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The Honorable Richard J. Durbin
Chairman
The Honorable Sam Brownback
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable José E. Serrano
Chairman
The Honorable Ralph S. Regula
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
House of Representatives

Subject: *U.S. Postal Service: Progress Made Toward Implementing GAO's
Recommendations to Strengthen Network Realignment Planning and
Accountability and Improve Communication*

Major changes affecting the U.S. Postal Service (USPS)—including declining mail volumes, increasing operating expenses such as rising fuel costs, and a more competitive marketplace—have reinforced the need for USPS to increase efficiency and reduce expenses in its mail processing network. This network includes over 600 facilities that sort mail and prepare it for transportation and delivery. First-Class Mail provides USPS with high revenue per piece and has traditionally helped USPS cover its overhead costs. However, First-Class Mail volumes have been declining since 2001 and this downward trend is expected to continue. Furthermore, while First-Class Mail volumes have been declining, worksharing by mailers has increased. Worksharing allows mailers to earn discounts on postage rates by presorting, preparing, and transporting their mail to a postal facility near the mail's destination. As worksharing has increased, ever-larger volumes of mail have bypassed most of USPS's processing activities, creating excess network capacity.

To address these trends affecting its mail processing network, USPS has developed several initiatives to reduce costs and increase efficiency. One such initiative, area mail processing, is designed to consolidate operations at facilities with excess machine capacity, and thereby increase the use of automation in mail processing. In 2005 and 2007, we issued reports that evaluated USPS's network realignment plans

and included recommendations for improvement.¹ This report responds to a directive from the House and Senate Committees on Appropriations and assesses the progress USPS has made toward implementing our recommendations to (1) improve realignment planning and accountability by establishing criteria for decision making and a process for evaluating savings and benefits; addressing how the various realignment initiatives are integrated; and establishing measurable performance targets; and (2) improve communication related to realignment plans and proposals by ensuring that its revised Area Mail Processing (AMP) Communication Plan includes steps to improve public notice and engagement and increase transparency.

Our April 2005 report found that USPS did not establish criteria to select facilities for potential AMP consolidations or to make decisions about implementing consolidations. As a result, it was unclear whether USPS was making decisions fairly and efficiently or whether USPS was targeting the best consolidation opportunities. In 2005, we also found that it was unclear how USPS's strategy would provide accountability for realignment decisions because there was no process for evaluating the results of these decisions and no stated policy for making managers accountable. Accordingly, we recommended that USPS establish criteria for evaluating realignment decisions and develop a process to evaluate and measure the results.

In June 2007, we issued a follow-up report on USPS's realignment efforts. We found little transparency in USPS's process for integrating its realignment efforts and determined that USPS could not demonstrate the costs and benefits associated with its network realignment initiatives because it lacked measurable performance targets to track its realignment goals. We also found that the AMP consolidation communication processes did not provide clear and useful notification to stakeholders, did not provide for meaningful public input or engagement, and lacked transparency regarding how USPS makes AMP consolidation decisions. Table 1 describes the recommendations we made to the Postmaster General in our 2007 report.

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

Table 1: Recommendations to the Postmaster General in GAO-07-717

Planning and Accountability	Communication
<p data-bbox="347 266 889 369"><i>Strengthen planning and accountability by ensuring that USPS's network realignment plans include</i></p> <ul style="list-style-type: none"> <li data-bbox="444 411 889 621">○ a discussion of how the various network realignment initiatives will be integrated with each other to achieve network realignment goals, and <li data-bbox="444 632 889 764">○ measurable targets for the anticipated cost savings and benefits associated with network rationalization. 	<p data-bbox="967 266 1430 548"><i>Improve the way USPS communicates with stakeholders about its realignment plans and proposals, particularly its proposals for consolidating AMP operations, by ensuring that its revised communication plan includes steps to</i></p> <ul style="list-style-type: none"> <li data-bbox="1065 590 1422 621">○ improve public notice, <li data-bbox="1065 632 1341 695">○ improve public engagement, and <li data-bbox="1065 705 1422 737">○ increase transparency.

Source: GAO

To strengthen its planning and communication, in June 2008, USPS issued its Network Plan.² This plan, mandated by the Postal Accountability and Enhancement Act of 2006 (PAEA),³ was to include USPS's long-term vision and strategy for realigning its network; a description of the anticipated costs, cost savings, and other benefits associated with the infrastructure realignment alternatives; and USPS's communication procedures for AMP consolidations. USPS has additional legislative requirements to meet before moving forward with AMP consolidations. Moreover, the previously mentioned congressional directive that called for this report, which appeared in the joint explanatory statement accompanying the Consolidated Appropriations Act for fiscal year 2008, restricts USPS from implementing additional AMP consolidations until we have issued this report to the Committees on Appropriations.⁴

To describe USPS's progress in implementing our recommendations on improving network realignment planning and accountability, we reviewed the Network Plan USPS issued in June 2008 and our work on USPS's realignment initiatives.⁵ We also met with the Deputy Postmaster General and Acting Senior Vice President for

²Postal Accountability and Enhancement Act § 302 Network Plan.

³Section 302 of the Postal Accountability and Enhancement Act (Pub. L. No. 109-435) was enacted on Dec. 20, 2006. Whereas the act refers to network "rationalization," we have previously used the term "realignment" for analogous purposes and continue to do so in this report.

⁴See Division D, Financial Services and General Government Appropriations Act, 2008, of the Explanatory Statement accompanying the Consolidated Appropriations Act, 2008, Pub. L. No. 110-161, Dec. 26, 2007. The Explanatory Statement is included in the Committee Print on H.R. 2764/Public Law 110-161, Committee on Appropriations, U.S. House of Representatives, January 2008.

⁵See GAO-05-261; GAO-07-717; and *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, GAO-08-1022T (Washington, D.C.: July 24, 2008).

Operations to discuss USPS's Network Plan and decision-making process for realignment initiatives. To describe USPS's progress in implementing our recommendations on better communicating its realignment plans and proposals to stakeholders, we reviewed USPS's revised AMP guidelines and revised Communication Plan, both issued in March 2008, along with our related realignment products and USPS's June 2008 Network Plan. We also met with USPS's Manager of Processing Operations and the Manager of Network Alignment Implementation to discuss the changes USPS has made to improve its AMP process. We conducted this performance audit from June 2008 through September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

USPS has taken steps to address our prior recommendations to strengthen planning and accountability for its network realignment efforts, which are important as USPS moves from planning to implementing its network realignment initiatives. Its 2008 Network Plan identifies three major realignment efforts: (1) closures of Airport Mail Centers (AMC), (2) consolidations of AMP operations, and (3) the transformation of the Bulk Mail Center (BMC) network. USPS's Network Plan includes criteria for evaluating realignment decisions, the three most important of which, according to postal officials, are cost, service, and capacity.

USPS has established a process for evaluating and measuring the results of its AMP consolidations, is developing an analogous process for AMC closures, and has yet to implement the BMC initiative as this strategy is still under consideration. USPS's AMP guidelines require semiannual and annual postimplementation reviews of AMP consolidations. These reviews assess whether planned savings, work hours, and levels of service have been met and ensure that management is held accountable for implementing an approved AMP proposal. Additionally, we found that USPS's Network Plan generally describes how USPS's key realignment efforts are integrated and provides a few examples. Regarding performance targets, we found that the Network Plan contains limited specific information on performance targets or on the costs and savings attributable to USPS's various realignment initiatives. The only specific reference in the Plan was the statement that USPS would establish fiscal year 2009 service standards targets before the conclusion of fiscal year 2008. The Deputy Postmaster General explained that USPS's performance targets are captured in more detail in its budget. However, limited information on performance targets, particularity related to its realignment initiatives, is available to Congress and the public. USPS provides Congress with highlights of its budget as part of its annual appropriation request, but not its detailed internal budget. Since USPS is self-sustaining, its appropriations requests to Congress are limited.⁶ We recognize USPS's

⁶For example, in fiscal year 2008, Congress appropriated an estimated \$89 million of USPS's total budget of an estimated \$78 billion. Congress put USPS on a self-sustaining basis in 1971, and has subsidized the mailing costs of certain groups, e.g., the blind and overseas voters, by providing an

need to increase efficiency and decrease costs across all its operations in light of declining mail volumes. In addition, USPS's financial report for the third quarter of this fiscal year states that slow economic growth will continue to negatively affect revenue and volume, especially if fuel prices remain at their current high levels and inflation in other sectors of the economy begins to increase. As USPS pursues its network realignment under these challenging financial conditions, it will have an opportunity, in its annual reports to Congress, to provide ongoing information about its realignment targets and the costs and benefits of its realignment initiatives.⁷

USPS has taken steps to address our recommendations to improve communication with its stakeholders as it consolidates its AMP operations. USPS has modified its AMP Communication Plan to improve public notification, engagement, and transparency. Notably, USPS has improved the content of its notification letters and notifies stakeholders earlier of the public meeting during which AMP consolidations are discussed. USPS also has moved the meeting to an earlier point in the AMP process and plans to post a meeting agenda, summary brief, and presentation slides on its Web site 1 week before the public meeting. To increase transparency, USPS has clarified its processes for addressing public comments and plans to make additional information about AMP consolidations available on its Web site. As USPS implements AMP consolidations, it will have the opportunity to gather stakeholders' feedback on the updated Communication Plan and assess the effectiveness of these modifications.

We provided USPS with a draft of this report, and we have incorporated its technical comments, as appropriate.

USPS Has Made Progress toward Implementing GAO's Recommendations to the Postal Service to Improve Realignment Planning and Accountability

In its 2008 Network Plan, USPS has clarified how it makes realignment decisions and evaluates results and generally addressed how it integrates its realignment initiatives, but it has not established measurable performance targets for these initiatives. USPS believes that its budgeting process accounts for the cost reductions achieved through these initiatives.

USPS Has Clarified Its Criteria for Making Realignment Decisions and Its Process for Evaluating AMP Proposals

According to postal officials, USPS uses three primary criteria for evaluating realignment decisions—cost, service, and capacity. Its 2008 Network Plan states that opportunities for consolidation are judged against the same criteria, regardless of

appropriation to USPS to cover the revenues that were given up, or "forgone," in charging below-cost rates to these groups. See Congressional Research Service, *The Postal Revenue Forgone Appropriation: Overview and Current Issues* (Washington, D.C., 2006).

⁷Section 302 of PAEA requires USPS to submit a report to Congress within 90 days after the end of each fiscal year on the impact postal decisions have had or will have on realignment plans.

whether proposals to conduct AMP feasibility studies are initiated from the “top down” or from the “bottom up.”⁸ The Plan lists these criteria as:

- changes in service quality, as measured by service performance indicators;
- upgrades or downgrades in service standards for First-Class Mail and other mail classes;
- changes in collection box pick-up times and retail service availability;
- changes in location and hours for business mail acceptance at mail entry units and for drop shipments;
- operating plans at the gaining and consolidated mail processing facilities;
- future needs for deploying mail processing equipment and for floor space; and
- potential savings and efficiencies, including reductions in utility costs.

In 2007, USPS officials told us they were prioritizing AMP consolidations that were expected to achieve \$1 million or more in cost savings annually. In June 2008, they told us that USPS plans on considering consolidations that are expected to achieve less than \$1 million in annual cost savings. Furthermore, they explained that USPS plans to focus on those consolidations that will result in minimal, if any, degradation of First-Class service standards.

In addition, USPS has established a process for evaluating the savings and benefits resulting from AMP consolidations, is developing a process to evaluate the results of its AMC closures, and has not yet implemented its BMC transformation. USPS’s AMP guidelines require that approved AMP consolidations be reviewed twice after a consolidation has been implemented to assess whether planned savings, work hours, and levels of service have been met and to ensure management’s accountability for implementing an approved AMP proposal. The first review, which covers the first and second full quarters following implementation, indicates whether the AMP consolidation is on track for achieving the expected savings and determines whether the AMP consolidation achieved the necessary training, relocations, transportation, operational changes, and work hour adjustments. The second review compares the initial estimates against actual data to determine the viability of the consolidation and allows management the opportunity to analyze the decisions it made in implementing the approved AMP proposal. In 2007 we reported that the guidance for this process did not prescribe standardized sources for the data used or standardized methodologies for analyzing some of the data. USPS updated its AMP guidance in 2008 and has standardized its AMP data sources and analytical methodologies to achieve more consistent results, for example, by locking in formulas to be used in postimplementation reviews.

USPS Has Generally Addressed the Integration of Its Various Network Realignment Initiatives

In its 2008 Network Plan, USPS identifies three major realignment efforts—(1) AMC closures, (2) consolidations of AMP operations, and (3) the transformation of the

⁸With the “bottom-up” AMP approach, the process begins when the postal District Manager or Senior Plant Manager notifies the Area Vice President (AVP) of the intent to conduct an AMP feasibility study. The AVP then informs the Senior Vice President (SVP) Operations at headquarters. With the “top-down” AMP approach, the SVP Operations contacts the AVP to initiate a feasibility study.

BMC network—and briefly addresses the integration of these network initiatives. The Network Plan states that the overall impact and execution are tightly integrated, and provides a few examples, but gives little contextual information about what USPS’s future network will look like or how its realignment goals are being met. However, senior USPS officials recently provided information that helps to put the integration of USPS’s three network realignment initiatives in context. They said this integration is expected to reduce USPS’s network and shrink its mail processing operations. After integrating these three efforts, they said, USPS will continue to be the “first and last mile”—the “first mile” being the point of entry for mail into the system and the “last mile” being the delivery of mail to customers nationwide—as required to meet USPS’s universal service mission. They expect to lower costs and achieve savings by reducing excess processing capacity and fuel consumption, as well as by working with the mailing industry to implement new technologies such as delivery point sequencing for flats, and Intelligent Mail[®].⁹

Measurable Performance Targets for Realignment Initiatives Are Limited to USPS’s Budget

PAEA calls for USPS to, among other matters, establish performance goals and identify anticipated costs, cost savings, and other benefits associated with the infrastructure realignment alternatives in its Network Plan. The Network Plan describes an overall goal to create an efficient and flexible network that results in lower costs for both USPS and its customers, improves the consistency of mail service, and reduces USPS’s overall environmental footprint. In addition, the Plan states that USPS’s goals are continuous improvement and savings of \$1 billion per year through realignment and other efforts. According to the plan, USPS will achieve these savings, in part, through its three core realignment initiatives. The specificity of the expected savings related to the core initiatives varies in the plan’s discussion of measurable goals and targets. With respect to overall program targets, USPS estimated a total savings of \$117 million for AMC closures—including \$57 million in 2008 and \$21 million in 2009—but provided no such figures for the AMP consolidations. Postal officials told us USPS is developing an overall program target for the BMC transformations.

Although USPS has estimated total savings for AMC closures, it has not established measurable performance goals and targets for any of the three individual realignment initiatives. The only specific reference in the Plan to targets was the statement that USPS would establish fiscal year 2009 service standards targets before the conclusion of fiscal year 2008. According to the Deputy Postmaster General, the realignment targets are captured in USPS’s goal of saving \$1 billion per year. Specifically, he explained that USPS includes its overall goals and targets in more detail as part of its internal budget.

⁹ Delivery point sequencing is the automated rather than the manual sorting of letters in the exact order in which carriers deliver them. Flats sequencing is a system that fully automates the processing and delivery sequencing of flat-size mail, which generally consists of catalogs, envelopes, large cards, magazines, and newspapers. Intelligent Mail[®] uses barcodes which are read by scanning devices to allow postal managers and customers to track mail as it moves through the postal network.

USPS's Network Plan notes that to address declining mail volumes, USPS must increase efficiency and decrease costs across all its operations. Furthermore, USPS's financial report for the third quarter of this fiscal year stated that slow economic growth will continue to negatively affect revenue and volume, especially if fuel prices remain at their current high levels and inflation in other sectors of the economy begins to increase. Given USPS's challenging financial situation, we recognize that effective implementation of network realignment is needed. However, limited information on USPS's performance targets, particularly related to its realignment initiatives, is available to Congress and the public. USPS provides Congress with highlights of its budget as part of its annual appropriation request, but not its detailed internal budget. Since USPS is self-sustaining, its appropriations requests to Congress are limited. USPS's annual reports to Congress, due 90 days after the end of the fiscal year, provide an opportunity for USPS to make its goals and results more transparent and provide information about the effectiveness of its realignment efforts. Going forward, USPS will have opportunities to provide information about its estimated costs and cost savings related to its realignment efforts in its annual report to Congress. Developing and implementing more transparent performance targets and results can help inform Congress and other stakeholders about the effectiveness of USPS's realignment efforts.¹⁰

USPS Has Made Progress toward Implementing GAO's Recommendations to Improve Communication Related to AMP Consolidation Plans and Proposals

USPS has taken steps to respond to our recommendations related to communication with stakeholders about its realignment plans and proposals, particularly its proposals for consolidating AMP operations. These steps include improving public notice, improving public engagement, and increasing transparency by clarifying how it considers public input in making its decisions.

USPS Has Improved Public Notice by Clarifying Notification Letters

In its 2008 AMP Communication Plan, USPS has largely eliminated jargon from its notification letters and generally provided more contextual information on its reasons for conducting AMP feasibility studies. For example, the initial notification letters¹¹ no longer contain jargon such as "originating mail processing" and "destinating mail processing" and now name both facilities that would be affected by a proposed consolidation, whereas previously, only one facility was named. Previous letters also contained little contextual information on the economic trends affecting USPS and on why it believes it needs AMP feasibility studies and consolidations. Now, the initial notification letters provide stakeholders with more information for understanding USPS's AMP process. Presenting such information to stakeholders

¹⁰For additional GAO work on the benefits of establishing performance standards and targets, see *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

¹¹USPS provides for notification letters at multiple points during the AMP process, e.g., initial notification of intent to perform a study, notification of a public meeting, and notification to consolidate facilities.

before rather than during public meetings may help address the resistance that has often built up as stakeholders have speculated on USPS's plans in the absence of accurate information. Further, USPS has added a requirement in its 2008 Communications Plan that the public be notified at least 15 days in advance of a public meeting.

USPS Has Improved Engagement by Holding the Public Meeting Earlier in the AMP Process and Making Informational Materials Available in Advance of the Meeting

Although USPS still holds a public meeting after completing the data-gathering phase of the feasibility study, the meeting now occurs earlier in the AMP review process. Currently, before the meeting, the study has been approved only at the district level—the area office and headquarters have not yet completed their reviews or validated the data by the time of the meeting. According to USPS officials, they did not move the meeting up even more, to the data-gathering phase of the study, because at that point, USPS does not know what operations could potentially be consolidated. However, to ensure that the public meeting is held within a reasonable amount of time after the study's completion, USPS's 2008 AMP Communication Plan requires that the public meeting take place within 45 days after the District Manager forwards the study to the area office and headquarters. In addition, the initial notification letter now includes contact information for the local Consumer Affairs Manager, to whom the public can submit written comments up to 15 days after the public meeting. Previously, this contact information appeared in the second notification letter.

To help stakeholders better prepare for the public meeting, USPS plans to post a meeting agenda, presentation slides, and a summary brief of the AMP consolidation proposal on its Web site 1 week before the meeting. USPS also plans to inform stakeholders in the public meeting notification letter that these materials will be posted on its Web site 1 week before the meeting.

USPS Has Increased Transparency by Clarifying How It Considers Public Input in the Decision-Making Process

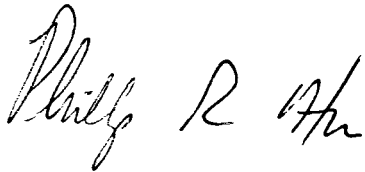
In a recent interview, senior USPS officials identified two additions to the 2008 AMP Communication Plan that address stakeholders' concerns about how USPS considers public input. First, USPS will now consider written comments from stakeholders before the public input meetings and address these comments at the public input meetings. Second, USPS has modified its public input review process so that officials at the district, area, and headquarters levels can consider, and be responsive to, public concerns. The Vice President, Consumer Advocate, at headquarters is responsible for ensuring that due consideration has been given to issues raised throughout the public input process before the proposal and summaries are sent to the SVP Operations, for final consideration. Senior USPS officials told us that officials weigh public input primarily by considering the impact of any consolidations on customer service and service standards. Additionally, USPS officials told us that as AMP consolidations go forward, USPS will post standard information about each consolidation on its Web site and update this information regularly. Specifically, USPS plans to post initial notifications, a brief summary of the proposed AMP consolidation, details about the scheduled public meeting, a summary of written and

verbal public input, and the final decision and implementation plans if an AMP consolidation is approved.

We have previously discussed the difficulties that stakeholder resistance poses for USPS when it tries to close facilities and how delays may affect USPS's ability to achieve its critical cost-reduction and efficiency goals. Part of the problem has stemmed from USPS's limited communication with the public. We believe that USPS has made significant progress toward improving its AMP communication processes since 2005. Going forward, it will be crucial for USPS to establish and maintain an ongoing and open dialogue with its various stakeholders, including congressional oversight committees and Members of Congress, who have questions or are concerned about proposed realignment changes.

We are sending copies of this report to the Postmaster General, appropriate congressional committees, and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-2834 or herrp@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Teresa Anderson, Margaret McDavid, and Jaclyn Nidoh.



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