February 6, 2004

PAUL E. VOGEL
VICE PRESIDENT, NETWORK OPERATIONS
 MANAGEMENT

ROBERT L. OTTO
VICE PRESIDENT, CHIEF TECHNOLOGY OFFICER

SUBJECT: Management Advisory – Labor Scheduler
                   Program Phase 1
                   (Report Number DA-MA-04-002)

This management advisory presents the results of our
review of the Postal Service Labor Scheduler Program
Phase 1 (Project Number 03BG063DA000). This project
was self-initiated to determine whether the Labor Scheduler
program was effectively developed and deployed to achieve
its intended benefits, outcomes, and return on investment.

Results in Brief	During our review of the feasibility and pilot sites, we determined the Labor Scheduler may not achieve its intended benefits because of incomplete source data and ineffective model results. When we reviewed the model implementation results and return on investment for national deployment, we found weaknesses in capturing potential savings. However, the Labor Scheduler was effectively developed and deployed to the pilot sites, although we identified opportunities for Postal Service to improve communication.

We made five recommendations to improve the Labor Scheduler program. We recommended developing and implementing a formal communication plan, and written policies and procedures for the administration of the Labor Scheduler program. We also recommended the development and enforcement of formal written policies on |

data requirements and the incorporation of lessons learned from model results of feasibility and pilot sites. Finally, we recommended a review of the Phase 1 model results to capture realistic savings before the execution of the Decision Analysis Report (DAR) for Phase 2 national deployment.

Management agreed with four of the five recommendations. However, they did not agree in part with the recommendation addressing the Phase 1 model results. Specifically, management stated the methodology used in the Phase 1 DAR is valid but agreed the Phase 2 DAR should be based on an accurate analysis of the Phase 1 model results. This meets the intent of this recommendation.

Management's comments and actions taken or planned are responsive to our findings and recommendations and should correct the issues identified in the report. Management's comments, in their entirety, are included in the appendix of this report.

Background	The Labor Scheduler is a planning tool for optimizing the workforce complement in mail processing facilities. It enables plant management to avoid conditions of overstaffing or understaffing that lead to higher mail processing costs or failures in meeting service commitments. The Labor Scheduler provides a standardized process for developing, implementing, and reviewing core job assignments at a facility. It also generates verifiable data output to support proposed changes in bid assignments presented to local craft workforces and labor union officials.

In February 2003, the Board of Governors approved $17.7 million for Phase 1 deployment of Labor Scheduler to 40 mail processing facilities. Postal Service Network Operations Management estimates the Phase 2 deployment will cost $1.2 million and will begin in fiscal year 2005.

Objectives, Scope, and Methodology	Our objective was to determine whether the Labor Scheduler was effectively developed and deployed to achieve its intended benefits, outcomes, and return on investment.

To accomplish our objectives, we interviewed Postal Service officials at Postal Service Headquarters, a feasibility site (in Atlanta, Georgia), and pilot sites (in Chicago, Illinois; Westchester, New York; San Francisco, California; and Denver, Colorado). We also reviewed applicable policies and any other materials necessary to understand the subject and potential audit issues. We reviewed the Labor Scheduler program, Processing and Distribution Centers' operations, decisions regarding the costs and benefits, and contract administration. In addition, we reviewed compliance with the Postal Service's current strategic plans. We also consulted with the Office of Inspector General expert staff and legal counsel.

This review was conducted from March 2003 through February 2004 in accordance with the President's Council on Integrity and Efficiency, <u>Quality Standards for Inspections</u>. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate. We evaluated the reliability of computer-generated data and determined the source data were either incomplete or not available.

Prior Audit Coverage	We did not identify any prior audits or reviews related to the objective of this review.

Ineffective Communication

At the pilot sites visited, the Labor Scheduler program office did not always communicate effectively how to administer the program. This condition occurred because the program office did not give sufficient formal guidance to plant management. Therefore, plant management was unclear on:

- Enforcing the implementation of the Labor Scheduler.

- Accepting the reasonableness of the Labor Scheduler model results.

- Establishing effective communication among all functional groups in a plant.

- Adjusting multiple reporting times, which affected managing mail processing operations.

- Addressing surplus workers identified by the Labor Scheduler, after contractual provisions were followed.

The General Accounting Office (GAO) guide[1] for internal control states that information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

Effective communications should occur in a broad sense with information flowing down, across, and up the organization. In addition to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals. Moreover, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

Without sufficient communication and developed policies and procedures on program management, the Labor Scheduler program will not effectively achieve its goals.

Incomplete Source Documents May Affect Data Quality	At the feasibility and pilot sites visited, we found the source data used to optimize the workforce and schedules for Labor Scheduler were either incomplete or not available, thereby, affecting data quality. For example, based on our interviews and reviews of plants' mail processing tours, Postal Service Form 2345, Personnel Workhours (timesheets submitted by supervisors), used to collect source data were inaccurate, incomplete, or missing. In addition, plant personnel did not document employee surveys used to collect source data; therefore, we were unable to validate the data input into the Labor Scheduler.

These conditions occurred because plant personnel at the sites did not understand the completion requirements for the timesheets nor were there clear policies on standard data collection methods for data input.

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[1] GAO/AIMD-00-21.3.1, November 1999, Standards for Internal Control in the Federal Government.

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Without sufficient communication and developed policies and procedures on data requirements, the quality of the Labor Scheduler model results and the optimization of the workforce may be compromised.

Program Benefits May Not Be Achieved	At the feasibility site visited, the Labor Scheduler model results may not have optimized the workforce; therefore, the program may not achieve projected benefits. Plant management implemented the model results, which identified 112 changed or reduced positions. After plant management reduced a significant number of positions, workhours, and overtime increased so existing staff could effectively process mail volume.

Postal Service plant management and union officials stated that after the completion of the model results, regular employees were working 12 hours a day and part-time flexible employees were exceeding their 32-hour weekly limit. As a result, the union filed a class action grievance.

The source data used for the Labor Scheduler were incomplete, in turn, not reflecting a true picture of the workforce. Therefore, the staffing requirements needed to process mail volume at the feasibility site were not met because the model results were overstated.

The DAR states the Labor Scheduler system will produce optimized work schedules to ensure that staffing

requirements for the mail processing operations are met to reduce operating costs.

At the pilot sites visited, plant management did not fully implement or use the Labor Scheduler model results to capitalize on workforce optimization; therefore, the program may not achieve projected benefits. These sites either disregarded or partially implemented the model results causing no employee reduction. Based on our interviews with plant management, they indicated they would implement the results in phases within the different plant operations or in some cases, not at all.

These conditions occurred because the model results identified staff changes and reductions as high as 583 positions. Plant management stated that implementing full model results might be disruptive to mail processing operations. As a result, no employee reduction occurred from implementation of the model results.

However, in order to capitalize on workforce optimization, the DAR requires a reduction of 7.5 full-time equivalent positions per plant. This is based on a projected savings of approximately $101 million over a seven-year period for the Labor Scheduler program.

Therefore, without meeting staffing requirements to optimize the workforce and reduce staff complement by 7.5 full-time equivalent positions, program benefits and projected savings that are described in the DAR may not be achieved.

| **Pilot Results Not Used for Determining Return on Investment** | Plant management did not use the results from the pilot sites to determine savings and return on investment for national deployment of the Labor Scheduler. Postal Service management used a conservative estimate of 7.5 full-time equivalent employees to project potential savings for national deployment. The Capital and Program Evaluation office validated the DAR. However, the validation letter stated the report has been validated with the exception of anticipated workhour savings of 7.5 full-time equivalent positions per plant. This condition occurred because the Postal Service executed the DAR prior to completing and reviewing all results from the pilot sites. |

The GAO guide[2] for capital decision-making states that one way to evaluate a project's performance is to measure its outcomes against the approved goals and objectives. This process aids in determining whether the capital investment achieved the intended benefits. An organization can incorporate this type of evaluation into the capital decision-making process through a performance measurement system or through post-completion evaluations.

Unless the Postal Service reviews pilot results to ensure that programs will meet business requirements, it is uncertain whether the Labor Scheduler program will achieve the intended objectives or mission performance.

Recommendation	We recommend before national deployment of the Labor Scheduler Phase 2 program, the vice president, Network Operations Management, in coordination with the vice president, chief technology officer: 1. Develop and implement a formal communication plan for all stakeholders in the Labor Scheduler program.
Management's Comments	Management agreed with the recommendation and stated they have worked with Postal Service Headquarters Human Resources and Workplace Environment Improvement to create a standardized communications package. Action was completed May 15, 2003.
Recommendation	2. Develop formal written policies and procedures to administer the Labor Scheduler program, manage multiple reporting times, and address the issue of surplus workers.
Management's Comments	Management agreed with the recommendation. The program office developed many tools for deployment. These include: Communications plan, Application Manual, Cookbook, Labor Scheduler 1, and Labor Scheduler 2 training classes. The Labor Scheduler Cookbook outlines a step-by-step process for Labor Scheduler deployment from site preparation through data collection, running models, adjusting model constraints, results justification,

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[2] GAO/AIMD-99-32, December 1998, Executive Guide for Leading Practices in Capital Decision-Making.

implementation, and assignment of action items to responsible parties. Action was completed May 15, 2003.

Recommendation	We recommend before national deployment of the Labor Scheduler Phase 2 Program, the vice president, Network Operations Management, in coordination with the vice president, chief technology officer: 3. Develop and enforce formal written policies and procedures on data requirements for Labor Scheduler.
Management's Comments	Management agreed with the recommendation and stated they have established a process for the completion of the required Demand Profiles throughout a facility. This process is designed to be flexible enough to incorporate unique factors in different processing and distribution centers. Action was completed May 15, 2003.
Recommendation	4. Evaluate and incorporate any lessons learned in implementing model results from the feasibility and pilot sites.
Management's Comments	Management agreed with the recommendation and have incorporated lessons learned from the feasibility and pilot deployments. They indicated that these experiences have been incorporated in a standardized deployment process. Action was completed May 15, 2003.
Evaluation of Management's Comments	Management's actions are responsive to recommendations 1 through 4 and actions taken should correct the issues identified in the report.
Recommendation	5. Review Phase 1 model results to capture realistic savings before executing the Decision Analysis Report for Phase 2 national deployment.
Management's Comments	Management disagreed in part with this recommendation. They stated that they believe the methodology used in the Phase 1 DAR is still valid. This methodology is being utilized in the modification of the Phase 1 DAR, expanding the number of Labor Scheduler sites from 40 to 90.

However, management agreed the decision to pursue a Phase 2 DAR should be based on an analysis of the results of the Phase 1 sites and the ability to capture the appropriate Full Time Equivalent savings as described in the modified Phase 1 DAR.

Evaluation of Management's Comments	While management disagreed in part with the recommendation, their comments meet the intent of the recommendation. Management agreed the decision to pursue a Phase 2 DAR should be based on an analysis of the results of the Phase 1 sites.
	
	In addition, they stated that since an accurate savings potential is only possible following the completion of model results at each processing facility, each site has been allowed to be entrepreneurs and achieve additional savings where available. The actions planned meet the intent of the recommendation and should correct the issues identified in the report.
	
	We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Tracy A. LaPoint, director, at (703) 248-2100 or me at (703) 248-2300.
	
	/s/ Ronald D. Merryman
	
	Ronald D. Merryman
	Deputy Assistant Inspector General
	  for Technology, Marketing, and Oversight
	
	Attachment
	
	cc: John A. Rapp
	      Richard J. Strasser, Jr.
	      Philip A. Pensabene
	      Steven N. Benson
	      William Batterton
	      Susan M. Duchek

APPENDIX. MANAGEMENT'S COMMENTS

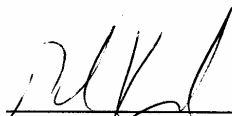*UNITED STATES*
POSTAL SERVICE

MR. MERRYMAN

SUBJECT: Labor Scheduler Program, Feasibility and Pilot
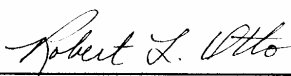   Report Number DA-MA-04-DRAFT

Attached are the responses to the five recommendations provided by the Office of
Inspector General as a result of the Labor Scheduler Survey Audit, conducted on
our feasibility and pilot sites.

The objective of this survey audit was to determine whether the Labor Scheduler
was effectively developed and deployed to achieve its intended benefits, outcomes
and return on investment for our feasibility and pilot sites.

We are in agreement with four of your five responses. Activities to address these
four issues are already completed and explained in the attachment. We do not
agree with Recommendation #5 and this is also explained in the attachment.

If you would like to discuss them further, please contact Phil Pensabene (202) 268-
2695, or John Edgar (202) 268-3977.

Paul Voger
Vice President
Network Operations Management

Robert L. Otto
Vice President
Chief Technology Officer

Attachments

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Comments:

1. Develop and implement a formal communication plan for all stakeholders in the Labor Scheduler program.

We agree with this recommendation. With Phase 1, national deployment of Labor Scheduler, Operations Technical Support worked with Headquarters Human Resources (HR) and Workplace Environment Improvement to create a standardized communications package.

This includes:
- Labor Scheduler Overview
- Guidance on Planning a Town Hall Meeting
- Introductory Service Talk
- Follow Up Service Talk(s)
- Template for Updates

Each site is provided a copy of the communications plan and the site coordinator receives training on its design and recommended use. The list of invitees for the Labor Scheduler Kick-Off meetings for Pilot and Phase 1 national deployment include senior area leadership, cluster leadership, functional managers and staff representatives from In-Plant Support, Maintenance, and workroom floor managers and supervisors.

The National Union Offices were formally notified of the deployment sites of Labor Scheduler. They were provided a demonstration of the application. Following a request from the American Postal Workers Union, we provided a presentation for their regional leadership. The local Labor Relations Manager is provided a copy of the Kick-Off presentation to share with the local Unions, as well as having support from both Area HR and the Labor Scheduler Program Manager at their discretion.

In addition to the Communications Plan, each section of the Labor Scheduler Cookbook provides a detailed outline, including assignment of activities to responsible parties, for the deployment and implementation of the Labor Scheduler process.

Corrective action completed May 15, 2003.

2. **Develop formal written policies and procedures to administer the Labor Scheduler program, manage multiple reporting times, and address the issue of surplus workers.**

> We agree with this recommendation and following the feasibility and pilot site deployment of Labor Scheduler, the program office developed many tools for further deployment. These include: Communications Plan, Application Manual, Cookbook, Labor Scheduler 1, and Labor Scheduler 2 training classes.
>
> The Labor Scheduler Cookbook outlines a step-by-step process for Labor Scheduler deployment from site preparation through data collection, running models, adjusting model constraints, results justification, implementation, and assignment of action items to responsible parties. As part of this process, the site determines the necessary starting times for efficiency and manageability.
>
> Labor Scheduler provides the opportunity to utilize any of 48 different start times. The process developed for Labor Scheduler deployment uses modeling techniques along with simulation and optimization to provide the facility with an efficient and manageable set of start times.
>
> Labor Scheduler will help the facility by identifying the most cost efficient use of employee use to meet the facility needs.
>
> The appropriate balance of resources to workload is an issue that the Postal Service has been managing for some time. We follow existing contractual requirements for addressing this issue. We have also begun to address this by offering voluntary early retirements to craft employees who meet specific criteria. We recently revised Handbook M-32 to explain a formal policy for addressing employee idle time, by identifying that time as "Stand by Time" in Operation 340. This revision was communicated to the Area and Field offices in Postal Bulletin 22114 dated October 30, 2003.
>
> Employee Resource Management and Information Technology have established a web based tool named eReassign. It allows employees to submit a reassignment request from any computer with internet access. This will assist employees in identifying reassignment opportunities and convenient for them to submit their requests.

Corrective action completed May 15, 2003.

3. **Develop and enforce formal written policies and procedures on data requirements for Labor Scheduler.**

> We agree with this recommendation. The requirement for the Labor Scheduler application is to define a Demand Profile for each operation in the deployment site. The requirement for the Labor Scheduler process is the establishment of a facilities Demand Profile(s), to be used as an input to the Labor Scheduler Application. We have established a process for the completion of the required Demand Profiles throughout a facility. This process is designed to be flexible enough to incorporate unique factors in different processing and distribution centers. How a facility determines their best way to establish the Demand Profile is determined locally. Cookbook Sections 2–4 detail lessons learned from our feasibility and pilot sites and recommend successful practices to assist future sites in establishing their facilities Demand Profile(s). Alternate methods for the creation of a facilities Demand Profile are also be described for some work areas.
>
> Following feasibility and pilot deployment of Labor Scheduler, the program office developed many tools for further deployment. These include: Communications Plan, Application Manual, Cookbook, Labor Scheduler 1, and Labor Scheduler 2 training classes. The Labor Scheduler Cookbook diagrams a step-by-step process for Labor Scheduler deployment from site preparation through data collection, running models, adjusting model constraints, validation of results and implementation.
>
> **Corrective action completed May 15, 2003.**

4. **Evaluate and incorporate any lessons learned in implementing model results from the feasibility and pilot sites.**

> We agree with this recommendation and we have incorporated lessons learned from our feasibility and pilot deployments. Our experiences at these sites have been incorporated in a standardized deployment process. The following describes how we incorporated these into our process from preparation through implementation.
>
> During our feasibility testing of Labor Scheduler, the need for a Complement Management System (CMS) database clean up was discovered. Tasks were incorporated into the pilot deployment that were intended to address this need. During pilot deployment it was clear that there was an enormous effort needed to ensure the CMS database was made and kept current. Prior to national deployment, Headquarters (HQ) Processing Operations teamed with HQ Human Resources (HR) to initiate a nationwide clean up of the CMS database. Headquarters HR developed a process for completing this effort and deployed this effort in advance of the Labor Scheduler deployment schedule.
>
> In the feasibility and pilot sites the implementation of Labor Scheduler results was left to the discretion of the plant manager for that site. The process for implementation during Phase 1 national deployment is explained in the Labor Scheduler Cookbook Section 9. The process includes the plant manager notifying the Labor Scheduler area coordinator of the final model results, the application constraints used to create them, and the plant manager's signature of approval. The area coordinator conducts analysis of the model results and makes a recommendation for approval or disapproval. The recommendation then is reviewed and concurred by the Manager, In-Plant Support (Area) and Manager, Operations Support (Area) prior to Area Vice President approval.
>
> User groups were created from the feasibility and pilot sites to identify process and application enhancements, as well as to provide input into the improved documentation of the Labor Scheduler Cookbook. The knowledge from these user groups was invaluable in the improved deployment and implementation process used in Phase 1, national deployment of Labor Scheduler.
>
> **Corrective action completed May 15, 2003.**

5. **Review Phase 1 model results to capture realistic savings before executing the Decision Analysis Report (DAR) for Phase 2 national deployment.**

> We disagree in part with this recommendation. Management believes the methodology used in the Phase 1 DAR is still valid. This methodology is being utilized in the modification of the Phase 1 DAR, expanding the number of Label Scheduler sites from 40 to 90.

> We do agree that the decision to pursue a Phase 2 DAR should be based on an analysis of the results of the Phase 1 sites and the ability to capture the appropriate Full Time Equivalent savings as described in the modified Phase 1 DAR.

> An accurate assessment of overall savings from Labor Scheduler is only possible following the completion of model results at each processing facility. The tool is designed to be flexible enough to incorporate unique circumstances at any given facility. Existing Local Memorandum of Understandings, arbitration decisions, facility profile, and current complement management are some of the factors that will impact model results. The feasibility and pilot sites range from, on the high end, a potential reduction of a few hundred positions to, in one instance, an increase of 59 positions.

> Since an accurate savings potential from an individual facility is not available prior to physical deployment, it has been determined to capture an appropriate return on investment and allow the sites to be entrepreneurs and achieve additional savings where available. Allowing sites to be entrepreneurs and achieve additional savings where available is clearly working in the pilot sites. The six pilot sites have reduced complement by more than 900 positions between July 2002 (the month prior to Labor Scheduler deployment) and November 2003. This is an 8.86 percent reduction to July 2002 complement.

Attachments on CD:
Labor Scheduler Cookbook
Labor Scheduler Application Manual
Labor Scheduler Communications Plan
PB 22114 (excerpt), Handbook M-32 Revision