreed, in whole or in part, with the recommendations and had initiatives planned, in progress, and completed addressing issues in the report.

⁴¹ Report Number [MS-AR-05-002](#), dated September 28, 2005.

⁴² A dedicated nationwide network that supports the Postal Service's largest customers for service issues, information, and needs requests.

Appendix B: Other Impacts

Finding	Impact Category	Amount
Inventory Control System Needs Improvement	Assets at Risk ⁴³	\$57,851,468

The other impact (assets at risk) calculation is based on the yearly average of 19 percent of unaccounted for expedited packaging supplies identified from FYs 2008 through 2010. The 19 percent represents \$28,925,734 yearly for the purchase, fulfillment, and transportation costs for packaging supplies. We calculated the amount for a projected 2-year period.

The calculation method is consistent with the one used in a prior OIG audit titled *Expedited Packaging Supplies* (Report Number [MS-AR-05-002](#), dated September 28, 2005). Specifically, the quantity of supplies manufactured was compared to the quantity of expedited packaging mailed and the difference was classified as “unaccounted for”. The difference was compared to the calculated amount from the prior OIG report and the percentage of packaging supplies unaccounted for increased from 17 to 19 percent. In both audits, the quantity of Priority Mail supplies only included boxes and envelopes and Express Mail supplies also included other items such as tapes and labels due to Postal Service system limitations.

⁴³ Assets at risk of loss because of inadequate internal controls.

Appendix C: Management's Comments

GARY C. REBLIN
VICE PRESIDENT, DOMESTIC PRODUCTS



December 15, 2011

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report - Expedited Packaging Supplies Program
(Report Number FI-AR-12-DRAFT)

We have reviewed your correspondence of November 21. While we generally agree that there are opportunities for improvement in managing and monitoring the expedited packaging supplies, we believe significant contextual information was omitted from the report. In addition, it is important to note that many of the recommendations cited were well under way prior to the audit.

The Postal Service has been very aggressive in expanding its suite of expedited packaging options to meet customer needs. Since 2008 we have introduced over 40 new boxes and envelopes, including small and large flat-rate options, a gift card mailer, Regional Rate boxes, legal size envelopes, and padded envelopes, to name a few. In addition to these new offerings the Postal Service launched a national TV, radio, and print campaign in 2008 (If it fits, it ships) that has increased overall public awareness and created a high demand for our expedited packaging. The campaign has proven to be very successful and even in these down economic times we have been able to grow business in many areas. [REDACTED]

Another example occurred in May of 2009 when the Postal Service conducted a Direct Mail ad campaign. [REDACTED]

[REDACTED] Additionally, we initiated several cost saving projects to help reduce our fulfillment costs. These projects included restructuring our specialized packaging program to minimize transportation and on hand inventory costs, redesigning specific packaging to reduce production costs, renegotiating our master accounts with our major suppliers, and reducing our fulfillment costs by eliminating master cartons in lieu of shrink-wrapping. In all, these changes accounted for over \$15 million in cost savings from 2008 through 2010.

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Finally, as a business, the Postal Service is not immune to the same challenges faced by many commercial businesses. Misuse, shrinkage, and customer inventory mismanagement are all part of these challenges. Today, shipping customers have many options and the Postal Service must balance the cost and value of adding services such as free packaging. Understanding these needs can make the difference between product growth and decline.

OIG Recommendations

1. Implement a comprehensive, automated procedure to determine the quantity of expedited packaging supplies retained by major mailers, post offices, and other facilities that distribute Postal Service's expedited packaging supplies to customers.

Management Response/Action Plan: Agree in part. The Postal Service acknowledges and has responded proactively in implementing comprehensive, automated procedures to monitor supplies retained by customers. Our fulfillment centers use a warehouse management system (WMS) that allows us to know on a daily basis exactly how many units of all standard products are on the floor. The system can also query how many pieces have been sent to every address. Post Offices are encouraged within their districts to maintain a certain level of inventory (some a few months) to support walk in customer needs as well as home businesses. That being said, we will continue to look at ways where we can improve the visibility and accountability of our expedited packaging supplies. This includes the launch of SEAM (Solution for Enterprise Asset Management) that will debut as a Pilot in June of 2012 in Central Plains and Western Pennsylvania, with national launch slated for early FY 2013. The SEAM system will improve inventory management, forecasting, and auto replenishing of expedited packaging supplies at post offices with POS.

Responsible Official: Manager, Business Solutions – Domestic Products

2. Develop a comprehensive plan to monitor usage and identify and reduce waste associated with expedited packaging supplies.

Management Response/Action Plan: Agree in part. The Postal Service has been proactive in monitoring packaging use and identifying and reducing waste. Revenue validation for all reorders of customized and specialized packaging and direct vendor deliveries are currently being performed. This is part of the work instructions and process flows for both our customized and specialized programs. The MIS system is used for validation. The data from all orders shipped are loaded in MIS nightly. SEAM will have a significant impact here as well, as previously mentioned we anticipate national rollout in early FY 2013. The Postal Service acknowledges and has responded proactively in implementing efficient and effective processes to reducing waste and misuse of our expedited packaging supplies.

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Responsible Official: Manager, Business Solutions – Domestic Products

3. Include clear and concise return procedures on each order and update the Publication 22 to reflect current changes in return policies.

Management Response/Action Plan: Agree. We are currently reviewing and revising the Publication 22 to include clear and concise return procedures. We have been engaged in updating this publication over the past year and estimate a release date of January 2012.

Responsible Official: Manager, Business Solutions – Domestic Products

4. Create and maintain written policies and procedures for all major programs and processes associated with the expedited packaging supplies initiative.

Management Response/Action Plan: Agree. Starting with Publication 22, the Postal Service will reevaluate and create new written policies and procedures for all major programs and processes associated with Standard, Specialized, and Customized packaging.

Responsible Official: Manager, Business Solutions – Domestic Products

5. Create periodic reports to compare distributed volume with usage volume for all types of expedited packaging supplies.

Management Response/Action Plan: Agree in part. As identified during the audit, the Postal Service currently produces a variety of reports that cover our Standard, Specialized, and Customized packaging programs. The Postal Service agrees to reevaluate these programs and reports to measure their effectiveness and update as necessary.

Responsible Official: Manager, Business Solutions – Domestic Products



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