



January 26, 2009

KATHLEEN AINSWORTH
VICE PRESIDENT, RETAIL OPERATIONS

WALTER F. O'TORMEY
VICE PRESIDENT, ENGINEERING

SUBJECT: Audit Report – Retail Technology Strategy: Automated Postal Centers
(Report Number DA-AR-09-004)

This report presents the results of our audit of the Postal Service's Automated Postal Centers (APCs) (Project Number 08YG029DA000). Our objectives were to identify the benefits of deploying APCs to non-Postal Service locations and assess the Postal Service's plans for APC deployment to such locations. See [Appendix A](#) for additional information about this audit.

[Conclusion](#)

The APC Decision Analysis Report (DAR) states that the Postal Service could deploy APCs to retail space and other more convenient, less costly, non-Postal Service sites, and that reduced window clerk workhours at post offices resulting from customers' use of APCs should produce savings. Despite these initial expectations, the Postal Service has not reduced workhours as envisioned. APC program officials stated that the Postal Service recently relocated underperforming APCs to more advantageous Postal Service locations and they believe APC usage will increase. However, there is currently no clear plan that includes deployment of APCs to non-Postal Service locations and capital funding has not been approved for additional APCs.

While the U.S. Postal Service Office of Inspector General (OIG) recognizes the Postal Service's capital funding constraints, OIG blog results¹ indicate a desire to have APCs at non-Postal Service sites. The benefits of deploying or leasing APCs to more convenient non-Postal Service locations include the potential to reduce window clerk workhours, generate additional revenue, and enhance customer convenience. In addition, benchmark results show other entities have successfully used self-service kiosks to decrease costs and increase customer convenience. The Postal Service may be foregoing opportunities to realize the full benefits of self-service technologies by not fully incorporating self-service kiosks into the current retail technology strategy. See [Appendix B](#) for our detailed analysis of this topic.

¹ The blog was initiated in September 2008 as part of a new OIG program to facilitate an ongoing dialog on relevant issues affecting the Postal Service.

We recommend the Vice President, Retail Operations, in coordination with the Vice President, Engineering:

1. Develop a retail technology plan which includes a pilot deployment of Automated Postal Centers to non-Postal Service locations.

Management's Comments

Management disagreed with our conclusion that APCs have not reduced workhours. Management also disagreed with our recommendation to develop a plan to deploy APCs to non-Postal Service locations, stating they have already deployed them to such locations and/or unattended Postal Service sites. In addition, management stated they would consider placing APCs in additional non-Postal Service locations if funds become available for a purchase of additional machines. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

While management correctly describes a recent 3-year trend (2005–2007) to support their statement that window clerk workhours declined at APC sites, they did not use the appropriate baseline for comparison. Our analysis appropriately compares window clerk workhours “before and after” APC deployment (see Chart 1). Fiscal year (FY) 2003 served as a baseline for our analysis because it was the period prior to APC deployment. Using this baseline, our comparison showed an immediate and substantial increase in window clerk workhours at APC sites after the Postal Service deployed the machines (FYs 2004 and 2005), and then a gradual decline; however, FY 2008 workhours were still nearly 12 percent greater than those used in FY 2003. Management's comments do not explain why window clerk workhours increased at APC sites after deployment while the number of window transactions decreased.

We believe our recommendation to deploy APCs to non-Postal Service locations is consistent with the Postal Service transformation plan's goal to place special emphasis on enhancing online and self-service capabilities to further reach out to customers where they live, work, and shop. We do not dispute that there are APCs placed in a few non-Postal Service locations that are capable of meeting targeted revenue goals. For example, we note that the APC revenue associated with a Las Vegas, Nevada grocery store was above the average of other APCs within the same locality. The intent of our recommendation was to emphasize the importance of a tactical plan and timeframes for capturing the transformation vision relating to self-service technologies on a larger scale. The current Postal Service strategy² is silent on positioning APC's in retail outlets. As such, we believe the Postal Service should reconsider our recommendation as it has the potential to help further modernize the customer experience while lowering Postal Service costs.

² *The Alternate Access Channels National Strategic Cookbook*, January 2009.

The OIG considers management's comments to the finding and recommendation non-responsive. However, we recognize Postal Service capital funding limitations, overall financial constraints, and current technology priorities. While we continue to believe our recommendation is worthwhile, we will not pursue audit resolution at this time and will continue to review technology plans, development, and funding priorities.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2100.

E-Signed by Darrell E. Benjamin, Jr. 
VERIFY authenticity with ApproveIt

Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Janet L. Webster
Dennis P. Yenke
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service introduced APCs in 2004 and there are 2,491 in use today. APCs give customers a convenient alternative to counter services as most are located in post office lobbies and many provide basic services at any time of day or night, including weekends and holidays.

APCs can process many of the transactions that retail window personnel normally handle, freeing retail associates to focus on assisting customers with face-to-face transactions. For example, APCs can:

- Weigh and rate letters, flats, and parcels up to 70 pounds.
- Dispense variable rate postage in any denomination for Express, Priority, and First-Class Mail®; International Mail (under 1 lb.); and Parcel Post Mail or any selected special services.
- Provide Postal Service and mailing information, such as mailing options, different classes of mail, or special services.
- Print Express Mail forms and look up ZIP Codes.
- Provide the option to purchase Delivery Confirmation, Signature Confirmation, or Certified Services™; Insurance; or Return Receipt services.
- Accept debit and credit cards for payment.

The Vice President, Retail Operations, is responsible for providing tools and guidance that support the strategic direction in improving efficiency, increasing revenue, and decreasing costs. Specific responsibility for APCs falls under the Retail Service Network and Access Innovations. The Vice President, Engineering, defines and develops policies and plans for the lifecycle support of major Postal Service equipment and systems, including retail automation.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to identify the benefits of deploying APCs to non-Postal Service retail locations and assess the Postal Service's plans for deployment to such locations. To accomplish our objectives we used the recently developed OIG blog³ to gauge consumer interest in having APCs at retail and non-Postal Service locations. We also conducted meetings with Engineering and Retail officials to determine the reasons for not migrating APCs to non-Postal Service locations. In addition, we researched entities that use self-service technologies to establish benchmarks.

³ A website that displays in chronological order the postings by one or more individuals and usually has links to comments on specific postings.

We conducted this performance audit from August 2008 through January 2009 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 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 December 15, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Deployment Strategy of Automated Postal Centers</i>	DR-AR-07-010	June 7, 2007	None	Analysis of FY 2006 actual transaction data for the best 3,000 Phase II APC candidate facilities indicated only about 50 to 100 of these facilities had sufficient APC-eligible transactions to potentially produce a cost savings. Purchasing 3,000 more APCs could result in a loss.
<i>Revenue Generation by Automated Postal Centers</i>	MS-AR-09-003	November 7, 2008	\$1.67 mil	Management developed best practices for APCs, but had not implemented them consistently in all Postal Service districts. Effective implementation of best practices in the lowest performing 10 districts would result in approximately \$1.67 million in funds put to better use over the next 2 years.

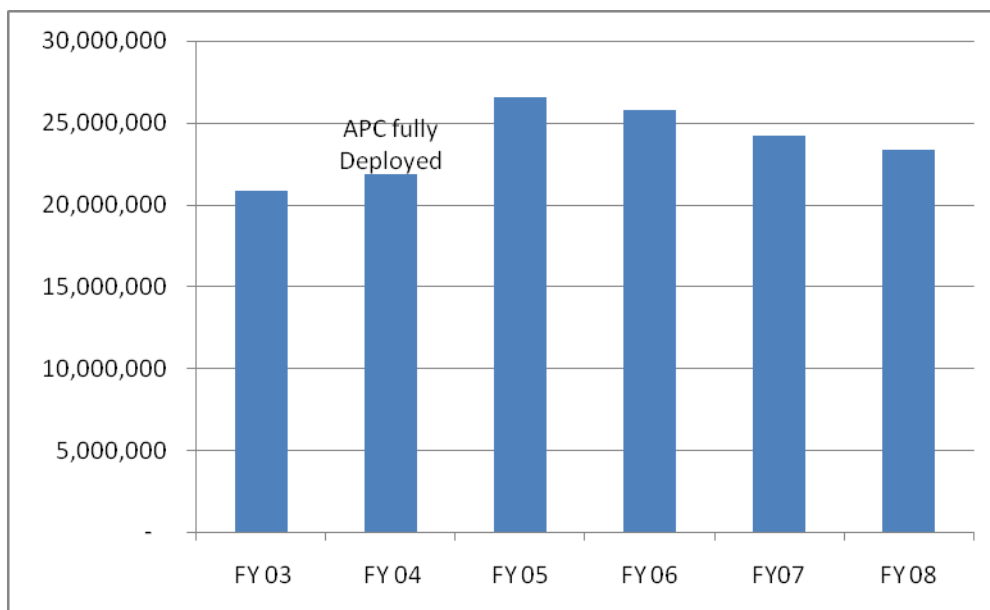
APPENDIX B: DETAILED ANALYSIS

Window Clerk Workhours Increased

The benefits of migrating transactions to APCs include reduced window clerk workhours at post offices. Currently, 45 percent of all customer visits at the retail counter can be completed at an APC. However, as of October 2008, APCs were diverting only about 20 percent of eligible transactions from retail counters nationally – less than half of those possible. [REDACTED]

[REDACTED],⁴ but, while window transactions decreased from FY 2004 to FY 2008, targeted workhours actually increased (see Chart 1).

Chart 1 – Window Clerk Workhours at APC Sites



⁴ [REDACTED]

Postal Service APC Migration Plans

The APC DAR states that the Postal Service could deploy APCs to retail space and other more convenient, less costly non-Postal Service sites. Furthermore, the *Strategic Transformation Plan 2006-2010* states that the Postal Service:

- Has a goal to double the percentage of retail transactions via alternate access channels to 40 percent by 2010.
- Places increasing awareness and use of APCs as a high priority.
- Will continue to place special emphasis on enhancing self-service capabilities to further reach out to customers where they live, work, and shop.
- Will pursue strategic alliances where partners can help speed development and/or reduce shared costs.

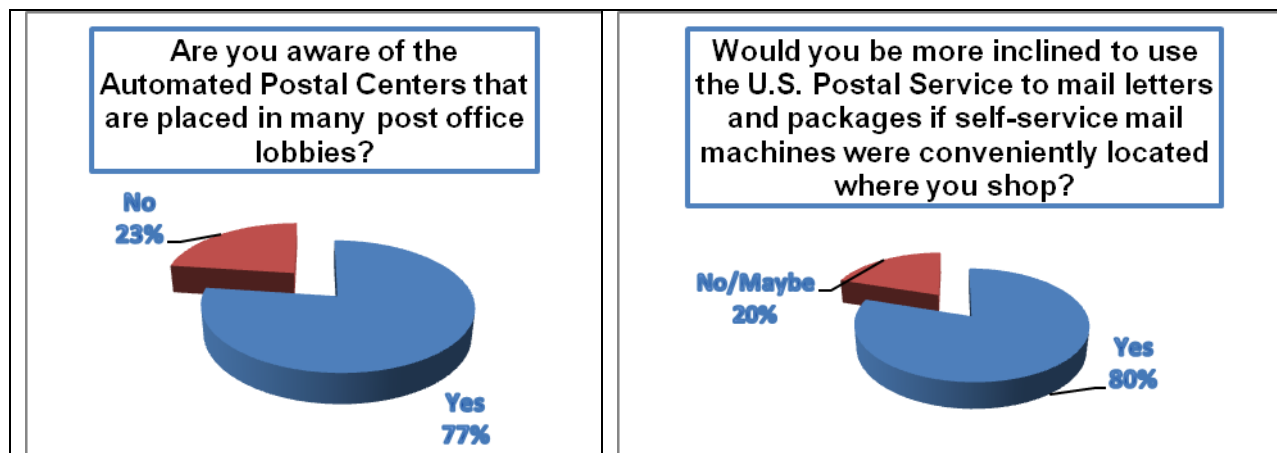
However, the Postal Service does not have a clear plan that includes deploying APCs to non-Postal Service locations. The benefits of deploying or leasing APCs to more convenient non-Postal Service locations include the potential to reduce window clerk workhours, generate additional revenue, and enhance customer convenience. APCs also complement internet technologies such as Click-N-Ship and, as discussed previously, OIG blog results indicate that customers desire to have APCs at non-Postal Service locations. Despite these potential benefits, the Postal Service plans to keep APCs primarily in post office lobbies. According to APC program officials, management recently relocated under-performing APCs to more desirable locations; therefore they believe APC usage will increase. In addition, funding is currently unavailable for additional APCs.

While we recognize the Postal Service is piloting its retail storefront in Schaumburg, Illinois, the Postal Service has not fully incorporated self-service technologies such as APCs into its retail technology plans. The Postal Service may be foregoing opportunities to realize the full benefits of self-service technologies by not fully incorporating self-service kiosks into those plans.

Blog Results

Our blog results indicate that some customers would prefer that APCs be located at convenient non-Postal Service locations. Specifically, 117 of 152 (77 percent) of the blog respondents were aware of APCs and 120 respondents (80 percent) would be more inclined to use an APC if it were conveniently located where they shop.

Illustration 1 – Blog Results



Excerpts of blog comments highlighting favorable conditions for APCs include:

- *APCs should be in all offices and any place people gather to buy items.*
- *I think in major malls/shopping centers these APCs should be the norm.*
- *I think these machines are a great service. In fact they should be placed in every large apartment complex throughout the country for those who are at work and cannot necessarily get to the post office.*
- *Installing APCs in grocery stores would eliminate the need for special trips.*
- *They should be in any fairly safe 24-hour store, Wal-Mart, grocery stores, drug stores, shopping malls, and convenience stores.*
- *I think we would be crazy not to put APCs all over the place like ATMs. The potential for revenue is there. Someone walking by would say, 'oh yeah, I need some stamps.' There are probably more people like me who don't want to stand in long lines.*
- *I would use an APC if it was in a convenient place. This would help me avoid using leave from work to get to the post office before closing.*

Benchmarking

We analyzed five companies that have successfully used or plan to use self-service kiosks. Generally, our benchmarks indicate that self-service machines decreased costs and increased convenience for customers as noted below.

- United Airlines' use of self-service kiosks diverted approximately 63 percent of its customers from the counter to the machine and significantly reduced the need for counter clerks. Specifically, over a 2-year period, management eliminated 25

percent of their vacant positions. Self-service kiosks complement internet technologies by enhancing customer service while lowering counter costs.

- Air Canada announced in February 2007 that it was realizing significant savings through the use of self-service kiosks. The company stated that it costs 16 cents to check in a traveler through a kiosk, versus \$3 through a staffed counter. Self-service kiosks complement internet technologies to enhance customer service while lowering counter costs.
- Pitney Bowes, Inc. has developed a self-service kiosk which allows Postal Service customers to perform a wide range of tasks, permitting retail counter employees to focus their attention on those customers who have special or hard-to-meet needs more efficiently. Kiosk locations include 50 - 60 corporate and college campuses and Postal Service retail outlets in several countries.
- France's national postal operator, La Poste, signed a contract in October 2008 to lease 50 stand-alone kiosks and they hope to expand the number of kiosks over time. Pitney Bowes, Inc. has established leasing agreements with firms wanting kiosks to provide convenient mailing options for customers.
- Best Buy is providing express consumer convenience by installing a dozen freestanding, self-service vending machines through eight specific airports across the country.

APPENDIX C: MANAGEMENT'S COMMENTS



January 15, 2009

LUCINE M. WILLIS

SUBJECT: Transmittal of Draft Audit Report – Retail Technology Strategy: Automated Postal Centers (Report Number DA-AR-09-DRAFT)

This letter is in response to Transmittal of Draft Audit Report – Retail Technology Strategy: Automated Postal Centers (Report Number DA-AR-09-DRAFT) dated December 31, 2008. We disagree with the conclusions and the recommended actions contained in this report.

Conclusion Paragraph Conclusion paragraph, fourth line states:
“Despite these initial expectations, the Postal Service has not reduced workhours as envisioned.”

Management Response: This is not an accurate statement. As a result of the deployment of the Automated Postal Centers (APC) and in accordance with the APC DAR, District workhour budgets were reduced by 2.7M hours over the three year period of 2005 – 2007.

Recommendation 1: Significant.
We recommend the Vice President, Retail Operations in conjunction with the Vice President, Engineering, develop a retail technology plan, which includes a pilot deployment of APCs to non-Postal Service locations.

Management Response: Management does not agree with this recommendation as our retail technology plan already includes APCs in non-postal locations.

There are APCs currently deployed in non-postal and/or unattended postal sites in the Great Lakes Area, the New York Metro Area, and the Western Area. The existing APCs have been deployed to locations that are capable of meeting or exceeding their targeted revenue goals.

At this time, funds have not been authorized for a purchase of additional APCs. In the event funds become available, we will consider placement of APCs in non-postal locations based on quantitative and qualitative data.

There are no Freedom of Information Act (FOIA) issues relative to these concerns.


Kathy Ainsworth
Vice President, Retail Operations


Walter F. O'Tormey
Vice President, Engineering

cc: Kathy Banks
Manager, Corporate Audit & Response Management