March 31, 2009

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SUBJECT:  Audit Report – Intelligent Mail/Seamless Acceptance Project
Management (Report Number MS-AR-09-006)

This report presents the results of our self-initiated audit of the U.S. Postal Service's
Infrastructure to Support the Intelligent Mail Barcode Full Service-Seamless Acceptance
Service Performance (IMB/SASP) project (Project Number 08RG033MS000).  Our
objective was to assess the Postal Service's approach to managing the IMB/SASP
project.  This audit addresses strategic risk to the Postal Service.  See Appendix A for
additional information about this audit.

## Conclusion

Overall, controls were not adequate to ensure the Postal Service managed the
IMB/SASP project effectively.  Specifically, the project plan did not have a strategic
focus on the value of the project to the Postal Service and the related financial
implications.  Additionally, project administration activities were insufficient, and
communications, risk management, and procurement plans were not developed.  The
Postal Service is at risk of project delays and cost overruns, and in fact, the project has
already been significantly delayed.

### Intelligent Mail Barcode, Seamless Acceptance, and Service Performance Project Plan Does Not Have a Strategic Focus

The IMB/SASP project plan does not have important strategic focus on the value of the
project to the Postal Service.  The Postal Service did not sufficiently define key cost
savings opportunities when planning the project.  The program's complexity made
estimating potential savings and tracking related costs difficult.  Therefore, management
did not thoroughly articulate or quantify the strategic and financial benefits to the Postal
Service or mailers and did not centrally track program expenditures against
commitments.

Strategically focusing on potential cost reductions and revenue assurance opportunities is crucial under normal circumstances, but especially in the current economic environment. Without defining the potential benefits and costs of the IMB/SASP project, there is no basis for evaluating the cost savings realized, and it is unclear whether cost savings will exceed capital and operational costs of the project. Additionally, defining the potential benefits and costs of IMB/SASP is critical to marketing the project to the mailing community.

Opportunities exist for potentially significant cost savings by pursuing benefits. Automating aspects of business mail verifications that are currently performed manually provides substantial opportunities to reduce labor costs. Expanding visibility by transitioning from sampling verification methods can improve revenue assurance. Other cost efficiencies can be achieved by improving mail address quality and methods of counting and invoicing business reply mail. Lastly, management should study and quantify how increased visibility of the mail during processing will benefit the mailing community and the Postal Service. Adoption of the barcode may be limited without this type of data.

Because of significant time constraints, the Postal Service is revising the current Decision Analysis Report (DAR)[1] and deferring several key features from the first two releases of IMB/SASP. These features include support for service measurement, Delivery Point Validation™[2], automated verifications of presort and barcode quality, and automated counting and invoicing of business reply mail. Since the Postal Service did not quantify potential cost savings, management does not have the information needed to assess the expected financial impact of delaying these benefits.

We recommend the Senior Vice President, Intelligent Mail and Address Quality, direct the Vice President, Business Mail Entry and Payment Technologies, to:

1.  Quantify strategic benefits to the Postal Service and mailers, such as automating business mail verifications and cost reductions attributable to improved address quality.

2.  Prepare an integrated project budget and expenditure tool for future project releases to track costs and provide reports during regular status meetings.

3.  Develop potential cost savings estimates to establish a baseline for comparison with realized savings for future project releases.

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[1] *Infrastructure to Support Intelligent Mail Barcodes, Service Performance and Seamless Acceptance,* May 29, 2008.
[2] Delivery Point Validation is used to identify deliverable addresses.

## Project Administration Procedures Need Strengthening

Project administration for IMB/SASP does not ensure that progress is effectively monitored against planned performance.  Industry best practices suggest tools and techniques to assess project status and variances from the plan.  Earned value analysis is the most commonly used method of performance measurement for monitoring overall project performance against a baseline.  This technique considers several variables, including work effort (hours) expended, remaining work to be performed, and a periodic reassessment of the project's duration.  Monitoring actual effort expended in addition to tracking milestones provides a more accurate percentage of project completion than tracking milestones alone and enables managers to assess potential impacts on the schedule in a more timely manner.

The Postal Service does not use resource-loaded work plans to manage projects.  For example, contractors' planned tasks include estimated workhours; however, the Postal Service's planned tasks do not.  The Postal Service manages project plans by monitoring scheduled tasks against established milestones.  Management set the IMB/SASP implementation date to coincide with the May 2009 price change without first considering the effort required to complete the tasks.  Subsequently, the scope and complexity of the project changed significantly as requirements were defined, resulting in significantly increased costs and the need to delay scheduled releases.  These changes forced management to revise the current DAR and defer valuable benefits, including support for service measurement; automated verifications of Delivery Point Validation™, presort, and barcode quality; and automated business reply accounting.  Because management established schedules without thoroughly assessing the level of effort required, the Postal Service had an increased risk that the project would miss critical milestones or that the costs of meeting those milestones would exceed the amounts envisioned.

We recommend the Vice President, Business Mail Entry and Payment Technologies, and the Vice President, Information Technology Operations, direct the Manager, Business Mail Acceptance, and the Manager, Information Platform Sales and Marketing, to:

4.  Incorporate effort-based workhour requirement estimates into work plans for future project releases.

## Communications Management Plan Not Fully Developed

The Postal Service did not fully develop its communications management plan.  While management developed project plans for the IMB/SASP project with tasks beginning in June 2008, the Full Service Program Management Office did not finalize a communications plan until January 2009.  This occurred because the Postal Service did not integrate and centralize project management oversight for the IMB/SASP project

until December 2008.  Best practices suggest the majority of communications planning should be accomplished in the earliest phases of a project and regularly reviewed and revised as needed.

The Postal Service has developed several important avenues of communication with the mailing industry that provide guidance and promote the benefits of Intelligent Mail, including:

- Federal Register notices outlining key elements of the Basic and Full Service options.

- Mailers Technical Advisory Committee meetings and organized workgroups to share technical information with mailers and receive advice and recommendations from industry representatives.

- Intelligent Mail Symposiums held in various cities around the country to educate and promote Intelligent Mail.

- Informative documents, technical guidance, presentations, promotional tools, and videos available on the Postal Service's Rapid Information Bulletin Board System (RIBBS) website, http://ribbs.usps.gov.

A plan for collecting and disseminating project information to the mailing community is critical to ensuring that the Postal Service considers all stakeholders' needs and distributes the right information to the right stakeholders at the right time.  Without an effective communications plan for determining stakeholder information needs, distributing information, managing stakeholder expectations, reporting performance, and informing stakeholders of the benefits of the Full Service option, benefits to the Postal Service and mailers may not be maximized.

During our audit, management developed detailed communications and training plans for the IMB/SASP project for both Postal Service employees and mailers.  Therefore, we are making no recommendations at this time.

## Risk Management Plan Not Developed

The Postal Service did not develop a risk management plan to monitor and control risks related to the IMB/SASP project.  In the May 2008 DAR, the Postal Service designated risks associated with IMB/SASP technology, integration, and operations as high.  The scope, complexity, and importance of this project to the Postal Service and the mailing industry warrant preparation of a formal risk management plan to ensure effective and timely responses to project risks, and to minimize the probability and impact of adverse events that could affect the scope, schedule, cost, or quality of the project.  A risk management plan was not developed because the Postal Service did not integrate and

centralize project management oversight for the IMB/SASP project until December 2008.

Management stated that they discussed and managed issues and risks on an ongoing basis during weekly planning meetings.  However, moving forward on a project without a formal risk management plan and a proactive focus on risk increases the impact on the project if the risk is realized and can lead to project failure.

We recommend the Senior Vice President, Intelligent Mail and Address Quality, coordinate with the Vice President, Information Technology Operations, to direct the Vice President, Business Mail Entry and Payment Technologies, and the Manager, Information Platform Sales and Marketing, to:

5. Develop a risk management plan to address project risks.  The plan should define a process for conducting risk management activities, including identifying risks; prioritizing and analyzing risks; planning risk responses; and monitoring and controlling risks.

## Procurement Management Plan Not Developed

The Postal Service did not develop a procurement management plan to administer and control IMB/SASP procurements.  Such a plan should be developed at the beginning of a project to document an overall strategy for making purchasing decisions, managing procurement relationships, and monitoring contractor performance.  According to the Postal Service's purchasing guidelines in *USPS Supplying Principles and Practices*, as revised December 2008, the plan should include the statement of objectives, statement of work, sourcing strategy, resource funding and cost estimates, delivery schedule, quality assurance plan, and supplier reporting requirements.  A procurement management plan was not developed because the Postal Service did not integrate and centralize project management oversight for the IMB/SASP project until December 2008.

The cost of the IMB/SASP project currently totals $116.4 million, including $63.9 million in capital equipment (hardware and software) funding.[3]  Without a procurement plan for IMB/SASP-related purchases, the quality and timeliness of deliverables may be adversely impacted and costs may not be adequately controlled.

We recommend the Senior Vice President, Intelligent Mail and Address Quality, direct the Vice President, Business Mail Entry and Payment Technologies, to:

6. Develop a procurement plan consistent with the Postal Service's purchasing guidelines to manage procurements related to the project.

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[3] ████████████████████████████████████████████████████████████████

## Management's Comments

Management disagreed with the conclusions of the audit; however, they agreed that various aspects of project management should be improved.  Management partially agreed with recommendations 1 and 3 and agreed with recommendations 2, 4, 5, and 6.  Regarding recommendation 1, management will track workhour cost reduction benefits realized in Business Mail Acceptance activities as a result of Performance Based Verification and staffing improvements beginning in fiscal year (FY) 2010, but cited limitations to their ability to measure the portion of the improvement attributable to the Intelligent Mail application.  To address recommendation 2, management will prepare an integrated project budget to track and report costs for Release 2.  For recommendation 3, management stated developing cost savings estimates for Releases 1 or 2 is inappropriate, but they would consider developing these estimates if deemed appropriate for any future releases.  For recommendation 4, management will incorporate effort-based workhour estimates into Releases 2 and 3.  Management agreed with recommendation 5, but stated a risk management plan is already in place.  Finally, to address recommendation 6, management will develop a procurement plan for Release 2.  See Appendix B for management's comments, in their entirety.

## Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendations 2, 4 and 6, and their corrective actions should resolve the issues identified in the report.  However, management's comments are only partially responsive to recommendations 1, 3, and 5 and will not fully resolve the issues identified in the report.  Concerning recommendations 1 and 3, we believe it is essential that the Postal Service identify both the benefits and the costs of implementing Intelligent Mail.  Concerning recommendation 5, although management's response asserts the existence of a risk management plan, we have not received a copy of it despite numerous requests dating back to December 2008.  While issues and risks may be managed on an ongoing basis during weekly planning meetings, a formal risk management plan is important to ensure consistent, effective and timely responses to project risks.   Although this project is significant, we do not intend to pursue these recommendations through the formal audit resolution process.  However, we may do additional audit work in the future on this project.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure.  Consequently, the OIG requests written confirmation when corrective actions are completed.  These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff.  If you have any questions or need additional information, please contact Robert P. Mitchell, Director, Sales and Service, or me at (703) 248-2100.

E-Signed by Tammy Whitcomb
VERIFY authenticity with ApproveIt
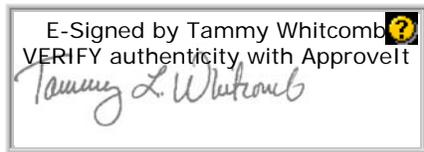
*Tammy L. Whitcomb*

Tammy L. Whitcomb
Deputy Assistant Inspector General
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Attachments

cc:     Robert E. Dixon, Jr.
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## APPENDIX A:  ADDITIONAL INFORMATION

## BACKGROUND

The Postal Service currently has an initiative under way to implement a $116.4 million DAR, including $63.9 million in capital funding, to create infrastructure to facilitate the 2009 IMB deployment, support the requirements of the 2006 Postal Accountability and Enhancement Act to measure service performance, and automate several business mail verification activities.

## Intelligent Mail

The Intelligent Mail vision is to provide end-to-end visibility and a seamless process for mail acceptance and delivery using electronic documentation; standardized intelligent barcodes; continuous mail tracking; mail quality feedback in real time; and service measurements for letters, flats, and parcels.  The Postal Service proposed two options for using IMBs to qualify for automation prices starting in 2009.  Under the Basic option, mailers can use the IMB or the POSTNET barcode on their letter and flat mailpieces.  Under the Full Service option, mailers will be required to apply unique IMBs on their letter and flat mailpieces, trays and sacks, and other containers.  Full Service mailers will also be required to submit postage statements and mailing documentation electronically.

In November 2009, there will be two automation pricing tiers, with the lowest automation prices for the Full Service option.  By May 2011, all mailers must have the IMB to qualify for automation discounts.

## Seamless Acceptance

Seamless Acceptance will automate several aspects of business mail verification for letters and flats from mailers electing the Full Service option.  Full Service mailers will use electronic documentation to give the Postal Service detailed information, including advance notification of the mailing.  The Postal Service will scan the barcodes on these mailings, then use the information to verify electronic documentation submitted by the mailers and determine mail preparation quality.

## System Description

The Postal Service will enhance the PostalOne! system to enable the acceptance and verification of mail prepared according to Basic or Full Service IMB requirements.  Mailers' electronic documentation will contain detailed IMB information physically applied to mailpieces, trays, sacks, and other containers.  The Postal Service will analyze and reconcile Full Service electronic documentation with Mail Processing Equipment (MPE) IMB scans to ensure that the mail qualifies for the prices claimed.

Obtaining scanned data from the MPE and using software to analyze and reconcile that data automates several verification tasks, including presort verification, barcode quality checks, Delivery Point Validations, and undeliverable-as-addressed counts.  These tasks were previously performed using manual processes or the Mail Evaluation Readability Lookup INstrument.

## Risks to Program Success

In the May 2008 DAR, the Postal Service designated risks associated with IMB/SASP technology, integration, and operations as high.  These high risks are due primarily to dependence on customer adoption of IMBs and electronic documentation; the Postal Service's readiness to support Full Service IMB implementation; the scope and complexity of system development; and the need to collect and analyze enormous amounts of piece-level data from mailing manifests and mail processing scans.  The Postal Service must be able to accept and verify mailings prepared according to the requirements defined under the Basic and Full Service IMB options; collect and compile mailpiece scan information; and reconcile mailers' electronic mailing information to validate Intelligent Mail preparation.  These capabilities require an infrastructure capable of capturing and storing large volumes of mailing data.

The Postal Service is using a software development schedule to track and monitor major milestones for meeting the proposed deployment date.  Management must implement appropriate project management standards and controls to ensure the project's success.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the Postal Service's approach to managing the IMB/SASP project.[4]  To accomplish our objective, we:

- Reviewed recognized best practices related to effective project management.

- Interviewed program managers and contractor staff to obtain an understanding of the IMB/SASP project planning and administration activities.

- Reviewed available project planning documentation to assess completeness.

- Reviewed project plan schedules and available budget and expenditure tracking worksheets to obtain an understanding of the project's current status.

- Assessed the Postal Service's efforts to measure financial benefits and related costs associated with implementing Intelligent Mail and Seamless Acceptance.

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[4] Concurrent with this project, a separate OIG report, Intelligent Mail Barcode Project Planning and Application Development Life Cycle, Report Number IS-AR-09-006, March 31, 2009, was issued to focus on the application development aspects of this project.

We conducted this performance audit from September 2008 through March 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on March 6, 2009, and included their comments where appropriate.

## PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|---|---|---|---|---|
| *Status of Intelligent Mail Enabling Infrastructure* | DA-AR-08-005(R) | May 28, 2008 | N/A | Management upgraded key letter and flat MPE, and the MPE is capable of scanning the new IMB. In addition, more than 300 Postal Service facilities were upgraded with increased network capacity due to the early completion of Phase III of the Mail Processing Infrastructure program.<br><br>The Postal Service material handling group was taking proactive steps to prepare for the transition to the 24-digit Intelligent Mail tray barcode. However, clarification of requirements was needed to ensure material handling systems fully support future Intelligent Mail programs. Management agreed with the recommendation to clarify the 24-digit barcode requirements and funding for material handling |

| | | | | systems. They also agreed to ensure contingency plans for the Integrated Data System/National Directory Support System server consolidation program include extended maintenance for microcomputers or provide for other appropriate contingency plans if deployment is delayed beyond 2009. |
|---|---|---|---|---|
| *Intelligent Mail Data Acquisition System* | DA-AR-06-001 | December 22, 2005 | N/A | The Postal Service's initial requirement for Intelligent Mail device units was a reasonable, conservative purchase approach. Although unit requirements and the process used to negotiate prices were logical, the OIG was concerned about the risk of higher maintenance costs if deployment was delayed further. Management agreed with the recommendation to develop a recovery plan, which minimizes delays in the deployment schedule. |

# APPENDIX B:  MANAGEMENT'S COMMENTS

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INTELLIGENT MAIL AND ADDRESS QUALITY

**UNITED STATES
POSTAL SERVICE**

March 30, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, VA  22209-2020

SUBJECT:  Draft Audit Report -- Intelligent Mail/Seamless Acceptance Project
          Management (Report Number MS-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit
report.

Management disagrees with the conclusions of this audit.  We do agree there are
various aspects of this project management that should be improved.  In fact, there
are several recommendations that we already have, or will implement with the
upcoming Release 2.  However, the conclusion both misstates and overstates the
issues that are involved.

The conclusion states that the project plan did not have a strategic focus on the
value of the project to the Postal Service.  This statement fails to recognize that
the DAR was specifically approved as a non-generative, infrastructure DAR.

Over the course of several months the Capital Investment Committee considered
different versions of the DAR, several of which included specific cost reductions.
It was determined that while significant savings were an expected outcome, it
would be extremely difficult to attribute and track directly to the implementation
of the IMb-SASP application.  Given this decision by the CIC, there is no reason
to expect that the project plan would have such a focus.

Management agrees, in part, that some of the project administration activities were
insufficient.  However, it is a misstatement that communications, risk management
and procurement plans were not developed.  All three of these plans certainly
needed improvement in terms of both depth and breadth, but they did exist.

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A fully developed communications plan was not in place at the time this audit began. In fact, a well-defined and well-executed communications plan has been in place and receiving positive comment from throughout the mailing industry. Risk management has been underway throughout this program. Risks have been identified and mitigated as necessary. The ability to address risk in a forward-looking manner is part of our increasing capability.

Management fundamentally disagrees that the project has been significantly delayed. While certain aspects of the project, such as defining requirements, extended well beyond schedule, in turn, other parts of the project have been compressed. We have not delayed the overall project. We remain on schedule to implement the IMb-SASP application in both the production and test environments in May of 2009.

**Recommendation [ 1 ]:**
Quantify strategic benefits to the Postal Service and mailers, such as automating business mail verifications and cost reductions attributable to improved address quality.

**Response**
Management partially agrees. To the extent cost reductions take place in the Business Mail Acceptance activity, as the result of Performance Based Verification and staffing/scheduling improvements, we can track these reductions. A system to track these workhour reductions will be place for the beginning of FY-10.

Due to the range of activities underway to improve address quality, there is no means to determine which portion of the improvement can be attributed to this application. With such limitations there is no reason to try to quantify.

**Recommendation [ 2 ]:**
Prepare an integrated project budget and expenditure tool for future project releases to track costs and provide reports during regular status meetings.

**Response**
Management agrees. This methodology will be put in place to manage Release 2 – not later than Quarter 4 – FY-09.

**Recommendation [ 3 ]:**
Develop potential cost savings estimates to establish baseline for comparison with realized savings for future project releases.

Management partially agrees. This requirement is inappropriate for either Release 1 or Release 2. If Release 3 is developed and the DAR identifies specific cost reductions, this action will be pursued.

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**Recommendation [ 4 ]:**
Incorporate effort-based workhour requirements estimates into work plans for future project releases.

Management agrees. This methodology will be employed for the larger workstreams associated with Release 2 and will be even more encompassing should Release 3 take place. This will be in place in PQ-4, FY-09

**Recommendation [ 5 ]:**
Develop a risk management plan to address project risks. The plan should define a process for conducting risk management activities, including identifying risks; prioritizing and analyzing risks; planning risk response; and monitoring and controlling risks.

Management agrees; this requirement is already in place.

**Recommendation [ 6 ]:**
Develop a procurement plan consistent with the Postal Service's purchasing guidelines to manage procurement related to the project.

Management agrees; this requirement will be achieved for Release 2. This will be in place NLT PQ-4, FY-09.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.

Thomas G. Day
Senior Vice President
Intelligent Mail and Address Quality

cc: Ross Philo
 Tammy Whitcomb
 George Wright
 Pritha Mehra
 Harold E. Stark
 Robert Galaher
 Robert E. Dixon, Jr.
 Kathy Banks