



September 28, 2005

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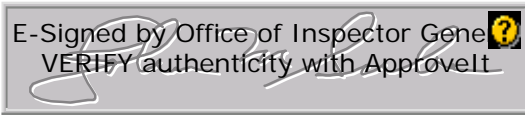
SUBJECT: Audit Report – Expedited Packaging Supplies
(Report Number MS-AR-05-002)

This report presents the results of our self-initiated, nationwide audit of the Expedited Packaging Supply program (Project Number 04BN002MS000). Our overall objective was to determine the effectiveness and efficiency of management's controls over expedited packaging supplies. We determined the adequacy of management's efforts to monitor and track expedited packaging supplies offered to customers.

The Expedited Packaging Supply group effectively provided supplies to customers, but could not monitor customer supply usage and did not have effective controls over ordering. Also, management needed stronger controls over expedited packaging tape to deter potential waste. During our audit, the Postal Service changed its policy over expedited packaging tape resulting in 2-year projected savings of \$4 million. (See Appendix A.) These funds put to better use will be reported in our Semiannual Report to Congress. In addition, some orders for expedited packaging supplies required monetary commitments from customers. The Business Service Network (BSN) filled these orders without the authority to do so.

We recommended Postal Service management conduct reviews of customer use of expedited packaging supplies, clarify the BSN's ordering authority, and direct district managers to eliminate local product fulfillment operations. Management agreed in whole or in part with our recommendations and has initiatives planned, in progress, and completed, addressing the issues in this report. Management concurred with our potential monetary benefits. Management's comments and our evaluation of these comments are included in this 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 Robert Mitchell, Director, Marketing, or me at (703) 248-2300.



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EXECUTIVE SUMMARY

Introduction

This report presents the results of our self-initiated, nationwide audit of the Expedited Packaging Supply program. Our objective was to determine the effectiveness and efficiency of management's controls over expedited packaging supplies. We determined the adequacy of management's efforts to monitor and track expedited packaging supplies offered to customers.

Results in Brief

The Expedited Packaging Supply group was effective at providing supplies to customers, but could not monitor customer use of supplies and did not have effective controls over ordering.

The Expedited Packaging Supply group could not account for the use¹ of approximately 419 million Priority Mail[®] and Express Mail[®] boxes and envelopes from fiscal years 2000 to 2003. This amount was approximately 17 percent of the total boxes and envelopes purchased during the 4-year period.

Management needed stronger controls over expedited packaging tape to deter potential waste. During our audit, the Postal Service changed its policy over expedited packaging tape by limiting customer access, which addresses our concerns. The Postal Service estimated it will save \$2 million annually as a result of the change. The OIG plans to report a 2-year projected savings of \$4 million in its Semiannual Report to Congress. (See Appendix A.)

The Postal Service had no policies or procedures requiring the Business Service Network² (BSN) to monitor and report their involvement with expedited packaging supplies. BSN employees could use the Customer First³ system to enter information on the return and redistribution of expedited packaging supplies.

¹For this report, the Office of Inspector General (OIG) defines "use" as expedited packaging supplies purchased by the Postal Service and used by customers to mail with the Postal Service.

²The BSN is a dedicated nationwide network that supports the Postal Service's largest customers for service issues, information, and needs requests.

³Customer First is an automated tool that will allow the Sales group to effectively target and manage revenue-generating opportunities.

The BSN ordered expedited packaging supplies that required a monetary commitment from customers, although Postal Service policies did not state that this was an approved BSN customer service function.

One Postal Service district operated its own local supply fulfillment center, storing expedited packaging supplies for customers in Postal Service space, contrary to Postal Service policy. This issue was reported in a prior OIG report.⁴

Summary of Recommendations

We recommend Postal Service management:

- Annually review customer use of expedited packaging supplies to determine the level of unaccounted for expedited packaging supplies and minimum and maximum customer orders.
- Require the Business Service Network to use Customer First to monitor and report the Business Service Network's handling of expedited packaging supplies to the Expedited Packaging Supply group.
- Determine whether a business case exists for the Business Service Network to order expedited packaging supplies requiring monetary commitments from customers.
- Direct district managers to eliminate local product fulfillment operations.

Summary of Management's Comments

Postal Service management agreed with our recommendations in whole or in part stating that:

- It is working to institute a revised method of measuring customers' supply use.
- It conducted an analysis and instituted a maximum level of supplies a customer can order.
- It determined the rationale behind the minimum supply order quantities were effective and did not need to be changed; however, management agreed

⁴OIG report, [Mail Product Supplies](#) (Report Number AC-AR-03-002, dated February 14, 2003).

with the need to conduct more frequent reviews of minimum supply order quantities.

- The BSN would work with Customer First to ensure a customer qualifies for large volumes of expedited supplies. However, management stated that Customer First does not currently have the capability to report ordering information back to the Expedited Supply program.
- The BSN will be allowed to place orders for expedited packaging supplies requiring a monetary commitment and plans to update Publication 22 accordingly.
- Past instruction to district offices will be reiterated and new instructions for ordering expedited packaging supplies requiring the use of the e-Buy system will be issued to Post Offices.

Subsequent to issuing formal comments on our draft report, management agreed with our potential monetary benefits. Management's comments are included in Appendix B of this report.

Overall Evaluation of Management's Comments

Management's comments are responsive to the recommendations. Actions planned, in progress, and completed, address the issues identified in the findings. However, we disagree with Postal Service management's assertion that the current rationale used to determine minimum supply order quantities is effective (see page 9). We also note that management did not address using Customer First for tracking customer returns or redistributing excess expedited packaging supplies in order to monitor the supplies handled by the BSN (see page 13).

INTRODUCTION

Background

The Postal Service provides packaging supplies at no cost to customers for use with its Express Mail[®], Priority Mail[®], and Global Delivery services. The revenue generated from these services offsets the costs of offering free expedited packaging supplies. Packaging supplies include corrugated containers, Tyvek[®]⁵ and paperboard envelopes, and a range of pressure sensitive labels and decals. In fiscal year (FY) 2005, the Postal Service's budget for this program was \$96 million.

Three categories of packaging supplies are available to customers: standard, specialized, and customized. Customers meeting certain requirements may also have their supplies co-branded.⁶

Customers using standard supplies may order these supplies from the Express and Priority Mail Supply Center using the Internet, telephone, fax, or mail.⁷ Customers ordering specialized, customized, and co-branded packaging supplies must meet monetary commitments⁸ to offset the cost of the supplies. Postal Service sales representatives order these supplies. When customers need to return expedited packaging supplies, they contact the Expedited Packaging Supply group. Customers with a Business Service Network (BSN) representative may contact their representative to have their supplies collected for redistribution.

In FY 2005, the Expedited Packaging Supply program had a total budget of \$96 million, consisting of \$79 million to fund expedited packaging supplies, \$14 million to fund the Express and Priority Mail Supply Center and transportation, and \$3 million to fund international packaging supplies.

Postal Service Publication 22 states the overall objectives of the Expedited Packaging Supply program as:

⁵Tyvek is a trademark owned by E.I. du Pont de Nemours and Company. In 1983, the Postal Service began using Tyvek for large expedited mailing envelopes.

⁶Publication 22, Expedited Packaging Supplies, defines co-branding as printing the brand identity of the customer on the packaging along with the service brand identity of the Postal Service.

⁷Customers may also pick up standard supplies at a local post office.

⁸Yearly monetary commitments were \$50,000 in revenue generation to obtain specialized packaging, and \$500,000 in revenue generation to obtain customized or co-branded packaging.

- Generating new revenue by attracting new customers and growing business with existing customers.
- Increasing processing efficiency and improving on-time delivery by clearly identifying Express Mail, Priority Mail, and Global Delivery services in the mailstream.
- Increasing customer retention and loyalty by providing packaging that meets the customer's shipping needs.

Objective, Scope, and Methodology

Our overall objective was to determine the effectiveness and efficiency of management's controls over expedited packaging supplies. Specifically, we determined the adequacy of management's efforts to monitor and track expedited packaging supplies offered to customers.⁹

To accomplish our objective, we interviewed Postal Service marketing officials in Product Development, Sales, and Service and Market Development. We also interviewed Postal Service officials in Purchasing, Network Operations, and Transportation. We reviewed the standard operating procedures for the Sales organization regarding expedited packaging supplies (Publication 22) and the Sales management policies and procedures publication titled Sales Management Process Fiscal Year 2004.

We reviewed applicable sections of the Postal Service's Transformation Plan; Origin - Destination Information System – Revenue, Pieces and Weight¹⁰ (ODIS-RPW) reports; Priority End-to-End reports; Office of Inspector General (OIG) Hotline reports of abused supplies; and volume and cost data on expedited packaging supplies. We did not assess the reliability of the data obtained from Postal Service databases; therefore, we base no conclusions or recommendations solely on those data.

⁹Our audit focused on expedited packaging boxes, envelopes, and tape.

¹⁰The ODIS-RPW test consists of samples of mail taken by data collectors on randomly selected days at randomly selected mail exit points or at consolidated originating units. The information collected was used to estimate the national volume, transit time, performance, revenue, pieces, weight, and mailpiece characteristics of the mail by class and subclass.

Our audit covered data obtained from the Postal Service for FYs 2000 through 2003. We conducted this audit from April 2004 to September 2005, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We reviewed management controls over the Expedited Packaging Supply program as they related to the audit objectives. Specifically, we reviewed policies and procedures and held discussions with program officials to ensure that expedited packaging supplies could be accounted for. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

Our report, Mail Product Supplies (Report Number AC-AR-03-002, dated February 14, 2003), identified overstated requirements for mail product supplies. Budget requests for mail product supplies did not consider on-hand balances of specialized and standard packaging supplies in Postal Service facilities at the district level. For FY 2003, Postal Service management agreed to reduce expenses for mail product supplies by approximately \$1.2 million for excess standard packaging supplies and about \$430,000 for excess specialized packaging supplies. In addition, personnel in 12 of 33 districts established or maintained local product fulfillment operations to manage excess mail product supplies. Officials in 7 of the 12 districts estimated that in FY 2002, they spent \$102,000 to manage excess package supplies at the same time the Postal Service was paying a contractor for this service.

We recommended that Postal Service management use the excess packaging supplies in district offices before purchasing additional mail product supplies and that the FY 2003 budget for standard and specialized supplies be reduced by \$1.6 million. We also recommended that districts discontinue product fulfillment and enforce the requirements for Postal Service facilities to order mail product supplies from the Express and Priority Mail Supply

Center or Postal Service account managers. Postal Service management agreed with our recommendations.

During this audit, we found that one Postal Service district continued to fill customer orders for expedited packaging supplies by operating a local supply fulfillment center, storing expedited packaging supplies for customers in Postal Service space.

AUDIT RESULTS

Analysis of the Expedited Packaging Supply Program

The Expedited Packaging Supply group was effective at providing supplies to customers; however, the group could improve the monitoring of customer supply usage and controls over ordering.

The Expedited Packaging Supply group could not account for the use of \$56 million of expedited packaging supplies from FYs 2000 to 2003. Management needed stronger controls over expedited packaging tape to deter potential waste. During our audit, the Postal Service changed its policy for expedited packaging tape, addressing our concern and eliminating the need to make a recommendation.

The Postal Service had no policies or procedures requiring the BSN to monitor and report its involvement with expedited packaging supplies. The BSN ordered expedited packaging supplies that required monetary commitments from customers, but did not have the authority to provide this service. Finally, in one instance, the Postal Service did not fully implement recommendations from a prior OIG audit report, Mail Product Supplies (Report Number AC-AR-03-002, dated February 14, 2003).

Unaccounted for Expedited Packaging Supplies

The Expedited Packaging Supply group could not account for the use of approximately 419 million Priority and Express Mail boxes and envelopes from FYs 2000 to 2003, or 17 percent of the total spent on these items over this 4-year period. This meant that approximately \$56 million of expedited packaging supplies, or 14 percent of the total cost, did not enter the Postal Service's mailstream.¹¹ This occurred because the Postal Service had not fully implemented a supply chain management process to identify customers' use of expedited packaging supplies, and did not have adequate management controls over the customer ordering of expedited packaging supplies.

¹¹Although these supplies did not enter the Postal Service's mailstream, an undetermined amount may remain in customer inventory for future use.

The Transformation Plan states the overarching objective for the Postal Service regarding supply chain management is to:

. . . continue to implement and institutionalize supply chain management. Supply chain management is the analysis of the purchase process and the supply stream, from the supplier's supplier to the customer's use and disposal, in order to increase customer satisfaction and decrease overall cost.

Effective supply chain management involves a number of business practices, including close interaction among end users, buyers and suppliers, long-term contracts, and ongoing analysis and improvement of operating and administrative processes. Its institutionalization, in terms of business practices, organizational design and deployment, and supplier relations, will lower overall costs and improve customer service.¹²

Customer demand drove the ordering of expedited packaging supplies. Specifically, supply center representatives filled customer orders, and management had limited controls over the quantities ordered. Because the expedited packaging supply program operated in a customer-driven environment, adequate management controls should have been in place to limit customers' influence over ordering.

Supply Chain
Management

From FYs 2000 to 2003, the Postal Service purchased over 2.1 billion Priority Mail boxes and envelopes and over 348 million Express Mail boxes and envelopes. However, program managers did not collect customer use data for these supplies. Collecting these data is the final stage of the supply chain management process, but program managers said tracking customer use of supplies was cost-prohibitive.

¹²United States Postal Service Transformation Plan, April 2002, Appendix Q, page Q-6.

When we compared supply data from the Expedited Packaging Supply group with Postal Service ODIS-RPW reports, we found that from FYs 2000 to 2003, approximately 328 million Priority Mail boxes and envelopes and 91 million Express Mail boxes and envelopes (approximately \$56 million of expedited packaging supplies) did not enter the mailstream.

While we determined the total number of expedited packaging supplies that did not enter the Postal Service's mailstream, we could not identify individual customers who did not use the expedited packaging supplies they had received or determine whether those supplies will be used in the future. A complete supply chain management process would allow program management to track and measure the use of expedited packaging supplies from initial purchase through final use by the customer.

Management Controls
Need Strengthening

Management needed stronger controls over ordering expedited packaging supplies. Program management did not consider its customers' needs when determining minimum orders, currently set at 25 boxes for Priority Mail and 10 boxes for Express Mail. The current minimum orders for Priority Mail are based on:

- The financial consequences of increased freight costs.
- The financial consequences of the number of pieces in an order and the amount of wrapping material used to package the supplies.
- The offerings of Postal Service competitors.¹³

For example, customers who needed 5 Priority Mail boxes received 25 boxes because of established policy. In FY 2003, the Express and Priority Mail Supply Center filled 23 percent of all standard box orders for the minimum order of 25. Program management should consider its customers'

¹³Based on OIG benchmarking, the Postal Service's competitors' minimum order quantities for boxes ranged from 5 to 20 boxes.

needs (in addition to the three factors outlined above) when shipping boxes, based on the fact that nearly one-quarter of all standard box orders were for the minimum order.

Program management lowered the minimum order for Express Mail boxes from 25 boxes to 10 because Express Mail customers mailed in small volume over the retail counter from their local post offices. Although program management lowered the minimum order from 25 to 10, they did not survey their customers' needs when setting the new minimum order.

The Postal Service had no upper limit on the amount of expedited packaging supplies a customer could order. Program management told the OIG that if an order were excessive, the supply center would question it. However, program management has no documented policies or procedures governing excessive supply orders.

Given the customer-driven environment of the Expedited Packaging Supply Program, effective management controls over the ordering process are crucial to minimize unaccounted-for supplies.

As the Postal Service continues to implement supply chain management processes for its programs, the Expedited Packaging Supply group should work towards fully implementing its own supply chain management process. A complete supply chain management process should help the Expedited Packaging Supply group lower overall costs of packaging supplies to the Postal Service.

Recommendations

We recommend the vice president, Product Development, direct the program manager, Expedited Packaging Supply group, to:

1. Conduct an annual review of customer use of expedited packaging supplies on an aggregate level (similar to the analysis performed by the OIG) to establish a business case to determine whether the annual cost of unaccounted for expedited packaging supplies is acceptable to the Postal Service.

2. Conduct a customer needs analysis and incorporate the results as an additional factor in determining minimum order quantities, and update the needs analysis biannually.
3. Conduct an analysis to determine a maximum level of expedited packaging supplies customers can order and, once conducted, update the analysis biannually.

**Management's
Comments**

Postal Service management agreed with recommendations 1 and 3, and agreed in part with recommendation 2. For recommendations 1 and 3 management stated it is working to institute a revised method of measuring customers' supply use; and conducted an analysis and instituted a maximum level of supplies a customer can order. For recommendation 2, management stated their current rationale used to determine minimum supply order quantities was effective and did not need to be changed; however, management agreed with the need to conduct more frequent reviews of minimum supply order quantities.

**Evaluation of
Management's
Comments**

Management's comments are responsive to recommendations 1, 2, and 3, and actions in progress, completed, and planned address the issues identified in the finding. However, the OIG disagrees with Postal Service management's statement that the current rationale used to determine minimum supply order quantities is effective. Based on the fact that nearly one-quarter of all standard box orders are for the minimum order, the OIG believes that without considering customer needs in the supply ordering process, the Postal Service is missing an important factor when determining minimum supply order quantities.

Expedited Packaging Tape

Management needed stronger controls over expedited packaging tape to deter potential waste. The policy offered free expedited packaging tape to the public and left the Postal Service at risk of tape not being used for its intended purpose. During our audit, the Postal Service changed its policy for expedited packaging tape by limiting customer access, addressing the OIG's concerns about this finding. The Postal Service estimated it would save \$2 million annually as a result of the change.

Expedited packaging tape was originally designed and used to help mail handlers identify expedited packages and ensure these items were in the correct mailstream. Expedited packaging tape is no longer needed because expedited packaging stickers perform the same function. Expedited packaging stickers have no other use, while customers can use the tape for purposes other than mailing packages with the Postal Service.

In FY 2003, the Postal Service purchased over \$3.4 million in expedited packaging tape, with \$1 million shipped to post offices and \$2.4 million shipped to Postal Service customers. From FY 1998 through April 2004, the Postal Service purchased approximately \$19 million in expedited packaging tape. We reviewed Postal Service competitors' Web pages and found no evidence that these companies offered free expedited packaging tape to their customers.

The Transformation Plan states, "The transformation strategy for package services centers around controlling cost, managing price and enhancing service."¹⁴ The Transformation Plan also states, "Supply chain management requires the analysis of customer use and disposal."¹⁵

By offering free expedited packaging tape to the public, the Expedited Packaging Supply program opened the Postal Service to potential waste of supplies, adding unnecessary costs.

¹⁴United States Postal Service Transformation Plan, April 2002, page 22.

¹⁵United States Postal Service Transformation Plan, April 2002, Appendix Q, page Q-6.

Proposed Change in Policy

During our audit, the Postal Service changed its policy for expedited packaging tape. Expedited packaging tape is now offered only to post offices and larger customers who meet yearly monetary commitments similar to the commitment levels outlined in Publication 22. Program management estimated the change in policy will save the Postal Service \$2 million for FY 2004. The OIG will report a 2-year projected savings of \$4 million in its Semiannual Report to Congress. (See Appendix A.)

The proposed change in Postal Service policy for expedited packaging tape addresses our concern; therefore, we are making no recommendation.

**Business Service
Network**

The Postal Service had no policies or procedures requiring the BSN to monitor and report its involvement with expedited packaging supplies. The BSN did not follow supply chain management practices for tracking customer returns or redistributing excess expedited packaging supplies. As a result, the Expedited Packaging Supply group did not have the information needed to monitor the supplies handled by the BSN, making effective program management difficult.

The Transformation Plan states in part, "Effective supply chain management involves a number of business practices, including close interaction among end users and ongoing analysis and improvement of operating and administrative processes."¹⁶

BSN employees could use the Customer First system to enter information on the return and redistribution of expedited packaging supplies. This tool could give the Expedited Packaging Supply group information that would allow it to monitor individual and systemic issues with customers using expedited packaging supplies.

The BSN ordered expedited packaging supplies that required a monetary commitment from customers, but did not have the authority to carry out this function. This occurred because the BSN's role was to handle customer service issues and needs requests, which led BSN personnel to exceed their authority in trying to satisfy customers. If monetary commitments are not verified, the Postal Service risks not offsetting the costs of offering more expensive expedited packaging supplies to customers.

Publication 22 gives guidance for ordering expedited packaging supplies. Publication 22 authorized the Sales group to order expedited packaging supplies for customers meeting established monetary commitments. Publication 22 does not authorize BSN personnel to fill customer orders for expedited packaging supplies requiring monetary commitments.

In discussions with the BSN manager, we learned that the manager did not want BSN representatives to order

¹⁶United States Postal Service Transformation Plan, April 2002, Appendix Q, page Q-6.

expedited packaging supplies requiring a monetary commitment unless the BSN representatives coordinated with their counterparts in the Sales group to ensure monetary commitments were met.

Recommendations

We recommend the vice president, Product Development, and the manager, Expedited Packaging group, coordinate with the vice president, Customer Service, and the manager, Business Service Network to:

4. Establish policies and procedures enabling the Business Service Network to use Customer First to monitor and report the Business Service Network's handling of expedited packaging supplies to the Expedited Packaging Supply group.
5. Determine whether the Business Service Network should place orders for expedited packaging supplies that require a monetary commitment from the customer. If so, update Publication 22, Expedited Packaging Supplies, allowing the Business Service Network to place orders for expedited packaging supplies. Otherwise, ensure the Business Service Network adheres to Publication 22.

**Management's
Comments**

Postal Service management agreed in part with recommendation 4, stating that the BSN will work with Customer First to ensure a customer qualifies for large volumes of expedited supplies. However, management stated that Customer First does not currently have the capability to report ordering information back to the Expedited Supply program, making it necessary to explore the feasibility and capability of creating this reporting feature.

Postal Service management agreed with recommendation 5, stating that the BSN will be allowed to place orders for expedited packaging supplies requiring a monetary commitment and will update Publication 22 accordingly.

**Evaluation of
Management's
Comments**

Management's comments regarding recommendation 4, although responsive to using Customer First for future reporting purposes, did not address using Customer First for tracking customer returns or redistributing excess expedited

packaging supplies in order to monitor the supplies handled by the BSN.

Management's comments regarding recommendation 5 are responsive and actions planned will address the issue identified in this finding.

Prior Audit Follow-Up – Mail Product Supplies

The OIG report, Mail Product Supplies (Report Number AC-AR-03-002, dated February 14, 2003), stated that 12 Postal Service districts had established local product fulfillment operations to manage expedited packaging supplies. The OIG recommended that Postal Service management direct districts operating product fulfillment centers to use excess mail product supplies in district offices before purchasing additional supplies, discontinue district product fulfillment, and enforce the requirement for Postal Service facilities to order mail product supplies from the Express and Priority Mail Supply Center or Postal Service account managers.

The Chief Marketing Officer (CMO) agreed with the prior OIG audit findings and recommendations and issued a letter in December 2002 to the vice presidents, Area Operations, and the manager, Capital Metro Operations, regarding the OIG's findings.

The CMO's letter directed the vice presidents and manager to instruct the field that both post offices and customers should place orders for supplies directly through the Express and Priority Mail Supply Center and that inventory may not be stored at a Postal Service facility for redistribution to post offices or customers. The CMO's letter also directed the facilities engaged in these activities to exhaust current inventory and follow the guidelines in the letter for future orders.

During our audit, we found one district had not complied with the CMO's letter. The local supply fulfillment operation described above is detrimental to the supply chain management practices currently in use by the Expedited Packaging Supply program.

Recommendation

We recommend the Chief Marketing Officer:

6. Direct district managers to eliminate local expedited packaging supply fulfillment operations and follow Publication 22, Expedited Packaging Supplies, for the ordering of supplies.

Management's Comments	Postal Service management agreed with our recommendation, stating that past instruction to district offices will be reiterated and new instructions for ordering expedited packaging supplies requiring the use of the e-Buy system will be issued to Post Offices.
Evaluation of Management's Comments	Management's comments are responsive to our recommendations and actions planned will address the issue identified in this finding.

APPENDIX A. FUNDS PUT TO BETTER USE

FINDING TITLE	RECURRING		FUNDS PUT TO BETTER USE
Expedited Packaging Tape	Number of Years	Amount Per Year	Total Amount
	2	\$2 Million	\$4 Million

APPENDIX B. MANAGEMENT'S COMMENTS

NICHOLAS F. BARRANCA
VICE PRESIDENT, PRODUCT DEVELOPMENT



September 22, 2005

JOHN M. SEEBE

SUBJECT: Draft Audit Report (AC-AR-03-DRAFT) – Mail Product Supplies

We have reviewed your correspondence of August 18. While we generally agree there are opportunities to enhance customer management within our supplies ordering procedures, we believe important contextual information was omitted from the report. We stand by our history of cost curtailment and overall financial responsibility and believe the overall effectiveness of our processes should not go unrecognized. Further, it is important to note that USPS compares favorably to its competitors, which face similar challenges in terms of unused packaging supplies.

The packaging program's current procedures and processes have resulted in a sound track record of cost reduction. We have reduced our annual packaging expenditures by almost \$60 million since 2001. This performance warrants mention, given the challenges inherent in offering products perceived as "free." Our task has been to balance customer convenience and retention with cost to the Postal Service—a difficult endeavor as we must discern among disparate customer types and shipping behaviors to effectively tailor our offering. While we strive to minimize waste, some level of supplies "unaccounted for" will likely remain a reality in spite of our best efforts.

OIG Recommendations

1. Conduct an annual review of customer use of expedited packaging supplies on an aggregate level to establish a business case to determine whether the annual cost of unaccounted for expedited packaging supplies is acceptable to the Postal Service.

Management Response: Agree. Program management is working with the Statistical Programs office to institute a revised method of measuring customer supplies use via mail sampling data. The end result will be periodic reports comparing distributed volume with usage volume.

2. Conduct a customer needs analysis and incorporate the results as an additional factor in determining minimum order quantities, and update the needs analysis biannually.

Management Response: Agree in part. In determining minimum order quantities, all costs of production and order fulfillment must be considered. Although lower minimum order quantities might result in lower waste volumes, they could increase costs along another facet of the program such as pick/pack operations or freight. We are confident the rationale used to determine our quantity minimums was an effective one, however, we appreciate the need to review minimums more frequently to account for a changing customer profile.

3. Conduct an analysis to determine a maximum level of expedited packaging supplies customers can order and, once conducted, update the analysis biannually.

Management Response: Agree. We conducted such an analysis in February 2005, instituting maximum quantities via the Web at that time. Customers ordering via phone, fax, or mail are qualified by a customer care representative for orders beyond these maximums.

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4. Establish policies and procedures enabling the Business Service Network to use Customer First to monitor and report the Business Service Network's handling of expedited packaging supplies to the Expedited Packaging Supply group.

Management Response: Agree in part. The Business Service Network (BSN) will work with Customer First to ensure a customer qualifies for large volumes of expedited supplies. Customer First does not currently have the capability to report ordering information back to the Expedited Supply program. The work requirements for the systems interface will be explored to determine the feasibility and capability of developing such reports.

5. Determine whether the Business Service Network should place orders for expedited packaging supplies that require a monetary commitment from the customer. If so, update Publication 22, Expedited Packaging Supplies, allowing the Business Service Network to place orders for expedited packaging supplies. Otherwise, ensure the Business Service Network adheres to Publication 22.

Management Response: Agree. The BSN is within its province to place orders for expedited packaging supplies that require a monetary commitment. Publication 22 will be updated accordingly.

6. Direct district managers to eliminate local expedited packaging supply fulfillment operations and follow Publication 22, Expedited Packaging Supplies, for the ordering of supplies.

Management Response: Agree. Past instruction to district offices directing them to exhaust excess inventory on hand within a reasonable period of time will be reiterated. A new instruction for Post Offices to place orders directly through the eBuy system will be issued and enforced thereafter.



Nicholas F. Barranca