



Office of Inspector General | United States Postal Service

Audit Report

Assessment of the U.S. Postal Service's Service Performance and Costs

Report Number NO-AR-19-008 | September 17, 2019

COLLECTION

TRANSPORTATION

DELIVERY

PROCESSING



Table of Contents

Cover		Management's Comments.....	19
Highlights.....	1	Evaluation of Management's Comments	19
Objective	1	Appendices	20
What the OIG Found.....	1	Appendix A: Additional Information.....	21
Costs, Revenue, and Volume.....	1	Scope and Methodology.....	21
Service Performance.....	2	Prior Audit Coverage.....	22
Survey of Postal Managers.....	2	Appendix B: Service Performance by Mail Product	23
Service Performance Metrics	2	Appendix C: Assessment of Service Performance and	
What the OIG Recommended	3	Cost Survey	30
Transmittal Letter	4	Appendix D: Management's Comments.....	32
Results.....	5	Contact Information	34
Introduction/Objective	5		
Background.....	5		
Mail Classes	5		
Mail Cycle	6		
Finding #1: Service Performance and Costs	9		
Service Performance.....	9		
Customer Satisfaction	10		
Survey of Postal Managers	11		
Operation Costs, Revenue, Volume, and Financial Health	13		
Service Performance Metrics.....	14		
Service Performance Targets.....	17		
Recommendation #1.....	17		
Causes of Service Performance Failures	18		

Highlights

Objective

Costs for the U.S. Postal Service to process, transport, and deliver mail are outpacing its revenue and it faces considerable pressure to reduce costs without harming service.

We set out to determine how service performance has trended for all mail classes and compared that performance to cost trends over the last five years.

We analyzed service performance for Priority, First-Class, Periodicals, Marketing, and Package Services mail classes as they comprise all mail products the Postal Service offers. We also analyzed costs to process, transport, and deliver mail.

The Postal Service divides mail into different services, called “classes.” Each class of mail has different features, service levels, and postage rates. Each class of mail also has subdivisions, called “products,” which are usually based on different physical characteristics.

Service standards specify timeliness targets for delivering mail after receiving it from a customer. Service standards are determined by the class of mail, where it originates, and where it is going, or destined. Generally, the farther the mail must travel, the more days for the service standard. The Postal Service also has service performance targets for each mail class/product and determines service performance by measuring how much mail was delivered by the service standard.

- Priority mail products have service standards ranging from one to three days and a target of [REDACTED] percent of that mail delivered on-time.
- First-Class Mail products have service standards ranging from one to five days and a target of 95.25-96.8 percent delivered on-time.
- Marketing Mail products have service standards ranging from three to 10 days and a target of 91.8 percent delivered on-time.
- Periodicals have service standards ranging from two to nine days and a target of 91.8 percent delivered on-time.

- Package Services products have service standards ranging from two to eight days and a target of [REDACTED] percent on-time.

Other competitive package products have service standards ranging from two to eight days and a target of [REDACTED] percent delivered on-time.

What the OIG Found

Even though infrastructure costs have been increasing and volumes are declining, the Postal Service has not met the majority of its service performance targets over the past five years.

Even so, 80 percent of respondents to the Postal Service’s FY 2018 Delivery Survey were satisfied with their mail and package delivery. This satisfaction rate is significant and may suggest that service performance targets are not always aligned with customer expectations.

Costs, Revenue, and Volume

During the last five years, costs associated with processing, transporting, and delivering mail have increased by about \$5 billion dollars, or 13 percent (when adjusted for inflation, costs increased by \$2.5 billion, or 6 percent), while mail volume decreased by 8.8 billion pieces, or 5.7 percent. Specifically, mail processing costs increased \$301 million, transportation costs increased \$1.7 billion, and delivery costs increased by about \$3 billion.

During that same time, total revenue increased \$3.1 billion, or 5.1 percent, due to Priority Mail and Package Services revenue growth of almost [REDACTED] percent, respectively. Revenue for the other mail classes decreased between about 5 and 21 percent.

“Costs for the U.S. Postal Service to process, transport, and deliver mail are outpacing its revenue and it faces considerable pressure to reduce costs without harming service.”

The Postal Service does not know how much it would actually cost to meet its current service performance targets or the financial and customer service impacts of reducing the targets. Yet costs associated with processing, transporting, and delivering mail are already outpacing revenue. When the Postal Service's processes are not completed as designed or when delays occur, management can, and often does, take actions outside the normal process to keep the mail moving and meet service targets; however, these actions can result in additional costs. Postal Service field managers we surveyed indicated they prioritize service significantly higher than the financial health of the Postal Service. This could explain why costs continue to rise as managers attempt to meet service performance targets.

Service Performance

The Postal Service did not meet national service performance targets for any mail class in FY 2018. Further, over the last five years, the Postal Service met annual service performance targets more than once for only four (or 13 percent) of the 31 mail products.

Survey of Postal Managers

We surveyed about 1,500 plant managers, in-plant support managers, transportation managers, and postmasters. The 744 managers who responded to the survey identified the main causes of service failure as:

- Missent Mail
- Late Trucks to Delivery Units
- Employee Availability
- Untrained Employees/Managers
- Mail Processing Operations Not Completed On-Time

Furthermore, 72 percent of respondents ranked financial health as the lowest of the four corporate priorities when considering their daily duties and management decision making. This is an indication that as field managers make decisions about moving the mail, while they consider several factors, they do not always prioritize the associated costs as the most important factor. Meeting service performance targets is often a higher priority. The priorities for respondents, in order, were: 1) a Safe Workplace and Engaged Workforce followed by 2) High-Quality Service, 3) Excellent Customer Experiences, and 4) Financial Health.

Service Performance Metrics

In evaluating service, we analyzed performance metrics for FY 2018 and found the Postal Service's processes were routinely not working as designed:

- Of the 11 indicators that measure how much mail completed processing operations on-time, only four had at least 90 percent of the mail processed on time.
- Twenty-nine percent of all surface transportation (Postal Service and contractor) trips were late.
- Almost 9 million mailpieces per day, or 1 percent, were reported as mail processing delays.
- Between 4 and 8 percent of mail transported by air carriers arrived late.
- 3.25 percent and 2.76 percent of single piece and presort mail, respectively, was not delivered the day it was available for delivery.
- Almost 2 percent of mail received at collection points arrived at processing facilities late.
- Over 12,000 Priority and one million First-Class mailpieces per day were delayed due to air transportation.

When these processes are not completed as designed, management interventions can occur to keep the mail moving and meet service targets. Interventions can include using overtime to process and deliver mail, delaying transportation until mail processing is completed, and using extra transportation trips. These interventions can help meet service performance targets but also result in additional costs.

Over the last five years, despite decreasing mail volume:

- Overtime and penalty overtime costs in mail processing increased \$327 million, or 43 percent.
- Overtime and penalty overtime costs in delivery increased about \$576 million, or 26 percent.
- Mail processing delays increased 43 percent.
- Late trips increased almost 60 percent and extra transportation trips have increased 90 percent. The Postal Service reported these trips cost \$140 million in FY 2018.

What the OIG Recommended

We recommended management:

- Conduct a cost-benefit analysis, including a sensitivity analysis, of current service performance targets. This analysis should include an evaluation of additional costs incurred for extra operational services performed to meet service performance targets and opportunities that exist to limit extra services when they are not financially feasible.

“When these processes are not completed as designed, management interventions can occur to keep the mail moving and meet service targets.”

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

September 17, 2019

MEMORANDUM FOR: DAVID E. WILLIAMS
CHIEF OPERATING OFFICER AND EXECUTIVE VICE
PRESIDENT

E-Signed by Inspector General
VERIFY authenticity with eSign-Desktop

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Assessment of the U.S. Postal Service's
Service Performance and Costs (Report Number
NO-AR-19-008)

This report presents the results of our audit of the Assessment of the U.S. Postal Service's Service Performance and Costs (Project Number 19XG003NO000).

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

Attachment

cc: Postmaster General
Acting Vice President, Processing & Maintenance
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of the assessment of the U.S. Postal Service's service performance and costs (Project Number 19XG003NO000). Our objective was to analyze service performance and cost trends of the Postal Service over the last five years. We analyzed service performance for Priority, First-Class Mail, Periodicals, Marketing, and Package Services mail classes, as they comprise all mail products the Postal Service offers. We also analyzed costs to process, transport, and deliver mail. See [Appendix A](#) for additional information about this audit.

Background

The Postal Service is subject to a universal service obligation to ensure all users receive a minimum level of service at a reasonable price. The Postal Service reported it is "legally bound by annual Financial Services and General Government appropriations legislation...to maintain a six-day delivery schedule." From FY 2015 to 2018, the reported number of delivery points (city, rural, PO Box and highway delivery points) increased by about 4 million, or 2.3 percent, to 159 million as of FY 2018.¹ Further, with electronic diversion and a decline in First Class Mail -- its most profitable product -- the Postal Service is processing, transporting and delivering more parcels as part of their mail mix, which typically cost more than letters or flats to move through the mail cycle. This changing mail mix is helpful to understand the Postal Service's costs. Finally, the Postal Service faces contractual obligations such as labor agreements that they've stated can impact their operations, for example by limiting their ability to reduce the size of their workforce.²

Mail Classes

The Postal Service divides mail into different services, called "classes." Each class of mail has different features, service levels, and postage rates. Each class of mail also has subdivisions, called "products," which are usually based on different physical characteristics.

The Postal Accountability and Enhancement Act of 2006 divided Postal Service products into two categories: market-dominant³ and competitive.⁴ It also required the Postal Service to establish and report on service performance standards for each market dominant product.

Service standards specify timeliness targets for delivering mail after receiving it from a customer. Service standards are determined by the class of mail, where it originates, and where it is going, or destined. Generally, the farther the mail must travel, the more days for the service standard. The Postal Service also has service performance targets for each mail class/product and determines service performance by measuring how much mail was delivered by the service standard.⁵ See [Table 1](#) for summary of Postal Service mail classes, service standards, and products.

The Postal Service structures its network to have sufficient processing, transportation, and delivery capacity to meet service standards. The more processing, transportation, and delivery capacity in place, the higher the costs for the Postal Service.

“The Postal Service is subject to a universal service obligation to ensure all users receive a minimum level of service at a reasonable price”

1 2018 Report on Form 10-K United States Postal Service and United States Postal Service 2017 *Annual Report to Congress*.

2 2018 Report on Form 10-K United States Postal Service.

3 Products and services for which the Postal Service exercises sufficient market power that it can effectively set prices with limited competition. Pricing changes for these products occur annually and are tied to the Consumer Price Index, with a price cap applied to each mail class.

4 A category of Postal Service products and services for which similar products and services are offered by private sector carriers. Pricing changes occur annually and the Postal Service is free to price competitive products as long as they cover their costs, are not subsidized by market dominant products, and make an appropriate contribution to institutional costs.

5 Marketing/Periodicals service targets increased from 91 percent to 91.80 percent from FY 2017 to FY 2018. In addition, [REDACTED] increased from 99.7 to 99.771 percent from FY 2017 to FY 2018.

Table 1. Summary of Postal Service Classes, Service Standards, and Products

Category	Mail Class	Service Standard ⁶	FY 2018 Performance Target	Products
Market Dominant	First-Class Mail ⁷	1-5 days	95.25 -96.80%	Single Piece ⁸ Letters/Postcards (2-day; 3-5 day)
				Presorted ⁹ Letters/Postcards (Overnight, 2-day, and 3-5 day)
				Flats (Overnight; 2-day, 3-day)
	Periodicals ¹⁰	3-9 days	91.80%	In County
				Outside County
	Marketing Mail ¹¹	3-10 days	91.80%	High-Density and Saturation Letters
				High-Density and Saturation Flats and Parcels
				Carrier Route
				Letters
				Flats
				Marketing Mail Parcels
	Package Service	2-8 days	90%	Every Door Direct Mail
				Bound Printed Matter Flats
Bound Printed Matter Parcels				
Media and Library Mail				
Competitive	Packages	2-8 days	USPS Retail Ground	
			First-Class Package Services (Retail and Commercial)	
			Parcel Select	
			Parcel Return Service ¹²	
	Priority ¹³	1-3 days	[REDACTED]	Priority Mail Express
				Priority Mail Air
			Priority Mail Surface	

Source: *Fiscal Year 2018 Annual Compliance Determination Report*, FY 2018 Postal Service *Semiannual Report to Congress*, Quarterly Service Performance reports, USPS Blue Pages, and USPS.com.

Mail Cycle

The Postal Service generally processes mail through five phases (see [Figure 1](#)). The phases are interdependent and have timelines for moving mail from one phase to the next. These timelines (outlined below) help the Postal Service prepare for each phase and process, transport, and deliver mail to meet its service standard.

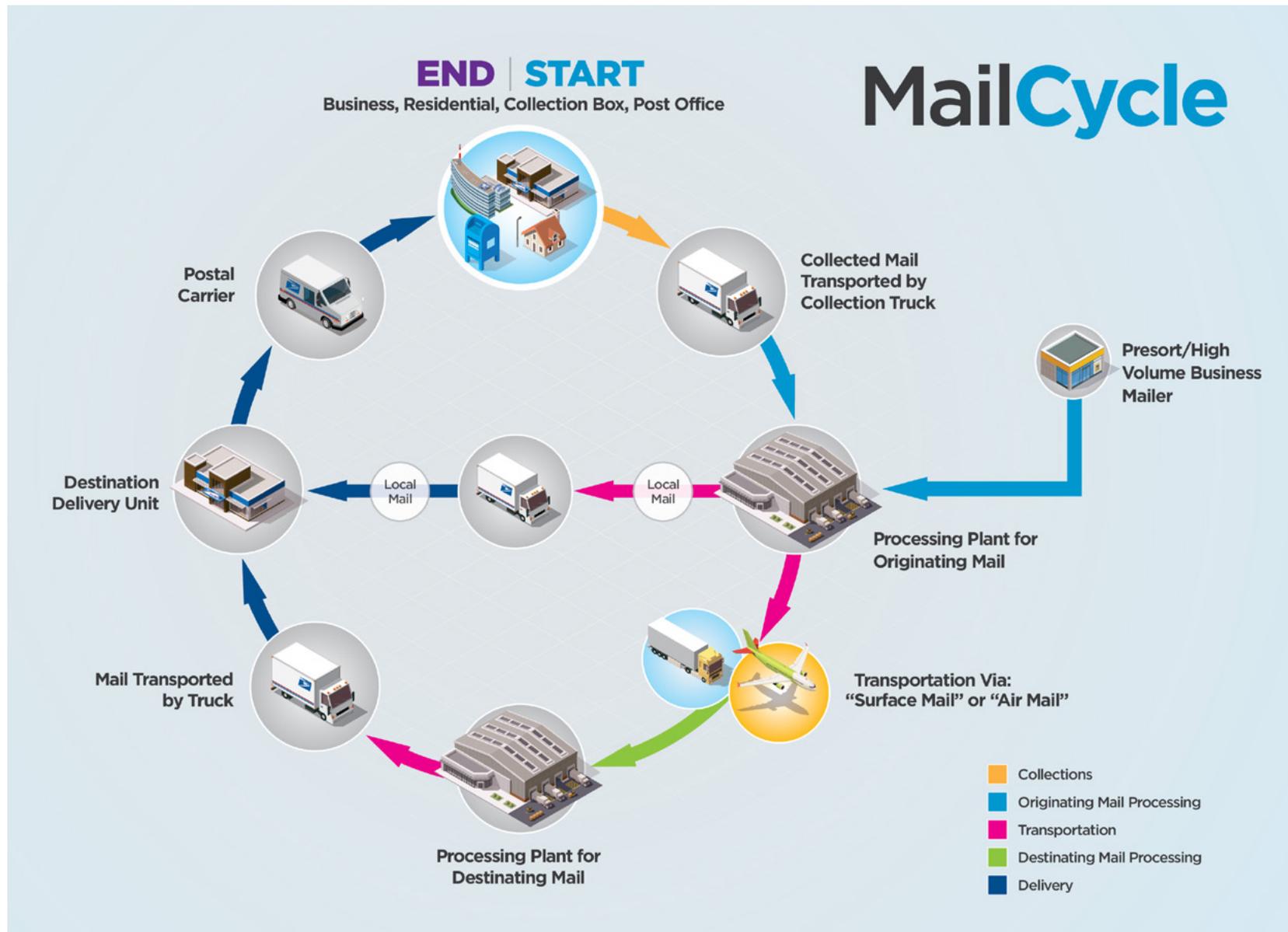
“The Postal Service generally processes mail through five phases.”

6 Service standards within the continental U.S are shorter than outside the continental U.S.
 7 A mail class that includes all matter wholly or partly in writing or typewriting, all actual and personal correspondence, all bills and statements of account.
 8 A postage price available for individual mailpieces under certain products. This type of price contrasts with prices available for commercial mail.
 9 The process by which a mailer prepares mail so that it is sorted to the finest extent required to qualify for specific prices.
 10 Periodicals include newspapers, magazines, and other periodical publications meeting certain eligibility requirements.
 11 Printed matter, including circulars, catalogs, merchandise, and books, weighing less than 16 ounces may be mailed as Marketing Mail.
 12 The Postal Service does not track service performance of this product.
 13 An expedited service for shipping any mailable matter.

1. Collections/Acceptance – collecting mail from all induction points: blue collection boxes, retail units, businesses, and residences. Customers who mail in bulk can also induct their mail at different locations. This usually occurs at a Postal Service Business Mail Entry Unit¹⁴ (BMEU) or a mailer’s facility.
2. Originating Mail Processing – sorting of mail originating within a facility’s boundary. If the mail is destined within the same boundary it will be sent to delivery after processing. If the mail is not destined within the same boundary, it is sent to another Postal Service facility for additional processing.
3. Transportation – moving mail between facilities. The Postal Service transports mail primarily by contract air and by truck using both Postal Service and contracted transportation.
4. Destinating Mail Processing – sorting of mail destinating within a facility’s boundary for delivery.
5. Delivery – delivering mail to the final address.

¹⁴ The area of a postal facility where customers present bulk mailings for acceptance and verification. The BMEU includes dedicated platform space, office space, and a staging area on the workroom floor.

Figure 1. Postal Service Mail Cycle



Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on FY 2018 *Annual Compliance Determination Report*

Because the five phases are interdependent, failure in any phase has the potential to create significant delays in subsequent phases. Postal Service management stated that all levels of management should review the following performance metrics to monitor and improve service performance:

- First mile (collection) impacts
- 24-hour clock indicators
- Mail processing delays
- Late surface transportation trips
- On-time performance of air transportation
- Delayed mail due to air transportation
- Last mile (delivery) impacts

These performance metrics help show whether the Postal Service is completing operations as planned and whether mail is moving from one phase to the next timely and efficiently.

Finding #1: Service Performance and Costs

Even though infrastructure costs have been increasing and volumes are declining, the Postal Service has not met the majority of its service performance targets over the past five years. Even so, 80 percent of respondents to the Postal Service's FY 2018 Delivery Survey were satisfied with their mail and package delivery. This satisfaction rate is significant and may suggest that service performance targets are not always aligned with customer expectations.

Further, the Postal Service does not know how much it would actually cost to meet its current service performance targets or the financial and customer service impacts of reducing the targets. Yet costs associated with processing, transporting, and delivering mail are already outpacing revenue.

When Postal Service processes are not completed as designed or when delays occur, management can take actions outside the normal process to keep the mail moving and meet service targets. These actions can include using overtime to process and deliver mail, delaying transportation until mail processing is completed, and using extra transportation trips to help meet service performance targets; however, these actions also result in additional costs. Postal Service field managers who we surveyed indicated they prioritize service significantly higher than the financial health of the Postal Service. This could explain why costs continue to rise as managers attempt to meet service performance targets.

The Postal Service faces considerable pressure to reduce costs without harming service. The Postmaster General said the Postal Service will run out of cash by 2024¹⁵ and the Deputy Assistant Secretary for Public Finance at the U.S. Department of the Treasury said the Postal Service's current business is not operationally viable and without a significant change it will have insufficient cash to pay employees' salaries and vendors.¹⁶

Service Performance

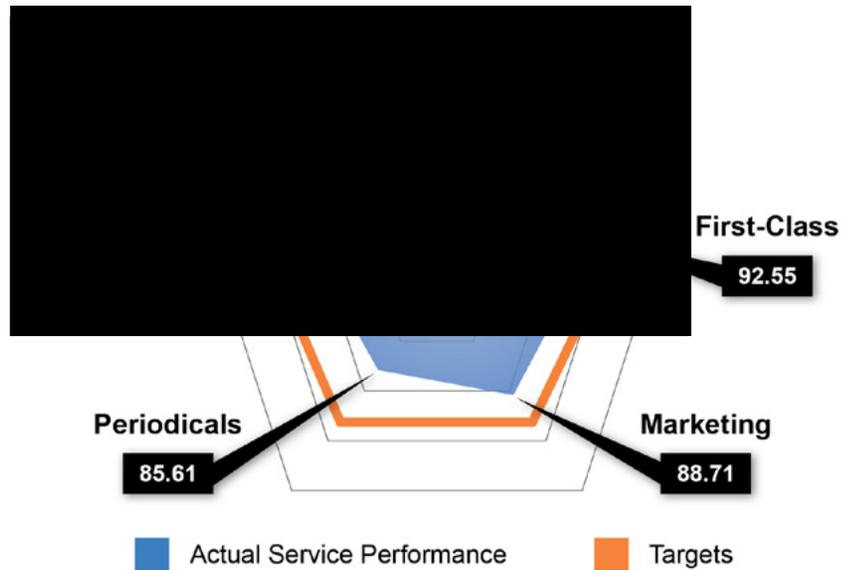
The Postal Service did not meet national service performance targets for any mail class in FY 2018. (see [Figure 2](#)). Further, over the last five years, the Postal Service met annual service performance targets more than once for only four (or 13 percent) of the 31 mail products. See [Appendix B](#) for additional details.

“Even though infrastructure costs have been increasing and volumes are declining, the Postal Service has not met the majority of its service performance targets over the past five years.”

¹⁵ House of Representatives Oversight and Reform Committee, The Financial Condition of the Postal Service hearing, April 30, 2019.

¹⁶ U.S. Senate Committee on Homeland Security and Government Affairs, A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service hearing, March 12, 2019.

Figure 2. FY 2018 National Service Performance Radar Chart



Source: Service and Field Operations Performance Measurement.
 Note: This radar chart displays FY 2018 service performance for Priority, First-Class, Marketing, Periodicals mail classes, and First-Class Mail Package products. The larger the shaded (blue) area shown, the higher the service performance score for each mail class/product.

Beginning in FY 2019, the Postal Service began using Service Performance Measurement (SPM) as the official measurement system. This system replaced the External First-Class Measurement (EXFC) and Intelligent Mail Accuracy and Performance systems. This change was approved by the Postal Regulatory Commission in 2018. The Postal Service stated the new measurement system will provide more accurate, reliable and representative service performance reporting by gathering data from multiple sources including live scans of the billions of pieces moving through the postal network, rather than relying on samples of test pieces and test recipients. As of FY 2019, Q3, the Postal Service was meeting or exceeding service performance targets for four mail products. See Appendix B for results of performance through FY 2019, Q3. We plan to

conduct additional audit work on FY 2019 service performance, lessons learned, and causes associated with service performance failures.

While it is not directly related to on-time service performance, the Postal Service has a goal is to perform over 97 percent of the expected packages scans as they are processed and delivered. This is referred to as the composite scanning score and the Postal Service has achieved this goal the past 3 years.

Customer Satisfaction

Although service performance targets were not met, according to the Postal Service’s FY 2018 delivery survey, 80 percent of respondents were satisfied with the Postal Service. In addition, the FY 2018 Omnibus Survey¹⁷ showed that customers viewed the Postal Service, UPS, and FedEx similarly with 80 to 82 percent of respondents having an overall positive impression of the organizations. Additionally, 74 to 79 percent of respondents agreed that the Postal Service delivers mail and packages in a timely fashion. There was no significant difference among urban, suburban or small towns, and rural or remote areas¹⁸ (see Table 2).

“Although service performance targets were not met, according to the Postal Service’s FY 2018 delivery survey, 80 percent of respondents were satisfied with the Postal Service.”

¹⁷ The OIG conducts the Omnibus Survey, employing a complex quota sampling methodology to provide a representative sample of Americans, covering a wide variety of topics, and having a large sample size (more than 3,000).

¹⁸ Respondents to the Omnibus Survey identified whether they lived in an urban, suburban or rural area.

Table 2. Percentage of Respondents Who Agree the Postal Service Delivered Mail in a Timely Fashion

Rurality	Delivers your mail to you in a timely fashion	Delivers your packages to you in a timely fashion	Delivers mail you send in a timely fashion	Delivers packages you send in a timely fashion
Urban	79%	74%	75%	73%
Suburb or Small Town	80%	79%	78%	75%
Rural or Remote	79%	78%	77%	76%
Total	79%	77%	77%	74%

Source: FY 2018 Omnibus Survey and OIG calculations.

Survey of Postal Managers

We surveyed about 1,500 plant managers, in-plant support managers, transportation managers, and postmasters and asked how they rank the Postal Service’s corporate priorities when considering their daily duties and management decision making.

We sent the survey to all plant managers, in-plant support managers, and transportation managers. We also sent the survey to a random sample of postmasters because there are over 13,000 Postmasters (see Table 3).

Table 3. Managers Surveyed and Responses

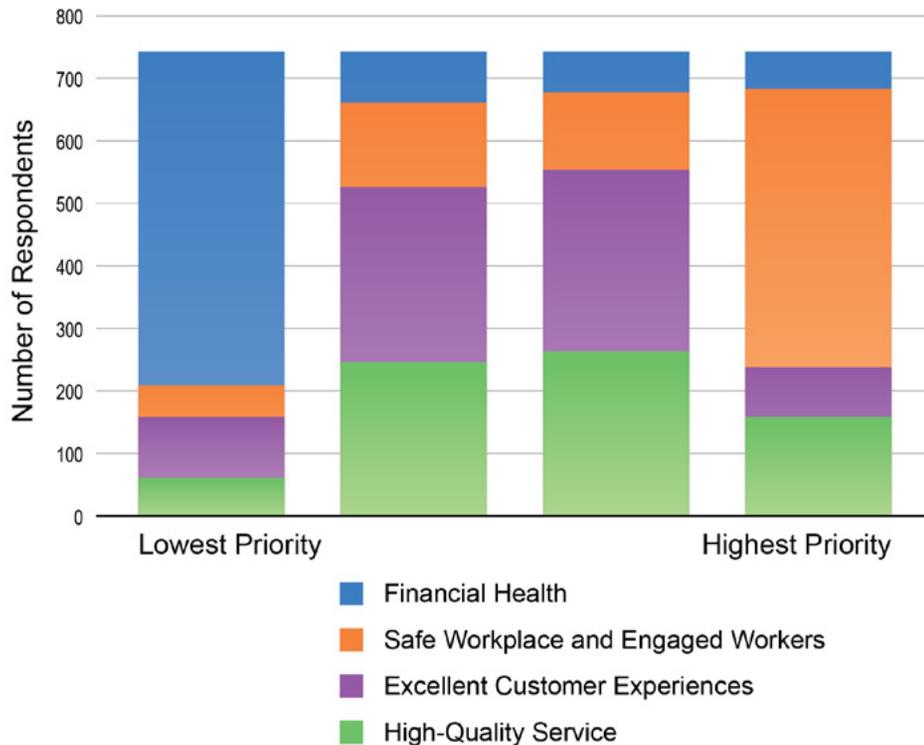
Job Type	Sent Survey	Survey Responses
Plant Manager	166	78
Manager In-Plant Support	148	82
Transportation Manager	160	73
Postmaster	1,000	512
Total	1,474	744

Note: Based on input from the Postal Service on how best to identify a universe of managers in each position, we pulled the data based on occupation codes for each job type.

Seventy-two percent of the 744 respondents¹⁹ who completed the survey, ranked financial health as the lowest of the four corporate priorities when considering their daily duties and management decision-making. This is an indication that as field managers make decisions about moving the mail, while they consider several factors, they do not always prioritize the associated costs as the most important factor. Meeting service performance targets is often a higher priority. The priorities for respondents in order, were: 1) a Safe Workplace and Engaged Workforce, 2) High-Quality Service, 3) Excellent Customer Experiences, and 4) Financial Health (see Figure 3). See Appendix C for a copy of the survey sent to managers.

¹⁹ Financial Health was consistently ranked the lowest priority for all job types. Specifically, 66 percent of mail processing managers ranked it the lowest, 74 percent of transportation managers ranked it the lowest and 74 percent of postmasters ranked it the lowest.

Figure 3. How Respondents Ranked the Postal Service’s Corporate Priorities



Source: OIG survey to plant managers, in-plant support managers, transportation managers, and postmasters.

To help achieve its strategic goals, the Postal Service uses metrics from the National Performance Assessment (NPA) to measure the four corporate-wide priorities. The national NPA scorecard consists of 11 different indicators with varying weights. According to the USPS FY 2018 Annual Report to Congress, the following NPA indicators were related to the corporate priorities:

- High-Quality Service – There are five indicators related to this priority and they account for 30 percent of the scorecard weight.
- Excellent Customer Experiences – There is one indicator related to this priority and it accounts for 10 percent of the scorecard weight.
- Safe Workplace and Engaged Workforce – There is one indicator related to this priority and it accounts for 15 percent of the scorecard weight.
- Financial Health – There are two indicators related to this priority and they account for 30 percent of the scorecard weight.
- The remaining two indicators, composite scanning and total revenue compared to plan, were not listed under any of the corporate priorities in the USPS FY 2018 Annual Report to Congress and they account for 15 percent of the scorecard weight.

The indicators for High-Quality Service measure how much mail, by each class, was delivered by its standard. The FY 2019 targets for these indicators are the same as the service performance targets for each mail class. The main indicator for Financial Health is controllable income (loss) which measures the difference between revenue and controllable expenses. The target for this indicator is a \$3.1 billion loss in FY 2019.

“Seventy-two percent of the 744 respondents who completed the survey, ranked financial health as the lowest of the four corporate priorities when considering their daily duties and management decision-making.”

Operation Costs, Revenue, Volume, and Financial Health

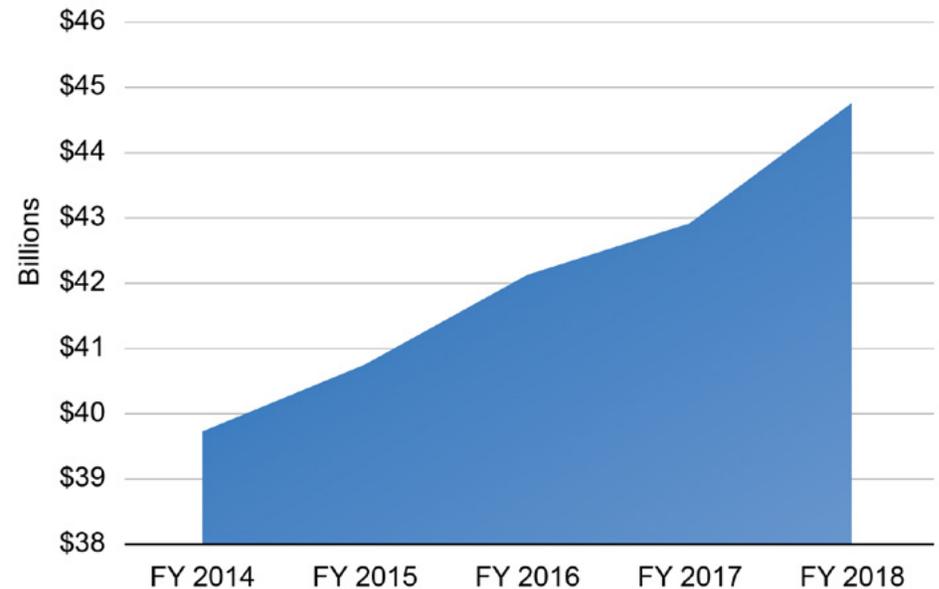
During the last five years, costs associated with processing, transporting, and delivering mail have increased by about \$5 billion, or 13 percent (when adjusted for inflation,²⁰ costs increased by \$2.5 billion, or 6 percent). Specifically, mail processing costs increased by \$301 million, transportation costs increased by \$1.7 billion²¹, and delivery costs increased by about \$3 billion (see Table 4 and Figure 4).

Table 4. Mail Processing, Transportation, and Delivery Costs, FYs 2014-2018

Operation	FY 2014 Costs	FY 2018 Costs	Increase	Percentage Increase
Mail Processing	\$8,172,616,933	\$8,473,927,799	\$301,310,866	4%
Transportation	\$6,841,854,025	\$8,546,542,215	\$1,704,688,190	25%
Delivery	\$24,724,032,148	\$27,717,031,295	\$2,992,999,147	12%
Total	\$39,738,503,106	\$44,737,501,309	\$4,998,998,203	13%

Source: Enterprise Data Warehouse (EDW), Corporate Energy Interface, and OIG calculations.

Figure 4. Total Mail Processing, Transportation and Delivery Costs FYs 2014-2018



Source: EDW, Corporate Energy Interface, and OIG calculations.

During that same time, overall mail volume decreased by 8.8 billion mailpieces (or 5.7 percent), but total revenue increased by \$3.1 billion (or 5.1 percent) due to Priority Mail and Package Services revenue growth of almost [REDACTED] percent, respectively. Revenue for other mail classes decreased between about 5 and 21 percent (see Table 5).

²⁰ The Consumer Price Index (CPI) – all urban consumers from the U.S. Bureau of Labor Statistics was used to calculate costs adjusted for inflation.

²¹ In FYs 2014-2018, the Postal Service was required to negotiate and evaluate in writing with the Highway Contract Routes (HCR) suppliers to establish the contract's baseline fuel price per gallon. The negotiations and evaluations were intended to establish the HCR supplier's market cost of fuel at the time of contract negotiations. From FY 2014 to FY 2018 the average cost of diesel fuel per gallon decreased over 80 cents per gallon, or 21 percent. During that same time, CPI increased by 5.5 percent.

Table 5. Percentage of Total Volume and Revenue by Mail Class

Mail Class	FY 2018		FY 2014 to FY 2018	
	Percentage of Total Revenue	Percentage of Total Volume	Percentage Change of Revenue	Percentage Change of Volume
First-Class	39%	39%	-12%	-11%
Periodicals	2%	3%	-21%	-17%
Marketing Mail	26%	53%	-5%	-4%
Total	100%	100%	5.1%	-5.7%

Source: FY 2014 and FY 2018 Postal Service Semiannual Report to Congress and OIG calculations. Calculated total difference due to rounding.

During a House of Representatives Oversight and Reform Committee hearing in April 2019, the Postmaster General said the Postal Service will run out of cash by 2024. Further, in a Senate hearing in March 2019, the Deputy Assistant Secretary for Public Finance at the U.S. Department of the Treasury said the Postal Service’s current business is not operationally viable and without a significant change it will have insufficient cash to pay employees’ salaries and vendors. To address their financial issues, the Postal Service is currently developing a strategic plan to outline a long-term business model. The Postal Service is working to finalize a 10-year plan that will identify initiatives necessary to operate long-term financially sustainable models. Additionally,

²² First mile is the first phase in the delivery of a mailpiece, where the mail is collected and transported for origin mail processing. A first mile failure is a mailpiece that did not meet service expectations because of time spent in first mile. Failures are reported when the time spent (based on mailpiece scans) in first mile plus the time spent in mail processing is greater than the service standard.

²³ The Postal Service developed 24-Hour Clock indicators to help manage mail flow to achieve optimal service and efficiency while ensuring national consistency in processes. Generally, the indicators measure how much mail is processed in each operation by the desired clearance times.

the strategic plan will focus on the key public policy questions of what universal services the Postal Service should provide and how to pay for those services.

Service Performance Metrics

We analyzed FY 2018 performance metrics data for each mail cycle phase and found the Postal Service’s processes were routinely not completed as designed. Specifically:

Collections/Acceptance

According to the Postal Service’s First Mile Impact report,²² 1.66 percent of mail received at collection points in FY 2018 arrived at processing facilities late.

Originating and Destinating Processing

According to the Postal Service’s 24-Hour Clock Indicators,²³ only 4 of the 11 indicators had at least 90 percent of the mail processed by the set time and all but one were below established targets (see Table 6).

“We analyzed FY 2018 performance metrics data for each mail cycle phase and found the Postal Service’s processes were routinely not completed as designed.”

Table 6. Comparison of FY 2018 24-Hour Clock Indicators to Target

Mail Class	24-Hour Clock Indicator	Target	Average Percentage Achieved by Day	Number of Days Target Met	Total Number of Days
First-Class	Managed Mail Program ²⁷ Cleared by 3:00 p.m.	95%	89%	47	364
First-Class	Cancelled ²⁸ by 8:00 p.m.	80%	42%	9	342
First-Class	Outgoing Primary ²⁹ Cleared by 12:00 a.m.	95%	92%	117	364
First-Class	Outgoing Secondary ³⁰ Cleared by 12:30 a.m.	95%	80%	8	363
First-Class	Mail Assigned Commercial/FedEx By 2:30 a.m.	95%	91%	41	364
First-Class	DPS ³¹ 2nd Pass Cleared by 5:00 a.m.	95%	95%	250	364

Source: Service and Field Operations Performance Measurements, 24-Hour Clock & Key Operational Indicators, and OIG calculations.

24 Mail products used by consumers that require no advanced preparation, sortation, or barcoding.

25 Local mail, called turn-around mail, is processed in the incoming operations, where it is processed for delivery.

26 Incoming mail arriving to a processing facility for delivery.

27 A distribution system where First-Class Mail for a specific ZIP Code span is massed at a facility for distribution and dispatch.

28 To make a live postage stamp (except a precanceled stamp) unusable, usually at the point of original entry into the mailstream.

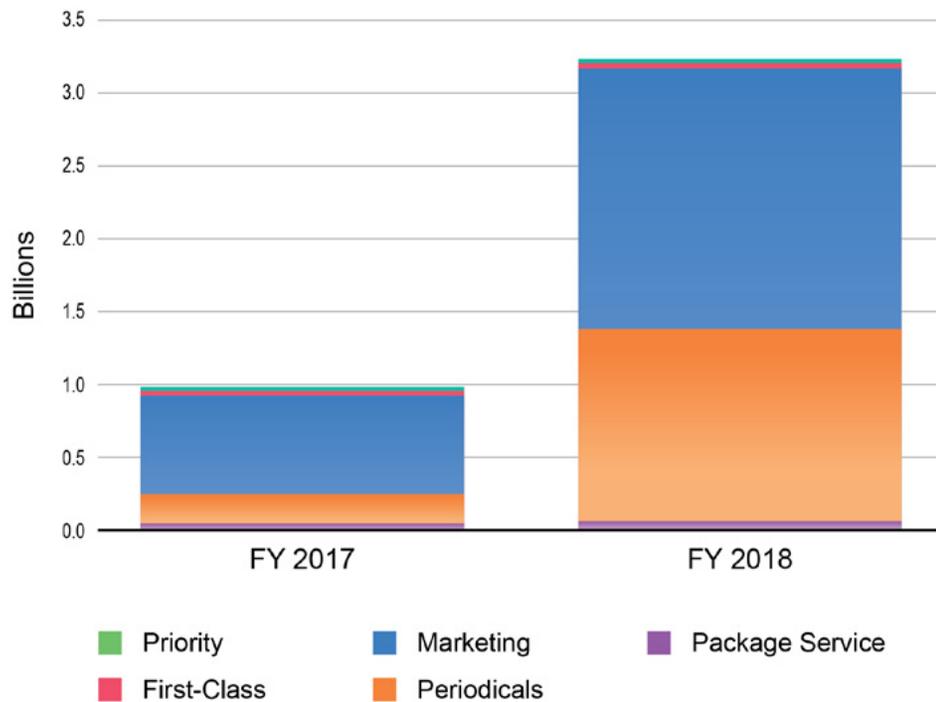
29 A sort plan in which outgoing mail (collection and business mail entry unit mail) is sorted to facilities, states, large cities, or foreign countries.

30 A sort plan in which mail was sorted in an outgoing primary operation but needs further sortation.

31 An automated process of sorting mail by carrier routes into delivery order, eliminating the need for carriers to sort the mail manually in the delivery unit prior to their departure to the routes.

Total reported mail processing delays³² for FY 2018 was 3.2 billion mailpieces, an increase of about 2.3 billion (or 234 percent) from FY 2017 (see Figure 5). On average in FY 2018, 8.8 million mailpieces per day were reported as mail processing delays.

Figure 5. Mail Processing Delays Reported by Mail Class, FYs 2017-2018



Source: EDW and Mail Condition Reporting System (MCRS).

Transportation

In FY 2018, the Postal Service had 39.5 million surface transportation trips, 11.3 million of which (or 29 percent) were late trips.³³ Of the late trips, 5.8 million (or 56 percent) were over 15 minutes late.³⁴

The Postal Service contracts with commercial airlines, UPS, and FedEx to transport mail by air. During FY 2018, almost five percent of mail transported on commercial airlines, eight percent of mail transported on UPS, and six percent of mail transported on FedEx arrived late.³⁵ See Table 7 for on-time air performance by carrier.

Table 7. FY 2018 On-Time Air Performance

Transportation Mode	Percentage of Mail		
	On Time	Less than 60 Minutes Late	More than 60 Minutes Late
Commercial	95.95%	0.28%	4.98%
UPS	91.86%	3.40%	4.74%
FedEx	93.81%	2.34%	3.86%

Source: EDW.

Note: The Postal Service removes commercial air mail that did not arrive on time due to force majeure (act of God) from the on-time calculation but not from the calculation for less than and more than 60 minutes late; therefore, the total for Commercial is greater than 100 percent.

³² The Postal Service reports mail processing delays when mail is not processed in time to meet its established delivery or when mail is processed but not on the dock in time for scheduled transportation to delivery units.

³³ Late trips occur when surface transportation trips are delayed beyond the scheduled leave time. There is no grace period for holding a trip beyond its scheduled leave time.

³⁴ Data used to determine the minutes late per trip was over a million records different from the data used to determine the total number of late trips. The difference was due to data not including trips from annex facilities only operating during peak season. Costs associated with late trips will be analyzed in our on-going project, *U.S. Postal Service Transportation Network Operations and Cost Optimization Practices*.

³⁵ Arrival on time is measured by the delivery scan compared to the required time.

During FY 2018 the Postal Service had a total of over 4.5 million pieces of Priority Mail and 367.1 million pieces of First-Class Mail delayed due to air transportation.³⁶ On average, over 12,000 pieces of Priority and one million pieces of First-Class Mail were delayed per day.

Delivery

According to the Postal Service's Last Mile³⁷ Impact report, 3.25 percent of single-piece and 2.76 percent of commercial mail³⁸ in FY 2018 was processed on time but delivered after the expected delivery date.

In addition, on average, only 67 percent of delcon scans³⁹ occurred by the Postal Service's target time of 7:30 a.m. and only 66 percent of mail carriers returned from their route by the Postal Service's target time of 5:00 p.m.

When Postal Service processes are not completed as designed, management can take action outside of the normal process to keep the mail moving and meet service targets. These actions can include using overtime to process and deliver mail, delaying transportation until mail processing is completed, and using extra transportation trips to help meet service performance targets; however, these actions also result in additional costs.

Over the last five years, despite decreasing mail volume:

- Overtime and penalty overtime costs in mail processing increased \$327 million, or 43 percent. This includes using over 29 million additional overtime hours than planned. While overtime costs and hours increased, straight time decreased 7.7 million, or 4.3 percent in mail processing.
- Overtime and penalty overtime costs in delivery increased \$576 million, or 26 percent.
- Mail processing delays increased 43 percent.

- Late trips increased almost 60 percent and extra transportation trips have increased by 90 percent. The Postal Service reported these trips cost \$140 million in FY 2018.

Service Performance Targets

The Postal Service does not know how much it would actually cost to meet current service performance targets or the financial and customer service impacts of reducing the targets, yet costs associated with processing, transporting, and delivering mail are already outpacing revenue. Service Performance targets are determined by the Postal Service's Executive Leadership Team (ELT) with Board of Governors approval. Postal Service management said the Postal Service is continually evaluating the network infrastructure, transportation network, and volume trends to evaluate the process capability of the targets. Changes to service performance targets are made by the ELT with approval of the Board of Governors.

“The Postal Service does not know how much it would actually cost to meet current service performance targets or the financial and customer service impacts of reducing the targets, yet costs associated with processing, transporting, and delivering mail are already outpacing revenue.”

Recommendation #1

The **Chief Operating Officer and Executive Vice President** conduct a cost-benefit analysis, including a sensitivity analysis, of current service performance targets. This analysis should include an evaluation of additional costs incurred for extra operational services performed to meet service performance targets, and opportunities that exist to limit extra services when they are not financially feasible

³⁶ Delayed mail due to air transportation occurs when mail is assigned to be transported by air but does not make it onto the assigned air trip.

³⁷ A last mile failure is a mailpiece that was processed on time but delivered after the expected delivery date.

³⁸ This includes First-Class, Marketing, and Periodicals mail.

³⁹ Counts the number of Arrival-At-Unit scans that occur before 7:30 as compared to the total number of Arrival-At-Unit scans performed.

Causes of Service Performance Failures

In our survey to plant managers, in-plant support managers, transportation managers, and postmasters, we asked what the main causes of service failure are, and managers identified the top five causes as:

- Missent mail
- Late trucks to delivery units
- Employee availability
- Untrained employee/manager
- Missed clearance times

Additionally, in its FY 2018 Annual Compliance Determination Report issued April 12, 2019, the PRC identified causes of service failures by mail class. Specifically, Marketing Mail and Periodicals service failures were attributed to the Postal Service not always processing mail in First-In-First-Out order and not processing to the daily capacity. First-Class Mail service failures were identified as:

- Origin sites failing to clear outgoing mail on time;
- Mail waiting to be picked up at freight houses;
- Origin sites failing to dispatch network trips on time;
- Origin sites not clearing flats operations on time; and
- Surface Transfer Centers not meeting targeted transfer times.

The PRC directed the Postal Service to evaluate the effectiveness and progress of its FY 2019 efforts to improve First-Class Mail service performance for each postal area. In addition, the PRC directed the Postal Service to provide a detailed plan to improve First-Class Mail service performance for each postal area within 90 days. The plan should:

- Describe each planned action;
- Identify the problem that the planned action is expected to remediate; and
- Provide an estimated timeframe for implementation and completion of each planned action.

We will consider the plan, which was due to the PRC in July 2019, as we conduct future work in this area.

“The PRC directed the Postal Service to evaluate the effectiveness and progress of its FY 2019 efforts to improve First-Class Mail service performance for each postal area. In addition, the PRC directed the Postal Service to provide a detailed plan to improve First-Class Mail service performance for each postal area within 90 days.”

Management's Comments

Management agreed with our recommendation, stating that the Postal Service is currently developing a strategic 10-year plan that will identify and outline a long-term sustainable business model. Management also stated they will complete a cost and benefit analysis in the development of this plan and in support of universal services, a future business model, and investments. The target implementation date is March 2021.

Although management agreed with our recommendation, they cited the following as factors that the OIG did not properly consider when analyzing workload costs with service performance:

- Additional costs associated with the increase in delivery points.
- The difference in costs to process, transport, and deliver competitive products versus market dominant.
- A significant portion of extra costs such as overtime, penalty overtime, and extra and late transportation costs are planned expenses due to variations in volume patterns.
- The Postal Service is legally bound to maintain a six-day delivery schedule and is subject to a universal service mandate.
- Increased labor costs that were either arbitrated or agreed to contractually.

Management stated that the Postal Service continues to focus on driving service up and driving costs down across the organization to remain competitive. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

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

Regarding management's concern that the OIG did not consider some factors in our analysis of service performance and cost, we noted all of those factors in the background of this report. Further, these are not new factors for the Postal Service and were present for the entire period reviewed in this report (FY 2014-2018). In our recent U.S. Postal Service Processing Network Optimization report (Report Number NO-AR-19-006, dated September 6, 2019) we found that from FY 2014 to 2018, the Postal Service planned for operating expenses to increase each fiscal year despite declining mail volume. Even with the increased operating expense budgets, the Postal Service exceeded its expense plan each fiscal year.

As presented in this report, the Postal Service does not know how much it would actually cost to meet its current service performance targets or the financial and customer service impacts of reducing the targets, yet costs associated with processing, transporting, and delivering mail are already outpacing revenue. There are many factors that contribute to the Postal Service's costs, but it is clear that Postal Service field managers prioritize other factors over costs.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective action is completed. The recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

“ Even with the increased operating expense budgets, the Postal Service exceeded its expense plan each fiscal year.”

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Additional Information	21
Scope and Methodology	21
Prior Audit Coverage	22
Appendix B: Service Performance by Mail Product	23
Appendix C: Assessment of Service Performance and Cost Survey	30
Appendix D: Management’s Comments.....	32

Appendix A: Additional Information

Scope and Methodology

The scope of this audit was nationwide service performance and cost trends within the Postal Service over the last five years. We analyzed service performance for Priority, First-Class, Periodicals, Marketing, and Package mail classes as they comprise all the mail products offered by the Postal Service.

To accomplish our objective, we:

- Analyzed service performance scores for Priority, First-Class, Periodicals, Marketing, and Package mail at a national, area, and district level for the last five years.
- Determined and analyzed service performance metrics for FY 2018.
- Analyzed mail processing, transportation, and delivery costs for the last five years.
- Analyzed revenue per piece, volume per piece, and cost per piece for the last five years.
- Surveyed 166 plant managers, 148 in-plant support managers, 160 transportation managers, and 1,000 postmasters to determine the main causes of service failure are, and how they rank the Postal Service's corporate priorities.
- Analyzed Postal Service Delivery Overall Satisfaction survey and internal Omnibus survey.

We conducted this performance audit from November 2018 through September 2019, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on August 8, 2019, and included their comments where appropriate.

We assessed the reliability of EDW, MCRS, SV Web 2.0, Logistics Condition Reporting System, product information, and mailing information by interviewing agency officials knowledgeable about the data and reviewing related documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Operational Window Change Savings</i>	Determine if the Postal Service achieved projected savings for the Operational Window Change.	NO-AR-19-001	10/15/2018	None
<i>Highway Contract Routes - Extra Trips in the Mid-Carolinas District</i>	Assess effectiveness of the Postal Service's extra trip process for HCRs in the Mid-Carolinas District.	NL-AR-18-010	9/17/2018	\$2.5
<i>Delivery Delays- Atlanta District</i>	Evaluate mail delivery delays at selected delivery units in the Atlanta District.	DR-AR-18-007	7/3/2018	\$11.1
<i>First-Class Mail Service Performance Measurement in the Northeast Area</i>	Evaluate the Postal Service's strategy to improve First-Class Mail service performance scores in the Northeast Area.	NO-AR-18-006	5/22/2018	None
<i>Package Delivery Scanning- Nationwide</i>	Assess the package delivery scanning process in city delivery operations.	DR-AR-18-001	10/27/2017	None
<i>Mail Processing and Transportation Operational Changes</i>	Determine the timeliness of mail processing and transportation since the January 5, 2015, service standard revisions.	NO-AR-16-009	9/2/2016	None

Appendix B: Service Performance by Mail Product

Over the last five years, only four of the 31 (or 13 percent) mail products met annual service performance targets more than once: High-Density and Saturation Letters, Marketing Mail Parcels, Bound Printed Matter Parcels, and Media/Library Mail. During that same period, service performance scores changed in the following ways:

- Priority Mail products [REDACTED] percentage points, but Priority Mail Express scores [REDACTED]
- First-Class Mail products decreased between .4 and 9.5 percentage points.
- Periodicals Mail products increased between 4.5 and 4.7 percentage points.
- Marketing mail products increased between .3 and 8.1 percentage points.
- Package Service products decreased between .3 and 4.9 percentage points.
- Other competitive package products [REDACTED] and [REDACTED] points.

Of the products that did not meet targets in FY 2018, scores were, on average, [REDACTED] points below targets. See [Tables 8 and 9](#) for service performance scores by mail product.

As of FY 2019, Q3, the Postal Service was exceeding targets on four mail products: High-Density and Saturation Letters, Marketing Mail Parcels, Bound Printed Matter Parcels, and Parcel Select.

See [Tables 10 and 11](#) for FY 2019, Q3 service performance scores by mail product.

Table 8. Number of Annual Service Targets Met for Competitive Products, FYs 2014-2018

Mail Class	Product	FY 2018 Target	FY 2018 Service Performance Score	Percentage Points to Target	Percentage Points Change from FY 2014	Number of Years Annual Target Met Since FY 2014
Priority	Express	████	██	██	██	█
	Air	████	██	██	██	█
	Surface	████	██	██	██	█
FCM	Commercial Parcel 2-Day	████	██	██	██	█
	Commercial Parcel 3-5 Day	████	██	██	██	█
	Retail Parcel 2-Day	████	██	██	██	█
	Retail Parcel 3-5 Day	████	██	██	██	█
Package Services	Retail Ground	████	██	██	██	█
	Parcel Select	████	██	██	██	█
	Parcel Return	██	██	██	██	██

Source: Service and Field Operations Performance Measurement, National Performance Assessment Scorecard, Acting, Processing Operations, and OIG calculations.

Table 9. Number of Annual Service Targets Met for Market Dominant Products, FYs 2014-2018

Mail Class	Product	FY 2018 Target	FY 2018 Service Performance Score	Percentage Points to Target	Percentage Points Change from FY 2014	Number of Years Annual Target Met Since FY 2014
First-Class Mail	Single Piece Letters/Postcards 2-Day	96.50%	94.5%	-2.0%	-1.2%	0
	Single Piece Letters/Postcards 3-5 Day	95.25%	83.5%	-11.8%	-5.1%	0
	Single Piece Flats 2-Day	96.50%	79.2%	-17.3%	-3.3%	0
	Single Piece Flats 3-5 Day	95.25%	63.1%	-32.1%	-9.5%	0
	Presort Letters/Postcards Overnight	96.80%	96.2%	-0.6%	-1.0%	1
	Presort Letters/Postcards 2-Day	96.50%	95.1%	-1.4%	-1.4%	1
	Presort Letters/Postcards 3-5 Day	95.25%	92.2%	-3.1%	-0.4%	0
	Presort Flats Overnight	96.80%	82.2%	-14.6%	N/A	0
	Presort Flats 2-Day	96.50%	81.9%	-14.6%	N/A	0
	Presort Flats 3-5 Day	95.25%	77.9%	-17.3%	N/A	0
Periodicals	Outside County	91.80%	85.3%	-6.5%	4.5%	0
	Within County	91.80%	85.6%	-6.2%	4.7%	0

Mail Class	Product	FY 2018 Target	FY 2018 Service Performance Score	Percentage Points to Target	Percentage Points Change from FY 2014	Number of Years Annual Target Met Since FY 2014
Marketing	High-Density and Saturation Letters	91.80%	93.0%	1.2%	0.7%	5
	High-Density and Saturation Flats and Parcels	91.80%	88.3%	-3.5%	1.1%	0
	Carrier Route	91.80%	89.5%	-2.3%	8.1%	1
	Letters	91.80%	89.4%	-2.4%	2.2%	1
	Flats	91.80%	76.5%	-15.3%	0.3%	0
	Marketing Mail Parcels	91.80%	98.6%	6.8%	N/A	3
	Every Door Direct Mail Retail	91.80%	74.4%	-17.4%	N/A	0
Package Services	Bound Printed Matter Parcel	90.00%	99.0%	9.0%	-0.3%	5
	Bound Printed Matter Flats	90.00%	55.2%	-34.8%	-4.9%	0
	Media Mail Library Mail	90.00%	89.6%	-0.4%	-2.2%	4

Source: Quarterly Service Performance Reports, National Performance Assessment Scorecard, and OIG calculations.

Table 10. FY 2019 Through Q3 Competitive Mail Products Service Performance Scores

Mail Class	Product	FY 2018 Target ⁴⁰	FY 2019 Service Performance Through Q3	Percentage Points to Target
Priority	Express	████	████	████
	Air	████	████	████
	Surface	████	████	████
FCM	Parcel 2-Day	████	████	████
	Parcel 3-5 Day	████	████	████
Package Services	Retail Ground	████	████	████
	Parcel Select	████	████	████
	Parcel Return	██	██	██

Source: USPS Service Performance Dashboard in Informed Visibility.

⁴⁰ The USPS Service Performance Dashboard in Informed Visibility does not list what the FY 2019 service performance targets are for competitive products. Therefore, we are referencing the prior year targets.

Table 11. FY 2019 Through Q3 Market Dominant Mail Products Service Performance Scores

Mail Class	Product	FY 2019 Target	FY 2019 Service Performance Through Q3	Percentage Points to Target
First-Class Mail	Single Piece Letters/Postcards 2-Day	96.50%	91.97%	-4.53%
	Single Piece Letters/Postcards 3-5 Day	95.25%	79.42%	-15.83%
	Single Piece Flats 2-Day	96.50%	80.71%	-15.79%
	Single Piece Flats 3-5 Day	95.25%	70.99%	-24.26%
	Presort Letters/Postcards Overnight	96.80%	95.44%	-1.36%
	Presort Letters/Postcards 2-Day	96.50%	93.92%	-2.58%
	Presort Letters/Postcards 3-5 Day	95.25%	91.42%	-3.83%
	Presort Flats Overnight	96.80%	80.42%	-16.38%
	Presort Flats 2-Day	96.50%	81.21%	-15.29%
	Presort Flats 3-5 Day	95.25%	79.33%	-15.92%
Periodicals	Outside County	91.80%	84.72%	-7.08%
	Within County	91.80%	85.01%	-6.79%

Mail Class	Product	FY 2019 Target	FY 2019 Service Performance Through Q3	Percentage Points to Target
Marketing	High-Density and Saturation Letters	91.80%	92.28%	0.48%
	High-Density and Saturation Flats and Parcels	91.80%	88.86%	-2.94%
	Carrier Route	91.80%	89.01%	-2.79%
	Letters	91.80%	88.28%	-3.52%
	Flats	91.80%	76.24%	-15.56%
	Marketing Mail Parcels	91.80%	97.67%	5.87%
	Every Door Direct Mail Retail	91.80%	75.09%	-16.71%
Package Services	Bound Printed Matter Parcel	90.00%	98.47%	8.47%
	Bound Printed Matter Flats	90.00%	54.43%	-35.57%
	Media Mail Library Mail	90.00%	85.82%	-4.18%

Source: PRC Quarterly Service Performance Reports and OIG calculations.

Appendix C: Assessment of Service Performance and Cost Survey

USPS OIG Official Survey



USPS OIG Official Survey

Assessment of U.S. Postal Service's Performance & Costs

USPS OIG Official Survey

Thank you for clicking through to this survey!

Your thoughtful participation in this survey will help improve the products and processes that people like you interact with every day by helping business and government leaders understand your needs and interests.

Your individual feedback is confidential, so you should feel comfortable expressing your honest opinions. This survey should take about 5 minutes to complete.

Your feedback really does make a difference – *so let's begin!*

1. What Function do you work in? *

- Mail Processing
- Transportation
- Delivery

2. [Questions for all functions]

What do you feel are the main reasons for service failures? Please select up to five. *

<input type="checkbox"/> Missing clearance times	<input type="checkbox"/> Late trips intra plant
<input type="checkbox"/> Missent mail	<input type="checkbox"/> Late trucks to delivery unit
<input type="checkbox"/> Employee availability	<input type="checkbox"/> Vehicle breakdowns
<input type="checkbox"/> Untrained employee/manager	<input type="checkbox"/> Undeliverable as addressed
<input type="checkbox"/> Insufficient machine capacity	<input type="checkbox"/> Carriers late to street time
<input type="checkbox"/> Machine downtime	<input type="checkbox"/> Parcel/Distribution uptime
<input type="checkbox"/> Labor agreement limitations	<input type="checkbox"/> Weather
<input type="checkbox"/> Insufficient air transportation capacity	<input type="checkbox"/> Workroom floor space
<input type="checkbox"/> Air to surface diversion	

1/2

USPS OIG Official Survey

Insufficient ground transportation

Other 1 - Write In

Other 2 - Write In

3. To help achieve its strategic goals, the Postal Service measures four corporate wide performance metrics that are tied to National Performance Assessment measures:

- High-Quality Service
- Excellent Customer Experiences
- Safe Workplace and Engaged Workforce
- Financial Health

Please rank these in order of priority, when considering your daily duties and management decision making. One being the most important four being the least. *

	1	2	3	4
High-Quality Service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Excellent Customer Experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Safe Workplace and Engaged Workforce	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financial Health	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

4. Are there any other comments that you would like to share with us? *

Appendix D: Management's Comments

DAVID E. WILLIAMS
CHIEF OPERATING OFFICER
EXECUTIVE VICE PRESIDENT



September 9, 2019

LAZERICK C. POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report Response – Assessment of the U.S. Postal Service's Service Performance and Costs (Report Number – NO-AR-19-DRAFT)

The following is provided in response to your audit of Assessment of the U.S. Postal Service's Service Performance.

While operational costs appear to be improperly aligned with revenue, there are numerous factors that must be considered when analyzing workload costs with service performance. Management identified several factors that were not properly considered during the audit.

The audit report acknowledges the increase in number of delivery points of approximately 4 million from FY 2015 to FY 2018, yet the report failed to identify the additional cost associated specifically to the stated delivery point growth.

Further, the audit did not recognize the cost variance of processing, transporting and delivery of the increased volume of competitive products verses declining market-dominant products.

This audit does not clearly outline the "extra cost" associated with the processing, transporting and delivering of mails. Extra costs are generalized as overtime, penalty overtime, extra and late transportation. Due to recognized variations in volume patterns a significant portion of these costs are planned expenses.

The Postal Service is legally bound to maintain a six-day delivery schedule, and is subject to a universal service mandate. Additionally, the Postal Service is bound to other contractual obligations such as increased labor costs that were either arbitrated or agreed to contractually. This audit did not identify such costs.

The Postal Service has implemented and achieved savings from numerous cost cutting initiatives, as outlined in our service performance improvement plans. Further, the Postal Service has increased service performance targets across service categories since FY 2014. Continued focused has been placed on driving service up and cost down across the organization in order to remain actively competitive.

The Postal Service is currently developing a strategic 10-year plan that will identify and outline a long-term sustainable business model. Cost and benefit analysis will be completed in the

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development of this plan and in support of universal services, future business model, and investments.

Recommendation #1:

The Chief Operating Officer and Executive Vice President conduct a cost-benefit analysis, including a sensitivity analysis of current service performance targets. This analysis should include an evaluation of additional costs incurred for extra operational services performed to meet service performance targets, and opportunities that exist to limit extra services when they are not financially feasible.

Management Response/Action Plan:

Management agrees with this recommendation.

Target Implementation Date:

March 2021

Responsible Official:

Chief Operating Officer and Executive Vice President



David E. Williams

cc: Manager, Corporate Audit Response Management



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