September 22, 2006

WALTER O'TORMEY
VICE PRESIDENT, ENGINEERING

SUBJECT: Audit Report – Strategic Alignment of Engineering Programs
(Report Number DA-AR-06-005)

This report presents the results of our self-initiated audit of the strategic alignment of engineering programs (Project Number 05XG018DA000). Our overall objective was to assess whether Engineering's programs aligned with its functional mission and the U.S. Postal Service's transformation strategy and goals.

Background

In 1949, the Post Office Department was authorized to establish a research and development office responsible for improving existing equipment, supplies, methods, procedures, means, and devices, and for introducing new types of equipment. Subsequently, these responsibilities were incorporated into 39 U.S.C. Since that time, legislative and regulatory events have changed the original purpose of Engineering. The Postal Reorganization Act of 1970 provided that the Postal Service "will maintain an efficient mail system nationwide" but omitted language that established Engineering's purpose. From 1989 until 2004, 39 C.F.R. incorporated language similar to that in the 1949 legislation. This language was not included in the current C.F.R.

At the time of the audit, the organizational structure of Engineering consisted of nine functional areas reporting directly to the Vice President, as the chart below shows.

Engineering Organizational Structure
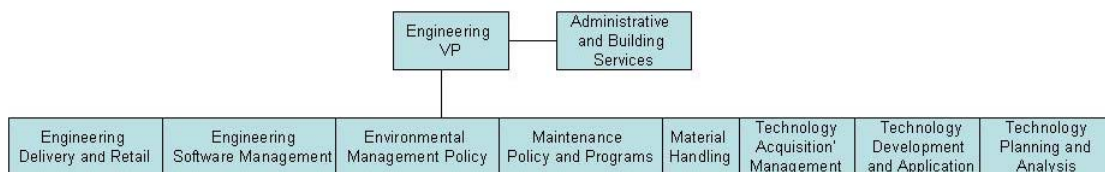
Each of the nine functional areas has separate responsibilities. Within these functional areas, executives supervise program managers, who are responsible for projects funded under 118 program finance numbers.

Objectives, Scope, and Methodology

Our overall objective was to assess whether Engineering's programs aligned with its functional mission and transformation strategy and goals. We evaluated the alignment of programs to their assigned functional area, Engineering's mission, and the *Transformation Plan,* April 2002. As discussed with U.S. Postal Service Office of Inspector General (OIG) counsel, the Engineering mission can be inferred — to keep mail operations efficient. In the absence of a current legislative or regulatory purpose for Engineering, we assessed program alignment to the inferred mission.

We surveyed 67 Engineering program managers and nine executives reporting directly to the Vice President, Engineering, and conducted follow-up interviews as appropriate. We used the Corporate Planning System (CPS)[1] to extract relevant information for 118 Engineering program finance numbers.[2] We analyzed the plan narrative[3] for each finance number and assessed program alignment. We excluded finance numbers identified as inactive, having zero budgeted dollar value, or administrative.

We conducted this audit from November 2005 through September 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We did not assess the alignment of specific program activities or test the completeness of information in the CPS. However, we coordinated with Engineering's budget coordinator to validate the program finance numbers we reviewed.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

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[1] The CPS is a web-based application for input, storage, and retrieval of budget data in the field and at headquarters.
[2] Each finance number represents an allocation of funding for a program or a portion of a program.
[3] The narrative provides funding information, including a short description of the program that establishes the general program parameters, and a link to the transformation strategy and goal (2002 edition). CPS plan narratives reference the *Transformation Plan*, April 2002.

<u>Audit Results</u>

The Engineering programs we reviewed were aligned to the *Transformation Plan*, with one exception. The vast majority of Engineering programs also aligned with Engineering's mission to maintain efficiency of mail operations, and to their assigned functional areas. However, based on survey responses, Engineering management can do more to clearly define and communicate Engineering's purpose — which is a key to maintaining alignment within the organization.

<u>Alignment to *Transformation Plan*</u>

As presented in Appendix A, 117 of the 118 programs[4] reviewed were aligned to one of three strategies of the *Transformation Plan*. Engineering programs primarily support the 2002 *Transformation Plan* strategies listed below:

- Enabling
- Foster growth through added value to customers
- Increase operational efficiency

The exception was the Emergency Preparedness Program (EPP) Intervention. The EPP Intervention was identified as supporting the enabling strategy with a goal of ensuring the safety, security, and privacy of the mail. The program uses high-energy irradiation to sanitize mail destined for specific ZIP Codes; this mail is treated at a contractor facility in New Jersey. However, according to the *Transformation Plan*, ensuring safety and security of the mail encompasses the transformation substrategies below:

- Prevent use of the mail to defraud consumers or convey dangerous mailings.
- Reduce theft of mail and other criminal attack on postal products, services, and assets.
- Ensure a safe, secure, and drug-free work environment.
- Ensure that the Postal Service maintains its trusted brand and provides top-rate privacy protection.

Our review of the transformation substrategies found a disconnection between the purpose of the program and the *Transformation Plan* strategy and goal identified. The description of the EPP Intervention appears to support ensuring safety of the mail, but not as described in the transformation substrategies.

In addition to being misaligned to the *Transformation Plan*, the EPP Intervention did not clearly align with its assigned functional area. EPP Intervention was assigned to the

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[4] "Programs" refers to program finance numbers.

Material Handling group, which develops complex systems such as robotics; automated processing systems for tray mail, sacks, and packages; and innovative and creative solutions for large- and small-scale systems that include all Postal Service product lines. However, the EPP Intervention is a post-development and deployment activity with the purpose of sanitizing mail.

During our audit, we discussed the EPP Intervention program placement with Postal Service officials. Although we made no recommendations, in March 2006, we were informed that EPP had combined with the Environmental Policy group. This group was subsequently consolidated with Safety, forming Safety and Environmental Performance Management, a new headquarters function reporting to the Executive Vice President, Human Resources. Since Engineering management has taken action on EPP alignment, we are not making formal recommendations.

Program Alignment to Engineering Mission

We noted that programs for eight of nine functional areas generally aligned with or supported Engineering's mission of maintaining an efficient mail system.[5] However, we found that the broader compliance responsibilities of the Environmental Management Policy group do not align with Engineering's responsibility for maintaining an efficient mail system. This group manages nine programs relating to environmental policy, air, water, waste, pollution prevention, and energy conservation. We believe that compliance activities are outside Engineering's overall responsibility for maintaining an efficient mail system.

During our audit, we discussed environmental organizational placement with Postal Service officials. Although we made no recommendation to move the group, as previously discussed, in March 2006, the Environmental Policy group was combined with Safety to form the new Safety and Environmental Performance Management group to make programs more effective. We recognize Engineering management's attention to the broader requirements of environmental compliance and are not making recommendations at this time.

Program Alignment to Assigned Functional Areas

As noted in Appendix A, 114 of 118 programs aligned with their assigned functional area's stated responsibilities. Of the four programs that did not align, three are maintenance programs. One program, the EPP Intervention program, was discussed in the section on program alignment to the *Transformation Plan*.

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[5] With the passage of the Postal Reorganization Act of 1970 (PRA), Section 504 carried over, but in very different form, into Section 403 of the PRA. Section 403 provides that the Postal Service shall maintain an efficient mail system nationwide. Neither it, nor another provision of the PRA, retained the old requirement to maintain a research and development program. Thus, the current law is not useful in interpreting the role of Engineering for research and development, except for making a broad argument that Engineering, as part of the Postal Service, is responsible for keeping mail operations efficient.

Our review identified three maintenance-related programs assigned to groups with nonmaintenance functional missions. Two of the three maintenance programs were in the Technology Acquisition Management area and had responsibilities for managing the acquisition, testing and acceptance, deployment, and integration of new technology systems to provide for increased efficiency in mail processing and distribution, delivery, and mail protection operations. The two programs are:

- Biohazard Detection System Logistics Support, finance number █████.
- Biohazard Detection System Cartridges, finance number █████.

The third maintenance-related program below was assigned to the Delivery and Retail function with responsibility for developing technologies that enhance the efficiencies for corresponding operational areas.

- Mobile Data Collection Device Support (MDCD), finance number ██████ (Retail and Delivery) – Extended maintenance service contract for existing equipment while transitioning to the new scanner system.

Normally, maintenance responsibility shifts to the Maintenance Policies and Programs (MPP) group upon acceptance of equipment. Although equipment has been accepted for these programs, maintenance responsibilities have not been transitioned to the MPP group. We noted no duplication of effort on these programs. However, we believe the MPP group may be in a better position to manage these programs.

Recommendation

We recommend the Vice President, Engineering:

1. Review the noted maintenance programs and determine whether stronger alignment could be achieved if these programs were placed in Maintenance Policy and Programs.

Management's Comments

Management agreed the recommended review is a valuable activity. As such, management conducted a review and determined the noted programs are currently positioned where they can best be managed. In addition, management will continue to revisit the positioning of logistical support activity for the Biohazard Detection System and have not ruled out a shift in the future. In the case of the MDCD service program, management did not envision any future shift since the Postal Service would soon transition to the Intelligent Mail Data Acquisition System. Management's comments, in their entirety, are included in Appendix B.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation identified in the finding.

Maintaining Alignment

Based on survey responses, we noted that Engineering management can do more to clearly define and communicate Engineering's mission. ███████████ ███████████████ :

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Since Congress authorized the formation of Engineering, changes in legislation such as the passage of the 1970 Postal Reorganization Act and other supporting legislation have reduced Engineering's purpose from specific language to more generic terms. Both 39 U.S.C. and 39 C.F.R. have been changed and no longer reflect the purpose of Engineering. Along with organizational and leadership changes, these factors have contributed to inconsistencies in the understanding of Engineering's mission.

A well-developed mission statement, communicated to and embraced by employees, is fundamental to maintaining program alignment within Engineering. In particular it will help ensure:

- Senior management clearly understands the business results to be achieved for a major investment, and Engineering's contribution to those results.

- Middle management understands the resources required to achieve these results and their role in achieving this goal.

- All employees and workgroups understand how they contribute to the results and how technologies developed will be used in new ways.

Recommendation

We recommend the Vice President, Engineering:

2. Reestablish and effectively communicate a purpose and mission statement to maintain program alignment and enhance a shared vision of benefits.

Management's Comments

Management agreed that maintaining alignment among Engineering's programs with overall corporate goals and strategies is important. However, they did not agree that there is a need to reestablish an Engineering-specific purpose and mission as originally established in legislation. Rather, management elected to publish an Engineering technology plan in the near future to improve internal communications and ensure future alignment to corporate mission and goals.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and meet the intent of the finding. Actions taken and planned would contribute to continued program alignment and enhance a shared vision of benefits.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel Castillo, Director, Engineering, or me at (703) 248-2300.

E-Signed by Colleen McAntee
ERIFY authenticity with Approvel
C. McAntee
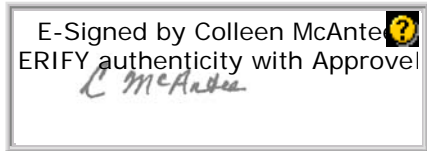
Colleen A. McAntee
Deputy Assistant Inspector General
 for Core Operations

Attachments

cc: Linda A. Kingsley
       Deborah Giannoni-Jackson
       Steven R. Phelps

APPENDIX A. AREA OF ALIGNMENT

Engineering Functional Area	Total Number of Programs	Aligned to Functional Area	Percent	Aligned to Engineering Mission	Percent	Aligned to Transformation Plan	Percent	Total Not Aligned	Percent Not Aligned
Administrative and Building Services	1	1	100	1	100	1	100	0	0
Delivery and Retail	9	8	89	9	100	9	100	0	0
Engineering Software Management	24	24	100	24	100	24	100	0	0
Environmental Management Policy	9	9	100	0	0	9	100	0	0
Maintenance Policies and Programs	10	10	100	10	100	10	100	0	0
Material Handling	15	14	93	14	93	14	93	1	7
Technology Acquisition Management	32	30	94	32	100	32	100	0	0
Technology Development and Applications	9	9	100	9	100	9	100	0	0
Technology Planning and Analysis	9	9	100	9	100	9	100	0	0
Total Number of Program Finance Numbers	118	114		108		117		1	
Percentage of Alignment to Assigned Finance Numbers			97		92		99		1

APPENDIX B. MANAGEMENT'S COMMENTS

WALTER O'TORMEY
VICE PRESIDENT
ENGINEERING

UNITED STATES
POSTAL SERVICE

September 19, 2006

COLLEEN A. McANTEE

SUBJECT: Draft Audit Report – Strategic Alignment of Engineering Programs (Report Number DA-AR-06-DRAFT)

We appreciate the opportunity to review and comment on the subject draft audit report. We also appreciate the effort undertaken by the Office of the Inspector General (OIG) to assess whether Engineering's programs are aligned with the Postal Service's transformation strategy and goals.

Overall, we are quite pleased that the OIG's independent assessment found that Engineering's programs are very well aligned with the Postal Service's corporate goals. However, while pleased, we are not surprised since Engineering is an active participant in the corporate strategy formulation process. Indeed, we believe that our regular and intensive involvement with corporate strategic planning activities is well reflected by the audit report findings.

RESPONSES TO OIG REPORT RECOMMENDATIONS

We recommend the vice president, Engineering:

1. *Review the noted maintenance programs and determine whether stronger alignment could be achieved if these programs were placed in Maintenance Policy and Programs.*

Management Response: We agree that the recommended review is a valuable activity. We have conducted such a review and believe that the noted programs are currently positioned where they can be best managed. Maintenance of both the Biohazard Detection System (BDS) and the Mobile Data Collection Device (MDCD) programs are outsourced unlike most of the other Engineering-related equipment programs. In the case of both of these programs, the necessary skill sets and technical knowledge needed to deal with the logistical support vendors exists in the organizations currently overseeing these activities.

We have and will continue to revisit the positioning of the BDS logistical support activity and have not permanently ruled out a possible shift in the future. However, in the case of the MDCD service program we do not envision a situation where this would be placed in the Maintenance Policy and Programs group particularly since this program will soon be eliminated as we transition to the Intelligent Mail Data Acquisition System.

We recommend the vice president, Engineering:

2. *Reestablish and effectively communicate a purpose and mission statement to maintain program alignment and enhance a shared vision of benefits..*

Management Response: We agree that maintaining alignment among Engineering's programs with overall corporate goals and strategies is important. We also believe the audit's findings that

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100 percent of the current Engineering programs are aligned with these goals and strategies are evidence that our current processes are accomplishing this worthy objective.

We do not agree that there is a need to reestablish Engineering-specific purpose and mission statements similar to those originally established in the 1949 legislation cited. Instead, we believe it is more important that we continue to function as an integrated postal group focused on the broader Postal Service goals. To that end, we will continue to review our program goals and enhance our staff communications to ensure that our activities and programs remain consistent with those of the overall organization. We do, however, have plans to publish an Engineering technology plan in the near future. And, while this will likely be a "living document" subject to frequent updates and revisions, it could become a valuable added source for improving internal communications and further ensuring that we remain aligned with the corporate mission and goals.

Thank you for the opportunity to respond to the audit report.

Thomas P. Shpe

for Walter O'Tormey

cc: Mr. Kingsley
     Ms. Giannoni-Jackson
     Ms. Phelps