

# Return on Investment for Capital Projects



## AUDIT REPORT

Report Number 23-036-R23 | September 5, 2023

# RETURN ON INVESTMENT



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# Highlights

## Background

From fiscal years (FY) 2011 through 2020, the U.S. Postal Service spent about \$12 billion on capital projects. As part of the Delivering for America plan (DFA), the Postal Service plans to increase its investments to over \$40 billion between FYs 2021 and 2030. An additional \$3 billion in taxpayer dollars for electric vehicles and associated infrastructure was appropriated by Congress as part of the Inflation Reduction Act of 2022. Capital projects include planned upgrades to the Postal Service's mail and package processing network, retail and delivery network, and technology necessary to fulfill the mission to provide timely, reliable, secure, and affordable mail and package delivery to the more than 160 million addresses.

## What We Did

Our objective was to evaluate the Postal Service's process for estimating and monitoring the return on investment for capital projects. To accomplish our objective, we reviewed the lifecycle—including evaluation, approval, management, and post-deployment monitoring—for selected capital projects.

## What We Found

The Postal Service follows a robust review and approval process before project implementation, including the application of comprehensive policies and procedures and outlined responsibilities to ensure accountability, credibility, and competitiveness. However, the Postal Service has opportunities to improve its tracking and reporting of capital projects following deployment. The unprecedented investment efforts outlined in the DFA plan, which were designed to alleviate years of inadequate investments in facilities, delivery vehicles, mail processing equipment, and information technology infrastructure, offer the Postal Service an opportunity to reexamine its current policies. In addition, the Postal Service could improve its retention of financial supporting documentation, which is needed to validate project performance and its estimated return on investment. Without supporting documentation, management cannot re-calculate or verify a project's actual return on investment and other key financial metrics, which critically impact stakeholders and public confidence that the Postal Service is properly managing the investments established by the DFA plan.

## Recommendations

We recommend management extend the tracking and compliance reporting periods for capital projects, based on asset type and dollar amount, to better assess the project's success and develop a centralized repository for management's access to pertinent project documentation for effective tracking and reporting.

# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

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September 5, 2023

**MEMORANDUM FOR:** LUKE T. GROSSMANN  
FINANCE AND STRATEGY SENIOR VICE PRESIDENT

A handwritten signature in black ink, reading "Lazerick C. Poland", is positioned below the recipient information.

**FROM:** Lazerick C. Poland  
Acting Deputy Assistant Inspector General  
for Finance, Pricing, and Human Capital

**SUBJECT:** Audit Report – Return on Investment for Capital Projects  
(Report Number 23-036-R23)

This report presents the results of our audit of Return on Investment for Capital Projects.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Christa Owens, Director, Finance, or me at 703-248-2100.

Attachment

cc: Postmaster General  
Corporate Audit Response Management

# Results

## Introduction/Objective

This report presents the results of our self-initiated audit of the Return on Investment for Capital Projects (Project Number 23-036). Our objective was to evaluate the U.S. Postal Service's process for estimating and monitoring the return on investment (ROI) for capital projects. See [Appendix A](#) for additional information about this audit.

## Background

The Postal Service undertakes capital projects<sup>1</sup> to provide resources necessary to fulfill the mission to provide timely, reliable, secure, and affordable mail and package delivery to more than 160 million residential and business addresses across the country. These projects are intended to meet goals relating to customer experience, employee engagement, and revenue generation while ensuring accountability, credibility, and competitiveness.<sup>2</sup> In addition, capital projects must create economic benefit or sustain Postal Service operations into the future by correcting or eliminating a problem.<sup>3</sup>

During the preparation stage for capital projects costing \$1 million or more, the project sponsor develops a Decision Analysis Report (DAR) to obtain executive approval to move the project forward towards implementation. The DAR describes the problem or opportunity and contains a cash flow analysis, which includes investment and implementation expenses, operation costs, applicable future savings and revenues, and an ROI. The ROI is calculated to compare the total anticipated benefits to the investment amount, demonstrate the potential project's economic benefits, and measure how productive funds are used. The Postal Service's objective and investment

strategy are to prioritize projects with a high ROI, amongst other factors.

The DAR is then reviewed, validated, and approved by the appropriate level of authority. Projects with a capital investment of at least \$5 million are subject to review and approval by the Investment Review Committee (IRC)<sup>4</sup> and the Postmaster General. The Postal Service's Board of Governors must be notified of projects over \$75 million.<sup>5</sup>

Following project approval, the sponsor submits quarterly compliance reports<sup>6</sup> to the Capital Program Performance, Capital Investments & Business Analysis (CIBA) group<sup>7</sup> for review and analysis. The quarterly compliance report tracks individual milestones and provides an updated estimate of the project's investment and implementation expenses. Additionally, it provides updates on historical and current events, project-specific metrics, capital and expense investment commitments, and capital cash outlays.<sup>8</sup> The compliance reports are submitted quarterly through the project's implementation phase and the first two full fiscal quarters after deployment.<sup>9</sup> See [Figure 1](#) for the capital project process.

From fiscal years (FYs) 2011 through 2020, the Postal Service spent about \$12 billion, or \$1.2 billion on average annually, on capital projects.<sup>10</sup> As part of the Delivering for America plan (DFA), the Postal Service plans to invest over \$40 billion, or about \$4.3 billion on average annually,<sup>11</sup> between FYs 2021 and 2030,<sup>12</sup> as shown in [Figure 2](#). The focus of the investments is \$20 billion on the mail and package processing network, \$19 billion on the retail and delivery network, and \$2 billion towards technology upgrades. Additionally, the Inflation Reduction Act of 2022 appropriated \$3 billion to the Postal Service for electric vehicles.

<sup>1</sup> Capital projects or investments are products, services, or improvements that help the Postal Service to reduce costs, grow revenue, enhance corporate financial responsibility, or invest in critical infrastructure.

<sup>2</sup> Handbook F-66, Section 1-2 - *Purpose*, dated November 2019.

<sup>3</sup> Handbook F-66, Section 1-5.2.2 - *Generative and Sustaining Investments*, dated November 2019.

<sup>4</sup> The Investment Review Committee is comprised of the Executive Leadership Team members.

<sup>5</sup> Handbook F-66, Section 3-5.1 - *Headquarters Review and Approval*, dated November 2019 which was in place prior to November 9, 2022.

<sup>6</sup> Titled "Detailed Capital Investment Report."

<sup>7</sup> The Capital Investments & Business Analysis group is responsible for leading the capital investment effort holistically. The Capital Program Performance role is to budget and validate capital projects and is under the purview of the Capital Investments & Business Analysis group.

<sup>8</sup> Handbook F-66, Section 7.3.6 - *Detailed Capital Investment Report*, dated November 2019.

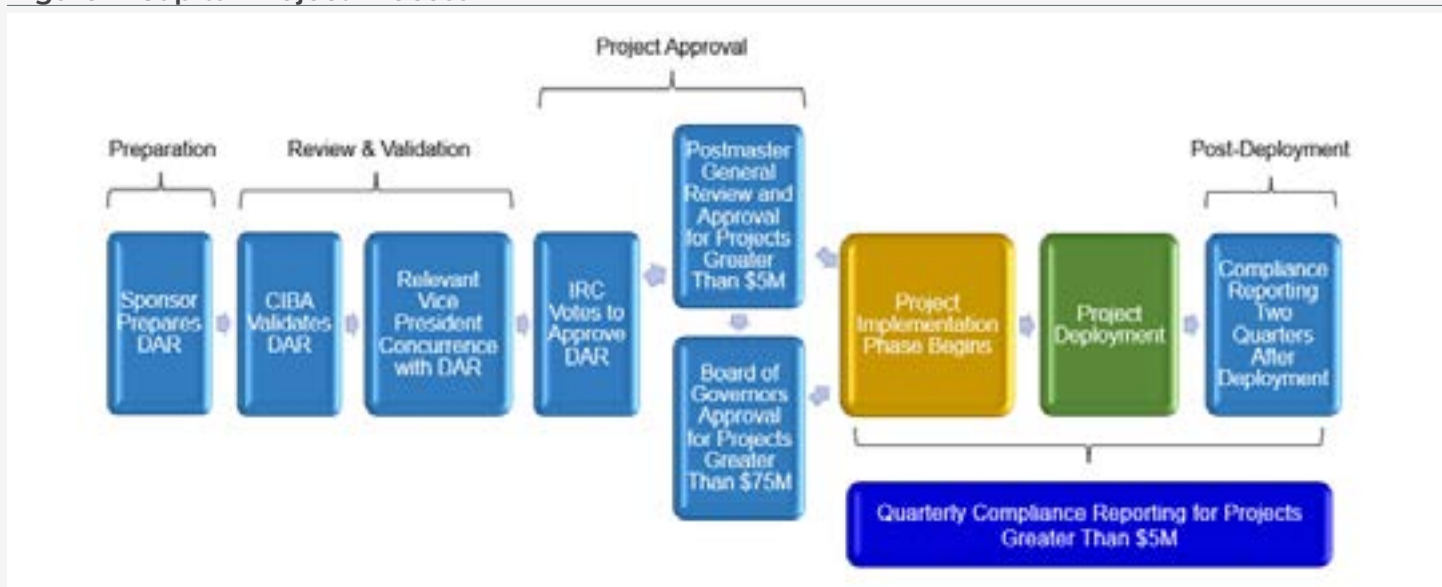
<sup>9</sup> A project is considered "deployed" when the asset is 100 percent operational.

<sup>10</sup> United States Postal Service Form 10-K Fiscal Years 2010 to 2020.

<sup>11</sup> *Integrated Financial Plan Capital Cash Outlay Forecast*, dated October 28, 2022.

<sup>12</sup> *DFA plan, High Performing Future section*, dated March 23, 2021.

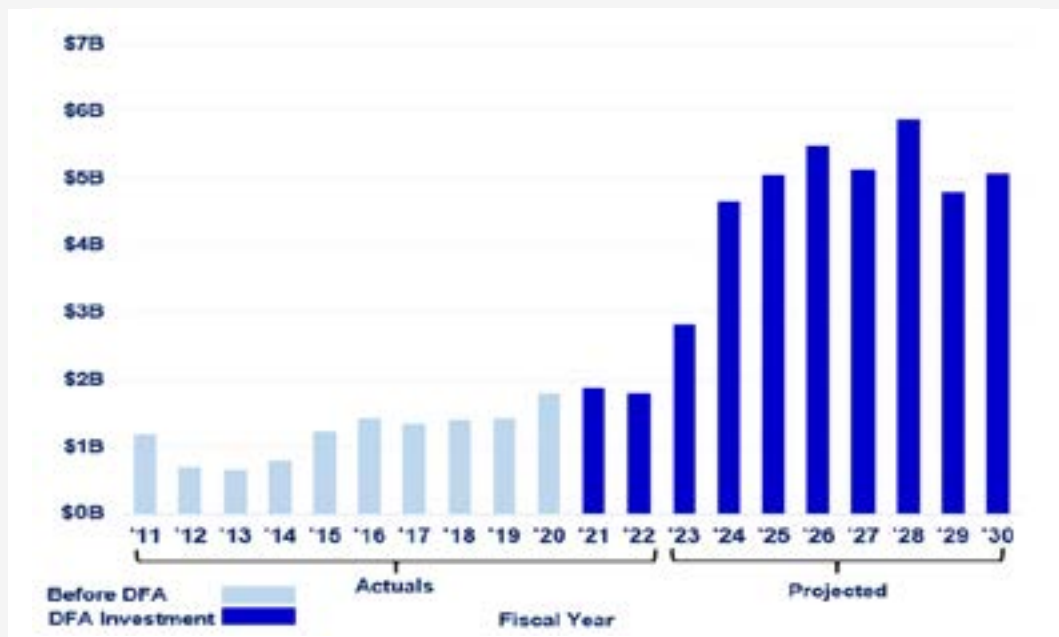
Figure 1. Capital Project Process



Source: U.S. Postal Service Office of Inspector General (OIG) review of Handbook F-66 - *General Investment Policies and Procedures*, dated November 2019.

Figure 2. Capital Investments Before and During DFA

Source: USPS Form 10-K for FYs 2011 to 2022 and DFA plan, dated March 23, 2021 for FYs 2023 to 2030.



Findings Summary

The Postal Service follows a robust review and approval process before project implementation, including the application of comprehensive policies and procedures and outlined responsibilities to ensure accountability, credibility, and competitiveness. Further the Postal Service’s DAR is reviewed, validated, and approved by the appropriate level of authority. However, the Postal Service has opportunities to improve its

tracking and reporting of capital projects following deployment. The unprecedented investment efforts outlined in the DFA plan are designed to alleviate years of inadequate capital investments offering the Postal Service an opportunity to reexamine its current policy. A comprehensive tracking and reporting process provides a mechanism for determining whether the organization is on track to replace its delivery fleet, transform its retail locations, and improve its processing facilities. In addition, the Postal Service could improve the retention of

financial supporting documentation to validate the project performance and actual ROI. Without supporting documentation, the actual ROI and other financial metrics cannot be re-calculated, verified, or compared to estimates. The absence of adequate documentation could critically impact stakeholders' and the public's confidence in the Postal Service to properly manage the investment efforts established by the DFA plan and the taxpayer investment in electric vehicles.

### Finding #1: Tracking and Compliance Reporting

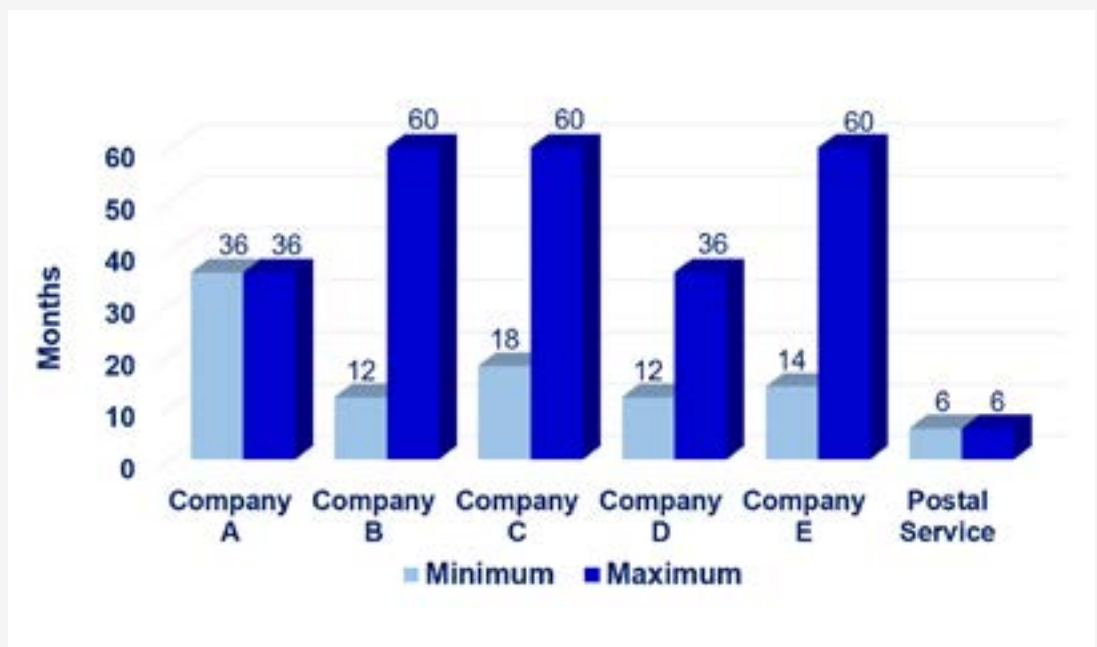
The Postal Service's post-deployment tracking and reporting of capital projects, recorded in its quarterly compliance reports, does not provide full visibility to measure the project's success. During project preparation, the Postal Service constructs a DAR business case, which includes a cash flow analysis to estimate the project's ROI. The ROI is calculated using an analysis period based on the asset's useful life, generally not exceeding ten years. However, once the project is deployed, the Postal Service is only required to track post-deployment metrics and report on those metrics including, a project's investment and implementation expenses, operating costs, and actual savings and revenues in its quarterly compliance report for two full quarters.

We interviewed individuals responsible for implementing capital projects in private sector companies of various sizes operating in the mailing and shipping industry to identify their tracking and reporting practices. Based on our interviews, we learned that within these companies, the length of the tracking and reporting period is based on asset type and dollar amount specific to each project. Of those we interviewed, capital projects were tracked and reported for a minimum of 12 to 36 months and a maximum of 36 to 60 months, as shown in Figure 3. According to an Office of Management and Budget (OMB) circular,<sup>13</sup> a project should be subjected to a periodic review – preferably annually – for cost efficiency, though OMB does not specify how long these reviews should be done.

Postal Service management stated that tracking and reporting projects for two full quarters after deployment is sufficient to determine a project's success because the costs and savings recorded during this period can be extrapolated for the remainder of the project's useful life. In addition, the Postal Service stated that calculating the savings and revenue portion of the cash flow analysis is a challenging task and requires significant resources.

**Figure 3. Tracking and Reporting Period After Project Deployment**

Source: OIG interviews with comparable private sector companies in the industry.



<sup>13</sup> Office of Management and Budget, OMB Circular No. A-11, "Capital Programming Guide," dated August 2022.

However, companies in the industry track and report projects beyond two quarters to measure the actual ROI and assess the project's success. Aligning the length of the quarterly compliance reporting period with the length of the DAR's estimating period would provide a more accurate representation of the project's success. In addition, a longer tracking and reporting period that considers the project's specific asset type and dollar value offers insights into whether the ROI calculation is an effective and valuable project management tool and provides insights about which investment efforts bring the most value to the Postal Service. Further, it aids management in allocating resources to support strategic business objectives, and identifying areas of improvement and best practices. The unprecedented investment efforts outlined in the DFA plan and electric vehicle deployment, provides the Postal Service with an extraordinary opportunity to reexamine its current policies and enable the organization to achieve financial stability, service excellence, and its overall strategic objectives.

### Recommendation #1

We recommend the **Senior Vice President, Finance and Strategy** extend the tracking and compliance reporting period for capital projects, based on asset type and dollar amount, to better assess the project's success.

## Finding #2: Centralized Documentation Repository

The Postal Service did not retain required financial supporting documentation for all the capital projects we selected for review, preventing us from validating the actual ROI of these projects or comparing actual ROI to the estimated ROI recorded in the projects' DARs. See Table 1 for the list of capital projects we selected for review, and their total investment amounts.

Specifically, the supporting financial reports and figures for the elements that compose the ROI for each project post-deployment—including investment and implementation expenses, operating costs, and applicable savings and revenues—were not retained. Therefore, we were not able to calculate the project's actual ROI and validate the financial information in the quarterly compliance report. In accordance with policy, the Postal Service must retain all records related to the DAR business case for the period from project approval until five years after the project's deployment date.<sup>14</sup> All the records we requested should have been retained in accordance with this five-year schedule. In addition, policy requires that metrics should be reviewed on an ongoing basis to evaluate the achieved benefits and savings as identified in the DAR business case.<sup>15</sup>

**Table 1. Capital Projects Selected for Review**

DAR Program	Type of Asset	Deployment Date	Total Investment
Advanced Facer Cancellor System 200, Phase 1	Equipment	3/31/18	\$275,864,667
Network Rationalization	Portfolio <sup>16</sup>	7/7/20	\$374,469,642
Informed Mobility Pilot	Information Technology (IT)	12/30/20	\$6,196,710
Customer 360	IT	9/30/20	\$16,932,403
Rural Route Evaluated Compensation System	IT	12/31/21	\$73,657,201
Philadelphia, PA Singer Building Facilities Optimization	Facility	9/16/22	\$6,030,646
Package Platform Phase 2	IT	9/30/21	\$21,307,345
Denver Parcel Singulate and Feed System	Equipment	7/31/21	\$13,007,819

Source: Postal Service provided data and OIG review of quarterly compliance reports.

<sup>14</sup> Handbook F-66, Section 8-5 - *Retention Requirements*, dated November 2019.

<sup>15</sup> Handbook F-66, Section 7-2 (b) *Purpose*, dated November 2019.

<sup>16</sup> This includes the Postal Service revising its service standards and streamlining its mail processing and transportation networks by consolidating operations and eliminating a significant number of processing locations.



Additionally, supporting documentation can provide clarity when inconsistencies exist between reports and supporting workbooks. For instance, during our review of the DARs and pre-deployment supporting documents, we noted minor inconsistencies between the DAR, the quarterly compliance reports, and supporting workbooks.

The lack of supporting documentation occurred because the Postal Service does not have a centralized repository that requires storage of supporting financial documents and instead relies on project sponsors for document retention. These documents are generally not preserved after the sponsor and the CIBA group compute the required financial information for the quarterly compliance reports, though the Postal Service does have a policy to retain this support for five years. Our previous work in 2020 on capital projects also found that the Postal Service did not maintain historical data or documentation to support the projects.<sup>17</sup> Although corrective actions were taken to address the issues identified in that report, this issue continues to persist. Further, when project sponsors leave the Postal Service, and there is no formal transition process, documents retained by the original project sponsor can be lost. Interviews indicated that five of the six private sector companies utilize a centralized repository system to store and preserve supporting financial documentation in one location.

Retaining supporting financial documentation increases the transparency and accountability of the capital investment process. Without supporting financial documents, management cannot re-calculate or verify a project's actual ROI or other key financial metrics, which prevents the Postal Service and others from determining the success or failure of the investment. The inability to justify and support a project's ROI can also critically impact the stakeholders' and the public's confidence in the Postal Service to properly manage the unprecedented investment efforts established by the DFA plan and electric vehicle deployment.

### Recommendation #2

We recommend the **Senior Vice President, Finance and Strategy** develop a centralized repository enabling management to access pertinent project documentation for effective tracking and reporting.

## Management's Comments

Management agreed with our recommendations and generally agreed with our findings in subsequent communications.

Regarding recommendation 1, management stated that they agree with the OIG that not all investments should be handled the same and that the Postal Service already has specific processes to prescribe approval and reporting requirements based on the type and size of the investment. Management agreed to evaluate and implement revised reporting period requirements based on asset type and dollar amount. The target implementation date is August 30, 2024.

Regarding recommendation 2, management stated that the Postal Service has maintained a centralized database of investment data for over 20 years. Management agreed that system improvements to store pertinent investment documentation not stored in other Postal systems will benefit tracking and reporting. The Postal Service plans to transition to a new investment tracking system in FY 2024 that will have the capacity to store additional pertinent project documentation. The target implementation date is August 30, 2024.

See [Appendix B](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. 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.

<sup>17</sup> *Projected Savings and Returns on Capital Investment Projects* (Report Number 20-194-R21), dated December 21, 2020.

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RETURN ON INVESTMENT

# Appendix A: Additional Information

## Scope and Methodology

The scope of the audit included capital projects of \$5 million or greater and deployed between FYs 2016 and 2022. The Postal Service completed 143 capital projects during this period. We planned to review the actual capital investment and deployment expenses, operating costs, and applicable savings and revenues for the selected projects within our scope to assess whether the Postal Service had achieved the projected ROIs. However, we were unable to perform this assessment because the Postal Service did not retain supporting financial documentation.

To accomplish our objective, we:

- Conducted interviews with Postal Service headquarters personnel responsible for selected capital projects to gain a deeper understanding of the process.
- Obtained and reviewed a list of capital projects from FY 2016 to FY 2022.
- Conducted a judgmental selection based on the following parameters, within our scope period,
  - Two projects with the most significant capital investment amounts;
  - Two recent projects with actual completion dates after 2021;
  - Two projects with significant ROI variances; and
  - Two projects that were the most delayed.
- Obtained and reviewed the DAR and quarterly compliance reports documentation for each selected project to identify key financial information and compared it to the project listing provided by the Postal Service.
- Reviewed the four phases of the capital project life cycle: Evaluation, approval, management, and post-deployment monitoring for each of the selected projects.
- Identified areas of improvement and best practices noted during our assessment.
- Conducted research on case studies and interviews with private sector companies of various sizes operating in the mailing and shipping industry to gain insights on tracking and reporting and documentation retention best industry practices.

We conducted this performance audit from February through September 2023 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 on August 11, 2023, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the internal control structure over capital projects for estimating and monitoring its return on investments to help determine the nature, timing, and extent of our audit procedures. We reviewed the management controls for overseeing the program and mitigating associated risks. Additionally, we assessed the internal control components and underlying principles, and we determined that the following five components were significant to our audit objective: control environment, risk assessment, control activities, information and communication, and monitoring.

We developed audit work to ensure that we assessed controls over the Postal Service's processes for estimating and monitoring its return on investment for capital projects. Based on the work performed, we identified internal control deficiencies that were significant within the context of our objectives. Our recommendations, if implemented, should correct the weaknesses we identified.

We assessed the reliability of the capital project listing data by comparing the data of the capital projects selected for review to source documents including DAR business case documents and quarterly compliance reports. We traced capital

projects' finance numbers to the Finance Number Control Master database. We determined that the data were sufficiently reliable for the purposes of this report.

### Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Projected Savings and Returns on Capital Investment Projects</i>	To assess whether the Postal Service achieved projected savings and ROIs identified in DAR business cases.	20-194-R21	12/21/2020	None

# Appendix B: Management's Comments

LUKE T. GROSSMANN  
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY



August 29, 2023

Lazerick Poland  
Deputy Acting Deputy Assistant Inspector General for Finance, Pricing, and Human Capital

**SUBJECT:** Management Response: Return on Investment for Capital Projects (Project Number 23-036)

Thank you for providing the Postal Service an opportunity to review and comment on the findings and recommendations contained in the draft audit report, Return on Investment for Capital Projects (Project Number 23-036). We very much appreciated our ongoing dialogue throughout the engagement and the interactive nature of your process.

In addition, we value your acknowledgment that the Postal Service follows a robust review and approval process before project implementation, including the application of comprehensive policies and procedures and outlined responsibilities to ensure accountability, credibility, and competitiveness.

As you note in your report, the Postal Service is currently undertaking unprecedented investment efforts, outlined in the Delivering for America plan, that are designed to alleviate years of inadequate capital investments. Furthering that goal, we have reformulated the F-66 policy manual and implemented a knowledge management system for investment procedures to ensure we move forward with pace and due diligence on investments. Furthermore, we have implemented a Capital Planning Committee (CPC) to ensure we align all our investments to our strategic objectives.

With regard to your recommendations, below you will find the Postal Service's responses to the OIG recommendations received on August 15, 2023, to include target implementation dates and the identification of responsible officials for each.

**OIG Recommendation 1:**

We recommend the Senior Vice President, Finance and Strategy extend the tracking and compliance reporting period for capital projects, based on asset type and dollar amount, to better assess the project's success.

**USPS Response/Action Plan:**

The Postal Service agrees that not all investments should be handled the same. The Postal Service already has specific processes to prescribe approval and reporting requirements based on the type and size of the investment. The Postal Service agrees to evaluate and implement revised reporting period requirements based on asset type and dollar amount.

**Target Implementation Date:**

08/30/2024

**Responsible Official:**

Director, Capital Investments and Business Analysis

**OIG Recommendation 2:**

475 L'Enfant Plaza SW  
Washington, DC 20260-0004  
www.usps.com

We recommend the Senior Vice President, Finance and Strategy develop a centralized repository enabling management to access pertinent project documentation for effective tracking and reporting

**USPS Response/Action Plan:**

The Postal Service has maintained a centralized database of investment data for over twenty years. The Postal Service agrees that system improvements to store pertinent investment documentation that is not stored in other Postal systems will benefit tracking and reporting. The Postal Service plans to transition to a new investment tracking system in FY2024 that will have the capacity to store additional pertinent project documentation.

**Target Implementation Date:**

08/30/2024

**Responsible Official:**

Director, Capital Investments and Business Analysis



Luke T. Grossmann  
Senior Vice President, Finance and Strategy

cc: Manager, Corporate Audit Response Management

# OFFICE OF INSPECTOR GENERAL

UNITED STATES



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