

September 29, 2000

DEBORAH K. WILLHITE
SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS
AND PUBLIC POLICY

GARY A. STONE, SR.
MANAGER, STAMP FULFILLMENT SERVICES

SUBJECT: Audit Report - Review of the Stamp Fulfillment Services Performance
Measures (Report Number MK-AR-00-001)

This report presents the results of our review of the Stamp Fulfillment Services performance measures (Project Number 00RA056RG000). The report responds to a request from the manager, Stamp Services to review the performance measures.

Our audit revealed that the performance measures were generally consistent with industry standards and allowed an accurate assessment of fulfillment service operations. We identified opportunities to improve both the order entry and customer service areas of the fulfillment process. In addition, we noted that fulfillment service shipping times were better than industry standards; however, the fees charged for shipping and handling did not cover their costs. The report includes five recommendations to address these issues. Management generally agreed with the intent of our recommendations and has initiatives in progress, completed or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact Larry Chisley, director of Marketing, or me at (703) 248-2300.

Debra S. Ritt
Acting Assistant Inspector General
for Business Operations

Attachment

cc: Azeezaly S. Jaffer
James C. Tolbert
John R. Gunnels

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EXECUTIVE SUMMARY

Introduction

We completed an audit to determine whether performance measures established by Postal Service Stamp Fulfillment Services officials were consistent with industry standards and allowed for an accurate assessment of fulfillment service operations. This audit was initiated in response to a request from the manager, Stamp Services.

Results in Brief

Our audit revealed that the performance measures established by Stamp Fulfillment Services officials were generally consistent with industry standards and allowed for an accurate assessment of fulfillment operations. However, we identified opportunities to improve performance in both the order entry and customer service processing areas.

In order entry, although performance goals were being met, we determined that these goals did not measure up to industry standards. This occurred because the order entry system and the automated fulfillment system were not integrated, which increased the time needed to process customer orders. In addition, there was a lack of consistency in the printing of order forms, which affected the ability of order entry and process employees to scan these forms. Also, employees had been given responsibilities which had no relationship to the order entry process.

Although the goals in the customer service area were consistent with industry standards, customer service representatives did not have the access to information needed to assist customers in a more timely manner.

Finally, we noted that fulfillment service shipping times were better than industry standards; however, the fees charged for shipping and handling did not cover their costs. Over the period from fiscal year 1999 through June 2000, this had resulted in the Postal Service forgoing about \$9 million in revenue. If Postal Service officials charged the proper rate for shipping, they could increase revenue by about \$6 million per year.

**Summary of
Recommendations**

We recommend that Postal Service officials establish order entry processing goals, which at least meet industry standards, and take steps to more efficiently process orders; expand customer service representatives access to customer accounts; and increase shipping charges to at least cover costs.

**Summary of
Management's
Comments**

Management disagreed with our recommendation to establish order entry goals equivalent to industry standards however; management's alternative solution to discontinue lockbox operations, mail orders directly to Stamp Fulfillment Services, and to scan and download orders meets the intent of our recommendation.

Management agreed with our recommendations to integrate the order entry with the Automated Fulfillment Equipment System and to analyze order entry staff duties and to reassign duties not related to the order entry process. Management also agreed to provide customer service representatives with the appropriate security clearances.

Management partially agreed with our recommendation to reevaluate shipping and handling charges. Management stated that a graduated scale is appropriate for non-philatelic products. The fee charged for shipping stamps and stamp products needs to be studied. Management stated that an analysis of shipping and handling charges will be completed and a decision will be reached at the conclusion of that study.

Management's comments in their entirety are included in Appendix B of this report.

**Overall Evaluation of
Management's
Comments**

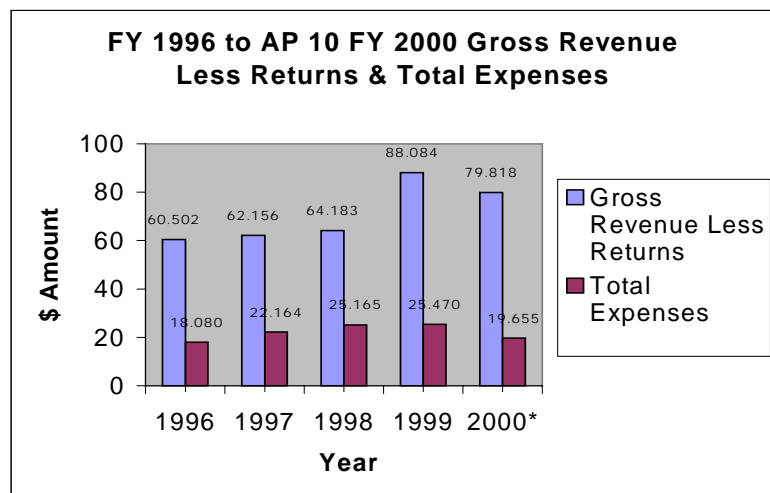
Although management disagreed with our first recommendation and partially agreed with our fifth recommendation, the proposed alternate solution meets the intent of our recommendations. Consequently, we will not pursue resolution on these recommendations at this time. Management's planned actions or actions taken on the remaining three recommendations are responsive to our recommendations.

INTRODUCTION

Background

The Postal Service Stamp Fulfillment Services, located in Kansas City, Missouri, receives and fills philatelic orders. Stamp Fulfillment Services receive orders through various channels including mail orders, phone orders, and internet orders via Stamps Online. Prior to 1997, the fulfillment services operated using manual processes with little automated support and outdated machinery. During this period, the average processing time for orders ranged from 10 to 25 days.

In 1996, the Board of Governors approved \$37 million for a Business Process Reengineering Project that included the purchase of an automated fulfillment equipment system and a 120,000 square-foot expansion of operations. During 1997, fulfillment services was changed from a manual to an automated order fulfillment process. Since the automation, average process times have decreased significantly. As of June 2000, processing times ranged from less than 1 day to 14 days. In addition, labor hours and overtime have decreased. Furthermore, over the past four years, gross revenue less returns has steadily increased from \$60.5 million in 1996 to \$88.0 million in 1999. Fiscal year (FY) 2000 revenues are projected to reach \$100 million. The chart below illustrates the steady increase in revenues.



*The information for FY 2000 is through June 2000.

At any given time, Stamp Fulfillment Services, has approximately \$500 million in stamp inventory. In FY 1999, Stamp Fulfillment Services staff processed and shipped over

2 million orders valued at approximately \$92.5 million in gross revenue. In addition to philatelic orders, Stamp Fulfillment Services staff processed approximately 260,000 Personalized Envelope Program orders valued at over \$81 million.

In the mid 1990's, Stamp Fulfillment Services officials benchmarked with other fulfillment companies to establish reasonable performance measures against which fulfillment service operations could be assessed. The performance measures consisted of turnaround times for the entire fulfillment process as well as time goals for each area. These performance measures are currently being used by managers to monitor performance and improve productivity, and are reevaluated on a yearly basis. Performance measures are posted in each department to inform employees of their goals and to show current performance.

Objective, Scope, and Methodology

This audit was conducted in response to a request from the manager, Stamp Services. The objective of the review was to determine whether established performance measures were consistent with industry standards and allowed for an accurate assessment of Stamp Fulfillment Services operations.

We interviewed relevant officials at Stamp Fulfillment Services and Postal Service Headquarters; benchmarked fulfillment service performance against performance measures of other judgmentally selected fulfillment service companies, and analyzed data provided by Stamp Fulfillment Services staff.

This audit was conducted from May through September 2000 in accordance with generally accepted government auditing standards and included such tests of internal controls, as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We issued a prior report, entitled Kansas City Fulfillment Services Center, on March 30, 1998. The objective of that review was to obtain an overview of the services provided by Stamp Fulfillment Services in Kansas City, Missouri. As a result of the review, we suggested renovation of the camera monitoring station be completed to provide appropriate

security for the facility. Postal Service management agreed with this suggestion and has taken action to resolve the issue.

AUDIT RESULTS

Our audit revealed that performance measures established by Stamp Fulfillment Services were generally consistent with industry standards and allowed for an accurate assessment of fulfillment service operations. We did, however, identify opportunities to improve on both the order entry and customer service processing areas. In addition, we noted that fulfillment service shipping times were better than industry standards; however, the fees charged for shipping and handling did not cover costs.

Fulfillment Process

Fulfillment service operations were judged based on the maximum turnaround time from receipt of order to shipment. The goals for turnaround time were dependent on the type of order: 11 days for regular catalog orders; 24 hours for telephone orders; and 40 hours for Internet orders. As shown in the table below, Postal Service goals for product turnaround used by Stamp Fulfillment Services for Internet and telephone orders were consistent with goals used by those companies; however, goals for catalog orders were not consistent with the companies.

Comparison of Postal Service Fulfillment Services to Industry Standards		
	Postal Service Goals	Industry Standards
Catalog	11 days	36 hours – 12 days
Telephone	24 hours	24 hours – 5 days
Internet	40 hours	24 hours to 5 days

As of June 2000, Stamp Fulfillment Services was meeting or exceeding two of their turnaround goals, telephone (21 hours) and Internet (38 hours), but falling short on the catalog orders (14 days). This occurred because orders placed by Internet or telephone were sent directly to the automated fulfillment equipment system for processing. When ordering through the catalog, however, customers sent their order forms to a bank in Philadelphia, Pennsylvania. The bank was responsible for clearing all check payments and batching orders to send to Stamp Fulfillment Services. All orders were suppose to be sent to Kansas City within 48 hours

Order Entry

Performance measures for order entry consisted of order processing turnaround times for the various products and programs based on the date the order was received by the bank to the date the order was entered for fulfillment. The order processing goal was six days maximum for turnaround time, which Stamp Fulfillment Services was meeting as of June 2000. However, the goal for this area was not consistent with industry standards for order entry processing. During our benchmarking, we noted the average order entry time for the companies reviewed¹ was 24 hours. The result of longer order entry times was an overall increase in the time needed to fill orders at Stamp Fulfillment Services.

One cause of the long turnaround time within order entry was the lack of computer system integration. Order entry personnel scanned or keyed in the order to the order entry system, but that system was not integrated with the automated fulfillment equipment system used to fill the majority of orders. When the automated fulfillment equipment system was originally purchased, Stamp Fulfillment Services officials had a contract with a computer firm to develop an integrated computer system linking all aspects of the fulfillment process. The company, however, could not meet all of the contract requirements, and Stamp Fulfillment Services terminated the contract.

Because of the lack of system integration, the order entry system was downloaded into the automated fulfillment equipment system once a day in the afternoon. Any orders entered after that time were held in the computer until the next day when another download was performed. The delay resulted in an additional day of processing time for order entry. We noted that Stamp Fulfillment Services is working with a new contractor to integrate the systems. However, until this integration is completed, if additional download times are added the amount of processing time lost waiting for a single download would be reduced.

¹ The three companies used in the benchmarking were selected judgmentally.

Additional order entry delays were caused by problems with scanning order forms received from a bank in Philadelphia. These forms were either scanned or manually keyed into the order entry system. For past catalogs, order entry staff had problems with the scanning of the order form, which caused orders to be primarily keyed into the system manually, which lengthened the order processing time.

Stamp Fulfillment Services officials believed that scanning problems were due to the use of multiple printers to print order forms. For instance, catalogs were distributed quarterly and until the end of 1999, a different company printed each catalog and the accompanying order form. The constant changing of catalog printers created an inconsistent order form that varied in their ability to be scanned into the order entry system. In 1999, the contract for printing the catalog was awarded to one printer. Since that time the order form had been more consistent, allowing order entry to primarily scan rather than manually key in the orders, which improved order processing times. As of June 2000, the turnaround times for scanned orders was four days compared with seven days for manual keying.

Another cause of the long processing time was the delay that occurred at the beginning of the order entry process with the bank in Philadelphia, typically one to two days. Fulfillment services had no control over this delay since the contract with the bank was a national Postal Service contract. Yet another cause of delays was that ancillary duties, such as credit card verification, entering Personalized Envelope Program orders, and completing budget forms that had been imposed on order entry staff which added to the extended turnaround time for processing orders.

Customer Service

Performance goals for customer service were supposed to respond to correspondence within seven days, correct bad addresses within five days, and process returned stock and refunds within five days, all of which were consistent with industry standards. As of June 2000, customer service was not meeting most of its goals, averaging 23 days for correspondence, 7 days for bad addresses, and 20 days for returned stock.

When benchmarking customer service departments, we noted that the industry standard was that all customer service representatives from the benchmarked companies had the ability to access, alter, or cancel customer orders and accounts for more efficient and timely service. However, the customer service representatives at Stamp Fulfillment Services did not have this ability. Instead, customer service representatives wrote down changes and took them to order entry for reprocessing, causing delays in handling customer problems.

Recommendation	We offer the following recommendations: The manager, of Stamp Services should: 1. Establish order entry goals that are at least equivalent to industry standards.
Management's Comments	Management disagreed with this recommendation. Under the current order entry system, goals equivalent to industry standards are not feasible, however, management suggested possible solutions to the order entry problem. An analysis of these solutions will be performed by Postal Service management to determine which alternative would best facilitate establishment of the recommended goals.
Recommendation	2. Continue working to create a computer system that integrates order entry with the automated fulfillment equipment system; however, in the interim, increase the number of daily downloads from order entry to the automated fulfillment equipment system to at least two per day.
Management's Comments	Management concurred with this recommendation. They stated that the number of downloads from order entry to the automated fulfillment equipment system will be increased to two per day as of October 1, 2000. Management also explained that on August 31, 2000 a contract was approved to complete the integration of the automated fulfillment equipment system, inventory management, and order entry. Integration is scheduled to be completed on February 28, 2001.

Recommendation	3. Perform an analysis to determine the amount of time ancillary duties are detracting from the core duties of order entry staff and assess the merits of eliminating or reassigning ancillary duties to improve fulfillment process times.
Management's Comments	Management concurred with this recommendation. According to management, an analysis of duties will be completed by November 1, 2000, and any duties determined not to be a part of the order entry process will be reassigned to the appropriate unit.
Recommendation	4. Provide customer service representatives with the security clearances needed to alter customer accounts to provide more timely and accurate service.
Management's Comments	Management concurred with this recommendation. They stated that security clearances have been provided to all customer service representatives.
Evaluation of Management's Comments	Although management disagreed with our first recommendation, the proposed alternate solution meets the intent of our recommendation. We will not pursue resolution on this recommendation at this time. Management's planned actions or actions taken on the remaining three recommendations are responsive to our recommendations.

Shipping and Handling

Stamp Fulfillment Services staff shipped all packages Priority Mail deliverable in two to three days, which was better than industry shipping standards. Industry shipping standards range from 3 to 14 days. We noted that packages from the private companies were sent via standard Parcel Post, although expedited services were available at an additional cost.

While examining these shipping performance measures, we noted that although Stamp Fulfillment Services staff shipped all packages Priority Mail, customers were only charged a \$1.00 shipping and handling fee instead of the standard minimum charge of \$3.20. We benchmarked shipping and handling fees against ten fulfillment companies, as well as one Postal Service mail order program. The average shipping and handling fee for the private companies was \$4.44 for packages shipped standard Parcel Post. The Postal Service mail order program, the Personalized Envelope Program, also shipped all orders Priority Mail, but charged its customers the full \$3.20 for shipping and handling.

Thus, the Postal Service was absorbing the difference between the \$3.20 Priority Mail rate and the \$1.00 shipping and handling fee charged by Stamp Fulfillment Services officials. Stamp Fulfillment Services staff shipped about 4.1 million packages from September 1998 through June 2000. Using the \$2.20 (\$3.20 - \$1.00) difference in shipping and handling charges, we determined that fulfillment services had forgone about \$9 million in shipping and handling revenues during this period.²

Prior to 1995, the fee for shipping and handling charged by Stamp Fulfillment Services was \$.50 for all standard packages mailed within the United States. In a January 1995 letter to the postmaster general, the manager, Stamp Services noted there had been no increase in the shipping and handling charges for over 20 years. In addition, the letter noted a net loss was occurring between the difference in Priority Mail rate and the actual charge for shipping. The total loss during FY 1994 was approximately \$1.4 million.

² The total amount was calculated based on the assumption that all orders were standard orders shipped Priority Mail within the United States in a single envelope/package.

In 1995, Postal Service management benchmarked fulfillment service shipping fees against fees charged by other fulfillment operations and created a graduated shipping and handling fee schedule based on order dollar value. The minimum shipping charge in this schedule was \$3.20 to cover the cost of shipping Priority Mail. In the spring of 1997, Stamp Fulfillment Services officials reduced shipping and handling fees to a flat rate of \$1.00 for all standard orders shipped within the United States, in response to complaints from collectors.

If Stamp Fulfillment Services continues to charge \$1.00 per order for packages shipped Priority Mail, the Postal Service will continue to forgo shipping and handling revenue. Using shipping data from September 1998 through June 2000, our statistician calculated the Postal Service could increase revenue by approximately \$29 million over the next five years, if shipping and handling charges were increased to \$3.20, the normal cost of Priority Mail. Estimated savings is detailed in Appendix A.

Recommendation

We recommend the senior vice president, Government Relations and Public Policy:

5. Reevaluate shipping and handling charges from Stamp Fulfillment Services to better align with industry standards and, at a minimum, cover the \$3.20 cost of shipping Priority Mail.

**Management's
Comments**

Management partially concurred with this recommendation. Management agreed that a graduated scale should be used in calculating the shipping and handling costs for non-philatelic items from Stamp Fulfillment Services. However, they stated that the issue of the fee charged for stamps and stamp products requires further study before a decision can be made. Management stated that they would consider all of the information and analysis provided in the OIG report when making their decision regarding the shipping and handling costs.

**Evaluation of
Management's
Comments**

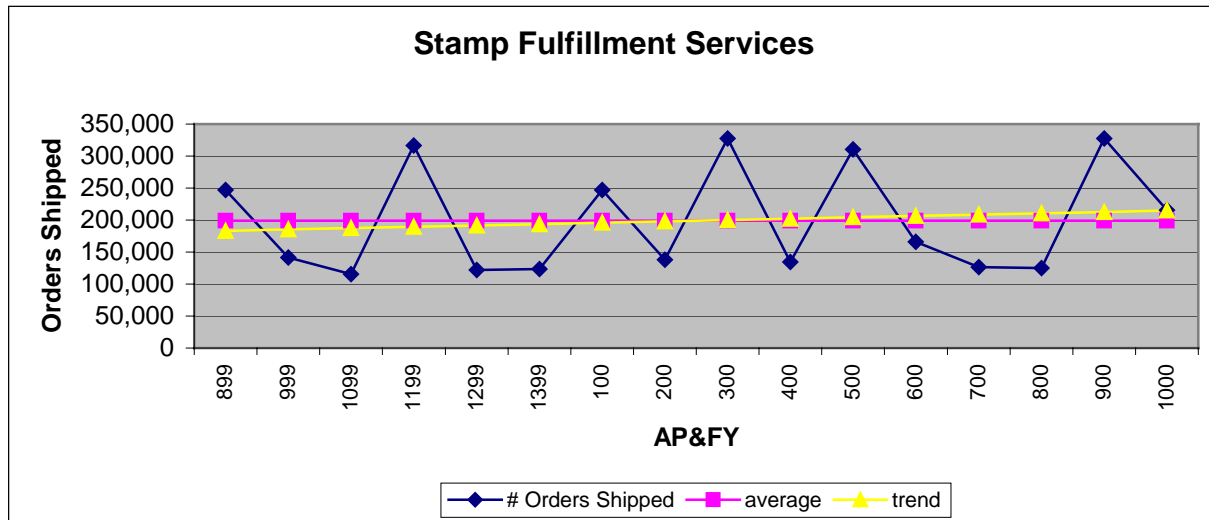
Management has stated that an analysis of shipping and handling costs will be performed. At the conclusion of this study a decision will be made regarding the cost of shipping and handling of philatelic products. We consider management's planned actions responsive to the intent of

our recommendation and will not pursue resolution on this recommendation at this time.

APPENDIX A

STATISTICAL ANALYSIS OF STAMP FULFILLMENT SERVICES SHIPPING AND HANDLING

We analyzed the actual number of orders shipped over the last 16 accounting periods (AP). We considered both the average over the period and a least squares method straight line fit (Excel, "Trend" function). From each of the two approaches, we extrapolated the number of orders for the next five years. Both methods predicted a five year total of approximately 13 million orders. At an additional \$2.20 per order, we calculated an additional five-year revenue total of approximately \$29 million.¹ Both methods assume that the number of orders follow current trends and is not adversely affected by any increased shipping cost.



Year ending	Annual Order Quantity (Trend)	Year ending	Annual Order Quantity (Average)
AP10-01	2,655,651	AP10-01	2,587,036
AP10-02	2,683,097	AP10-02	2,587,036
AP10-03	2,710,543	AP10-03	2,587,036
AP10-04	2,737,989	AP10-04	2,587,036
AP10-05	2,765,435	AP10-05	2,587,036
5-yr total orders	13,552,716	5-yr total orders	12,935,179

¹ The calculated revenue was \$28.6 million, rounded up to \$29 million.

APPENDIX B. MANAGEMENT'S COMMENTS

DEBORAH K. WILLHITE
SENIOR VICE PRESIDENT
GOVERNMENT RELATIONS AND PUBLIC POLICY



September 19, 2000

DEBRA RITT

SUBJECT: Review of Stamp Fulfillment Services Measures
(Report Number MK-AR-00-Draft)

The manager of Stamp Fulfillment Services (SFS), under the direction of the manager, Stamp Services, requested that the Office of the Inspector General conduct a performance review at the SFS in Kansas City. The purpose of this request was to determine if changes made in work processes were comparable to generally accepted business practices in the order fulfillment industry.

Findings documented by the OIG indicate processes and measurements met and in some instances exceeded industry standards. This is an extremely positive outcome, as it validates the direction and funding of the Business Process Reengineering project approved by the Board of Governors in 1996.

Also, the recommendations to further improve SFS performance and overall contribution to the Postal Service have been completed. Each of these recommendations, along with planned actions, is addressed on the attached.

Stamp Services and Stamp Fulfillment Services are appreciative of the OIG staff for their professionalism in conducting a thorough review. It provided valuable feedback on the successes SFS has achieved and also pointed out some "next steps" on the journey to becoming a world-class fulfillment center.

A handwritten signature in black ink, appearing to read "Deborah K. Willhite".

Deborah K. Willhite

Attachment

RECOMMENDATION

Establish order entry goals that are at least equivalent to industry standards.

RESPONSE

Stamp Fulfillment Services (SFS) cannot meet a 24-hour order entry goal on mail orders using existing processes. Tracking of an order begins upon arrival at the USPS Lockbox operation, located at Citibank in Philadelphia, Pennsylvania. Citibank utilizes one to two days to process and deposit checks, batch orders, and separate credit card orders. An additional day is then required to ship all orders to Kansas City for the order entry process. Mail orders are 48-72 when they arrive at SFS to be entered into the fulfillment chain.

Possible solutions

- Discontinue Lockbox operations, mail orders directly to SFS
- Contract Citibank to scan orders and download electronically to SFS
- Order entry performed by our telemarketing vendor, AT&T.

Each of these options could potentially improve the order entry cycle but could also have a downside. There are costs, resources, and labor issues to be resolved. SFS will conduct an analysis to determine which alternative would best facilitate establishment of the recommended goals and outline a course of action. The target date for completion of the analysis is November 1.

RECOMMENDATION

Continue working to create a computer system that integrates order entry with the Automated Fulfillment Equipment System (AFES). In the interim, however, increase the number of daily downloads from order entry to AFES to at least two per day.

RESPONSE

The number of daily downloads will be increased to two on October 1. A contract to finalize integration of AFES, inventory management, and order entry was approved August 31, 2000. The scheduled completion date for the integration is February 28, 2001.

RECOMMENDATION

Perform an analysis to determine the amount of time ancillary duties are detracting from the core duties of order entry staff and assess the merits of eliminating or reassigning ancillary duties to improve fulfillment process times.

RESPONSE

An analysis of duties will be completed by November 1. Duties determined not to be a part of the order entry process would be relocated to the appropriate operational unit.

RECOMMENDATION

Provide customer service representatives with the security clearance needed to alter customer accounts in order to provide more timely and accurate service.

RESPONSE

Security clearances have been approved and provided to all customer service representatives.

RECOMMENDATION

Reevaluate shipping and handling charges from SFS to better align with industry standards and, at a minimum, cover the \$3.20 cost of shipping via Priority Mail.

RESPONSE

It is agreed a graduated scale similar to industry standards is appropriate for non-philatelic products. A form of this graduated scale has been implemented for StampsOnline. The issue of the fee charged for stamps and stamp products is more complex and will require extensive study before a final determination can be made. There are cost savings to the USPS that are not transparent on stamps and stamp products sold through SFS, primarily in the form of retention revenue and reduced lobby traffic in post offices. These are factors that require additional discussion.

The analysis presented in the report relative to potential shipping and handling revenue was informative and will be considered in the decision making process. However, the assumption of the analysis that shipping and handling increases will not adversely impact the projected number of orders and revenue must be weighed against what actually occurred. In late 1995 the decision was made to implement shipping and handling fees comparable to private industry. This action was taken in the spring of 1996. The result was a significant decrease in orders and revenue, and an increase in customer dissatisfaction. These factors contributed to a management decision in the spring of 1997 to reduce the shipping and handling fees to a \$1 charge.