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SUBJECT: Management Advisory Report – Stamp Distribution Operations
(Report Number MS-MA-09-002)

This report presents the results of our self-initiated review of the Postal Service's Stamp Distribution Operations (Project Number 09RG001MS000). Our objective was to determine whether the Postal Service can re-engineer its accountable paper fulfillment operations to achieve cost savings. See [Appendix A](#) for additional information about this audit.

Conclusion

The Postal Service has already initiated efforts to re-engineer its accountable paper fulfillment operations to achieve cost savings. Supply Management is preparing a Decision Analysis Report (DAR) requesting funding to implement the results of prior studies in this area. Management expects to save between \$2 million and \$14 million annually by consolidating operations.

Management is Pursuing Opportunities to Re-Engineer the Accountable Paper Fulfillment Operations and Achieve Cost Savings

The Postal Service has identified opportunities to re-engineer its accountable paper fulfillment network and save between \$2 million and \$14 million annually by consolidating operations. In 1999, Headquarters Stamp Services officials commissioned a study to determine the optimum number and locations of facilities necessary to efficiently manage the Postal Service's accountable paper fulfillment operations. The study recommended that the Postal Service consolidate its accountable paper fulfillment network from 155 to 12 locations. The study did not indicate the cost savings that would result from the consolidation. Stamp Services management indicated they did not receive funding to implement the study's

recommendations and also indicated that the technology necessary to implement the recommendations did not exist.

In 2006, Headquarters Supply Management officials conducted a similar study. With the assistance of Headquarters Network Operations, Supply Management's Asset Management Integration (AMI) team created three models. The first model mapped the current location of each accountable paper fulfillment site, its area of coverage, and its demand patterns. A second model assumed a 2-day Registered Mail™ shipment service from accountable paper fulfillment centers to post offices within the continental U.S. and recommended 10 accountable paper fulfillment sites. The third model assumed a 4-day Registered Mail service from the accountable paper fulfillment sites to post offices within the continental U.S. and recommended five accountable paper fulfillment sites.

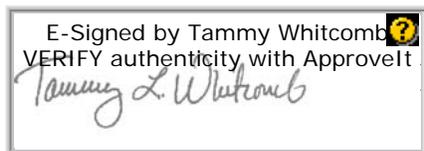
The AMI team refined the 4-day Registered Mail fulfillment network model recommendation based on the planned change to Priority Mail™ and identified Postal Service owned/leased sites. The refined recommendation suggests maintaining seven accountable paper fulfillment sites and keeping 11 stamp distribution offices (SDOs) as they are until additional Postal Service owned or leased space is available. Government Relations and Supply Management have adopted the AMI team's refined recommendations and the AMI established the following goals.

Redacted

Although plan implementation is slightly behind schedule, we believe management officials are taking appropriate action to streamline the Postal Service's accountable paper fulfillment operations and should continue with their efforts. Accordingly, we are not making any recommendations pertaining to this subject at this time.

Management reviewed a draft copy of this report and did not suggest any changes.

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



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Attachment

cc: Patrick R. Donahoe
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service purchases and distributes accountable paper¹ to its network of over 39,000 retail units across the U.S. for re-sale to the general public. It accomplishes this fulfillment effort through its network of 79 SDOs², two stamp services centers³ (SSCs), four Accountable Paper Depositories⁴ (APDs), and one Stamp Fulfillment Services⁵ (SFS) site.

The SFS and SSCs report to the Vice President, Government Relations and Public Policy, and the SDOs and APDs report to the Vice Presidents, Area Operations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether the Postal Service can re-engineer accountable paper fulfillment operations to achieve cost savings. Our scope was the Postal Service's accountable paper fulfillment network. To accomplish our objective, we:

- Reviewed Postal Service criteria for aligning accountable paper fulfillment sites.
- Reviewed accountable paper fulfillment operations studies Postal Service officials conducted in 1999 and 2006.
- Reviewed a flowchart of the movement of accountable paper from vendors through delivery to Associate Offices⁶ and appropriate recording in financial accounts.
- Discussed the Postal Service's ongoing efforts to re-engineer its accountable paper fulfillment operations with officials from Headquarters Supply Management, Government Relations and Public Policy, and the nine area offices.

¹ Accountable paper comprises postage stamps, stamped envelopes and cards, international reply coupons, migratory bird hunting and conservation stamps, philatelic products, blank money order forms, and items awaiting destruction.

² The SDO is a Postal Service unit other than the parent sectional center facility (SCF) that is, for security reasons, designated to supply postage stamp stock to post offices, stations, branches, and contract stations within its service area.

³ An SSC is a Postal Service unit that serves a centralized stamp distribution function. An SSC encompasses areas formerly serviced by multiple SDOs, provides accountable paper stock, and defines ordering cycles for units within its service area regardless of size.

⁴ A large SDO that stores Postal Service accountable paper, such as stamps and money orders.

⁵ The Postal Service unit that supplies stamped envelopes to cost ascertainment grouping A-G Post Offices ordering from an SDO. This facility receives direct shipments of stamps from suppliers and serves the stamp-collecting community and customers requesting stamps outside Postal Service channels.

⁶ A post office that reports to a larger post office or that is within the service area of a SCF. It usually receives and dispatches all mail classes to and from the SCF.

- Reviewed pertinent information for each accountable paper fulfillment site — including the number of employees, total budget, and actual expenses — for fiscal years 2007 and 2008.
- Observed operations and interviewed employees at the Carol Stream and Chicago accountable paper sites to understand their role in the Postal Service's accountable paper fulfillment operations network.

We conducted this review from October 2008 through January 2009 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We relied on pertinent information for accountable paper fulfillment operations — including the number of accountable paper fulfillment locations, number of employees, total budget, and actual expenses — obtained from Postal Service officials. We did not directly audit the data, but performed a limited data integrity review to support our data reliance.

PRIOR AUDIT COVERAGE

The U.S. Postal Service Office of Inspector General has not issued any reports related to our objective.