OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Efficiency of Customer Service Operations

Audit Report

August 17, 2012

Report Number EN-AR-12-003

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 17, 2012

Efficiency of Customer Service Operations

Report Number EN-AR-12-003

BACKGROUND:

Our objective was to assess the overall efficiency of customer service operations. Such operations include the sale of products and services at post offices, stations, and branches. In fiscal year (FY) 2011, the U.S. Postal Service spent almost $6.3 billion (about 9 percent of total expenditures) on customer service operations.

The Postal Service uses various systems and reporting tools to track and measure efficiency in its customer service operations. The Customer Service Variance program uses a standardized methodology, based on the unit's projected workload and target productivity, to determine the number of workhours a unit should use.

WHAT THE OIG FOUND:

While the Postal Service has improved its customer service efficiency, units still performed below the national efficiency performance goals of 88 percent for FYs 2010 and 2011, and 90 percent for FY 2012. Opportunities exist for managers to improve performance by implementing best practices at customer service units. Additionally, managers at customer service units are not fully using available reports as tools to manage operations. These conditions occurred because managers did not match resources against their workload, senior managers did not promote the use of available reports, and not all managers were trained to use the reports. The Postal Service could have saved $114 million in FY 2011 if all customer service units had achieved the goal of 88 percent.
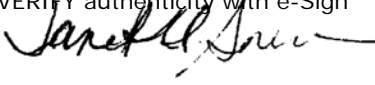
WHAT THE OIG RECOMMENDED:

We recommended districts develop and implement an action plan to better use workhours and implement best practices at applicable customer service units. We also recommended management provide training as needed to customer service managers that would enable them to effectively use available reports and tools. Finally, we recommended management require customer service unit managers to use the available reports and tools to allocate their resources based on the projected workload.

Link to review the entire report

August 17, 2012

MEMORANDUM FOR: DEAN J. GRANHOLM
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

E-Signed by Janet Sorensen
VERIFY authenticity with e-Sign

for

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue & Systems

SUBJECT: Audit Report – Efficiency of Customer Service Operations
(Report Number EN-AR-12-003)

This report presents the results of our audit of the Efficiency of Customer Service Operations (Project Number 11XG053EN000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sean D. Balduff, director; Retail, Business, and International, or me at 703-248-2100.

Attachments

cc: James J. Boldt
Jeffrey C. Day
Deborah Giannoni-Jackson
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the efficiency of customer service operations (Project Number 11XG053EN000). Our objective was to assess the overall efficiency of customer service operations. This self-initiated audit addresses operational risks. See Appendix A for additional information about this audit.

Customer service operations (also referred to as Function 4 operations[1]) include customer service activities at post offices (PO), stations, and branches.[2] These activities include automated and manual mail distribution, retail window and vending equipment services, central forwarding system operations, and miscellaneous administrative activities. Policies, procedures, and various resources have been established to enable managers to efficiently manage Function 4 operations. The U.S. Postal Service uses various systems and reporting tools to track and measure efficiency in its customer service operations. The Customer Service Variance (CSV) [3] Program uses a standardized methodology based on projected mail volumes and target productivities to calculate earned workhours.[4] Reports compare earned workhours with actual workhours to produce a CSV achievement rate.

In addition, management recently developed a staffing and scheduling tool (SST)[5] to assist managers at customer service units with scheduling staff workhours. Management presented the SST to area managers in March 2012 and plans to demonstrate the tool's value to field managers during the fourth quarter, fiscal year (FY) 2012.

Current economic conditions, along with increased competition from electronic communications, have significantly reduced mail volumes and retail transactions, making it even more important for these resources to be used effectively and efficiently. Evaluating daily workload at customer service units is essential for managers to determine appropriate workhours, skills needed, and equipment requirements. Senior management at the U.S. Postal Service assesses the customer service unit operations based on how well managers manage their resources to meet earned workhours.

Conclusion

The Postal Service has improved operational efficiency in customer service operations. Specifically, overall operational efficiency increased from 79 percent to 86 percent from

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[1] Function 4 is the financial term used to identify customer service operations within the Postal Service's activities.
[2] Table 1 documents the number of units in our scope by fiscal year.
[3] A management tool that provides earned workload using nationally established factors. See Table 2 for additional information related to CSV.
[4] Earned workhours are Postal Service-developed standard time rates applied to operations for specific mail processing tasks.
[5] The SST uses information from existing staffing and reporting tools to simplify the process of matching workhours with projected workload. The SST also has reporting capabilities that enable the user to identify the root cause of a problem by drilling down to the employee data level.

FY 2010 through the second quarter of FY 2012. However, the Postal Service could further improve the efficiency of customer service operations by:

- More accurately matching workhours with workload.
- Implementing best practices.
- Increasing training and use of available management reports.

Based on FY 2011 data, the Postal Service could have reduced 2.9 million workhours and realized a cost avoidance of about $114 million if it achieved its national CSV goal of 88 percent in operational efficiency during FY 2011. See Appendix B for the monetary impact calculation.

Matching Workhours with Workload

Senior management is responsible for developing a national CSV performance goal each year. The CSV performance goal was 88 percent for FYs 2010 and 2011 and 90 percent for FY 2012. Managers at customer service units are responsible for managing resources to achieve these performance targets. However, based on data from FYs 2010 through 2012, at least 5,002 or 43 percent of the customer service units (POs, stations, and branches) performed below the CSV performance achievement established for FYs 2010, 2011, and 2012.[6] See Table 1.

Table 1. Performance of Customer Service Units

Fiscal Year	Total Units	Units Below CSV Performance Goal	Relative Percentage
2010 (Quarters 3 and 4)	12,145	5,710	47%
2011	11,650	5,002	43%
2012 (Quarters 1 and 2)	11,776	5,097	43%

Source: CSV Archive and OIG Analysis.

This occurred because not all managers at customer service units knew how to effectively use managerial reports to assess resources against their workload and manage resources in response to workload changes. In addition, managers we interviewed at five of the eight sites did not provide plans for improving Function 4 efficiency. Managing resources to meet workload fluctuations could have improved productivity at customer service units and saved the Postal Service about $114 million in FY 2011.

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[6] Table 3 documents historical national performance achievement from FYs 2009 through 2012, 2nd Quarter.

Implementing Best Practices

Managers at customer service units did not always implement best practices to improve efficiency. We judgmentally selected eight customer service units[7] with seven or more full-time equivalent (FTE) employees and performed site visits. These sites had a CSV performance achievement ranging from 59 to 98 percent.

During our site visits to four high performing customer service units, we identified the following best practices:

- Managers surveyed the work floor periodically to assess the workload and determine resources needed.

- One district initiated a Function 4 review[8] to evaluate operational efficiency at the customer service unit.

- A lobby director[9] or assistant was used to help reduce customer wait time in line during busy periods.

- At one site, a manager improved the sorting of packages by reducing the number of times the packages were handled.

- Managers at four sites made effective use of non-traditional full-time (NTFT) and postal support employees (PSEs)[10] to help reduce labor hours while increasing flexibility within their workforce.

During our site visits to the four lower performing customer service units, we identified other practices that could negatively affect CSV performance. For example:

- Managers on different tours and sections[11] did not routinely discuss mail volume and staffing needs, which could result in inefficient assignment of employees. In addition, managers were not always aware of on-hand or incoming mail volume, making it difficult to determine their staffing requirements.

- A lack of communication between managers at the processing plant and the associated customer service units contributed to automation compatible mail being worked in manual operations. We observed manual sorting of mail at two customer service units that should have been sorted at the processing plants.

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[7] We chose at least one unit from each area. See Table 4 for a listing of the sites we visited.
[8] Function 4 reviews assess customer service unit operations and provide guidance to unit managers using CSV tools to successfully close the gap between the current and expected performance.
[9] The lobby director is a knowledgeable retail employee placed in the retail lobby to greet customers, determine customer needs, and assist customers in selecting services and preparing paperwork before they reach the retail counter. The objective of the lobby director program is to reduce the customer's waiting time.
[10] Employees categorized as NTFT and PSE can work between 30 and 48 hours a week in Function 4 operations.
[11] A section is a contractual term that divides a postal facility into work areas (sections) that employees and supervisors are assigned to.

▪ Mail and packages for pick up (Notice Left operations)[12] were located away from retail window operations and not always organized in a manner that facilitated easy retrieval. This increased the customers' wait time in line while clerks spent extra time searching for the mail.

Not all customer service units we visited implemented the best practices mentioned previously. This occurred because managers at the customer service units relied on their experience to schedule resources and not on the projected workload. Effective implementation of best practices at units, where applicable, could reduce workhours and improve operational efficiency.

Management Reports

The Postal Service provides reports from various systems to help customer service managers allocate their resources based on the customer service unit's projected workload. Table 2 lists examples of these systems:

Table 2. Tools for Managing Function 4 Operations

Name	Description
CSV	Developed to provide earned workload using nationally established factors. Managers can use the reports generated from this model to determine an efficient number of employees to support the earned workload.
Customer Service Adjusted Workhours	Designed to reflect the daily impacts of workload changes. This tool assists managers with scheduling customer service employees.
Customer Service Staffing Opportunity Model	Developed to improve operational efficiency by identifying earned workhours and complement.
Window Operations Survey	Designed to identify opportunities to increase revenue, match workhours to earned workload, and assist with budget forecasting.
SST	Developed to assist managers in the preparation and tracking of their staff's workhours.

These reports provide data that assist customer service unit managers to properly staff and efficiently manage workload. However, we found customer service managers at three sites did not always use these reports when developing work schedules. This occurred because unit managers did not know how to generate the available reports and did not understand the value of using the reports for scheduling purposes. Effective use of these systems and reports could help managers efficiently allocate resources by matching unit workload with earned workhours.

Recommendations

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[12] Notice Left is used when a letter carrier cannot complete an attempted delivery of a mailpiece on the route, because no one is available to accept delivery, for those items requiring physical delivery to an individual.

We recommend the vice president, Delivery and Post Office Operations:

1. Require areas to develop and implement an action plan to better match actual workhours with earned workhours.

2. Implement best practices at applicable customer service units.

3. Provide training as needed to customer service managers that would enable them to effectively use managerial reports and tools.

4. Require customer service unit managers to use managerial reports and tools in allocating their resources based on the customer service unit's projected workload.

Management's Comments

Management generally agreed with the precept of our report and monetary impact, but took exception to our statement that some units underperformed because managers did not know how to effectively use managerial reports. During subsequent communications, management also agreed with each of our recommendations. Management stated they have developed a plan to implement the SST nationwide, which incorporates best practices for Function 4 activities. Management also stated they will provide training to customer service managers as needed that will enable them to effectively use managerial reports and tools. In a follow-up discussion with management, we confirmed the use of the SST will be required for all customer service managers, and all corrective actions will take place by the end of FY 2013.

Management did not agree some units underperformed because managers did not know how to effectively use managerial reports to assess resources against their workload and manage resources in response to workload changes. While they agreed with the cause in principle, they stated our review conducted at four poor performing offices did not provide a statistically relevant assessment.

See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Regarding management's disagreement with the cause related to the overall conclusion, we believe we obtained sufficient evidence for our conclusion. Specifically, we observed and assessed operations at four low and four high performing offices. In addition, we interviewed customer service operations managers at the eight offices and obtained their input for the cause. We believe our assessment was sufficient and agree with management's statement that the reasons for failing to achieve the target vary among the offices.

The OIG considers recommendations 1 and 3 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

Mail volume has declined by more than 43 billion pieces in the last 5 years, and it is likely to continue declining. First-Class Mail declined 36 percent in the same timeframe, and nearly 50 percent in the past 10 years. This decline has created a substantial reduction in workload within the Postal Service's processing network. The Postal Service spent almost $6.3 billion (about 9 percent of total expenditures) in FY 2011 on Function 4 operations.

The Postal Service compiles Function 4 workhour data at POs, stations, and branches. The workhour data is categorized into labor distribution codes by functional category. Categories include automated and manual distribution of mail, retail window and vending equipment services, central forwarding system operations, and miscellaneous administrative activities.

Table 3 shows Function 4 workhours decreased 15 percent from 157 million in FY 2009 to 134 million in FY 2011. Although workload volume declined by 48 percent, operational efficiency (earned workhours divided by actual workhours) has increased from 79 percent to 86 percent during the same timeframe.

Table 3. Volume, Workhours, and Earned Workhours Comparison Since FY 2009

Fiscal Year	Volume	Annual Percent Change	Actual Workhours	Annual Percent Change	Earned Workhours	Performance Achievement
2009	73,504,685,201		157,259,931		124,203,894	79%
2010	54,325,966,173	26.09%	141,135,752	10.25%	118,533,549	84%
2011	42,278,711,579	22.18%	134,166,084	4.94%	115,238,926	86%
2012	19,414,643,322		71,858,487		62,803,111	87%
Total		**48.27%**		**15.19%**		

*Source: CSV Archive and OIG analysis

Although the Postal Service has shown improvement since FY 2009, actual workhours used for Function 4 activities still exceeded the number of hours earned, which prevented some units from meeting the established performance goal.

Previous American Postal Workers Unions[13] contractual provisions included limits on the Postal Service's ability to manage the workforce and adjust quickly to changes in workload. Until recently, these contractual limitations did not allow unit managers the flexibility to schedule Function 4 workhours based on variable volumes and transactions. However, the most recent collective bargaining agreement (CBA) includes two new positions that enable managers to increase the number and use of non full - time workers. This flexibility was made possible with the creation of the NTFT and PSE positions. The number of PSEs used for Function 4 operations within a district may not

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[13] American Federation of Labor-Congress of Industrial Organizations.

exceed 20 percent of the total number of career clerk craft employees in the district. PSEs have the flexibility to perform distribution, retail window, and custodial activities.[14]

Objective, Scope, and Methodology

Our objective was to assess the overall efficiency of customer service operations.

To accomplish our objective, we:

- Interviewed the manager of Customer Service Standardization at Postal Service Headquarters to obtain information on policies and procedures related to matching workhours to workload, guidance on improving performance, and developing efficiency information on operating units.

- Reviewed applicable policies and procedures and other pertinent documentation.

- Obtained necessary access to Postal Service systems.

- Obtained a universe of Postal Service Cost Ascertainment Group (CAG) A-G customer service units[15] with their corresponding actual and earned FTEs and overtime data for FY 2010 (3rd and 4th Quarters), FYs 2011, and 2012 (1st and 2nd Quarters).

- Eliminated units with one FTE or fewer as well as units that did not have any customer service operations.

- Identified the opportunity hours for each fiscal year by subtracting the adjusted earned hours from the total actual hours.

- Judgmentally selected and visited four high performing units to observe operations, interview employees, and identify best practices.

- Judgmentally selected and visited four low performing units to observe operations and interview employees to determine the reasons why they were underperforming.

- Discussed the best practices and low performing units with Postal Service Headquarters customer service managers to identify initiatives they have in place or planned to improve performance.

To determine whether managers had effectively implemented best practices, we judgmentally[16] selected eight customer service units. We visited these offices, interviewed Postal Service officials, and observed operations to identify best practices. Table 4 shows the sites visited and their percentage of performance achieved.

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[14] NTFT and PSE positions are not limited to those activities listed.
[15] CAG A-G is a method that classifies POs according to mail volume and revenue generated.
[16] We selected customer service sites from each area and had seven or more FTEs.

Table 4. List of Sites Visited

High Performing Units			
Area	**District**	**Unit Name**	**% Performance Achieved** [17]
███	███	███	97.82%
		███	88.06%
███	███	███	86.24%
███			85.17%
Low Performing Sites			
███	███	███	75.01%
███	███	███	66.99%
███	███	███	62.21%
			58.89%

Source: Postal Service and OIG analysis

We conducted this performance audit from September 2011 through August 2012 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We relied on data obtained from eFlash[18] and CSV. We did not audit the eFlash and CSV systems but performed limited data integrity tests to support our data reliance. We discussed our observations and conclusions with management on June 13, 2012, and included their comments where appropriate.

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[17] Percentage performance achieved is determined by dividing earned workhours by actual workhours.
[18] eFlash provides weekly workhours and volumes. It combines data from delivery, mail processing, employee relations, labor relations, and finance.

Prior Audit Coverage

Efficiency of Retail Customer Service Operations (Report Number MS-AR-10-004, dated July 28, 2010). We reported that management did not effectively implement best practices at POs, stations, and branches; business mail acceptance operations did not always have sufficient workload to match workhours; and union contract provisions limited the Postal Service's ability to manage workload.

We recommended that management implement best practices, explore opportunities to consolidate business mail acceptance operations, periodically evaluate operating efficiency and adjust resources in response to workload changes, and redeploy employees to facilities where there is sufficient workload to support the workhours.

Management agreed with the recommendations and planned actions were considered appropriate.

Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Questioned Costs[19]	$285,725,051

Monetary Impact Methodology

The national CSV performance target set by senior management was 88 percent for FYs 2010 and 2011, and 90 percent for FY 2012. To determine the monetary impact, we:

- Identified customer service units categorized as CAG A-G.

- Eliminated customer service units with one FTE or fewer and no customer service operations.

To identify the opportunity workhours, we:

- Determined the total earned FTEs and the total actual FTEs for each fiscal year.

- Converted the total earned and actual FTEs to total earned and actual workhours.[20]

- Adjusted the earned workhours by 88 percent for FYs 2010 and 2011, and 90 percent for FY 2012 and subtracted the adjusted earned workhours from the actual workhours.

To calculate the monetary benefits, we multiplied the opportunity workhours by the applicable overtime rate for each fiscal year.[21] Table 5 shows the calculated monetary savings the Postal Service could have obtained if all customer service units had achieved a CSV performance of 88 percent in FYs 2010 and 2011, and a 90 percent in FY 2012.

Table 5. Monetary Impact by Fiscal Year

Fiscal Year	Number of Units	Total Hours	Total Dollars
2010 (Quarters 3 and 4)	11,220	2,417,667	$ 94,168,115
2011	10,831	2,930,193	114,599,846
2012 (Quarters 1 and 2)	10,579	1,968,213	76,957,112
Total		**7,316,072**	**$285,725,051**

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[19] Unnecessary, unreasonable, unsupported, or an alleged violation of law, regulation, contract, etcetera. May be recoverable or unrecoverable. Usually a result of historical events.
[20] 1,738 hours is the number of workhours in 1 year per full-time employee based on Postal Service data. We used 1,738 for FY 2011, and 869 (half a year) for FYs 2010 and 2012.
[21] The overtime rates for FYs 2010, 2011, and 2012 were $38.95, $39.11, and $39.10, respectively.

Appendix C: Management's Comments

DEAN J. GRANHOLM
VICE PRESIDENT
DELIVERY AND POST OFFICE OPERATIONS

**UNITED STATES
POSTAL SERVICE**

August 8, 2012

Lucine M. Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Efficiency of Customer Service Operations (EN-AR-12-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

The U.S. Postal Service (USPS) agrees with the general precept of this report. We agree that if all units were achieving the CSV target, there would be a savings of $114 million; however, it was articulated in the exit meeting that this gap will always exist because when the majority of offices achieve the CSV goal, the target is raised. The OIG confirmed the principle of raising this target in this report.

We disagree with the generalized conclusion that the reason the gap occurred is "because not all managers at customer service units knew how to effectively use managerial reports to assess resources against their workload and manage resources in response to workload changes." While in principle, that would be an accurate assessment in some cases, we disagree that the OIG can characterize the entire problem related to that issue. We had some lengthy dialog about the statistical relevance to this conclusion base on reviewing only four poor performing offices. Certainly the degree to which an office misses the CSV target varies as do the reasons for failing to achieve the target.

The USPS shared with the OIG new programs and practices that will be rolled out to the field in the near future. It is our expectation that those processes and programs will achieve all the recommendations of the OIG. The implementation of the Staffing and Scheduling Tool (SST) would forego any need for further "action plans" as articulated in Recommendation 1, and would fulfill the desired results for all four recommendations.

Recommendation 1: Require areas to develop and implement an action plan to better match actual workhours with earned workhours.

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<u>Response:</u> Headquarters is rolling out the National implementation of the SST program beginning on August 9. This roll out would equate to an action plan and should satisfy the recommendation.

<u>Recommendation 2:</u> Implement best practices at applicable customer service units.

<u>Response:</u> SST incorporates the best practices for Function 4 operations. The roll out of the SST program should satisfy this recommendation.

<u>Recommendation 3:</u> Provide training as needed to customer service managers that would enable them to effectively use managerial reports and tools.

<u>Response:</u> There will be training provided with the roll out of SST. This should satisfy this recommendation.

<u>Recommendation 4:</u> Require customer service unit managers to use managerial reports and tools in allocating their resources based on the customer service unit's projected workload.

<u>Response:</u> This recommendation is the very essence of the SST program. The SST will drive this recommendation and the roll out of SST should satisfy this recommendation.

Dean J. Granholm

cc: Deborah Giannoni-Jackson
     James J. Boldt
     Jeffrey C. Day
     CARM