



Office of Inspector General | United States Postal Service

Audit Report

Cost Reduction Initiatives for Mail Products

Report Number 20-088-R20 | August 3, 2020



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Highlights

Objective

The Postal Accountability and Enhancement Act of 2006 requires that each class of mail or type of mail service covers their direct and indirect costs. Over the past 10 years, several U.S. Postal Service market dominant products continuously failed to cover their attributable costs. Currently there are six market dominant products that are not covering their direct and indirect costs (underwater products). In fiscal year (FY) 2019, total loss from these underwater products was about \$1.6 billion.

Further, some market dominant mail products have had notable declines in cost coverage over the last 10 years. Unlike competitive products, market dominant product price increases are restricted to the Consumer Price Index, with a price cap applied to each mail class.

Our objective was to evaluate opportunities to reduce mail product costs. This audit was initiated to review cost reduction initiatives specific to underwater products; however, the issues we identified impacted more than just underwater products.

Our audit was in the fieldwork stage when the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID19) on March 13, 2020. The results of this audit do not reflect any process and/or operational changes that may have occurred as a result of the pandemic. We understand COVID-19 may have caused further decline in cost coverage for some mail products; however, it is too early to determine the full impact of this situation.

Findings

Opportunities exist for the Postal Service to reduce costs for mail products. Specifically, the Postal Service needs to address several mail preparation issues and enhance reporting and tracking of mail irregularities.

We identified several mail preparation issues related to bundle strapping, the use of sacks, shrink-wrap, and paper quality that increased mail product costs.

These issues caused increased bundle breakage which resulted in manual mail processing and increased costs for mail products. We estimated that for FY 2018 – FY 2019, the Postal Service incurred about \$48 million annually in additional costs to process broken bundles.

We found that personnel did not regularly record or communicate mail preparation and quality issues to mailers and within the Postal Service to ensure they were corrected, charged back to the mailer or addressed with updated mail preparation guidelines. Scans of mail irregularities were not always captured and complete. Further, scanners were not readily accessible to record commonly identified irregularities and report them for corrective action.

We observed clerks not reporting mail deemed non-machinable into the mail irregularity reporting system because the mail was technically prepared in accordance with current Postal Service guidance. Had the information been reported, management could have reviewed these irregularities and updated mail preparation requirements as necessary.

Finally, we saw loose bundle straps being replaced to avoid having to manually process broken bundles. However, Postal Service personnel did not report the re-strapped bundles as a mail irregularity because current policy does not require reporting of re-strapped bundles.

“In FY 2019, total loss from these underwater products was about \$1.6 billion.”

There are several Postal Service groups that develop, implement, and monitor holistic cost reduction strategies and communicate with mailers. However, there is no centralized group focused on developing product-specific cost reduction initiatives or communicating issues related to mail preparation irregularities. Cost coverage for some mail products will likely continue to decline if there is no dedicated group focused on addressing product-specific costs. Minimally, a centralized group specifically focused on reducing costs for underwater market dominant products is essential for improving cost coverage.

Recommendations

We recommended management:

- Create a dedicated group to establish metrics, analyze cost trends, and track mail irregularity reports to implement cost reduction initiatives; recommend updates to mail preparation guidelines; and communicate mail irregularities to mailers, as appropriate, particularly for those products significantly struggling to cover their costs.
- Update mail preparation guidelines to set appropriate mail preparation standards that align with automation to reduce costs associated with bundle breakage and manual processing of machinable mail.
- Develop processes to ensure mail irregularities are recorded in the facilities, scanners are placed at key locations where mail irregularities are identified, and mail irregularity reports are distributed to Postal Service personnel and mailers, as appropriate.

Transmittal Letter

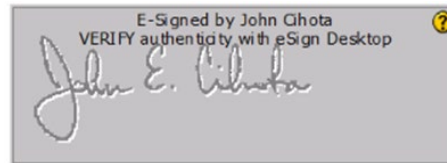


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

August 3, 2020

MEMORANDUM FOR: MARC MCCRERY
VICE PRESIDENT, MAIL ENTRY AND PAYMENT
TECHNOLOGY

STEVE MONTIETH
VICE PRESIDENT, MARKETING



FROM: John E. Cihota
Deputy Assistant Inspector General for Finance and Pricing

SUBJECT: Audit Report – Cost Reduction Initiatives for Mail Products
(Report Number 20-088-R20)

This report presents the results of our audit of Cost Reduction Initiatives for Mail Products.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sherry Fullwood, Director, Cost and Pricing, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction/Objective

This report presents the results of our self-initiated audit of Cost Reduction Initiatives for Mail Products (Project Number 20-088). Our objective was to evaluate opportunities to reduce mail products costs. We initiated this audit to review cost reduction initiatives specific to underwater products; however, the issues we identified impacted more than just underwater products. See [Appendix A](#) for additional information on this audit.

Our audit was in the fieldwork stage when the President of the United States issued the national emergency declaration concerning the novel coronavirus disease outbreak (COVID19) on March 13, 2020. The results of this audit do not reflect any process and/or operational changes that may have occurred as a result of the pandemic. We understand COVID-19 may have caused further decline in cost coverage for some mail products; however, it is too early to determine the full impact of this situation.

Background

The Postal Accountability and Enhancement Act (PAEA) of 2006¹ requires that each class of mail or type of mail service covers their direct and indirect attributable costs.² Over the past 10 years, several Postal Service market dominant products have been continuously considered underwater.³ Currently, there are six market dominant products that are not covering their attributable costs: Periodicals In-County, Periodicals Outside County, Marketing Mail Carrier Route, Marketing Mail Flats, Marketing Mail Parcels, and Package Services Media/Library Mail. Further, some market dominant mail products not considered underwater, such as High Density and Saturation Flats and Parcels (HD/SAT Flats and Parcels) and First-Class Flats, have had notable declines in cost coverage over the last 10 years. Unlike competitive products⁴, market dominant

product price increases are restricted with a price cap applied to each mail class, making market dominant products cost reduction initiatives essential to ensure cost coverage.

Many mail products receive a workshare discount⁵ for pre-sortation, prebarcoding, and transportation by mailers before being provided to the Postal Service. Workshared mailpieces are often sorted into bundles⁶ and are prepared to reduce Postal Service mail processing and transportation costs; however, these cost savings are not always realized; therefore, it is especially important to identify product specific cost reduction opportunities.

The total revenue and attributable cost for the six market dominant underwater products reported in the fiscal year (FY) 2019 Annual Compliance Report (ACR)⁷ was \$4.8 billion and \$6.3 billion, respectively. As a result, total loss for underwater products was about \$1.6 billion. An analysis of per piece revenue and cost for each of the six underwater products indicated that while revenue for some underwater products is increasing, costs are increasing at a faster rate. For example, while Marketing Mail Flats revenue per piece has increased by 11 percent, costs per piece increased by 36 percent between FY 2010 and FY 2019. Additionally, HD/SAT Flats and Parcels and First-Class Mail Flats, products not considered underwater, have experienced cost coverage declines of 38 percent and 25 percent, respectively, over the last 10 years. See [Appendix B](#) for revenue and cost per piece trends from

“The PAEA of 2006 requires that each class of mail or type of mail service covers their direct and indirect attributable costs.”

1 The PAEA modernized price regulation and service standards, increased the authority of the Postal Regulatory Commission (PRC), and required a variety of reports and evaluations.

2 Attributable costs are the direct and indirect Postal Service costs that can be reliably associated with a particular mail product. It is the sum of volume-variable plus product-specific costs.

3 Products that fail to cover 100 percent of their direct and indirect attributable costs are considered to be “underwater”.

4 Competitive products are defined as postal products and services for which similar products and services are offered by private sector.

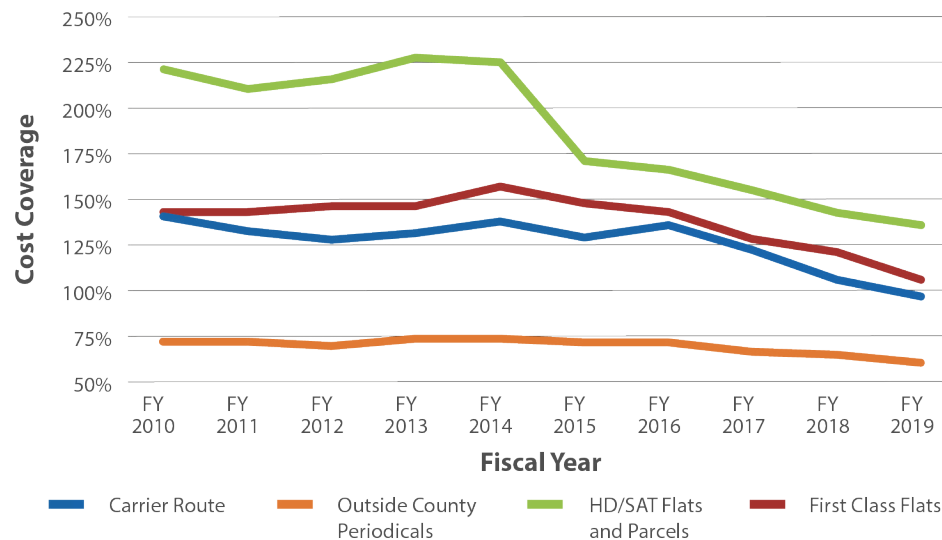
5 A postage discount provided to mailers for the presorting, pre-barcoding, handling, or transportation of mail. In general, the discount does not exceed the cost that the Postal Service avoids as a result of the workshare activity.

6 A group of addressed mailpieces assembled, faced in the same direction, and secured together as a unit to make up a basic unit of bulk or presorted mail for processing. All pieces in the bundle are destined for the same 5digit Zone Improvement Plan (ZIP) Code or same 3-digit ZIP Code prefix.

7 The ACR analyzes cost, revenue, rates, and quality of service for all products. Further, it reports whether revenue for each mail class and service type covers its attributable costs.

FY 2010 through FY 2019 for products highlighted in this report. Figure 1 shows a steady cost coverage decline from FY 2010 - FY 2019 for four of the products discussed above.

Figure 1. Market Dominant Products' Declining Cost Coverage FY 2010 – FY 2019⁸



Source: Postal Service FY 2010 – FY 2019 ACRs.

Finding #1: Cost Reduction Opportunities

Opportunities exist for the Postal Service to reduce costs for mail products. Specifically, the Postal Service needs to address several mail preparation issues and enhance reporting and tracking of mail irregularities.

We identified cost reduction strategies such as *Optimize the Network Transportation and Processing Platform to Improve Reliability, Speed, and Efficiency, captured in the Ready-Now → Future-Ready – The U.S. Postal Service Five-Year Strategic Plan FY2020 – FY 2024*.⁹ Further, Postal Service management stated they maintain groups that provide product oversight and act as a liaison between operations and mailers. These groups include:

- Product Management Services - User Group #13¹⁰
- Business Mail Entry Units (BMEU)¹¹
- Business Customer Support and Service/Business Service Network (BSN)¹²
- Mailers' Technical Advisory Committee (MTAC)¹³
- USPS / Flat Industry Team¹⁴

Although these strategies and groups exist, they focus on holistic cost-reduction strategies. There is no centralized group focused on developing product specific cost reduction initiatives and communicating mail preparation issues with mailers. Cost coverage for some mail products will likely continue to decline if there is no centralized, dedicated group or unit focused on product specific cost reduction initiatives or strategies. Minimally, a centralized group specifically focused on reducing costs for underwater market dominant products is essential for improving cost coverage.

Mail Preparation

We identified several mail preparation issues related to bundle strapping and the use of sacks, shrink-wrap, and paper quality that increased mail product costs. These issues caused increased bundle breakage, resulting in manual

⁸ Based on the PRC's FY 2019 analysis, the cost coverage for carrier route mail has decreased significantly because the unit revenue has decreased 0.7 cents while the unit cost has increased by 5.7 cents since FY 2015.

⁹ Both a portfolio of strategic initiatives and a management process used for strategy development and execution.

¹⁰ The User Group facilitates communications, helps to define and review improvements in functionality, and addresses/works to resolve issues pertaining to the particular product or process.

¹¹ The area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance.

¹² A nationwide group of trained specialists that supports the largest postal customers and serves as a single point of contact for resolving service issues, providing information, and handling requests.

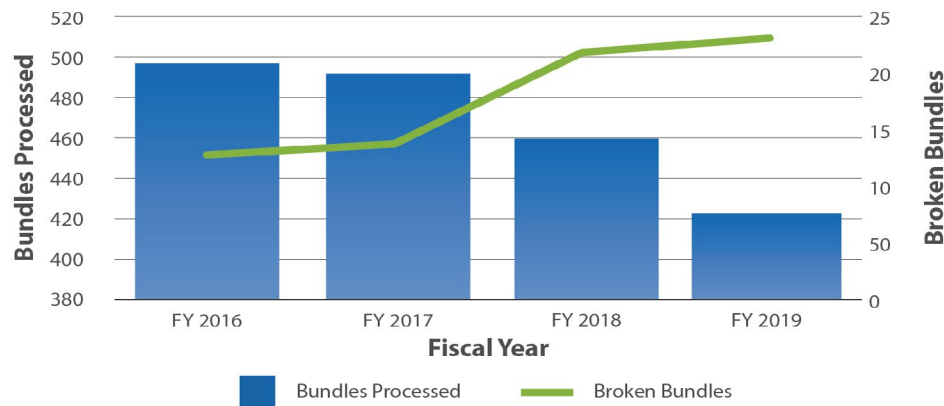
¹³ A venue for the Postal Service to share technical information with mailers and receive their advice and recommendations on matters concerning mail-related products and services.

¹⁴ This team consists of six Postal Service officers and nine members from various sectors of the flats mailing industry. The team meets monthly to identify opportunities to reduce costs and improve mail service for flats.

mail processing and increased costs for several mail products.¹⁵ These issues generally occurred because Postal Service mailing standards¹⁶ did not always align to automated mail processing capabilities. Further, these issues related to workshared mail, where mailers received a discount for that level of mail preparation.

Bundle integrity is crucial to protecting the presort preparation. Decreasing mail preparation issues would reduce overall costs for several mail products. Figure 2 shows the total number of bundles processed nationally and the reported total number of broken bundles over the last four years. It demonstrates that recorded bundle breakage continues to increase as the total number of bundles processed decrease.

Figure 2. National Bundles Processed and National Broken Bundles FY 2016 – FY 2019 (in millions)



Source: Postal Service FY 2016 – FY 2019 ACR Non-Public Folder 31: Bundle Breakage data.

In the FY 2019 *Annual Compliance Determination* (ACD),¹⁷ the PRC expressed its concerns over bundle breakage. The Postal Service spent \$160.6 million on bundle processing in FY 2019; however, the PRC stated that the Postal Service did not separately calculate and track bundle breakage costs.¹⁸ The PRC requested the Postal Service break out these costs. Table 1 shows that the estimated broken bundles could have increased bundle processing costs by \$96.9 million in both FYs 2018 and 2019.¹⁹

Table 1. Processing Costs of Broken Bundles, FY 2016 – FY 2019

Fiscal Year	National Bundle Breakage	Average Number of Pieces per Bundle	National Bundle Breakage Pieces	Additional Cost Per Bundle Breakage Pieces	Cost of Bundle Breakage
2018	22,081,833	21.97	485,137,871	\$0.096	\$46,633,048
2019	23,211,989	22.14	513,913,436	\$0.098	\$50,266,847
Total	45,293,822	—	999,051,307	—	\$96,929,895

Source: Postal Service ACR and analyzed by the OIG.

In FY 2015, a study of bundle breakage at the Los Angeles Network Distribution Center (NDC)²⁰ found that about 60 percent of the mail provide by their largest mailer resulted in bundle breakage.²¹ During this study, the facility worked closely with this mailer to identify and improve bundling issues by reducing the use of sacks and improving bundle strappings. Management stated that as a result,

15 Periodicals In-County, Periodicals Outside County, First-Class Flats, Marketing Mail Carrier Route, Marketing Mail Flats, Marketing Mail Parcels, Marketing Mail High Density and Saturation Flats and Parcels, Marketing Mail Letters, Package Services Bound Printed Matter Flats, Package Services Bound Printed Matter Parcels and Package Services Media/Library Mail.

16 *Mailing Standards of the United States Postal Service, Domestic Mail Manual* (DMM), March 2, 2020. The manual contains the basic standards governing domestic mail services, descriptions of the mail classes and services and conditions governing their uses, and standards for price eligibility and mail preparation.

17 A report issued by the PRC in response to the ACR submitted by the Postal Service.

18 The PRC has requested the Postal Service submit a status update by July 5, 2020, detailing any progress made in developing an estimate of the impact of bundle breakage on flat-shaped mail costs and any progress made at reducing bundle breakage at facilities reporting the highest bundle breakage.

19 For FY 2018 – FY 2019, the U.S. Postal Service Office of Inspector General (OIG) multiplied the number of bundles by the average piece per bundle to get the total national bundle breakage pieces. These totals were multiplied by the additional cost per piece from broken bundles.

20 A highly mechanized and automated mail processing facility formerly designated as a bulk mail center.

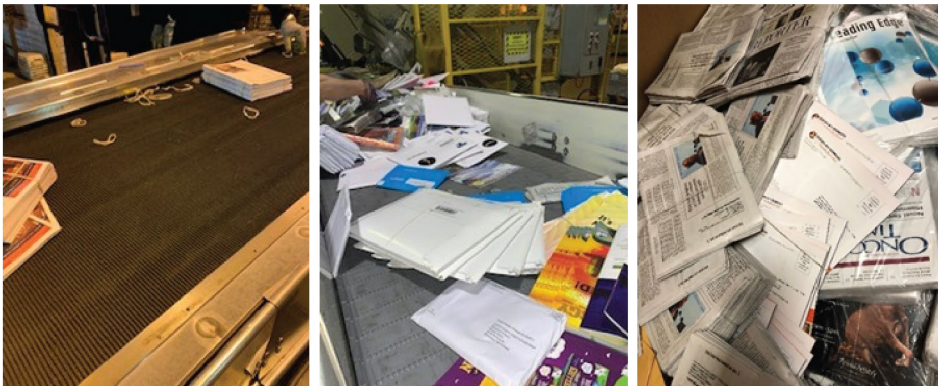
21 *Lean Six Sigma Project: Tollgate Review Bundle Breakage Reduction*. This project was conducted by Los Angeles NDC management and headquarters operation integration and support group.

the facility's total bundle breakage for that mailer decreased from 60 percent to 6 percent.

Bundle Strapping

During our site visits to Postal Service facilities, we observed that poor quality bundle strapping of mail products such as periodicals and marketing mail flats led to bundle breakage. Specifically, bundles strapped with rubber bands or string commonly broke compared to bundles with polypropylene (plastic) straps.²² The belts on automated equipment were too rough on rubber bands and strings. The breakage led to machine jams that result in downtime and additional maintenance. Figure 3 shows loose rubber bands that Postal Service employees collected as the mail moved on the belt. In addition, Figure 3 shows mail that had to be manually processed as a result of bundle breakage. The mail was machinable but, due to poor strapping, Postal Service employees had to manually sort it.

Figure 3. Loose Rubber Bands and Poorly Strapped Bundles of Mail



Source: OIG photos taken during our site visits to New Jersey NDC on February 19, 2020, and Dulles Processing and Distribution Center (P&DC) on January 9, 2020.

The DMM prohibits the use of wire, metal or any loose strappings; however, it allows the use of twine (string), rubber bands or any plastic strapping to strap the

mail. Mailers likely choose to use rubber band and string strapping options because they are lower in cost. If mailers were to invest in plastic strapping to replace the use of rubber bands or string strapping, the cost of equipment needed would range from \$70 to \$7,000 depending on the level of automation desired.²³

Many of the facilities we visited had their own strapping machines that used plastic straps to repair loose bundles to reduce manual processing needs and prevent machine downtime caused by broken bundles. While this activity may provide some costs savings in other areas, the Postal Service currently bears the cost of re-strapping to prevent bundle breakage.

Mail Sacks

We observed mail products bundled in sacks,²⁴ such as periodicals, must go through an additional level of processing and preparation. Using mechanized equipment, bundles on pallets, in flat trays, and in tubs are moved directly to the machines for processing. However, Postal Service employees manually open the sacks and shake the contents onto a belt or cage. During our site visits, we observed the sack shake out process to be manual and labor-intensive, placing strain on bundles, resulting in bundle breakage. In FY 2015, a study of bundle breakage at the Los Angeles NDC found the sack shake out process was the cause of 33 percent of all bundle breakage for their facility. Management at the facility conducted a labor cost analysis to determine the labor cost associated with processing of sacks. Once they identified the labor cost, they worked to reduce the use of some sacks, which resulted in labor cost reduction. [Figure 4](#) shows bundles of periodicals manually shaken out of sacks onto the belt for additional processing.

“Poor quality bundle strapping of mail products such as periodicals and marketing mail flats led to bundle breakage.”

²² An economical material designed for light- to medium-duty unitizing, palletizing, and bundling.

²³ The cost of equipment does not include the recurring cost of the plastic strapping used to strap the bundle of mail.

²⁴ A container generally used to transport flat size mail, parcels, and loose pack mail. It is made of sewn fabric, usually nylon, polyester, canvas, or plastic, with an opening at one end and is closed with a draw cord and fastener.

Figure 4. Processing of Sacked Mail



Source: OIG photos taken during a site visit to New Jersey NDC on February 19, 2020.

Table 2 shows the total volume, Management Operating Data System (MODS)²⁵ workhours, and overtime for manually processed sacks from FY 2016 to FY 2019. Although total sack volume was declining, total overtime workhours for processing mail in sacks was increasing as a proportion of volume.

Table 2. Total Mail Sacks Volume, Workhours, and Overtime, FY 2016 – FY 2019

Fiscal Year	Total Volume	Total Workhours	Total Overtime	Ratio of Overtime to Volume
2016	201,732,498	1,706,126	215,565	0.11%
2017	114,229,058	1,043,297	135,900	0.12%
2018	153,777,670	1,236,303	207,916	0.14%
2019	123,222,768	1,237,053	180,236	0.15%

Source: *Operational Report Same Period Last Year*, from the Postal Service's Enterprise Data Warehouse (EDW),²⁶ analyzed by the OIG.

²⁵ A systematic approach to gather, store, and report data on workload, workhours, and machine utilization.

²⁶ The repository intended for all data and the central source for information on retail, financial, and operational performance. Mission-critical information comes to the EDW from transactions that occur across the mail delivery system, points-of-sales, and other sources.

The DMM allows mailers to provide bundled mail on pallets, in flat trays, in tubs, or in sacks. The Postal Service provides these containers to mailers upon request. The DMM does not place additional mail container requirements on mailers. Management stated they permit sacks because:

- Some mailers do not have enough mail volume to fill a pallet.
- Sacks better protect mail from damage during long periods of transportation.
- Prohibiting the use of sacks could reduce volume and revenue.

We observed that trays, which do not require as much manual processing, could be used instead of sacks. If the Postal Service limits the use of sacks as the Los Angeles NDC did, it could reduce costly manual handling.

Shrink-wrap

During our site visit to the New Jersey NDC, we observed shrink-wrapped mail products such as periodicals being rejected by automated processing machines and moved to manual processing operations. Machines could not always identify the barcode on a mailpiece or bundle presented in shrink-wrap. The shrink-wrap sometimes reflected the flash from the sorting machine camera or the plastic melted together over the barcode, preventing the machine from reading the barcode, as shown in [Figure 5](#).

“Shrink-wrap sometimes reflected the flash from the sorting machine camera or the plastic melted together over the barcode.”

Figure 5. Shrink-Wrapped Bundles of Mail



Source: OIG photo taken during a site visit to visits to the New Jersey NDC on February 19, 2020.

These problems occurred because the DMM allows mailers to use shrink-wrap as a method of bundling but does not ensure barcode readability when using the shrink-wrap. If the barcode cannot be read, bundled products will be rejected and moved to more costly manual operations.

Paper Quality

During our site visits, we observed some bundled mail products, such as periodicals and marketing mail flats, being manually processed when facility managers identified paper quality issues. Specifically, facility managers reported mail thinness caused machine jams and delays. Therefore, managers would direct employees to unbundle and sort this mail manually or have carriers case the mail at the delivery unit in lieu of running it on automated sorting machines. Employees would also comeingle this mail with thicker mailpieces to support machine processing.

“Personnel did not regularly record or communicate mail preparation and quality issues to mailers and within the Postal Service to ensure they were corrected, charged back to the mailer or addressed with updated guidelines for mail preparation.”

While DMM requirements consider the specifications of the machines based on the manufacturer’s handbooks, it does not consider the actual mail processing equipment’s capabilities. Re-processing presorted mail due to thin/low quality paper increases overall mail processing costs.

These mail preparation issues increased costs for some products, thus decreasing cost coverage. While we recognize management considers cost impacts on mailers when developing cost reduction strategies, in FY 2019, the Postal Service spent over \$800 million in labor costs for manual mail processing. While these costs were not entirely caused by mail preparation issues, decreasing mail irregularities would decrease manual processing costs. Because mailers are complying with the DMM, they are not charged back for this additional processing or sortation.

Tracking Mail Irregularities

Personnel did not regularly record or communicate mail preparation and quality issues to mailers and within the Postal Service to ensure they were corrected, charged back to the mailer or addressed with updated guidelines for mail preparation. Consistently reporting mail irregularities would allow management to better track and control increasing mail product costs.

Mail Irregularity Reporting System

In FY 2018, the Postal Service implemented the Surface Visibility²⁷ Mobile Mailer Barcode Irregularity Report generated from the Surface Visibility reporting system²⁸ to track and communicate mail irregularities. This new reporting system is an improvement over the legacy system because it uses scanned data to capture and report mail irregularities. At the time of our audit, the Surface Visibility reporting system had been adopted by 58 percent of Postal Service mail processing facilities; the remaining 42 percent were still using the legacy system. Employees use an Intelligent Mail Device (IMD)²⁹ to upload images of broken bundles, damaged mail or any mail that is not machinable into the Surface Visibility reporting system. Currently there are about 25,000 scanners deployed at various facilities. Management at headquarters stated that any employee with access to the scanners could record mail irregularities.

Facility management stated there were no specific personnel in facilities identified to scan mail irregularities. We observed that data collection technicians (DCT) at one facility were identified by the facility manager to scan mail irregularities in addition to performing their assigned statistical sampling duties. The primary responsibility of DCTs is not mail processing; therefore, opportunities to report mail irregularities could be missed. Further, an employee must have approved access to the Surface Visibility reporting system before they can check out and use a scanner. Also, scanners were not always readily accessible to record commonly identified irregularities and report irregularities to the appropriate Postal Service groups to take corrective action. For example, management at the facilities store these devices in a secure location for inventory control purposes. If there are no identified, dedicated employees to conduct scanning, at key locations where mail irregularities are identified, there is no assurance all mail irregularities are being captured.

Further, although the Surface Visibility reporting system captures mail irregularity data, the Postal Service did not report the irregularity data to the BSN or mailers. The BSN provides about 20,000 of the larger major mailers with personal

representatives for customer service and support. BSN management reported that prior to 2011, they would receive about 2,000 issues per month from the legacy mail irregularity reporting system that were specific to their customers. This allowed the BSN representatives to work directly with their customers to resolve mail irregularities. Although reporting issues began declining with the legacy system in 2011, since deploying the Surface Visibility reporting system, there have been no mail irregularity issues forwarded to the BSN. BSN management reported they were not aware of the Surface Visibility reporting system.

The new surface visibility reporting system provides important mail preparation irregularities information that should be shared with other groups in the Postal Service for communication with the mailers for corrective action. These corrective actions would likely lead to decreased costs for mail products, as recognized by the Los Angeles NDC in FY 2015, as discussed [earlier in our report](#).

BMEU

In addition to the Surface Visibility reporting system, mail irregularities should also be identified and communicated to mailers during mail acceptance at BMEUs. During the manual verification process, if the clerk finds any preparation error they should, generally, ask the mailer to rework the mail or pay additional postage. However, we observed BMEU clerks did not always report mail irregularities for some mail deemed not machinable because the mail technically met the DMM requirements; therefore, BMEU employees would not be required to report the issues back to the mailer. At a minimum, however, BMEU clerks should be recording any mail that is not machinable into the mail irregularity reporting

“At the time of our audit, the Surface Visibility reporting system had been adopted by 58 percent of Postal Service mail processing facilities.”

²⁷ A concept using barcode technology that allows the tracing of barcoded mail as it passes through automated and manual processes that scan the barcodes and capture the handling in real time by the piece, container, and trailer.

²⁸ This new system replaced a similar mail irregularity reporting process.

²⁹ A hand-held scanner that reads and collects data from products such as Priority Mail Express and tracking services.

system. This would allow the Postal Service to review these irregularities and update mail preparation requirements as necessary. Mail prepared in accordance with actual machine capabilities would reduce costs associated with reprocessing mail products that have already received a workshare discount.

Re-strapping Tracking

The Postal Service did not track bundles with loose strappings replaced by Postal Service employees. During our site visits, we saw bundle straps being replaced to avoid having to manually process broken bundles. Postal Service personnel did not report the fixed (re-strapped) bundles as a mail irregularity. The current policy did not require re-strapped bundles to be reported as a mail irregularity issue. Rather, policy allows the supervisor to re-strap bundles that appear likely to break and place it back on the belt.³⁰ Therefore, we believe bundle re-strapping could be a much larger issue than is currently reported, and the full costs of labor and supplies to repair bundles strappings might not be included with mail irregularity costs.

The Postal Service cannot adequately reduce or control mail product costs without proper reporting or tracking of mail irregularities. Specifically, costs controls depend on:

- Reporting any and all mail irregularity issues at all facilities where mail is accepted.
- Accessibility to scanners needed to report mail irregularities.
- Communicating mail irregularities from the Surface Visibility reporting system to appropriate Postal Service personnel.
- Updating Postal Service policy to ensure all mail irregularities are captured.

Recommendation #1

We recommend the **Vice President, Marketing**, in coordination with the **Acting Vice President, Sales, Acting Vice President, Processing and Maintenance Operations**, and **Vice President, Mail Entry and Payment Technology**, create a dedicated group to establish metrics, analyze cost trends, and track mail irregularity reports to implement cost reduction initiatives, recommend updates to mail preparation guidelines, and communicate mail irregularities to mailers as appropriate, particularly for those products significantly struggling to cover their costs.

Recommendation #2

We recommend the **Vice President, Marketing**, in coordination with the **Acting Vice President, Processing and Maintenance Operations**, update the *Domestic Mail Manual* to set appropriate mail preparation standards that align with automation for strapping, containerization, wrapping, and paper quality, to reduce costs associated with bundle breakage and manual processing of machinable mail.

Recommendation #3

We recommend the **Vice President, Mail Entry and Payment Technology**, in coordination with the **Acting Vice President, Processing and Maintenance Operations**, as a part of the national expansion of the Surface Visibility reporting system, develop processes to ensure all mail irregularities are recorded in the facilities, scanners are placed at key locations where mail irregularities are identified, and mail irregularity reports are distributed to the Postal Service personnel and mailers, as appropriate.

Management's Comments

Management agreed with all recommendations presented in this report. Regarding recommendation 1, management agreed to create a dedicated group to develop cost reduction initiatives and liaison with mailer groups. Management stated they have relaunched a joint team comprised of several Postal Service groups that will meet regularly to review mail irregularity reports and systemic issues, analyze operations impacts affecting costs, make recommendations for updates to mail preparation requirements, and engage mailers to communicate

³⁰ Standard Work Instruction: Automated Package Processing System (APPS) Reducing Flats Bundle Breakage, dated June 17, 2019.

changes or required updates. The target implementation date was July 7, 2020, the date the group resumed operations with its first meeting.

Regarding recommendation 2, management agreed to update the DMM. Management stated the first area of focus for the joint team will be to review the standards around strapping, containerization, polywrap wrapping, and paper quality, as well as review the OIG research, the MTAC workgroup research, and Processing & Maintenance Operations to identify specific recommendations for mail preparation changes to the DMM. The target implementation date is January 30, 2021.

Regarding recommendation 3, management agreed to ensure the distribution of mail irregularity reports to Postal Service personnel and mailers, as appropriate. Although management comments did not address the recommendation to develop processes to ensure all mail irregularities are recorded in facilities and ensure scanners are placed at key locations where mail irregularities are identified, management subsequently agreed via email correspondence. Management stated their internal pilot for populating mail irregularity data to the Mailer Scorecard has been successfully completed. Further, they agree in principle with placing scanners at key locations where mail irregularities are

identified but cannot execute this recommendation due to accountability issues surrounding unattended scanners. Instead they will issue Mandatory Stand Up Talks and Processing Operations Management Orders to ensure Postal Service policy and procedures pertaining to scanning are understood and followed. The target implementation date to finalize all components of this recommendation is August 20, 2020.

See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report and corrective actions should resolve the issues identified in the report.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 2 and 3 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. We consider Recommendation 1 closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Scope and Methodology

The scope of the project was product costs for FY 2010 through FY 2019. The audit team conducted site visits to gain an understanding of why the cost coverage for some mail products continued to decrease over the years. During our site visits, we observed processing and sorting performed by various mail processing equipment and Postal Service personnel. Flats, periodicals, sacked mail, media/library mail, and bundles were some of the mail we observed being processed.

To complete the audit, we:

- Analyzed and trended FY 2010 through FY 2019 actual product costs, revenue, and volume to illustrate the increase in costs for specific products over those 10 years.
- Reviewed prior audits and management actions related to inefficiencies, cost control, cost coverage, and strategies related to cost.
- Identified and reviewed what, if any, processes the Postal Service established to track product costs and address cost inefficiency/waste issues.
- Interviewed Postal Service personnel to identify whether “product cost” managers were established specifically to provide product cost oversight and whether operations and finance management collaborate regarding the impact operational process changes may have on costs. We also interviewed managers in the following headquarters departments:
 - Finance and Strategy
 - Pricing and Costing
 - Delivery and Retail Operations
 - Logistics
 - Processing and Maintenance Operations
 - Product management
 - Sales
 - Marketing
 - Mail Entry and Payment Technologies.
- Interviewed mailers of flats, including catalogues, magazines, and marketing mail, to obtain feedback on how the Postal Service can reduce operational and delivery costs.
- Met with the PRC and reviewed applicable PRC responses and Postal Service fillings related to cost attribution, cost reduction, and flats strategies.
- Reviewed CRAs, ACRs, and ACDs from 2010 through 2019, and trended cost coverage, unit cost, and volume.
- Conducted site visits to facilities that were among the top 10 that reported highest bundle breakage and volume for processed bundles. Additionally, we selected some facilities based on their proximity to the NDCs that reported the highest bundle breakages. These facilities were:
 - Dulles, VA P&DC
 - Los Angeles, CA Main Post Office
 - Los Angeles, CA P&DC
 - Los Angeles, CA NDC
 - Alameda, CA, Carrier Annex
 - Jersey City, NJ NDC
 - New York City, NY James A. Farley Station
 - New York City, NY Morgan P&DC
- Interviewed district, plant, transportation, retail, and delivery personnel at site visit locations to determine the cause of bundle breakages, how mail irregularities were tracked, and how concerns were communicated to mailers.

We conducted this performance audit from December 2019 through August 2020 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 finding and conclusions based on our audit objective. We discussed our observations and

conclusions with management on June 17, 2020 and included their comments where appropriate.

We assessed the reliability of electronic Mail Irregularity Reporting System, Management Operating Data System, and Surface Visibility data by performing logical tests of completeness, accuracy, and reasonableness on key fields. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in Millions)
<i>Strategies for Underwater Market Dominant Products</i>	Evaluate whether the Postal Service has strategies in place for managing underwater products and whether those strategies were effective to meet desired goals.	CP-AR-16-005	5/25/2016	\$1.2 billion

Appendix B: Mail Products

Table 3. Mail Products by Mail Class, Service Standards, and Definition

Mail Class	Service Standard	Products	Mail Products Definition
First-Class Mail	3-5 days	Flats ³¹	Large envelopes and other flat shapes that exceed maximum card dimensions (6 inches long by 4 1/2-inches high) or are irregularly-shaped (nonrectangular) that is at least 1/4-inch thick as a parcel.
Periodicals	3-9 days	In-County	Rates apply to subscriber copies of any issue of a Periodicals publication (except a requester publication) when the copies are entered within the county in which the post office of original entry is located for delivery to address within that county.
		Outside County	Magazines and newspapers which are prepared in trays, sacks, pallets, and other Postal Service approved containers. Mailers pay the container price according to the type of container, the presort level of the container, and where the mail was entered.
Marketing Mail	3-10 days	Carrier Route	Typically used for advertisements, flyers, and catalogs.
		Flats	Refers to large envelopes, newsletters, and magazines. Each piece must weigh less than 16 ounces. The words “large envelopes” and “flats” are used interchangeably.
		Parcels	Typically used for product samples.
		HD/SAT Flats and Parcels ³²	Saturation-mail addresses 90 percent of residential addresses within a carrier route, or 75 percent of both residences and businesses. Examples of saturation-mail are flyers and advertisements. High-density mailings target at least 125 addresses in a carrier route. Examples of high-density mailings are catalogs, advertisements, and fundraising materials. Both methods already offer savings over First-Class and standard mail rates.
Package Services	2-8 days	Media/Library Mail	Media Mail is a package services product that consists of books, sheet music, printed educational material, film, sound recordings, and computer recorded media such a CD-ROMs. Media Mail is based on weight and size and not by zone-based distance system. Library Mail is a package services product for items sent to or from or exchanged between academic institutions, public libraries, museums, and other authorized organizations. Books, sound recordings, academic theses, and certain other items may be mailed at the Library Mail price if properly marked. Library Mail is considered a market dominant product.

Source: OIG analysis and Postal Service data.

³¹ Product not underwater.

³² Product not underwater.

Table 4. Mail Products' Revenue and Cost per piece

Figure 6. First-Class Flats

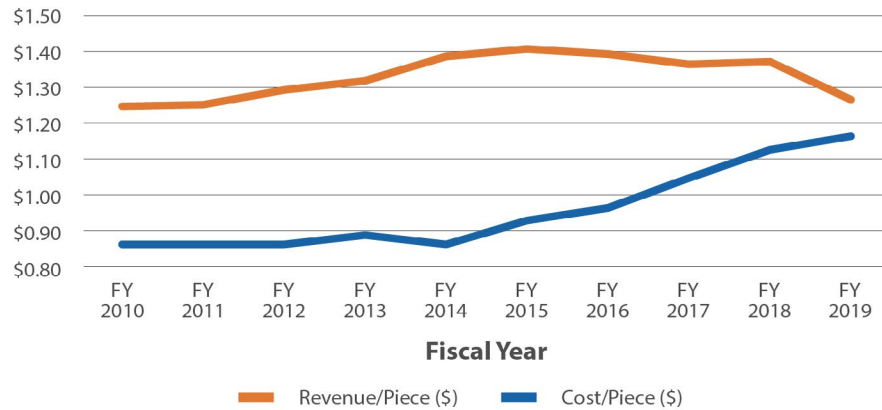


Figure 7. In-County Periodicals

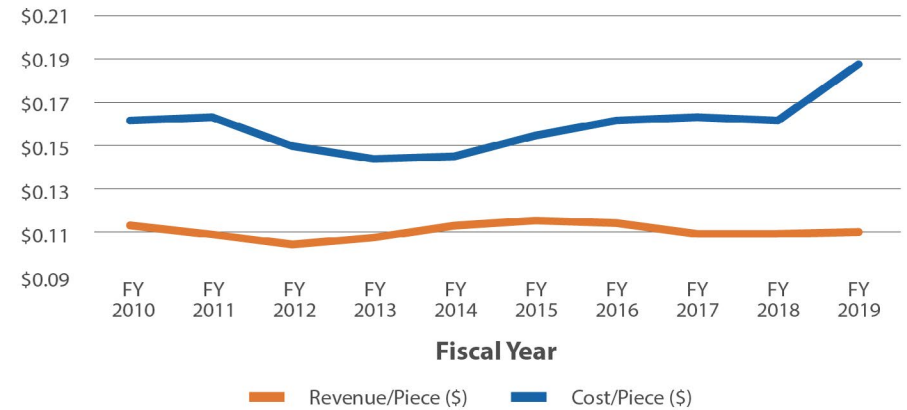


Figure 8. Outside-County Periodicals

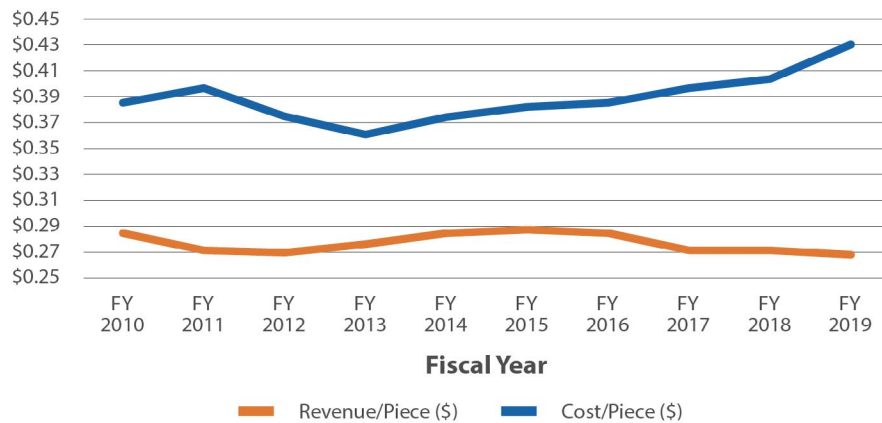
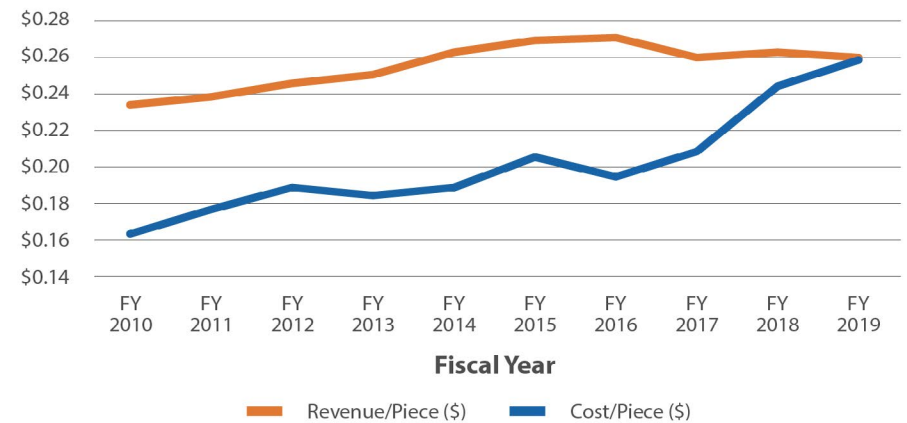


Figure 9. Marketing Mail Carrier Route



Source: Postal Service FY 2010 – 2019 ACR.

Mail Products Revenue and Cost per Piece

Figure 10. Marketing Mail Flats

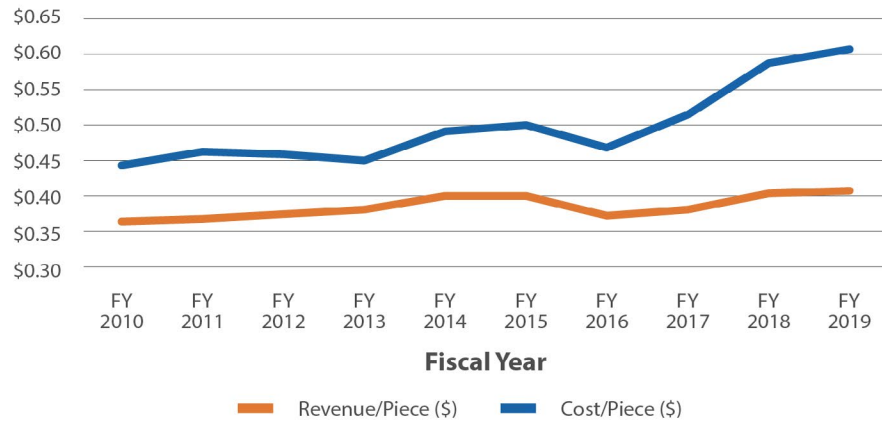


Figure 11. Marketing Mail Parcels

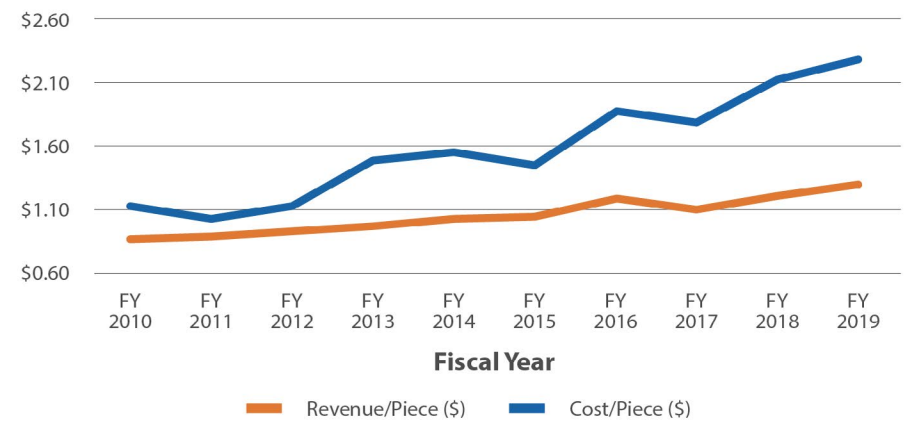


Figure 12. HD/SAT Flats and Parcels

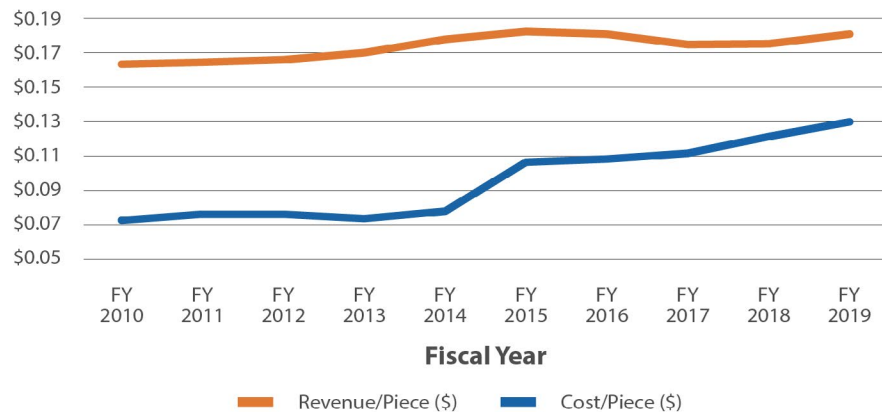
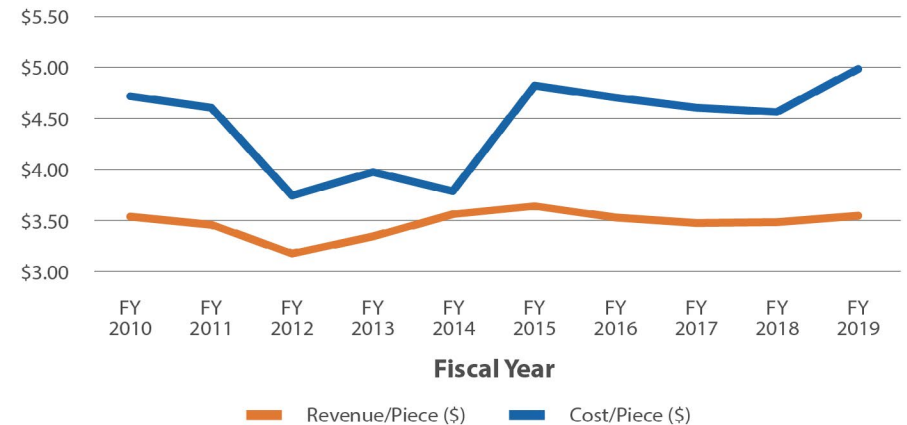


Figure 13. Media/Library Mail



Source: Postal Service FY 2010 – 2019 ACR.

Appendix C: Management's Comments

STEVEN W. MONTEITH
VICE PRESIDENT, MARKETING



July 20, 2020

LAZERICK POLAND
DIRECTOR, AUDIT OPERATIONS

SUBJECT: OIG DRAFT – Cost Reduction Initiatives for Mail Products
Project Number 20-088

Thank you for the opportunity to review and reply to the Office of Inspector General (OIG) Draft Audit Report for Cost Reduction Initiatives for Mail Products (20-088).

Management agrees with the findings noted in the report.

Recommendation [1]:

The OIG recommend the Vice President, Marketing, in coordination with the Acting Vice President, Sales, Acting Vice President, Processing and Maintenance Operations, and Vice President, Mail Entry and Payment Technology, create a dedicated group to establish metrics, analyze cost trends, and track mail irregularity reports to implement cost reduction initiatives, recommend updates to mail preparation guidelines, and communicate mail irregularities to mailers as appropriate, particularly for those products significantly struggling to cover their costs.

Management Response/Action Plan:

Management agrees with this recommendation and has relaunched the joint team with Processing and Maintenance Operations, Mail Entry Payment Technology, Pricing, Product Management, Product Classification, and the Pricing Classification Service Center groups to address these issues. We will add Sales representation at the next meeting. The team will be meeting on a regular frequency to review mail irregularity reports, review systemic issues, analyze operations impacts affecting costs, make recommendations for updates to mail preparation requirements, and engage mailers to communicate changes or required updates.

Target Implementation Date:

This joint team had its first meeting July 7, 2020.

Responsible Official:

Manager, Pricing Classification Service Center and Manager, Product Classification

Recommendation [2]:

The OIG recommends the Vice President, Marketing, in coordination with the Acting Vice President, Processing and Maintenance Operations, update the *Domestic Mail Manual* to set appropriate mail preparation standards that align with automation for strapping, containerization, wrapping, and paper quality, to reduce costs associated with bundle breakage and manual processing of machinable mail.

Management Response/Action Plan:

Management agrees with this recommendation and has relaunched the joint team with Processing and Maintenance Operations, Mail Entry Payment Technology, Pricing, Product Management, Product Classification, and the Pricing Classification Service Center groups to address these issues. The team will be meeting on a regular frequency. One of its first areas of focus will be to review the standards around strapping, containerization, polywrap wrapping, and paper quality. The team will review the OIG research, the research of a previous MTAC workgroup, and Processing & Maintenance Operations to identify specific recommendations for mail preparation changes to update the DMM.

Target Implementation Date:

Management will target completion to coincide with the structural changes to be implemented during the Price Change Implementation in January 2021.

Responsible Official:

Manager, Product Classification

Recommendation [3]:

We recommend the Vice President, Mail Entry and Payment Technology, in coordination with the Acting Vice President, Processing and Maintenance Operations, as a part of the national expansion of the Surface Visibility reporting system, develop processes to ensure all mail irregularities are recorded in the facilities, scanners are placed at key locations where mail irregularities are identified, and mail irregularity reports are distributed to the Postal Service personnel and mailers, as appropriate.

Management Response/Action Plan:


Management agrees with this recommendation. The mail irregularity data is being populated to the Mailer Scorecard and MEPT has completed an internal pilot launch. The pilot was successful, and all irregularity data will be available to all mailers beginning August 20, 2020. They will have the opportunity to view up to three images per irregularity incident.

Target Implementation Date:


Mailer Scorecard will display live customer data August 20, 2020.

Responsible Official:

VP, Mail Entry and Payment Technology and Director, Commercial Acceptance

 E-SIGNED by Steven.W Monteith
on 2020-07-21 09:33:36 CDT

Steven W. Monteith
Vice President, Marketing

 E-SIGNED by Vicki.M Bosch
on 2020-07-21 15:09:19 CDT

Marc D. McCrery
Vice President, Mail Entry and
Payment Technology

cc: Acting Vice President, Sales
Acting Vice President, Processing and Maintenance Operations
Manager, Corporate Audit Response Management

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