

GAO

Testimony

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U.S. POSTAL SERVICE

Progress Made in
Implementing Mail
Processing Realignment
Efforts, but Better
Integration and
Performance Measurement
Still Needed

Statement of Katherine Siggerud, Director
Physical Infrastructure Issues





Highlights of GAO-07-1083T, a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

GAO reported in 2005 on major changes in the mailing industry that have reinforced the need for the U.S. Postal Service (USPS) to reduce costs and increase efficiency. To address these changes and become more efficient, USPS is implementing initiatives aimed at realigning its mail processing network. In a follow-up review, GAO recently reported that USPS has made progress in implementing these initiatives, yet challenges such as maintaining delivery standards and addressing stakeholder and community resistance remain. In July 2006, GAO also reported on USPS's progress in improving delivery performance information. This testimony describes (1) the changes that have affected USPS's processing network, (2) GAO's concerns related to USPS's strategy for realigning its mail processing network and implementing its area mail processing consolidations, and (3) GAO's concerns related to USPS's progress in improving delivery performance information. This testimony is based on prior GAO reports.

What GAO Recommends

GAO made recommendations to USPS to enhance the planning, accountability, and public communications related to its realignment efforts and to improve its delivery performance measures. USPS's response to the statutory requirements enacted in December 2006 is an opportunity to address GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-1083T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

U.S. POSTAL SERVICE

Progress Made in Implementing Mail Processing Realignment Efforts, but Better Integration and Performance Measurement Still Needed

What GAO Found

Several major changes have affected USPS's mail processing operations, including marketplace changes, declining First-Class Mail volume, increased competition, increased mail processing by mailers, automated operations, and population shifts. These changes have led to excess capacity in USPS's mail processing network and variations in productivity among plants.

GAO's 2005 report concluded that USPS's strategy for realigning its mail processing network lacked clarity, sufficient transparency and accountability, excluded stakeholder input, and lacked performance measures for results. Since then, USPS has developed several initiatives that are at varying stages of development to address these issues and major changes with an overall goal of reducing costs while maintaining service. In 2007, GAO reported that while USPS has made progress in implementing its realignment initiatives, (1) USPS still did not have answers to important questions about how it intended to realign its network, (2) it remains unclear how various USPS initiatives are individually and collectively contributing to achieving its goals, and (3) the area mail processing (AMP) consolidation initiative, to which USPS attributes most of its progress in reducing excess machine capacity, still presents significant issues. These issues include unclear criteria used in selecting potential AMP consolidations, inconsistent data calculations, limited measures of the effects of changes on delivery performance, and a lack of appropriate stakeholder and public input. USPS is developing new policies to address some of these issues. Nevertheless, questions about USPS's selection criteria continue as USPS has decided not to implement 34 of the 57 potential AMP consolidations it considered in 2005 and 2006 as shown in the table below. With limited data on the effects of changes, USPS cannot consider actual delivery performance in making consolidation decisions or in evaluating results.

Status of AMP Consolidation Studies in 2005 and 2006

Status of AMP consolidation	2005	2006	Total
Approved for implementation	10	2	12
Implemented	9	1	10
Implementation pending	1	1	2
Decision not to implement	1	33	34
Decision still pending	NA	11	11
Total AMPs considered	11	46	57

Source: GAO presentation of USPS data.

GAO reported in 2006 that USPS does not measure and report its delivery performance for most types of mail and that its progress to improve delivery performance information has been slow and inadequate despite numerous USPS and mailer efforts. Postal reform legislation enacted in December 2006 requires USPS to submit a plan to Congress describing its strategy, criteria, and processes for realigning its network and provide performance measures for most types of mail. USPS is preparing its response to these requirements.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing for the U.S. Postal Service (USPS). In April 2005, we issued a report¹ that detailed the major changes that have affected USPS's mail processing and transportation operations and evaluated USPS's strategy for realigning its network to address these changes. We recently issued a follow-up report in June 2007,² which focused on the initiatives USPS has implemented to realign its network. We also issued a report³ in July 2006 that discussed our concerns with USPS's limited delivery performance information, which is needed to evaluate how USPS's network realignment decisions affect the quality of delivery service. As requested, my remarks today are based on these previous GAO reports and will focus on (1) major changes affecting USPS's mail processing operations that have prompted the need for network realignment, (2) the concerns we raised in our 2005 and 2007 reports related to USPS's strategy for realigning its mail processing network and implementing its area mail processing consolidations, and (3) concerns we raised in our 2006 report on USPS's progress in improving delivery performance information.

Summary

As we reported in 2005, several major changes have affected USPS's mail processing operations. These changes include the following:

- A changing marketplace and shifts in how customers use the mail—USPS is experiencing a decline in First-Class Mail volume—which declined by almost 6 percent from fiscal years 2001 through 2006—and has attributed this decline to how customers use the mail.
- A change in the role of mailers—This is primarily due to the advent and evolution of USPS's worksharing discounts, which began in 1976. Postal worksharing activities generally involve mailers preparing, barcoding,

¹GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

²GAO, *U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation*, GAO-07-717 (Washington, D.C.: June 21, 2007).

³GAO, *U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement*, GAO-06-733 (Washington, D.C.: July 27, 2006).

sorting, or transporting mail to qualify for reduced postage rates.⁴ These activities allow mail to bypass USPS mail processing and transportation operations.

- The evolution of USPS's automated equipment and processing and transportation networks—USPS's use of manual and automated equipment and the related processing and transportation network have also evolved over time, resulting in an infrastructure network composed of plants that are markedly different from one another, which makes it difficult to standardize operations.
- Shifts in national demographics—USPS facilities may not be optimally located due to shifts in demographics and changes in transportation. USPS has stated that a key challenge is to locate processing plants and employees within efficient reach of most of the population while at the same time providing universal service to the rest of the nation at a reasonable cost.

These changes have created excess capacity in USPS's processing network (i.e., plants, machines, and transportation capacity) and have contributed to variations in productivity across USPS processing plants that impede efficiency gains. To address these changes and their impact, USPS, GAO, the USPS Inspector General, the President's Commission on the U.S. Postal Service, and the Postal Regulatory Commission (PRC)⁵ have all stated that USPS's processing network needs to be realigned.

In our 2005 report, we concluded that USPS did not have answers to important questions about how it intended to realign its mail processing networks. This conclusion still holds true today. In that report, we evaluated USPS's strategy for realigning its processing network—Evolutionary Network Development (END), an evolutionary strategy developed by USPS to realign its processing operations—and found that this strategy

⁴Key worksharing activities include (1) barcoding and preparing mail so USPS can sort it on automated equipment; (2) presorting mail, such as by ZIP code or specific delivery location; and (3) entering mail closer to destination, commonly referred to its destination entry or dropshipping.

⁵The Postal Regulatory Commission was previously named the Postal Rate Commission. Section 604 of the Postal Accountability and Enhancement Act (Pub. L. No. 109-435), enacted on December 20, 2006, redesignated the Postal Rate Commission as the Postal Regulatory Commission.

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- lacked clarity (since USPS announced its intent to realign, it has developed several different realignment strategies);
 - lacked criteria and processes for eliminating excess capacity in its network;
 - excluded stakeholder input from its decision-making processes;
 - was not sufficiently transparent and accountable; and
 - lacked performance measures for results.

We recommended that USPS establish a set of criteria for evaluating realignment decisions, develop a mechanism for informing stakeholders as decisions are made, and develop a process for implementing these decisions that includes evaluating and measuring the results as well as the actual costs and savings resulting from the decisions. We followed up on the actions USPS has taken related to these recommendations in our 2007 report and found that although USPS has taken some steps to improve its planning and evaluation processes, it still has not clarified the criteria it uses for selecting locations for potential area mail processing (AMP) consolidations and making decisions on whether or not to proceed with implementation.

As we stated in our June 2007 report, currently, USPS is implementing several key initiatives that play central roles in network realignment—AMP consolidations, regional distribution center (RDCs) development, the Flats Sequencing System,⁶ and surface and air network development—which are at different stages of implementation. Although we support USPS's efforts to facilitate the realignment of its processing network, we have some concerns about how USPS is implementing these initiatives. First, USPS still does not have answers to important questions about how it intends to realign its network. For example, in February 2006, USPS said that it was planning to develop a network of between 28 and 100 RDCs that would serve as the foundation for its processing network. In June 2007, we reported that USPS is reconsidering this network and it is not clear what the future foundation of the processing network will be. Second, it is not clear how these initiatives are individually and collectively integrated or to what extent they are meeting USPS's realignment goals, which include

⁶Flat mail includes larger envelopes, catalogs, circulars, newspapers, and magazines.

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- developing mail processing and transportation networks suited to current and future operational needs,
 - reducing inefficiency and redundancy,
 - making operations flexible, and
 - reducing postal costs.

USPS is making changes to its processing network with the aim of meeting these goals while maintaining current levels of service, but USPS has yet to develop measurable targets for achieving these goals. With no measurable targets, it is not apparent how much of an impact USPS's network realignment initiatives are making toward achieving these goals. Third, during our review of these initiatives, we also found several issues with AMP consolidations—the initiative that most clearly addresses USPS's goal of reducing excess machine capacity. These issues include USPS's unclear criteria for selecting facilities and deciding on AMP consolidations, the use of inconsistent data calculations, limited measures of the effect of changes on delivery performance, and a lack of appropriate stakeholder and public input when considering potential AMP consolidations.

USPS is revising its procedural and communication guidelines for AMP consolidations to address some of these issues, but we continue to have some concerns, primarily with respect to integrating and measuring performance related to USPS's network realignment initiatives, communication procedures, and the transparency of its decision-making. To address these concerns, in our June 2007 report we recommended that the Postmaster General

- strengthen the planning and accountability for USPS's realignment efforts by ensuring that the Facilities Plan required by the Postal Accountability and Enhancement Act explains the integration of realignment initiatives and establishes measurable targets to track USPS's progress in meeting realignment goals and
- improve communication with stakeholders by modifying USPS's procedures to improve the quality of public notices and engagement, particularly those related to proposed AMP consolidations, and increase transparency in decision-making.

We reported in 2006 on our concerns related to USPS's limited progress in improving its delivery performance information, which, as we reinforced in our 2007 report, is needed to evaluate the effects of its network realignment decisions. A key concern of some stakeholders who may be affected by USPS's realignment decisions is whether delivery service will be negatively affected. Our 2006 report detailed the limited scope of USPS's delivery performance measures, which cover less than one-fifth of the mail volume. We also reported on the impediments to progress and recommended that USPS take actions to provide clear management commitment and more effective collaboration with mailers to resolve the impediments to implementing delivery performance measurement and reporting for all major types of mail. Since our report was issued, Congress passed postal reform legislation that requires USPS to submit a plan to Congress describing its strategy, criteria, and processes for realigning its network and provide the PRC annual performance reporting for the speed and reliability of delivery of most types of mail. We believe that USPS's response to these statutory requirements is an opportunity to address the recommendations from our three reports.

Several Major Changes Have Affected USPS's Mail Processing Operations Prompting the Need for Network Realignment

Several major changes have affected USPS's mail processing and distribution operations including marketplace changes, such as declines in First-Class Mail and increased competition, increased automation and mail processing by mailers, and shifts in population demographics. Historically, USPS's business model was dependent on revenues from increasing mail volumes to help cover the costs of its expanding infrastructure. This model has proven more difficult to sustain because First-Class Mail volumes—which generate high revenue per piece—are declining. USPS has attributed the declining First-Class Mail volume to the impact of electronic diversion as businesses, nonprofit organizations, governments, and households increasingly automate their financial transactions and divert correspondence to the Internet. At the same time as declines in First-Class Mail are taking place, Standard Mail (primarily advertising mail) volumes are increasing. The trends for First-Class Mail and Standard Mail, which currently combine for about 95 percent of mail volumes and 80 percent of revenues, experienced a historical shift in fiscal year 2005. For the first time, the volume of Standard Mail exceeded that of First-Class Mail. This shift has financial implications because First-Class Mail generates the most revenue and is used to finance most of USPS's institutional (overhead) costs, while Standard Mail generates less revenue per piece. It takes about two pieces of Standard Mail to make the same contribution to institutional costs as one piece of First-Class Mail.

The role of mailers has also changed in large part due to the advent of USPS's worksharing discounts in 1976 and the evolution of additional worksharing discounts in subsequent years. Postal worksharing activities generally involve mailers preparing, barcoding, sorting, or transporting mail to qualify for reduced postage rates. These activities allow mailers to bypass some USPS mail processing and transportation operations. Thus, for example, an activity called dropshipping allows the mailer a discount for bypassing the plant near where the sender of the mail is located and transporting the mail closer to its destination point. Worksharing contributes to excess capacity in USPS's operations because mail volumes bypass operations that occur early in USPS's processing network; in some cases, as with dropshipping, mail volumes bypass entire plants. Also, some plants have exclusively processed certain types of mail, which has driven up the cost per piece of those types of mail. In general, by law, each postal product must cover the costs attributable to its provision plus a reasonable contribution to cover institutional costs. Consequently, when a network is dedicated to only one type of mail, that type of mail must bear the costs of the dedicated network.

USPS's use of manual and automated equipment and the related processing and distribution network have also evolved over time, resulting in an infrastructure network composed of plants that are markedly different from one another. As a result, some plants cannot accommodate some types of processing equipment because the floor space requirements differ for manual and automated processing and the plants were not originally designed to house the advanced technology. In 2005, USPS's mail processing and distribution infrastructure included plants that ranged in age from 2 to 72 years old and ranged in size from just over 400 square feet to over 1.5 million square feet; have different layouts; serve different processing functions; and do not share the same amount and type of processing equipment.

Additionally, USPS facilities may not be optimally located due to shifts in demographics and changes in transportation. Most USPS processing plants are located in eastern states—in areas that historically have had the largest population. During the 1990s, U.S. households continued moving West and South, with Nevada and Arizona ranking as the two fastest growing states in the nation. In 2005, we reported that the majority of USPS processing plants are located in states where household growth has not been as rapid as in others. USPS stated that the challenge it faces is to locate processing plants and employees within efficient reach of most of the population, while at the same time providing universal service at a reasonable cost. Furthermore, as a result of ongoing changes in

transportation, most mail is now moved by highway and air, and some processing plants could be better located so that major highways and airports would be more easily accessible. In particular, changes in transportation occurred after the September 11, 2001, terrorist attacks, when new federal aviation security restrictions prohibited the transportation of mail weighing more than 16 ounces on commercial passenger flights. As a result, the majority of the mail previously transported by commercial passenger air is now shipped by surface transportation or flown by FedEx.

These major changes have led to variations in productivity and excess capacity in USPS's processing network, prompting the need for network realignment. Average productivity—total pieces processed per hour—varies among USPS's mail processing and distribution plants, which indicates that some plants are not processing mail as efficiently as others. USPS officials have attributed this variation to several factors, including size of plant as measured by workload, number of employees, plant layout, and use of nonstandardized processes. In our 2005 report, we found that none of these factors, in isolation, can explain the variations; rather, it seems that plants with low productivity exhibit a number of contributing factors.

These major changes have also created excess capacity in USPS's processing network. According to USPS officials, declining mail volume, worksharing, and the evolution of mail-processing operations from manual to automated equipment have led to excess capacity. Excess capacity created by these trends can be categorized into different types, including the following:

- excess machine hours, which occur when machines sit idle;
- excess physical infrastructure, which occurs when more square footage is available for processing mail than is necessary (this may include entire plants);
- excess transportation capacity, which occurs when trucks are run at less than full capacity; and
- excess work hours, which occur when more work hours are used than are necessary for processing the mail.

Concerns Related to USPS's Strategy for Realigning Its Mail Processing Network and Implementing its Area Mail Processing Consolidations

As we reported in 2005, and it continues to be the case today, important questions remain about how USPS intends to realign its mail processing network to meet its future needs because USPS does not have a comprehensive, transparent strategy for realigning its processing network. Since our 2005 report, USPS has been working on several key initiatives that play central roles in network realignment: AMP consolidations, RDC development, the Flats Sequencing System, and surface and air network development. In 2007 we reported that USPS has made progress in implementing these initiatives, but we have some concerns related to the integration and results of these initiatives, particularly the AMP consolidations.

USPS's Strategy for Realigning Its Mail Processing Network is Still Unclear

Our 2005 report concluded that USPS's strategy for realigning has not been clear because USPS has outlined several seemingly different strategies, none of which include criteria and processes for eliminating excess capacity, which may prolong inefficiencies. Also, we reported that USPS's strategy lacks sufficient transparency and accountability, excludes stakeholder input, and lacks performance measures for results. In 2007, we reported that while USPS has made some improvements, it still is not clear how USPS intends to realign its mail processing network. The RDC initiative, which USPS referred to as the foundation of its processing network, is one key area of USPS's network realignment that is unclear.

In February 2006, USPS testified to the PRC that it would be undertaking an initiative to develop a network of RDCs to serve as the foundation of its processing network.⁷ However, various developments have caused USPS to reexamine whether it will proceed with the RDC initiative. RDCs would serve as consolidation centers for mail of the same shape (i.e., letters, flats, or parcels), which would allow mailers to bring various classes of mail to one facility and facilitate the transportation of multiple mail classes on a single transportation network. When USPS first introduced the concept of RDCs to serve as the foundation of its processing network, it projected it would need between 28 and 100 RDCs nationally.

In February 2007, officials told us that they would be reevaluating processing and transportation network plans in light of the December 2006

⁷In February 2006 USPS, sought an advisory opinion from PRC on anticipated changes in the application of current service standards that may result from a systemwide review and realignment of its mail processing and transportation networks, and PRC issued its advisory opinion in December 2006.

Postal Accountability and Enhancement Act, the PRC opinion, and the planned deployment of new equipment to sort flats. In March 2007, USPS's Senior Vice President, Operations, told us that USPS is still determining the structure of its processing network foundation. He said that similar to the current network, the future network would be designed around USPS's processing and distribution centers, but how USPS will make determinations about these facilities appears largely uncertain.

**Mail Processing
Realignment Efforts USPS
Has Under Way Need
Better Integration and
Measurable Targets**

USPS has developed initiatives to facilitate the realignment of its processing network, but without measurable targets for cost savings or benefits, it is not clear how these initiatives are meeting its END goals. The goals of USPS's END include (1) developing mail processing and transportation networks suited to current and future operational needs, (2) reducing inefficiency and redundancy, (3) making operations flexible, and, (4) reducing costs.

The four major initiatives discussed in our June 2007 report are shown in Table 1.

Table 1: Status and Purpose of Central Realignment Initiatives

Initiative	Status	Purpose
Area mail processing consolidations	In progress	Increase efficiency and use of existing machine capacity by consolidating mail processing operations, (of the 57 potential consolidations USPS studied in 2005 and 2006, 10 have been implemented and most of the remaining will not be implemented)
Regional distribution center development	Reconsidering	Provide essential infrastructure for a more efficient processing network
Flats Sequencing System ^a	Under development	Increase processing efficiency by automating flat mail sorting to carrier delivery sequence, (deployment of machines for this purpose is expected between October 2008 and October 2010)
Surface and air network development	Near completion	Improve transportation network flexibility and efficiency, (20 of 23 surface transportation centers have been opened and the remaining are expected to open in 2007)

Source: GAO presentation of USPS data.

^aFlat mail includes larger envelopes, catalogs, circulars, newspapers, and magazines.

USPS has established goals for its END infrastructure realignment and is making changes to its processing network with the aim of meeting these goals while still maintaining current levels of service. While GAO, PRC, and the President's Commission have supported these goals, USPS has yet

to develop measurable targets for achieving them⁸ It also is unclear how USPS's realignment initiatives are integrated with each other, that is, how the individual and collective costs and benefits of these initiatives impact the overall goal of network realignment. Without measurable targets, the impact of USPS's network realignment initiatives on achieving these goals is not apparent. For example, USPS's Senior Vice President, Operations, told us that there are no actual targets for cost savings in network realignment but an indicator of success would be the implementation of more AMP consolidations.

Concerns with the AMP Consolidation Process

We also raised several issues in our June 2007 report about the AMP consolidations, in which certain mail-processing operations from multiple plant locations are consolidated into fewer plant locations. AMP consolidations are the initiative that most clearly addresses USPS's reduction of excess machine capacity due to increased worksharing and declining First-Class Mail volumes, yet the limited transparency in the AMP consolidation process makes it unclear the extent to which this initiative is meeting END goals. Many of the concerns about this lack of transparency in the planning and evaluation processes are primarily related to the criteria USPS used in selecting operations at certain facilities as opportunities for AMP consolidations, the lack of consistent data calculations used in the decision making and evaluation processes, the lack of the AMP consolidation's evaluation of impact on service performance, and the lack of appropriate stakeholder and public input. USPS is taking steps to address these areas by revising its AMP consolidation guidelines, but concerns still exist.

AMP consolidations are intended to reduce costs and increase efficiency by reducing excess machine capacity. One way to reduce excess capacity is to consolidate mail-processing operations from one or more plants into another plant(s). This increases the amount of mail processed on machines and decreases the work hours used in mail processing by reducing the number of staffed machines. By decreasing the number of machines used to process mail, AMP consolidations can reduce postal costs.

⁸In July 2003, the President's Commission provided recommendations on ensuring efficient USPS operations, while minimizing financial exposure to the American taxpayer. These recommendations supported USPS's realignment of its processing network.

In 2005 and 2006, USPS considered 57 studies of opportunities for AMP consolidations, but has decided not to implement 34 of them. See the appendix for more detail on the status of these AMP consolidations. As summarized in table 2, in 2005, USPS considered 11 consolidations, of which it implemented 9, postponed 1, and did not implement 1.

Table 2: Status of AMP Consolidations Studies in 2005 and 2006

Status of AMP consolidation	2005	2006	Total
Approved for implementation ^a	10	2	12
Implemented	9	1	10
Implementation pending	1	1	2
Decision not to implement	1	33 ^b	34
Decision still pending	NA	11	11
Total AMPs considered	11	46	57

Source: GAO presentation of USPS data.

^aUSPS originally approved 11 AMP consolidations in 2005 and subsequently decided not to implement 1.

^bDecisions not to implement proposed AMP consolidations include 5 consolidations USPS placed on indefinite hold.

In 2006 USPS initiated 46 AMP consolidation studies. As of May 2007, it had implemented 1 consolidation, approved but not yet implemented 1 consolidation, decided not to implement 33 studies (5 placed on indefinite hold), was continuing to consider 10 consolidations, and was still completing the study of 1 consolidation. USPS officials explained that area officials decided to place 5 AMP consolidation studies on indefinite hold because of existing delivery service issues in the areas served by these facilities, which the officials wished to resolve before considering implementation. USPS officials said that the remaining 28 of the 33 decisions not to implement the proposed consolidations were made because, for example, studies had found that implementation would result in negligible savings or degrade existing service. USPS anticipates it will make final decisions for the remaining feasibility studies still under consideration this summer.

Unclear Criteria Used in AMP Consolidation Decisions

The criteria USPS uses for both selecting locations that may serve as potential opportunities for AMP consolidations, and deciding whether to implement a consolidation are unclear. Therefore, USPS may not be targeting the best opportunities for consolidation. In 2005, USPS used modeling software that identified 139 sets of locations where operations could potentially be consolidated. Of these, 46 sets of locations were

deemed feasible for initiating AMP consolidation studies in 2006; and of these sets, 2 have been approved so far for AMP consolidations, and 33 have been either rejected or put on hold. In its December 2006 advisory opinion, PRC questioned not the model itself, but rather the effectiveness of the model's use in identifying opportunities for AMP consolidations. PRC's concerns are related to the fact that the END model does not rely completely on location-specific data in identifying opportunities for consolidation. Instead, the model uses some location-specific data in combination with national productivity averages, which may not adequately target the best opportunities for consolidations. The USPS Inspector General also recently reported on USPS's selection process for AMP consolidations.

In addition to having unclear criteria in selecting locations with potential for consolidating mail processing operations, USPS does not have specific criteria—such as definitive thresholds or principles—for deciding whether or not to implement an AMP consolidation after the study has been completed. USPS's Senior Vice President, Operations, told us that USPS is considering prioritizing consolidations that are expected to achieve \$1 million or more in cost savings annually.

Inconsistent Data Calculations

We also reported that USPS did not use consistent data calculations in determining the impact and cost savings of these consolidations. Inconsistency in data calculations in the feasibility studies may limit USPS's ability to identify all of the foreseeable impacts of the consolidations and to accurately determine the expected cost savings of the AMP consolidations. The current AMP guidelines do not prescribe standardized sources for the data used in completing the worksheets, nor is there a standardized methodology for calculating some data in the worksheets.

AMP consolidation guidelines require semiannual and annual post implementation reviews (PIR) of AMP consolidations, which ensure management's accountability for implementing an AMP plan. USPS's post implementation review process essentially replicates the AMP consolidation study process and compares the estimated annual savings submitted in the approved AMP consolidation study to the actual savings after 6 months, which is then projected to annualized savings. PIRs are completed by local managers, approved by area officials, and subject to final review by headquarters officials.

We found that in some cases, reviewing officials in USPS headquarters made significant corrections and changes to the draft PIRs that were

submitted for their review, resulting in revised projected annualized savings that were closer to the original estimates prepared for the AMP consolidation studies. As shown in table 3, the sum of estimated annual savings in the nine AMP consolidations approved in 2005, as provided in the AMP study documents, was about \$28 million.⁹ According to the initial draft PIRs for these nine consolidations prepared by USPS officials at the local level 6 months after implementation, the annualized savings would be about \$19 million. During the review of these PIRs by USPS headquarters, this sum was revised to about \$28 million.

Table 3: Semiannual Post Implementation Projected Annualized Savings Versus Estimated Annualized Savings in AMP Studies Approved in 2005

Number of PIRs	Estimated annualized savings in AMP studies	Initial post implementation projected annualized savings (prepared by local officials)	Revised post implementation projected annualized savings (based on headquarters review)
9	\$28,142,829	\$19,017,453	\$28,112,909

Source: GAO presentation of USPS data.

Note: The headquarters review of the PIRs has been completed for only three of the nine PIRs, and additional revisions to the projected annualized savings may be made, but USPS officials provided us with the most recent data available from their ongoing reviews.

While the differences in the savings from the AMP studies' estimated annualized savings and the revised PIR projected annualized savings are generally small, in the interim, drafts of the PIRs showed different projections before USPS headquarters officials revised them based on their review. USPS's Senior Vice President, Operations, told us that the headquarters review has shown that when PIRs have not been finalized, they do not always account for all of the actual savings achieved by the AMP consolidation. Another USPS official attributed the difference in the amounts reported in some PIRs and the revised projected annualized savings to unexpected events (e.g., changes in cost elements, such as work hour rates) and differences in the methodologies used by the individuals calculating the data impact of the results.

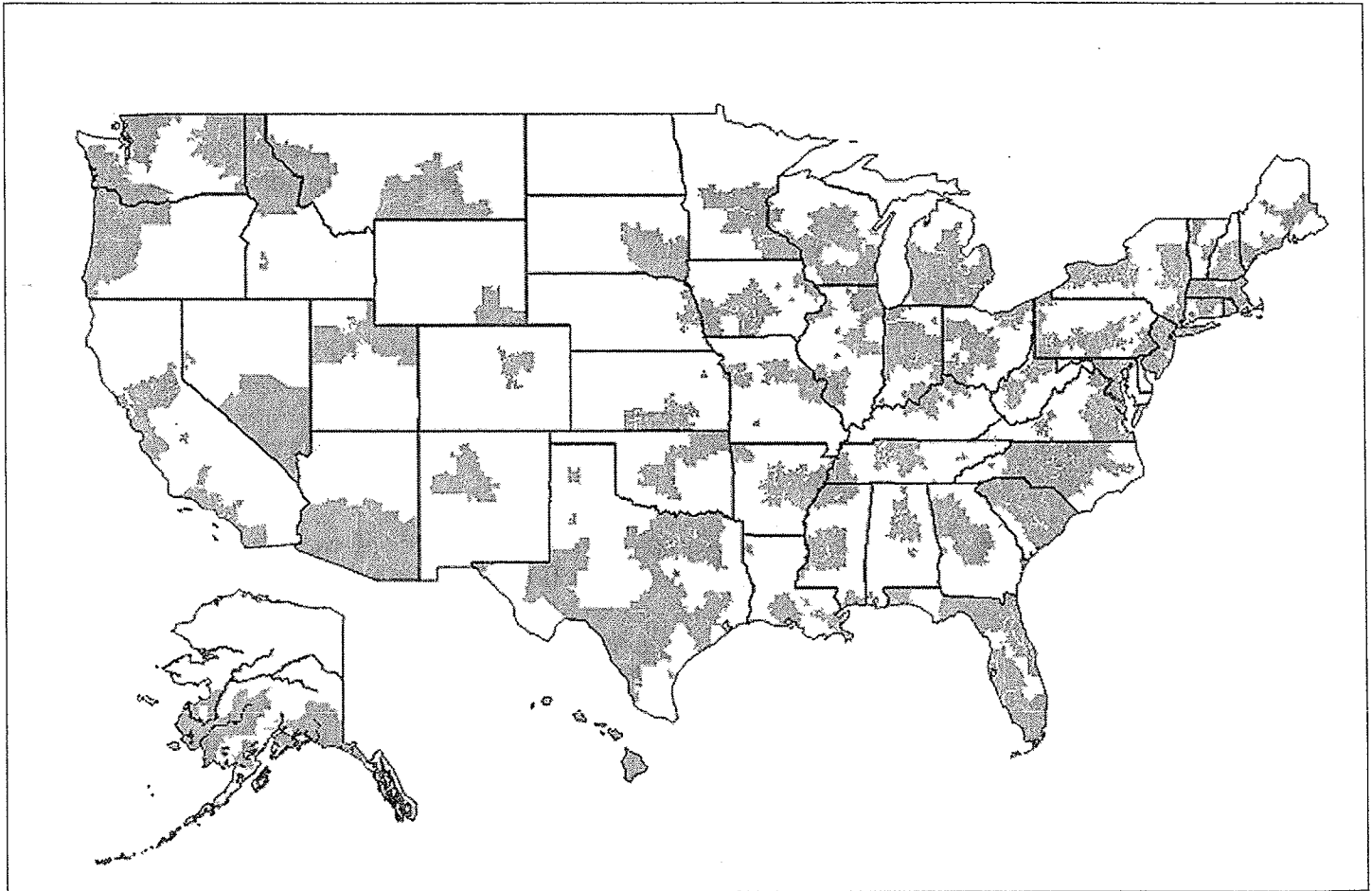
⁹USPS headquarters officials also revised the AMP studies' estimated annual savings for two consolidations after the consolidations were approved to eliminate duplicate savings, which reduced the AMP studies' total estimated annual savings by \$2.8 million. We did not include this revised AMP estimate in the table because we wanted all the data in the table to be from consistent sources.

Limited Delivery Performance Measures

The AMP consolidation process does not evaluate potential impacts to delivery performance; therefore, USPS cannot determine the actual impact of AMP consolidations on delivery service. As we reported in 2006, USPS does not measure and report its delivery performance for most types of mail, and less than one-fifth of total mail volume is measured.¹⁰ While USPS is taking steps toward developing increased delivery performance measurements, limited mechanisms are currently in place to determine how AMP consolidations may potentially impact delivery performance or to evaluate the actual impact after implementation. USPS has systems in place to measure delivery performance for some of its First-Class Mail and segments of other types of mail. However, the External First-Class Measurement System (EXFC) is limited to single-piece First-Class Mail deposited in collection boxes in selected areas of the country (see fig. 1). Thus, some areas included in potential AMP consolidations may not be covered by the EXFC system; therefore, USPS would not have delivery performance information for these areas.

¹⁰GAO-06-733.

Figure 1: Geographic Coverage of Delivery Performance Measurement for First-Class Mail Deposited in Collection Boxes as Measured by EXFC



Source: U.S. Postal Service.

Note: Areas covered by EXFC are shaded. Boundaries within states are for 3-digit ZIP Code areas.

While the AMP consolidation study does not take delivery performance into account, it does review impacts on service standards, which are USPS's official standards for how long it should take to process different classes of mail between the location where USPS receives the mail (originating ZIP codes) and its final destination (destinating ZIP codes). The AMP consolidation study considers whether standards for different classes of mail will be upgraded (a decrease in the time it takes mail to travel between certain ZIP codes) or downgraded (an increase in the time it takes mail to travel between certain ZIP codes) with implementation of

the consolidation. Considering these service standards provides some insight into the potential impact of the AMP consolidation on USPS's ability to meet its internal standards; however, without service performance data or the ability to measure the AMP consolidation's impacts on delivery performance, it is unclear how USPS can accurately determine the cost and service impact of its AMP consolidations.

Lack of Stakeholder and Public Input

USPS's AMP communication practices do not ensure appropriate stakeholder engagement in realignment decisions. More specifically, AMP consolidation communication processes (1) do not provide clear and useful notification to stakeholders, (2) do not provide for meaningful public input and lack transparency into the AMP decision-making process, and (3) provide limited information to the public after USPS makes AMP consolidation decisions. A town hall meeting is the only formal requirement for public input during the AMP consolidation process. Stakeholders and others have criticized the timing of the meeting, saying it occurs too late in the process, after USPS has already made major decisions.

AMP consolidations have been taking place since the late 1960s, and USPS established AMP consolidation guidelines in 1979. However, until 2006, USPS has had no statutory requirement to contact the public (other than USPS employees) concerning the consolidation of its operations, unless the consolidation would result in a retail facility closure. In 1995, prior to the statutory requirement, USPS established communication guidance requiring the notification of stakeholders when an AMP consolidation is implemented, and in 2005 this guidance was updated to require notification when AMP consolidation studies are initiated. AMP consolidation notification letters sent to stakeholders were not meaningful and provided little detail. The notification letters we reviewed were largely form letters, did not simply and clearly state the type of change or changes being studied, and provided no range of possible outcomes for the public to understand. Letters contained jargon with terms that may not be familiar to the public. For example, they stated that USPS was studying the facility's "total mail processing," "originating/destinating mail processing," or "originating mail processing." Also, the letters did not provide the name of the facility to which operations would be moved so that mailers affected by the change could plan their operations accordingly. Furthermore, USPS did not explain to stakeholders that "consolidating both originating and destinating mail" meant USPS was considering closing the facility, whereas consolidating "either destinating or originating mail" meant potential changes only to internal mail processing operations.

AMP guidance requires USPS to “fully consider” both service and “other impacts on the community.” Since 2006, USPS has included a requirement in its AMP guidance for a town hall meeting to provide a forum to obtain public input, but there are flaws with that requirement. As noted in our report, USPS held five town hall meetings that were open to the public and has held another since our report was issued. USPS provided little information about the study prior to the meetings—a series of bullets was posted on a USPS Web site several days prior to the meetings, and USPS neither publicized an agenda for the meetings nor employed a neutral party to facilitate them. According to the guidance, additional information in the form of briefing slides and a video screening, is not made available to attendees until a meeting occurs. Then, a USPS official will prepare a summary document after the meeting that is to be forwarded to USPS headquarters. Only after the meeting, do the stakeholders and the public have an opportunity to draft and submit comments to USPS.¹¹

Additionally, we found that these meetings occur too late in the decision making process. Public meetings were held after the AMP consolidation studies were forwarded to USPS headquarters, and after USPS had gathered and analyzed most of the data, including the data on customer service impacts. USPS officials could not specifically explain how stakeholder and public input was used in reaching AMP consolidation decisions. Furthermore, USPS does not seek input from stakeholders or the public—including input regarding impact on delivery service—when evaluating completed AMP consolidations. However, USPS officials told us that as a matter of practice, USPS provides its employee organizations with copies of approved AMP studies and completed AMP evaluations. It is unclear how the information collected at, or subsequent to, the meetings, factors into consolidation decisions.

Revised AMP Guidelines and
New Legislation Are
Addressing Some of These
Issues, but Concerns Remain

Although USPS is revising its AMP consolidation procedural and communication guidelines to address some of these issues, we continue to have some concerns. Drafts of these revised procedural guidelines indicate that the new process will include several changes aimed at standardizing the AMP consolidation process and the data calculations used in studying potential consolidations. The use of consistent data sources should alleviate some of the delays that currently affect the AMP consolidation process. USPS officials stated that the revised guidelines are currently

¹¹For the five meetings that were held, USPS afforded stakeholders and the public 5 days to provide comments. USPS has since increased the comment period to 15 days.

scheduled to be released this summer.¹² However, we have concerns about the draft guidance because it does not

- address USPS's limited use of facility-specific data in identifying facilities to consider for consolidation,
- identify the criteria USPS uses when deciding to approve an AMP consolidation, or
- address USPS's limited ability to measure delivery performance.

While USPS is updating its communication guidance—the *AMP Consolidation Communication Plan and Toolkit*—its proposed improvements would neither substantively improve information provided to stakeholders and the public, nor improve the public input process. Proposed improvements would help clarify which stakeholders USPS notifies but would not improve the content of the notifications. Furthermore, the draft AMP consolidation guidelines would not provide for transparency into the AMP consolidation decision-making process to the extent that Congress has encouraged and others have recommended or advised by, for example, holding the public meeting earlier or explaining how USPS uses public input.

To address these concerns, in our recent report we made the following two recommendations to the Postmaster General:

1. Strengthen the planning and accountability for USPS's realignment efforts by ensuring that the Facilities Plan required by the Postal Accountability and Enhancement Act¹³ includes
 - a discussion of how the various initiatives that will be used in rationalizing the postal facilities network will be integrated with each other and
 - the establishment of measurable targets USPS plans on meeting for the anticipated cost savings and benefits associated with network

¹²USPS plans on providing a draft of the guidelines to employee unions for their review. Unions are allowed 60 to 90 days for review and comment.

¹³The Postal Accountability and Enhancement Act requires USPS to develop a Facilities Plan that includes a strategy for how USPS intends to rationalize the postal facilities network and remove excess processing capacity and space from the network and the process for engaging policymakers and the public in related decisions.

rationalization, and the timeline for implementation.

2. Improve the way in which USPS communicates its realignment plans and proposals with stakeholders, particularly with regard to proposed AMP consolidations, by taking action to

- improve public notice by clarifying notification letters,
- improve public engagement by holding the public meeting earlier in the study, and
- increase transparency by updating AMP guidelines to explain how public input is considered in the decision-making process.

In its response to our recent report, USPS generally agreed with our findings and stated that it will be taking measures to address our recommendations. USPS commented that its compliance with the Postal Accountability and Enhancement Act will satisfy our recommendations for the Postmaster General to ensure that the required Facilities Plan addresses the integration and performance measurement issues we identified. We agree that the required Facilities Plan provides an opportunity for USPS to more fully discuss the integration of its realignment initiatives and establish measurable targets for meeting the cost savings and benefits of network rationalization.

Additionally, USPS agreed to improve public notice by providing clear and simple language detailing the type of change being considered and forecasting changes to customer services, as well as by soliciting public input at the initiation of the feasibility study. The public notice will outline a formal comment period and inform stakeholders that comments will be addressed later at a public meeting. USPS agreed to improve public engagement by holding the public meeting earlier in the AMP process. We agree that this change in timing will improve USPS's public engagement process as well as the usefulness of public input in AMP consolidation decisions. The agenda and briefing slides will be posted on www.usps.com in advance of the public meeting. USPS also agreed to increase the transparency of the AMP process by adding information to the AMP guidelines on how USPS uses public input in the decision-making process. Public input information will be appended to the AMP proposal provided to the Area Vice President for a decision. The input will be weighed against the proposal's overall impact on cost savings and service. If the AMP proposal is approved by the Area Vice President, it will be forwarded along with the public input information to the Senior Vice President,

Operations. The final report will be posted on www.usps.com and will summarize the impact of the approved proposals on savings, service, and other stakeholder concerns.

Progress in Improving Delivery Performance Measures Has Been Slow and Inadequate

Our July 2006 report found that USPS does not measure and report its delivery performance for most types of mail, and less than one-fifth of total mail volume is measured (see table 4). We also reported that USPS has made inadequate progress in modernizing its delivery standards and in implementing delivery performance measurement for all major types of mail. Our report discussed multiple impediments that have contributed to USPS's slow progress toward implementing representative measures of delivery performance for all major types of mail. The most important impediment was the lack of management commitment and effective collaboration with the mailing industry to follow up on recommendations for improvement and to resolve issues between USPS and mailers. Additional impediments included technological limitations, limited mailer participation in providing information needed to facilitate performance measurement, data quality deficiencies, and costs. USPS's limited progress has left major gaps in each of these areas, despite numerous recommendations for improvement that have been made in these areas over the years, including those by USPS-mailer task forces and working groups, as well as some USPS initiatives to develop delivery performance measurement. We recommended that USPS take actions to facilitate greater progress in developing complete delivery performance information.

Table 4: USPS Measurement and Reporting of Timely Delivery Performance

Type of mail	Mail volume (percent)	Mail revenue (percent)	Representative measurement	Reporting on USPS Web site
Standard Mail	47.7	28.4	None ^a	None
First-Class Mail: bulk	24.6	23.7	None ^a	None
First-Class Mail: single-piece	21.7	30.4	Partial	Partial
Periodicals	4.3	3.2	None ^a	None
Package Services	0.6	3.3	Partial	Partial
Priority Mail	0.4	7.0	Partial	Partial
International Mail	0.4	2.6	Partial	None
Express Mail	0.03	1.3	Full	Partial

Source: GAO analysis of U.S. Postal Service information.

Note: Timely delivery performance is measured based on comparing the time for USPS to deliver mail against USPS's delivery standards. Reporting includes material on USPS's Web site. For purposes of this table, First-Class Mail does not include Priority Mail. Volume and revenue data are for fiscal year 2005 and do not add up to 100 percent because they do not include some small and unrelated types of mail.

^aNo representative measure of delivery performance exists for this mail. Some mailers pay an additional fee to obtain data on the progress of their mail through USPS's mail processing system. However, these data are not representative, cover less than 2 percent of total mail volume, and do not include data on the date of delivery.

While USPS is taking steps toward developing increased delivery performance measurements, limited mechanisms are currently in place to determine how AMP consolidations may impact delivery performance or to evaluate the actual impact after implementation. A key concern of some stakeholders who may be affected by USPS's realignment decisions is whether their delivery service will be negatively affected. The Postal Accountability and Enhancement Act enacted in December 2006 provides additional opportunities for USPS to address the concerns we raised. The act requires USPS to establish modern delivery service standards by December 20, 2007, and implement annual reporting of the speed and reliability for most types of mail (market-dominant products¹⁴) according to specific requirements to be established by the PRC. In addition, the act requires USPS to annually report on the quality of service it provides for each of these products. USPS is in the process of consulting with mailers, PRC, and the public on how this modernized system of service standards and measures should be developed. We believe this process of dialogue and obtaining a broad cross-section of input is a good start and we look forward to new USPS and PRC regulations in this area, which are expected later this year.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or the Members of the Subcommittee may have.

¹⁴The Postal Accountability and Enhancement Act defines market-dominant products to include: First-Class Mail letters and sealed parcels, First-Class Mail cards, periodicals, Standard Mail, single-piece parcel post, media mail, bound printed matter, library mail, special services, and single-piece international mail.

Contact and Acknowledgments

For further information regarding this statement, please contact Katherine Siggerud, Director, Physical Infrastructure Issues, at (202) 512-2834 or at siggerudk@gao.gov. Individuals making key contributions to this statement included Teresa Anderson, Tida Barakat, Tonnyé Conner-White, Kathy Gilhooly, Kenneth John, Taylor Matheson, and Margaret McDavid.

Appendix I: Status of USPS 2005 and 2006 AMP Consolidations

Status of AMP Consolidations Approved In 2005 (as of May 2007)

Facilities involved in consolidation (facility losing operations/facility gaining operations)	Implemented	Implementation postponed	Subsequent decision not to implement
Bridgeport, CT/ Stamford, CT	√		
Greensburg, PA/ Pittsburgh, PA	√		
Kinston, NC/ Fayetteville, NC			√
Marina, CA/ Los Angeles, CA	√		
Marysville, CA / Sacramento, CA	√		
Mojave, CA/ Bakersfield, CA	√		
Monmouth, NJ / Trenton, NJ & Kilmer, NJ	√		
Northwest Boston, MA/ Boston, MA	√		
Olympia, WA/Tacoma, WA		√	
Pasadena, CA/ Santa Clarita, CA & Industry, CA	√		
Waterbury, CT/ Southern Connecticut, CT	√		
Total	9	1	1

Source: GAO presentation of USPS data.

Status of 46 AMP Consolidations Initiated in 2006 (as of May 2007)

AMP package under review at district or area management	AMP package under review by headquarters	Proposed AMP review on hold	Decision not to implement proposed AMP	AMP approved
1	10	5	28	2
Daytona Beach, FL/ Mid-FL, FL	Aberdeen, SD/ Dakotas Central, SD	Alamogordo, NM/ El Paso, TX	Beaumont, TX/ Houston, TX	Newark, NJ/ Kearny, NJ
	Bronx, NY/ Morgan, NY	Batesville, AR/ Little Rock, AR	Binghamton, NY/ Syracuse, NY	Saint Petersburg, FL/ Tampa, FL
	Canton, OH/ Akron, OH	Carbondale, IL/ Saint Louis, MO	Bloomington, IN/ Indianapolis, IN	
	Dallas, TX/ North Texas, TX	Centralia, IL/ Saint Louis, MO	Bryan, TX/ Houston, TX	
	Flint, MI/ NE Metro, MI	Las Cruces, NM/ El Paso, TX	Burlington, VT/ White River Jnt, VT	
	Jackson, TN/ Memphis, TN		Cape Cod, MA/ Brockton, MA	
	Kansas City, KS/ Kansas City, MO		Carroll, IA/ Des Moines, IA	
	Oshkosh, WI/ Green Bay, WI		Cumberland, MD/ Frederick, MD	
	Sioux City, IA/ Sioux Falls, SD		Fox Valley, IL/ South Suburban, IL	

AMP package under review at district or area management	AMP package under review by headquarters	Proposed AMP review on hold	Decision not to implement proposed AMP	AMP approved
	Waco, TX/ Fort Worth/Austin, TX		Gaylord, MI/ Traverse City, MI	
			Glenwood Springs, CO/ Grand Junction, CO	
			Helena, MT/ Great Falls, MT	
			Hutchinson, KS/ Wichita, KS	
			LA Crosse, WI/ Rochester, MN	
			McAllen PO TX/ Corpus Christi, TX	
			McCook & N. Platte, NE/ Casper, WY	
			Plattsburg, NY/ Albany, NY	
			Portsmouth, NH/ Manchester, NH	
			Rockford, IL/ Palatine, IL	
			Sheridan, WY/ Casper, WY	
			Springfield, MA/ Hartford, CT	
			Staten Island, NY/ Brooklyn, NY	
			Twin Falls, ID/ Boise, ID	
			Utica, NY/ Syracuse or Albany, NY	
			Watertown, NY/ Syracuse, NY	
			Wheatland, WY/ Cheyenne, WY	
			Yakima, WA/ Pasco, WA	
			Zanesville, OH/ Columbus, OH	

Source: GAO presentation of USPS data.

Note: This table includes the facilities involved in proposed consolidations, both the facility losing operations and the facility gaining operations.

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