



September 29, 2007

THOMAS G. DAY
SENIOR VICE PRESIDENT, INTELLIGENT MAIL AND ADDRESS QUALITY

KATHLEEN AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL

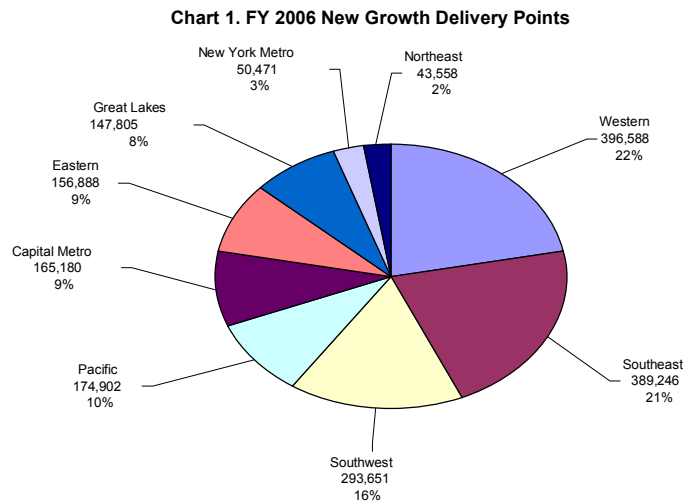
SUBJECT: Audit Report – Implementation and Utilization of the Growth Management Tool (Report Number DR-AR-07-016)

This report presents the results of our self-initiated review of the U.S. Postal Service's implementation and utilization of the Growth Management Tool (GMT) (Project Number 07XG016DR001). Our objective was to determine whether Postal Service Headquarters Delivery and Retail officials effectively implemented the GMT to standardize the decision making process for new addresses added yearly to the delivery infrastructure. The information in this report was obtained during our review of the Western Area's Arizona and Colorado/Wyoming Districts' Growth and Delivery Point Management Program.¹

Background

The Postal Service's customer delivery community continues to grow at a tremendous rate. During fiscal year (FY) 2006, the Postal Service delivered over 213 billion pieces of mail to over 146 million delivery points. In FY 2006, there was a growth increase of over 1.8 million delivery points as illustrated in Chart 1. The Western Area had the largest growth increase in FY 2006 nationwide with 396,588 new delivery points.

¹ We will present the results of this review to the Vice President, Western Area Operations in a separate letter.



Source: Postal Service FY 2006 New Growth Analysis Report

The growth rate and changes to the characteristic and amount of mail² present challenges for the Postal Service to keep up with the demand on the delivery infrastructure and changes required of the current framework of existing deliveries. Management of the current route framework requires managers to make sound business decisions concerning the extension and establishment of new deliveries³ while smartly managing existing deliveries.⁴

To assist managers in making decisions consistent with national policies and guidelines and respectful of customer options and services, headquarters officials implemented the Growth and Delivery Point Management Program in FY 2006. The program is part of the Delivery Standard Operating Procedures (SOP). The program provides structure, support, and information to area, district, and local offices on delivery issues surrounding the establishment or extension of delivery service, or changes to existing delivery service.

When deciding to assign new growth to city, rural or Contract Delivery Service (CDS),⁵ management officials must perform a cost analysis to ensure the cost⁶ effectiveness of each delivery type. Based on new growth, if management determines there is a need to subcontract the delivery service, they must do so in accordance with factors in Article 32

² Decreasing First-Class® Mail volume coupled with increases in package services.

³ Attachment A, the Growth Management Decision Flowchart for Standardizing Route Type Selection, defines the requirement when establishing new growth.

⁴ A block of existing homes or businesses receives the same type of service.

⁵ City, rural and CDS requirements include city delivery in an area with a population of 2,500 or more or 750 possible deliveries. Rural delivery requires service to an average of at least one residential or business delivery per mile. CDS - formerly Highway Contract Service - provides for the transport of mail between post offices or other designated points where mail is received or dispatched. CDS routes also provide box delivery, collection service, and other mail services.

⁶ FY 2006 estimated cost per delivery: city delivery \$206, rural delivery \$156 and CDS \$103.

of the National Labor Agreements.⁷ However, beginning with the ratification of the new National Association of City Letter Carriers (NALC) Labor Agreement, there will be a 6-month moratorium⁸ on any new subcontracting of delivery in offices that employ city carriers.

During FY 2006, the Postal Service was responsible for managing the current framework of approximately 244,000 existing routes nationwide. To assist with the management of growth, Headquarters Delivery and Retail officials, in coordination with the National Customer Service Center (NCSC), pilot tested and introduced the GMT to area officials in January 2007. The software tool standardizes the process that area and district officials will use to determine both the route type and mode of delivery. Officials performed national implementation through an area-by-area rollout.⁹

In the Western Area, the Arizona District¹⁰ pilot tested and utilized the GMT. District officials have decreased the number of new deliveries established as city and rural and increased CDS, which reduces operating cost. As illustrated in Appendix C, from FY 2006 to Quarter 3 of FY 2007, most Postal Service areas appeared to be increasing the percentage of CDS routes.

Objective, Scope, and Methodology

Our objective was to determine whether Headquarters Delivery and Retail officials effectively implemented the GMT to standardize the decision making process for new addresses added yearly to the delivery infrastructure.

To accomplish our objective, we obtained data for FY 2006 and Quarters 1 to 3, FY 2007, for new deliveries from the Postal Service's Growth Analysis reports. We visited the Arizona and Colorado/Wyoming Districts and Headquarters Delivery and Retail office, and conducted interviews with NCSC officials to obtain support documentation used in the implementation and utilization of the GMT. We also reviewed applicable documentation and policies and procedures with regard to the GMT to determine whether opportunities exist for improvements.

We conducted our review from July through September 2007 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

⁷ Handbooks EL 901 and 902, Agreements between the Postal Service, the NALC and the National Rural Letter Carriers Association (NRLCA), Article 32 Section 1, require the employer give due consideration to public interest, cost, efficiency, availability of equipment, and qualification of employees when evaluating the need to subcontract.

⁸The NALC National Labor Agreement, ratified September 11, 2007, establishes limitations on contracting. Subcontracting modifications include restrictions on contracting out city delivery work at approximately 3,000 city delivery offices with only city delivery. This also includes in-growth within those offices, and any assignments awarded as city delivery by settlement or arbitration of any pending or future grievances.

⁹ Attachment B, GMT Implementation letter, dated January 4, 2007, indicates that Headquarters officials would conduct pilot tests in the Appalachian, Arizona, Sacramento, South Florida, and Tennessee Districts.

¹⁰ We will present the results of this review to the Vice President, Western Area Operations in a separate letter.

provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We relied on computer-processed growth information from postal systems. We did not audit the systems, but performed a limited review of data integrity to support our reliance on data. We discussed our observations and conclusions with management on September 20, 2007, and included their comments where appropriate.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) has not issued any audit reports directly related to our audit objective.

Results

Our review found that Headquarters Delivery and Retail officials effectively implemented the GMT in the districts reviewed. However, officials could enhance the effectiveness of GMT implementation by updating the 2006 Delivery SOP for the Growth and Delivery Point Management Program.

Headquarters Delivery and Retail and NCSC officials developed a GMT user manual and provided training through NetMeeting.¹¹ Our review of the GMT user manual indicated that the document contained information on the available reports, completing workflow tasks (uploading data files), entering address information, and assigning zip codes and routes. In addition, the training provided to officials included discussions on accessing the tool and importing and entering address information.

The GMT as currently developed does not integrate pertinent delivery data¹² and does not include the cost comparison worksheet¹³ used to support delivery type and mode of delivery decisions for new growth. However, the tool does contain information from addressing authorities including diagrams or maps showing land tracts. Additionally, the tool prompts the user to indicate if they have completed the required data review and the cost comparison worksheet.

We reviewed the cost comparison worksheet and determined it was logically sound and conceptually comprehensive, but required updates to calculation constants. The calculation constants used in the cost comparison worksheet include City Office Minutes per Delivery, City Street Efficiency Index, Rural Volume Factor, CDS Cost per Hour, City Carrier Hourly Labor Rate, and Rural Carrier Hourly Labor Rate for each

¹¹ Headquarters officials provided training to area officials using NetMeeting due to budgetary constraints.

¹² The decision requires the review of pertinent delivery information to include a review of maps, boundary agreements, projected growth over 6-12 months, existing contract routes, existing transportation for highway contract routes, neighboring contract routes, community identity issues, zip code issues, completion of the cost comparison worksheet and consideration of Article 32 of the NALC and NRLCA National Labor Agreements.

¹³ Requires the completion of the Headquarters developed cost comparison worksheet. This worksheet calculates and compares the cost of city, rural and CDS delivery.

district. Headquarters officials informed the OIG they are updating the cost calculation constants in the comparison worksheet on a quarterly basis.

During our review of the Western Area's Arizona and Colorado/Wyoming Districts, we found officials were using the GMT and completing their data review and analysis when assigning route type and mode of delivery for new growth areas. District officials downloaded¹⁴ the cost comparison worksheet to complete as a stand-alone document. However, this process was manual and not input into the GMT. Further, officials were not consistently retaining their manually prepared support documentation for final decisions on assigning route type and delivery mode for new addresses.

Headquarters Delivery and Retail and NCSC officials stated they have not updated the SOP to include implementation and utilization of the GMT. Officials stated their primary focus had been on ensuring the GMT captures all new delivery address information¹⁵ and on GMT implementation. Further, they stated that while they had considered updates to the GMT to integrate all pertinent delivery data and the cost comparison worksheet, they found it would not be cost effective. Officials noted that the pertinent delivery data is voluminous and in hard copy, which would require scanning information into the GMT and continuous updating as changes occur.

Officials stated they would revise the SOP to incorporate standardized procedures for implementation and utilization of the GMT. They also planned to include instructions to consistently maintain hard copy documentation to support delivery decisions.

Incorporating the new GMT into the SOP supports the Headquarters Delivery and Retail initiative to standardize all delivery and retail functions and provides field personnel a single source of reference. Maintaining adequate supporting documentation is necessary to ensure management has the appropriate data to support delivery decisions.

Recommendation

We recommend the Vice President, Delivery and Retail, in coordination with the Senior Vice President, Intelligent Mail and Address Quality:

1. Revise and distribute the Delivery Standard Operating Procedures for the Growth and Delivery Point Management Program to incorporate standardized procedures for implementation and utilization of the Growth Management Tool in all areas. Instructions should be included to consistently maintain hard copy documentation to support delivery decisions for determining both the route type and the mode of delivery for new addresses added yearly to the delivery infrastructure.

¹⁴ The cost comparison worksheet is located on the Headquarters Delivery and Retail website.

¹⁵ Address information is provided by local addressing authorities. Local authorities include any of the groups involved with address assignment (i.e., planning boards, developers, municipalities, and utility companies). The local address planning authority is responsible for assigning city-style addresses.

Management's Comments

Management agreed with the finding and recommendation. Management stated they would revise and distribute the Delivery Standard Operating Procedures for Growth and Delivery Point Management by March 31, 2008. This will allow the Postal Service and NALC Article 32 Committee to make final decisions on contracting out provisions that impact the growth management procedures. These procedures are due by early March, and they will incorporate any changes into their final March 31, 2008 deliverable.

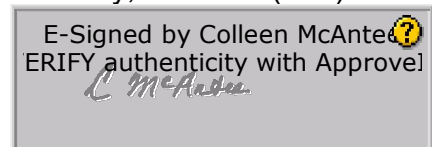
In the interim, management stated they would provide instructions to the field in terms of maintaining appropriate hardcopy documentation to support delivery mode decisions. They will also incorporate these instructions into the final revision of the Standard Operating Procedures. We included management's comments in their entirety in Appendix D.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation. Management's actions planned and taken should correct the issues identified in the findings.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Rita F. Oliver, Director, Delivery, or me at (703) 248-2100.



E-Signed by Colleen McAntee
VERIFY authenticity with Approve!
Colleen McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
William P. Galligan
Sylvester Black
James Kiser
Selwyn Epperson
Lawrence James
Katherine S. Banks

**APPENDIX A
GROWTH MANAGEMENT DECISION FLOWCHART
STANDARDIZING ROUTE TYPE SELECTION**

Redacted

APPENDIX A (continued)
GROWTH MANAGEMENT DECISION FLOWCHART
COMMINGLING DECISION TREE

Redacted

APPENDIX B

GROWTH MANAGEMENT TOOL IMPLEMENTATION LETTER

KATHY AINSWORTH
ACTING VICE PRESIDENT, DELIVERY AND RETAIL



January 4, 2007

VICE PRESIDENTS, AREA OPERATIONS

SUBJECT: Growth Management Tool

A pilot test of the Growth Management Tool (GMT) will be conducted beginning January 9. This program will standardize the decision-making process that determines both the route type (city, rural, or contract) and mode (other, curb, or central) for the nearly 2 million new addresses added to our delivery infrastructure yearly. The statistical reporting functions built into the Growth Management Tool will provide the necessary data and accountability to ensure a consistent service-wide application of this standard process.

The National Customer Support Center (NCSC) will conduct a two week pilot test in five districts from January 9-19. The districts selected for participation in the pilot test are Appalachian, Arizona, Sacramento, South Florida, and Tennessee. Subsequent to a successful pilot test, the GMT will be implemented nationally through an area-by-area rollout.

A Netmeeting is scheduled for January 9 with participants from the NCSC, Headquarters Delivery, pilot districts, and Area Delivery Programs Support. It is requested that area Manager, Delivery Programs Support coordinate with the pilot districts to ensure the following are in attendance at the rollout meeting:

- Designated Growth Management Coordinator
- Manager, Operations Programs Support
- Manager, Address Management Systems and/or designees

An Outlook meeting request will be sent to known position recipients as details are finalized.

For more information regarding pilot and national implementation of the GMT, please contact the NCSC in Memphis, Tennessee at 1-877-640-0724 or via e-mail at Ncsc, DevSupport - Memphis, TN.

A handwritten signature in cursive script, appearing to read "Kathy Ainsworth".

Kathy Ainsworth

475 L'ENFANT PLAZA SW ROOM 7017
WASHINGTON DC 20260-1600
202-268-6500
FAX 202-268-3331
WWW.USPS.COM

APPENDIX C
TYPE OF DELIVERY FOR NEW ADDRESSES ADDED
FY 2006 to QUARTER 3 OF FY 2007

Area	Total New Delivery Points	% City and Total Delivery Points	% Rural and Delivery Points	% CDS and Delivery Points
Western FY 2006	396,588	30% 118,976	59% 233,987	11% 43,625
Western FY 2007	236,813	24% 56,835	42% 99,461	34% 80,516
Southeast FY 2006	389,246	20% 77,849	65% 253,010	15% 58,387
Southeast FY 2007	234,504	19% 44,556	57% 133,667	24% 56,281
Southwest FY 2006	293,651	26% 76,349	70% 205,556	4% 11,746
Southwest FY 2007	180,006	30% 54,002	66% 118,804	4% 7,200
Pacific FY 2006	174,902	45% 78,706	52% 90,949	3% 5,247
Pacific FY 2007	98,956	45% 44,530	36% 35,624	19% 18,802
Capital Metro FY 2006	165,180	28% 46,250	69% 113,974	3% 4,955
Capital Metro FY 2007	86,355	31% 26,770	65% 56,131	4% 3,454
Eastern FY 2006	156,888	32% 50,204	62% 97,271	6% 9,413
Eastern FY 2007	74,655	37% 27,622	57% 42,553	6% 4,479
Great Lakes FY 2006	147,805	28% 41,385	70% 103,464	2% 2,956
Great Lakes FY 2007	73,963	26% 19,230	72% 53,253	2% 1,479
New York Metro FY 2006	50,471	47% 23,721	19% 9,589	34% 17,160
New York Metro FY 2007	25,616	52% 13,320	12% 3,074	36% 9,222
Northeast FY 2006	43,558	44% 19,166	53% 23,086	3% 1,307
Northeast FY 2007	19,585	48% 9,401	50% 9,793	2% 392

Source: Postal Service FY 2006 and FY 2007 New Growth Analysis Report

APPENDIX D MANAGEMENT'S COMMENTS

KATHY AINSWORTH
VICE PRESIDENT, DELIVERY AND RETAIL



September 21, 2007

Kim Stroud, Director
Audit Reporting
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Audit Report—Implementation and Utilization of the Growth Management Tool (GMT)
(Report Number DR-AR-07-DRAFT)

In response to the above-referenced draft audit report, please find our comments.

Recommendation: The Vice President, Delivery and Retail, in coordination with the Senior Vice President, Intelligent Mail and Address Quality:

- 1) Revise and distribute the Delivery Standard Operating Procedures for the Growth and Delivery Point Management Program to incorporate standardized procedures for implementation and utilization of the GMT in all Areas. In addition, to include instructions to consistently maintain hard copy documentation to support delivery decisions for determining both the route type and the mode of delivery for new addresses added yearly to the delivery infrastructure.

Response: We agree with this recommendation. We will revise and distribute the Delivery Standard Operating Procedures for Growth and Delivery Point Management by March 31, 2008. This will allow for the USPS/NALC Article 32 Committee to make final decisions on contracting out provisions that impact the growth management procedures. These decisions are due by early March, and we will incorporate any changes into our final March 31 deliverable.

In the interim, we will provide instructions to the field in terms of maintaining appropriate hard-copy documentation to support delivery mode decisions. This information will also be incorporated into the final revision of the Standard Operating Procedures.

If you need any additional information, please contact James Kiser, Manager, Delivery Operations, at (202) 268-6853.

A handwritten signature in black ink, appearing to read "Kathy Ainsworth".

Kathy Ainsworth

Attachments

cc: Mr. Day

475 L'ENFANT PLAZA SW ROOM 7017
WASHINGTON, DC 20260-1600
202-268-6500
FAX: 202-268-3331
www.usps.com