## Network Changes: Local Transportation Optimization

OFFICE OF NSPECTOR GENERAL

AUDIT REPORT

Report Number 24-142-R25 | December 18, 2024

# Change 🔊

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## Highlights

#### Background

The U.S. Postal Service began deploying a major change to operations in October 2023 with the implementation of the Local Transportation Optimization (LTO) initiative in the Richmond, VA, region followed by 14 additional regions across the nation through August 2024. The initiative is generally designed to reduce the number of transportation trips to and from select post offices and increase the amount of mail transported on each trip. With LTO, mail collected at offices will remain there until the next day, delaying its entry into sorting operations.

#### What We Did

Our objective was to determine the impacts to service performance, customer service, mail security, and expected cost savings from implementation of the LTO initiative. We reviewed 15 LTO regions implemented through August 2024 and analyzed service performance data from October 2022 through July 2024 for the first six LTO regions (Richmond, VA; Wisconsin; Phoenix, AZ; Atlanta, GA; Portland, OR; and Alabama) as of the end of March 2024. We also judgmentally selected and conducted site visits at 26 out of the 2,456 optimized offices. The Postal Service filed a request for an Advisory Opinion with the Postal Regulatory Commission October 4, 2024. Our fieldwork was completed prior to this filing; thus, we did not review it as part of this report.

#### What We Found

While safeguards were appropriately implemented to secure the mail held overnight at the LTO optimized offices, we found the LTO initiative negatively impacted service to customers. The service performance scores for First-Class Mail declined after the implementation of LTO, more significantly impacting the rural population. Additionally, customer complaints about mail delivery delays increased after the LTO implementation. Further, management did not maintain an accurate list of optimized offices, negatively impacting its ability to calculate realized cost savings. Finally, overall transportation expenditures increased by \$7.13 million for the 15 LTO implemented regions when compared to the same period last year.

#### **Recommendations and Management's Comments**

We made two recommendations to address customer outreach and cost savings, and management agreed with both. The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations, as corrective actions should resolve the issues identified in the report. Postal Service management's comments and our evaluation are at the end of each finding and recommendation. See Appendix E for management's comments in their entirety.

## **Transmittal Letter**

OFFICE OF INSPECTOR GENERAL UNITED STATES POSTAL SERVICE

December 18, 2024

MEMORANDUM FOR:

ROBERT CINTRON VICE PRESIDENT, LOGISTICS

STEPHEN DEARING VICE PRESIDENT, CHIEF DATA AND ANALYTICS OFFICER

Mary K. Slayd

FROM:

Mary Lloyd Deputy Assistant Inspector General for Mission Operations

SUBJECT:

Audit Report – Network Changes: Local Transportation Optimization (Report Number 24-142-R25)

This report presents the results of our audit of Network Changes: Local Transportation Optimization.

All recommendations require U.S. Postal Service Office of Inspector General (OIG) concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. All 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 Laura Roberts, Director, Transportation, or me at 703-248-2100.

Attachment

cc: Postmaster General Corporate Audit Response Management Secretary of the Board of Governors

## Results

#### Introduction/Objective

This report presents the results of our self-initiated audit of the Network Changes: Local Transportation Optimization (LTO), Project Number 24-142. Our objective was to determine the impacts to service performance, customer service, mail security, and expected cost savings from implementation of the LTO initiative. See Appendix B for additional information about this audit. The U.S. Postal Service filed a request for an Advisory Opinion with the Postal Regulatory Commission (PRC)<sup>1</sup> October 4, 2024. Our fieldwork was completed prior to this filing; thus, we did not review it as part of this report.

#### Background

#### Local Transportation Optimization

As part of its Delivering for America plan, the Postal Service announced the implementation of several initiatives to its processing and delivery network, some of which may impact costs and service performance. One of those strategies is to redesign its surface transportation network to create high performing, lower cost, efficient, and reliable surface transportation capable of moving more volume on fewer trips.

To support this strategy, the Postal Service began deploying a major change to operations October 28, 2023, when it implemented its first LTO initiative within the Richmond, VA, area. The initiative is designed to reduce the number of transportation trips to and from select post offices from two or three trips per day to one trip per day. The Postal Service will no longer transport originating mail to the processing facilities the same day it is collected at the "LTO optimized" offices. Instead, the mail will remain at the affected offices until the next day for morning pickup, delaying mail being introduced into sorting operations at the processing facilities. As of August 26, 2024, the Postal Service implemented the LTO initiative in 15 regions. See Table 1 for regions where LTO and regional processing and distribution centers (RPDC)<sup>2</sup> were implemented. See Table 2 for implemented LTO regions that were not associated with an RPDC implementation.<sup>3</sup>

#### Table 1. LTO Regions With an RPDC

Location	Date Implemented
Richmond, VA	October 28, 2023
Atlanta, GA	February 24, 2024
Portland, OR	February 24, 2024
Boise, ID	July 15, 2024

Source: PRC Docket No. PI2023-4, dated June 24, 2024.

#### Table 2. LTO Regions Without an RPDC

Location	Date Implemented
Wisconsin	January 8, 2024
Phoenix, AZ	February 20, 2024
Alabama	March 11, 2024
Mid-Hudson, NY	May 6, 2024
Santa Clarita, CA	June 3, 2024
Columbus, OH	June 24, 2024
Tulsa, OK	July 29, 2024
Santa Barbara, CA	July 29, 2024
New Orleans, LA	August 12, 2024
Palatine, IL	August 26, 2024
San Bernardino, CA	August 26, 2024

Source: PRC Docket No. PI2023-4 dated, June 24, 2024.

The Postal Service implemented this change to offices greater than 50 miles<sup>4</sup> away from the processing center. Offices greater than the 50-mile distance may become LTO optimized or receive an exemption from having their afternoon collection trips

<sup>1</sup> United States Postal Service request for an advisory opinion on changes in the nature of postal services (Docket N2024-1) on 10/04/2024.

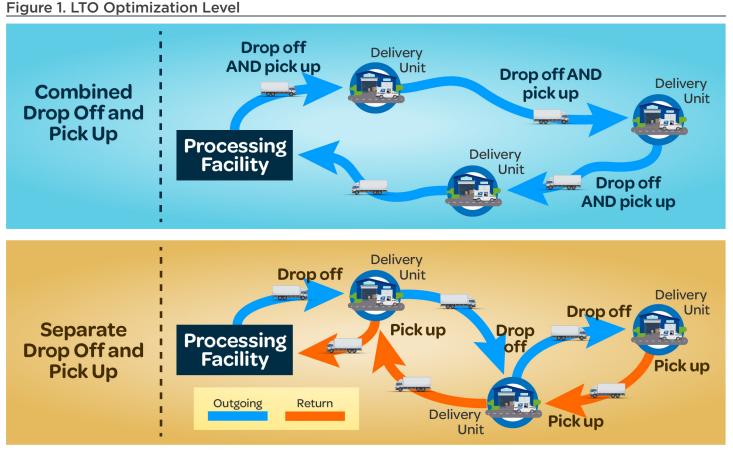
<sup>2</sup> These are multi-functional mega-centers where various processing and delivery operations are consolidated into one facility.

<sup>3</sup> The Postal Service has not finalized any further LTO locations beyond those identified in Table 2, and per Postal Service management, no LTO implementations are scheduled for September to November 2024.

<sup>4</sup> Initially the Postal Service implemented this change to offices 25 or more miles away from the Richmond RPDC. However, on January 8, 2024, the Postal Service adjusted its methodology and implemented only at offices more than 50 miles from the Richmond RPDC.

eliminated, generally based on the amount of mail volume at the facility. The optimization level is either combined, separate, or exempted (see Figure 1).

- Combined Drop Off and Pickup Collection mail is picked up at the same time the truck drops mail for delivery.
- Separate Drop Off and Pickup Mail is dropped off for delivery at all offices on the route, and the collection mail at these locations is subsequently picked up on the trucks' way back to the processing centers.
- Exempted No optimization.



Source: Postal Service PowerPoint Presentation, dated October 25, 2023.

#### Service Performance Standards

The service standards are delivery benchmarks for how long customers can expect it to take to deliver different types of mail and packages from origin to destination ZIP Codes. See Table 3 for mail originating and destinating service standards.

## Table 3. Service Standards for Contiguous48 States

Mail Class	Business Days
First-Class Mail	1-5
Media Mail	2-8
Periodicals	3-9
USPS Marketing Mail	3-10
Priority Mail Express	Next day to 2-day
Priority Mail	1-3
Ground Advantage⁵	2-5

Source: Postal Service Website (USPS.com).

5 Ground Advantage is a ground shipping product for packages up to 70 pounds, available through retail and commercial channels.

First-Class Mail mainly consists of single piece<sup>6</sup> and presort<sup>7</sup> mail. In fiscal year (FY) 2023, Single Piece First-Class Mail volume was about 25.5 percent, and presort mail was about 72.0 percent of the total First-Class Mail nationwide (see Table 4). For additional information on how service performance is assessed, see Additional Background in Appendix A.

#### Table 4. First-Class Mail Volume FY 2023

First-Class Mail	Mailpieces (Thousands)	Percent (%) of Mail Volume
Single-Piece Letters and Cards	11,763,576	25.5
Presort Letters and Cards	33,244,172	72.0
Flats	971,600	2.1
Other	172,663	0.4
Total First-Class Mail	46,152,011	100.0

Source: Revenue, Pieces & Weight (RPW) FY 2023 from USPS.com

We reviewed and analyzed service performance data from Informed Visibility<sup>8</sup> from October 2022 to July 2024 and delivery point ZIP Code data in the Address Management System<sup>9</sup> provided by the Postal Service. Additionally, we conducted site observations and interviewed local Postal Service personnel at 26 offices (see Table 7 in Appendix B) from September 3, 2024, to September 5, 2024.

#### **Finding Summary**

While safeguards were appropriately implemented to secure the mail held overnight at the LTO optimized offices, we found that implementation of the LTO initiative negatively impacted service to customers. Specifically, following the implementation of the LTO initiative for the first six regions (Richmond, VA; Wisconsin; Phoenix, AZ; Atlanta, GA; Portland, OR; and Alabama),<sup>10</sup> the service performance scores for First-Class Mail declined for all LTO regions while Single Piece First-Class Mail service performance to the rural population had an even greater decline. Additionally, Postal Service personnel stated that after the LTO implementation, customer complaints about mail delivery delays increased. In addition, management did not maintain an accurate list of offices affected by the LTO initiative, impacting its ability to calculate realized cost savings. Finally, overall transportation expenditures increased by

\$7.13 million for the 15 LTO implemented regions, when compared to the same period last year based on the LTO implementation period for each region. Collectively, these issues could negatively impact the Postal Service brand and goodwill.

"We found that implementation of the LTO initiative negatively impacted service to customers."

<sup>6</sup> Single-piece mail is mail that is sent individually or in small quantities with postage paid on each piece. For example, a utility bill or personal letter mailed from an individual or business.

Presort Mail is sorted to the finest extent required by the standards. Presort is performed sequentially, from the lowest to the highest level, to those destinations specified by the standard. Examples of First-Class Presort Mail include bulk letter or flat mail presorted to 3-digit or 5-digit ZIP Code level from commercial mailers
Informed Visibility provides a full digital reflection of the physical movement of mail and packages in near real time.

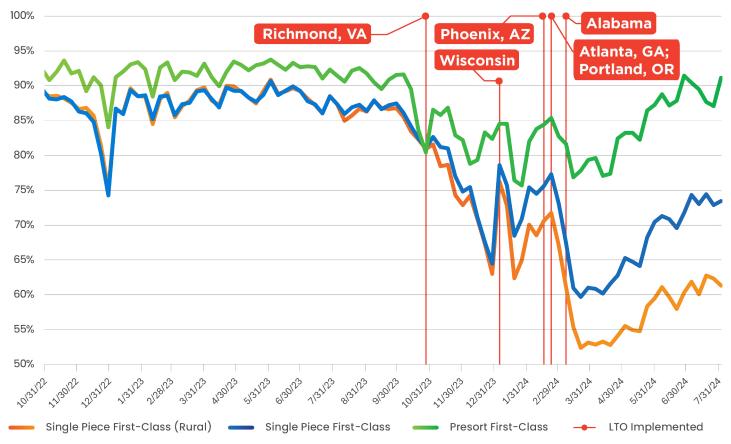
<sup>9</sup> The Address Management System is an integrated database located at the San Mateo Integrated Business Solutions Center and maintained by the local office. It is the official source of address information.

<sup>10</sup> We evaluated service from October 2022 through July 2024 for the first six LTO regions implemented prior to the end of March 2024.

## Finding #1: Service to Customers

#### Service Performance Impact

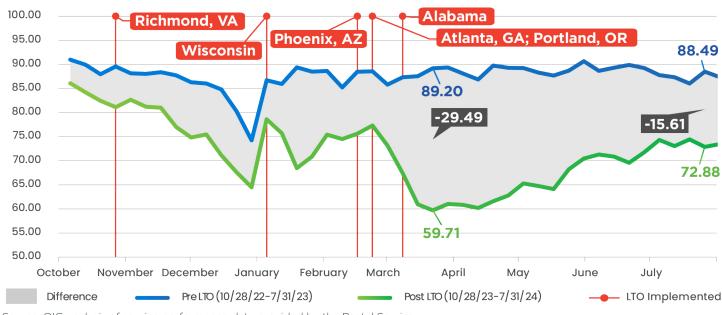
Delaying the transportation of mail at the LTO impacted offices resulted in an overall decrease in service to the American public served by these facilities. We analyzed the service performance data of the originating First-Class Mail for the first six LTO regions with 1,542 optimized offices implemented through March 2024. While service performance can be impacted by many variables, a decrease in service performance for both Single Piece and Presort First-Class Mail followed the LTO implementation. Additionally, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail. As of July 2024, Presort First-Class Mail service performance nearly returned to pre LTO levels, while Single Piece First Class Mail service performance had not recovered (see Figure 2). Most presort mail is inducted directly at the processing plants instead of the local offices, and therefore, the impact to service performance for presort mail was minimal.



#### Figure 2. First-Class Mail Service Performance Scores for the First Six LTO Implemented Regions

Source: OIG analysis of service performance data provided by the Postal Service.

Figure 3 compares Single Piece First-Class Mail for service performance pre- and post-LTO implementation. Pre-implementation (or same period last year) shows the service performance was consistent throughout. However, postimplementation shows the service performance experienced a significant decline to the lowest point of a 29.49-point reduction in service. As of July 2024, Single Piece First-Class Mail service performance remained at 15.61 points below pre LTO implementation levels, reflecting the impacts of the LTO initiative on service.

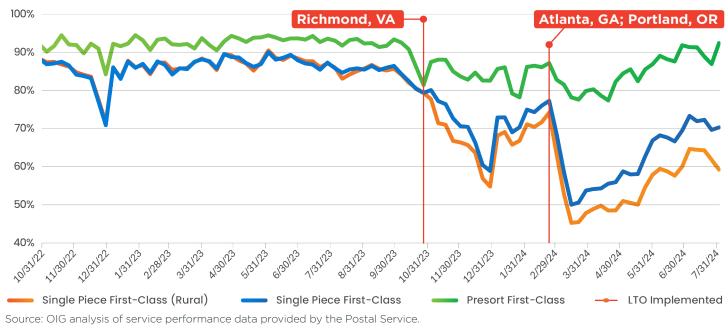




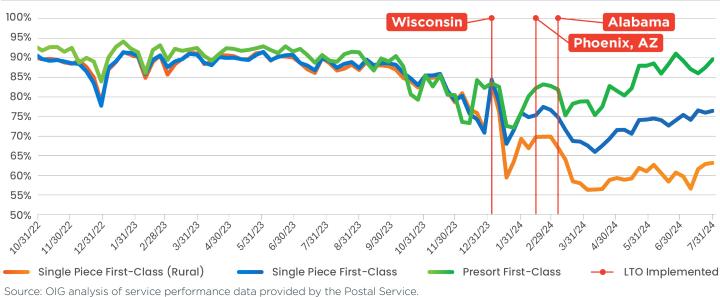
Source: OIG analysis of service performance data provided by the Postal Service.

A prior OIG report that reviewed LTO impacts in Richmond, VA, indicated that by implementing the LTO initiative simultaneously with the first RPDC, the OIG and Postal Service were not able to identify the specific service and cost impacts.<sup>11</sup> To determine whether there was a greater service performance impact for those locations associated with an RPDC, we compared service performance for LTO-impacted facilities associated with an RPDC and without an RPDC. The comparison showed that service performance scores were not significantly different for the two situations (see Figure 4 and Figure 5).





11 OIG issued audit report, Impacts Associated with Local Transportation Optimization (Report Number 23-161-1-R24, dated April 12, 2024).



## Figure 5. First-Class Mail Service Performance Scores for Three of the LTO Implemented Regions Without an RPDC

See Appendix C for service performance of the first six LTO Regions: Richmond, Wisconsin, Phoenix, Portland, Atlanta, and Alabama.

#### **Customer Outreach**

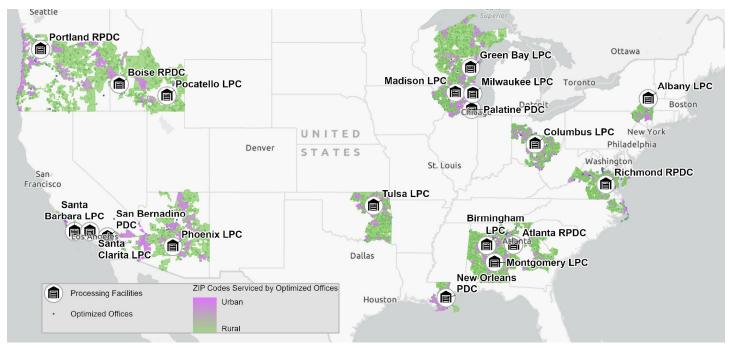
We also found the Postal Service had not adequately informed the public that, of the 4,455 total offices in the LTO implemented regions, 2,456 (or 55 percent) were optimized as of August 2024 (see Table 5).

LTO Region	LTO Optimized Date	Optimized Offices	Exempted Offices	Not Optimized Offices	Total Offices	Percent (%) Optimized Offices
Alabama	3/11/24	264	10	174	448	59
Atlanta, GA	2/24/24	228	15	315	558	41
Boise, ID	7/15/24	110	6	58	174	63
Columbus, OH	6/24/24	262	22	139	423	62
Mid-Hudson, NY	5/6/24	180	16	21	217	83
New Orleans, LA	8/12/24	56	4	57	117	48
Palatine, IL	8/26/24	68	3	73	144	47
Phoenix, AZ	2/20/24	119	6	83	208	57
Portland, OR	2/24/24	226	11	191	428	53
Richmond, VA	10/28/23	316	10	177	503	63
San Bernardino, CA	8/26/24	32	32	83	147	22
Santa Barbara, CA	7/29/24	21	19	30	70	30
Santa Clarita, CA	6/3/24	1	2	68	71	1
Tulsa, OK	7/29/24	184	3	79	266	69
Wisconsin	1/8/24	389	16	276	681	57
Total		2,456	175	1,824	4,455	55%

#### Table 5. Optimized, Exempted, and Non-Optimized Offices

Source: OIG analysis of the Postal Service LTO optimization data.

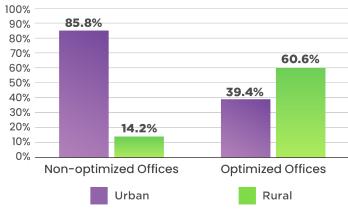
The LTO implementation affected 4.5 million households and businesses (see Figure 6), and 60.6 percent of the total population affected by optimized offices was considered rural (see Figure 7 and Appendix D for additional information on the methodology).





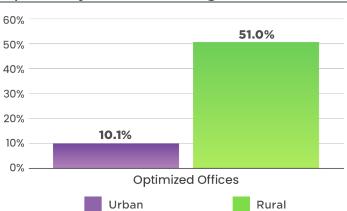
Source: OIG analysis of the Postal Service LTO optimization data.

#### Figure 7. Percent of Urban and Rural Population Impacted by Optimized and Non-Optimized Offices in the 15 LTO Regions



Source: OIG analysis of the Postal Service LTO optimization, service ZIP Codes, and 2020 census data.

To determine whether the rural population was disproportionately impacted compared to the urban population, we analyzed the percent of each population impacted in the 15 LTO regions compared to the total of each population type in those regions. Based on our analysis, the disparate impact to the rural population was about five times more than the urban population (see Figure 8, and Appendix D for additional information on the methodology).



#### Figure 8. Percent of Urban vs. Rural Population Impacted by LTO in the 15 Regions

Source: OIG analysis of the Postal Service LTO optimization, service ZIP Codes, and 2020 census data.

Postal Service local personnel and management stated that customers were not informed about the LTO changes and its impact on mail delivery originating from their area. The Postal Service internal document dated October 25, 2023, only updated the call center automated message, which stated, "Due to transportation changes at our facility, all mail and packages dropped today will be sent on the first dispatch tomorrow morning. We do not expect any impact to customer service from this change, as our transportation remains aligned to meet our published mailing and shipping product service standards." The automated message did not state whether the changes were temporary or permanent, and the Postal Service did not conduct any additional customer outreach.

The Postal Service is required to fulfill its universal service obligation.<sup>12</sup> In addition, the *Postal Operations Manual* requires the Postal Service to ensure customers are notified of changes in service promptly.<sup>13</sup>

Management stated that it launched the LTO initiative in a pilot phase and, as such, the processes and outcomes were still evolving, and it was continuously implementing improvements and refining the approach based on insights gained.<sup>14</sup>

Although the Postal Service initially viewed the LTO initiative as a pilot, it could have informed customers of the changes impacting mail delivery in their area. We recognize that customers could be notified through other means; however, an advisory opinion is one avenue to provide public notification of its planned changes and the potential to impact mail service for communities over 50 miles from a processing plant. On October 4, 2024, the Postal Service sought an advisory opinion, among other things, on the impacts of LTO implementation and service standard changes. Therefore, we will not make a recommendation on this issue.

Due to the number of households affected by the LTO initiative, the Postal Service has the responsibility to inform the general American public of the changes and its effects on timely mail delivery. As a result of LTO, customers experienced delays in their mail delivery, and customer complaints increased at 14 of the 20 impacted offices. In some cases, local Postal Service personnel at optimized offices redirected customers to a nearby non-optimized post office to ensure on-time delivery of their mail. The lack of transparency and customer outreach about the LTO changes coupled with the potential impacts on mail delivery could reflect negatively on the Postal Service brand and goodwill, impact public perception, and potentially drive customers to alternative sources for their mailing needs.

#### **Recommendation #1**

We recommend the **Vice President, Logistics**, conduct outreach to affected customers notifying them of the changes to optimized offices and impacts to service.

#### **Postal Service Response**

Management disagreed with finding 1 but agreed with recommendation 1. Although they noted the Vice President, Logistics, would not be the appropriate owner to communicate changes to customers, management stated they have publicly proposed to change the service standards and will engage in public communications to customers regarding the new service standards as part of any implementation process. The target implementation date is December 1, 2025.

<sup>12</sup> Title 39 U.S. Code § 101.a - Postal policy, the universal service obligation binds the Postal Service to provide prompt, reliable, and efficient services to patrons in all areas and all communities.

<sup>13</sup> Postal Operations Manual, Issue 9, Section 652.424, dated July 2002 and updated online through May 31, 2024.

<sup>14</sup> Management also stated the legacy transportation network was designed based upon a business model where significant correspondence was conducted through mail. That design was prior to the development of the internet and cell phone technology which began the erosion of mail volume from collection points. Although the legacy network design may have warranted multiple trips to transport high mail volume, that level of mail volume no longer exists.

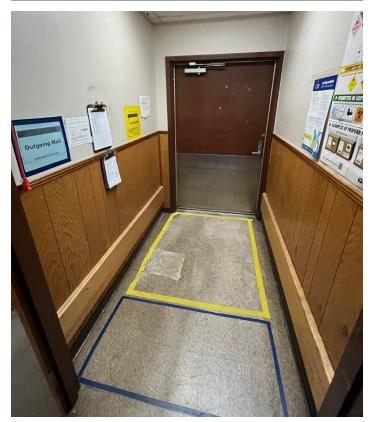
#### **OIG Evaluation**

The OIG considers management's comments responsive to recommendation 1 and corrective actions should resolve the issues identified. We will work with management to ensure the responsible official is identified and verify that outreach is conducted with impacted customers regarding LTO offices, as well as for future changes around transportation optimization initiatives.

## Finding #2: Mail Security

We judgmentally selected 26 LTO optimized offices to conduct observations and interview local Postal Service personnel between September 3, 2024, and September 5, 2024, (see Appendix A, Table 7). We found the Postal Service implemented consistent safeguards to protect the security of the mail held overnight at 20 of 26<sup>15</sup> offices visited. Specifically, during our site observations at those 20 offices, personnel secured the mail overnight for the morning pickup, as communicated internally by management on October 25, 2023. For example, we observed buildings were locked overnight, and the mail was staged in secured areas behind the service counter window, or a separate room in the back of the office.<sup>16</sup> Figure 9 shows an example of the secured room where mail was staged for driver pickup.

#### Figure 9. Example of Mail Staging Secured Area



Source: Photo taken by OIG during site visit September 5, 2024.

The optimized offices we visited stated that they received training or information ahead of implementation, and expectations for the new processes were communicated to local personnel. As a result, customers serviced by the 20 optimized offices we visited can be assured that the mail is safe and secure while waiting for the next day pickup. Because of this, we are not making a recommendation for the mail security in optimized offices.

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Regarding the other six offices we visited, four were incorrectly listed as optimized; as such, the transportation schedules had not changed, and mail was not held overnight. We could not confirm whether the fifth office in Coker, AL, was optimized. On the day of our visit, the office had a scheduled pickup for 6:55 a.m. However, nobody was present at the office, and we observed that the truck did not arrive as scheduled. The sign posted at the office stated the window hours were from 8 a.m. to noon. As of 10 a.m. that day, no one was present.<sup>17</sup> While the sixth office followed LTO procedures, we identified issues with the office security as discussed in the Other Matters section below.

<sup>15</sup> One office was removed from the LTO optimized list after our site visits. Of the remaining five offices, four were not optimized and one did not have personnel on site on the day of our visit.

<sup>16</sup> Where space is available, mail is stored in a vestibule between two locked doors. The drivers have access to pick up the mail through the exterior door only. 17 During our fieldwork, we inquired with the Postal Service as to the status of this office. As of issuance of this report, we had not received a response to our inquiry.

## Finding #3: Expected Cost Savings

The Postal Service cannot effectively calculate, record, and track costs and savings related to the LTO initiative. Specifically, we found that management did not establish a process to accurately track optimized and non-optimized offices to determine the cost savings. During our audit, we requested a list of LTO optimized and non-optimized offices. While management provided multiple lists during our audit, we identified discrepancies with these lists, including offices listed as both optimized and non-optimized. Additionally, four locations we visited were listed as LTO optimized offices, but LTO had not been implemented at those offices at the time of our visits. We received updated lists of LTO optimized and non-optimized offices on September 16 and 23, 2024, and we continued to identify inaccuracies in the information provided.

Further, we initially asked on August 13, 2024, for the cost savings information. On August 22, 2024, management stated that the Finance group had not yet validated the data, even though the first LTO implementation was initiated almost 10 months prior in the Richmond, VA, region October 28, 2023. Management also stated it did not perform a cost savings analysis. Management subsequently provided the summary level transportation expenditures for the 15 LTO regions September 26, 2024. A primary goal of the Delivering for America plan is to cut transportation costs. The Postal Service revised the estimated savings<sup>18</sup> from \$1 billion to \$651 million for the LTO initiative<sup>19</sup> but could only provide OIG with estimated transportation expenditures for the optimized offices. However, management cannot develop cost savings estimates without accurately tracking LTO optimized and non-optimized offices. Based on the information provided, we noted the Postal Service's overall transportation expenditures increased by \$7.13 million for the 15 LTO implemented regions (see Table 6).

Management stated that while the initial expenditures had increased, the additional expenses may be a result of multiple initiatives for six of 15 regions where Local Route Optimization (LRO) and RPDC implementations accompanied the LTO initiative. Table 6 shows that the transportation expenditures for the regions only impacted by LTO increased less than the regions also associated with RPDC/LRO initiatives. Management also stated that the Atlanta RPDC experienced implementation issues, and it had to use unplanned and costly emergency transportation contracts and hire additional personnel that added to the overall expenditures. It further stated that these costs will stabilize once the implementation matures and generates transportation savings.

<sup>18</sup> Postal Regulatory Commission Docket number N2024-1, dated October 4, 2024.

<sup>19</sup> The Postal Service intends to implement the Regional Transportation Optimization (RTO) initiative on a nationwide basis, which is an evolution of the LTO initiative that was piloted in a limited number of geographic areas.

Description	LTO Region	Pre LTO-Expenditure – SPLY (\$Million)	Post LTO – Expenditure (\$Million)	Increase or Decrease (\$Million)
LTO	Alabama	\$11.67	\$12.21	\$0.54
LTO	Mid-Hudson	0.69	1.27	0.58
LTO	New Orleans	1.40	1.00	(0.40)
LTO	Palatine	2.40	2.60	0.20
LTO	Phoenix	26.10	28.00	1.90
LTO	San Bernardino	2.00	2.00	0.00
LTO	Santa Barbara	2.42	1.96	(0.46)
LTO	Tulsa	1.30	1.50	0.20
LTO	Wisconsin	30.80	30.20	(0.60)
LTO Subtotal		\$78.78	\$80.74	\$1.96
LTO/LRO	Columbus	10.70	11.00	0.30
LTO/LRO	Santa Clarita	8.80	4.60	(4.20)
LTO/LRO Subtotal		\$19.50	\$15.60	\$(3.90)
LTO/RPDC	Atlanta	50.60	61.60	11.00
LTO/RPDC	Boise	1.01	1.38	0.37
LTO/RPDC	Portland	22.70	20.60	(2.10)
LTO/RPDC	Richmond	43.30	43.10	(0.20)
LTO/RPDC Subtotal		\$117.61	\$126.68	\$9.07
Grand Total		\$215.89	\$223.02	\$7.13

#### Table 6. LTO Region Specific Transportation Expenditure Comparison

Source: OIG analysis of the transportation expenditures provided by the Postal Service September 26, 2024.

After our fieldwork was completed, management stated implemented a process in September 2024 for identifying and tracking the optimized and non-optimized offices impacted by LTO. They provided an example of a workbook used to track upcoming implementations and explained how they use multiple information sources to compare and validate the LTO offices. Therefore, we are not making a recommendation on developing a process to track the optimized and non-optimized offices impacted by LTO.

Additionally, management stated they developed a new model for transportation optimization and estimating cost savings and have been using the model since September 2024. The focus of the model is to perform a comparison of a baseline to the planned optimized transportation including weekly and annual miles, trip stops, driver hours, layover hours and trip cost. However, management informed us that they do not calculate or track the actual cost savings for LTO implementation.

#### **Recommendation #2**

We recommend the **Vice President, Logistics**, develop and maintain detailed documentation outlining the cost savings resulting from the Local Transportation Optimization implementation for each region and include a comparison to planned savings.

#### **Postal Service Response**

Management agreed with finding 3 and recommendation 2. Management stated they acknowledged the importance of detailed and accurate documentation in evaluating the cost savings associated with the LTO initiative. Management developed and implemented a tracking tool, the Chief Logistics Operations (CLO) Summary Report, through a multi-month iterative process. The planned savings methodology supporting the CLO Summary Report is based on network modeling results. Management requested to close this recommendation upon issuance of the final report, but also provided a target implementation date of December 1, 2025.

#### **OIG Evaluation**

The OIG considers management's comments responsive to recommendation 2 and corrective actions should resolve the issues identified. Regarding management's request to close the recommendation upon the report's issuance, we did not receive any supporting documentation and therefore, were not able to validate the cost savings methodology. The recommendation will remain open until these steps are achieved.

#### **Other Matters**

During our site observations, we noted concerns over the building conditions for two locations. Specifically, September 4, 2024, we visited the Waynesboro Park Station, an optimized office near Richmond, VA, which is a retail unit only and services about 20 PO Boxes. The building's ceiling was falling, and we observed that there had been no transportation activities to the building, as the grass leading up to the dock was undisturbed. On September 5, 2024, we visited the Sparta Main Office, also an optimized office near Richmond, VA, located in a convenience store with no wall or door to separate the post office from the store. This leaves the area, and its contents, unprotected, and anyone who enters the convenience store can access the post office, even when Postal Service personnel are not present. We confirmed with the postmaster that these locations have extremely low mail volume, foot traffic, and sales. During our audit fieldwork, we brought these issues to management's attention for its awareness.

#### **Looking Forward**

The Postal Service filed a request for an Advisory Opinion with the PRC<sup>20</sup> October 4, 2024. As part of this request, the Postal Service proposed expanding the LTO pilot to a nationwide initiative centered around RPDCs, renaming it Regional Transportation Optimization. The goal is to eliminate transportation routes and increase trailer utilization, which will also improve the efficiency and velocity of the processing network. It also proposed to revise the service standards for end-to-end products to align with this initiative. The Regional Transportation Optimization initiative is a key component to accomplishing the Postal Service's goal to achieve financial sustainability. As the Postal Service moves forward with its modernization initiatives, it is important to maintain transparency and earn the publics' trust. We plan to conduct additional audits on the effectiveness of the Postal Service's transportation modernization initiatives as they are rolled out nationwide.

<sup>20</sup> United States Postal Service request for an advisory opinion on changes in the nature of postal services (Docket N2024-1) on 10/04/2024.

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## Appendix A: Additional Background

Service performance scores of mail delivery are measured based on the type of mail product. Service performance for Single Piece First-Class Mail is measured through the USPS internal measurement system. The system combines scanning of mailpieces by postal personnel at randomly selected collection and delivery points with in-process machine scans for all eligible mail to estimate total transit time for the mail. The total mail transit time is comprised of three legs:

- First Mile The transit time from collection to initial automated processing. The First Mile Profile<sup>21</sup> is then used to determine the overall service performance score that includes First Mile, Processing, and Last Mile.
- Processing Duration The transit time from initial processing to final automated processing.
- Last Mile The transit time from final processing to delivery. Last Mile Impact is calculated based on scan information from randomly selected delivery points. The Last Mile Impact measures how long mail takes from the anticipated delivery date based on the last processing scan to actual delivery.

The estimated transit time is compared against Single-Piece First-Class Mail service standards (see Table 3 above) to determine the percent of mail delivered on time.

Service performance for Presort First-Class Mail uses the documented arrival time at a designated postal facility to start-the-clock,<sup>22</sup> and an Intelligent Mail barcode (IMb)<sup>23</sup> scan at delivery for randomly selected delivery points to stop-the-clock.

The Presort First-Class Mail is not impacted by the First Mile process, and the total mail transit is comprised of two legs:

- Processing Duration The transit time from the start-the-clock through final automated processing.
- Last Mile The transit time from final automated processing until delivery. Total transit time is calculated for the mail and compared with the appropriate service standard for the product to determine the service performance.

<sup>21</sup> First Mile Profile combines three components: Collection Profile, First Mile Sampling Profile, and Retail Profile.

<sup>22</sup> Start-the-clock is the date when Postal Service takes possession of a mail container for processing and delivery.

<sup>23</sup> The IMb is used to sort and track letters, cards, and flats and offers greater versatility by allowing many services to be requested and embedded within one barcode.

## Appendix B: Additional Information

#### Scope and Methodology

The scope of this project is a nationwide review of LTO implementation. To accomplish our objective, we:

- Interviewed Postal Service Headquarters officials regarding the LTO implementation requirements and processes.
- Confirmed 15 regions where LTO had been implemented through August 2024 and obtained the list of offices impacted by the LTO implementation.
- For each LTO region implemented through July 2024, analyzed impacts to households and businesses.

- Analyzed First-Class Mail service performance for each LTO region implemented through March 2024 to identify impact and trends through July 2024.
- Identified what security measures the Postal Service implemented to protect mail being left at offices overnight.
- Selected 26 offices using a judgmental sample (see Table 7) and conducted site observations and determined the security of mail being held overnight.

LTO Region Name	Office Name	City, State
Alabama	Bynum Main Office	Bynum, AL
Alabama	Choccolocco Main Office	Choccolocco, AL
Alabama	Coker	Coker, AL
Alabama	Cottondale Main Office	Cottondale, AL
Alabama	De Armanville Main Office	De Armanville, AL
Alabama	Elrod Main Office	Elrod, AL
Alabama	Munford Main Office	Munford, AL
Alabama	Reform Main Office	Reform, AL
Phoenix, AZ	Black Canyon City Main Office	Black Canyon City, AZ
Phoenix, AZ	Camp Verde Main Office	Camp Verde, AZ
Phoenix, AZ	Downtown Flagstaff Station	Flagstaff, AZ
Phoenix, AZ	Payson Main Office	Payson, AZ
Phoenix, AZ	Sedona Main Office	Sedona, AZ
Phoenix, AZ	Wickenburg Main Office	Wickenburg, AZ
Richmond, VA	Bowling Green Main Office,	Bowling Green, VA
Richmond, VA	Charlottesville Barracks Road Station	Charlottesville, VA
Richmond, VA	Columbia Main Office	Columbia, NC
Richmond, VA	Gordonsville Main Office	Gordonsville, VA
Richmond, VA	Plymouth Main Office	Plymouth, NC
Richmond, VA	Roper Main Office	Roper, NC
Richmond, VA	Sparta Main Office	Sparta, VA
Richmond, VA	Stuarts Draft – Main Office	Stuarts Draft, VA
Richmond, VA	Tappahannock Main Office	Tappahannock, VA
Richmond, VA	Waynesboro Park Station	Waynesboro, VA
Richmond, VA	Windsor Main Office	Windsor, NC
Richmond, VA	Woodford Main Office	Woodford, VA

#### Table 7. Site Visit Locations

Source: OIG site selection.

We conducted this performance audit from July 2024 through December 2024 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 November 13, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the LTO program 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 two components were significant to our audit objective: control activities, and information and communication.

We developed audit work to ensure that we assessed these controls. Based on the work performed, we identified internal control deficiencies related to control activities, and information and communication 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 data by obtaining and analyzing service performance and delivery point data. We also assessed the reliability of the data by interviewing Postal Service officials and testing selected data fields by applying logical tests to electronic data files. We determined that the data were sufficiently reliable for the purposes of this report.

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
Impacts Associated With Local Transportation Optimization in Richmond, VA	Our objective was to determine impacts associated with the Postal Service's new Local Transportation Optimization initiative in Richmond, VA.	23-161-1-R24	April 12, 2024	0
Accuracy of Reported Service Performance	Our objective was to assess the accuracy and reliability of the Postal Service's reported service performance.	23-168-R24	June 26, 2024	0

#### **Prior Audit Coverage**

## Appendix C: Impact on Processing Facilities Service Performance Scores for LTO Regions Through March 2024

#### Richmond, VA

The Postal Service's first LTO effort was in the Richmond, VA, surrounding area. The Richmond, VA, RPDC opened in July 2023, and there was a small drop in performance for First-Class Mail in August and September. However, service performance for both Single Piece and Presort First-Class Mail dropped substantially after LTO implementation starting on October 28, 2023, with 316 optimized offices. The period from November and December was also during the peak season with the new RPDC structure. The service performance scores have since recovered, but they generally remain below where service was before LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 10). The Single Piece First-Class Mail service performance score for the Richmond, VA, RPDC declined by 31.53 points to the lowest point of 49.16 percent in December 2023, when compared to the same period last year (SPLY) (see Figure 11).









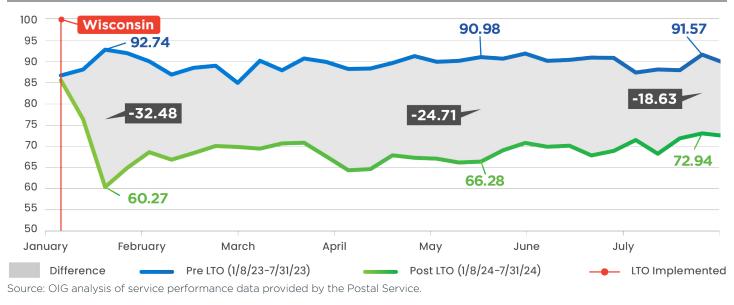
#### Wisconsin

The Postal Service implemented LTO in the Wisconsin area on January 8, 2024, with 389 optimized offices around the Green Bay, Madison,<sup>24</sup> and Milwaukee processing facilities. We noted a decrease in service performance for both Single Piece and Presort First-Class Mail following LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 12). In January 2024, the Single Piece First-Class Mail service performance score for the Wisconsin area declined by 32.48 points to the lowest point of 60.27 percent, when compared to SPLY (see Figure 13). A winter storm in Wisconsin during the two weeks starting January 9, 2024, possibly accounts for the 60.27 percent score that week. However, service performance scores for Single Piece First-Class Mail have yet to recover to pre-implementation scores.









24 Madison, WI, processing facility does not service Single Piece First-Class Mail.

#### Phoenix, AZ

The Postal Service implemented LTO in Phoenix, AZ, on February 20, 2024, with 119 optimized offices. We noted a decrease in service performance for both Single Piece and Presort First-Class Mail following LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 14). In March 2024, the Single Piece First-Class Mail service performance score for Phoenix, AZ, declined by 23.48 points to the lowest point of 67.44 percent, when compared to SPLY (see Figure 15).





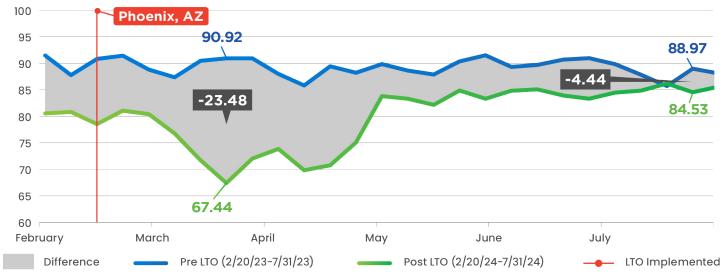


Figure 15. Phoenix, AZ, Pre- vs. Post-LTO Implementation Comparison

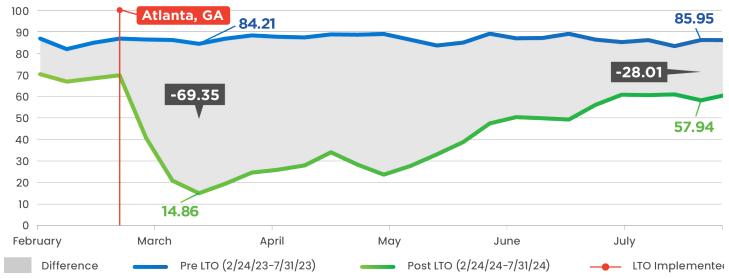
#### Atlanta, GA

The Postal Service implemented LTO in Atlanta, GA, on February 24, 2024, the same as the "go live" date for the Atlanta, GA, RPDC, with 228 optimized offices. We noted a decrease in service performance for both Single Piece and Presort First-Class Mail following LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 16). In March 2024, the Single Piece First-Class Mail service performance score for Atlanta, GA, declined by 69.35 points to the lowest point of 14.86 percent, when compared to SPLY (see Figure 17).





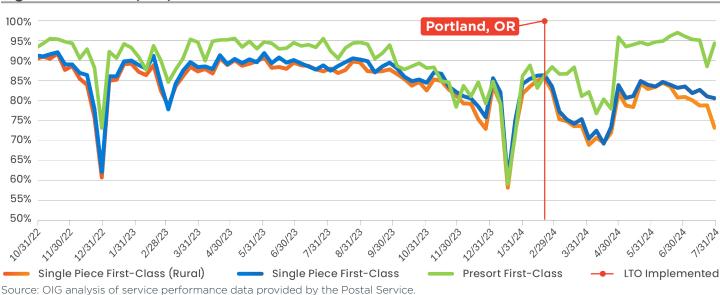
Source: OIG analysis of service performance data provided by the Postal Service.



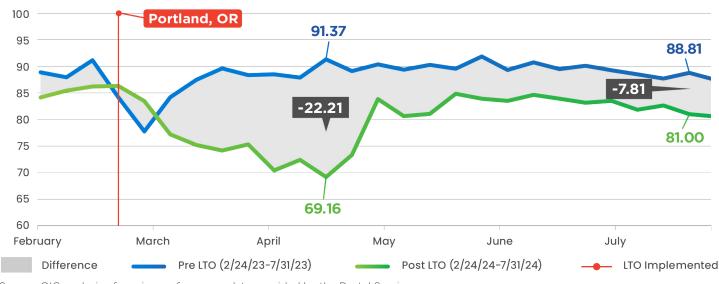
#### Figure 17. Atlanta, GA, RPDC Pre- vs. Post-LTO Implementation Comparison

#### Portland, OR

The Postal Service implemented LTO in Portland, OR, on February 24, 2024, with 226 optimized offices. The Portland, OR, RPDC also went "live" on the same date that LTO was implemented. We noted a decrease in service performance for both Single Piece and Presort First-Class Mail following LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 18). In April 2024, the Single Piece First-Class Mail service performance score for the Portland, OR, RPDC declined by 22.21 points to the lowest point of 69.16 percent, when compared to SPLY (see Figure 19).







#### Figure 19. Portland, OR, RPDC Pre- vs. Post-LTO Implementation Comparison

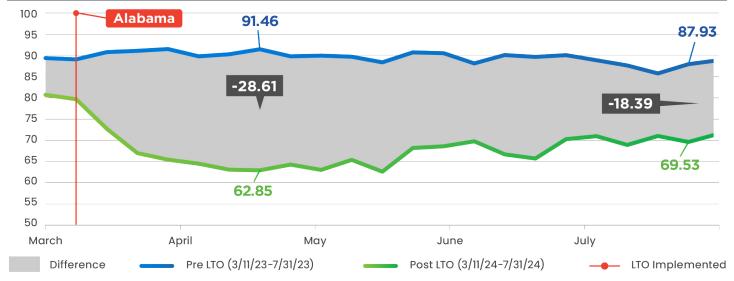
#### Alabama

The Postal Service implemented LTO in Alabama on March 11, 2024, with 264 optimized offices around the Birmingham and Montgomery processing facilities. We noted a decrease in service performance for both Single Piece and Presort First-Class Mail following LTO implementation. Additionally, with the LTO implementation, the rural population experienced a greater decline in service performance for Single Piece First-Class Mail (see Figure 20). In April 2024, the Single Piece First-Class Mail service performance score for the Alabama LTO region declined by 28.61 points to the lowest point of 62.85 percent, when compared to SPLY (see Figure 21).





Source: OIG analysis of service performance data provided by the Postal Service.



#### Figure 21. Alabama Pre- vs. Post-LTO Implementation Comparison

## Appendix D: Urban and Rural Population

To determine the urban-rural populations for optimized and non-optimized offices for the 15 LTO regions, we used the delivery point ZIP Codes from the Address Management System. We also obtained the urban-rural populations by ZIP Code using the 2020 census<sup>25</sup> data. We analyzed the delivery point ZIP Codes for the optimized and non-optimized offices and used census data to determine the percentage impact on urban-rural populations. We determined that out of the total 9.2 million population serviced by the LTO optimized offices, about 5.6 million (or 60.6 percent) were rural, and 3.6 million (or 39.4 percent) were urban that were impacted by the LTO implementation (see Table 8).

Table 8. Urban and Rural Populations Impacted by Optimized and Non-Optimized Offices
--

Optimization Level	Population Urban	Population Rural	Total	Percent Urban	Percent Rural
Non-Optimized Offices	32,488,929	5,363,046	37,851,975	85.8	14.2
Optimized Offices	3,630,605	5,578,956	9,209,561	39.4	60.6
Total	36,119,534	10,942,002	47,061,536	76.7	23.3

Source: OIG analysis of the Postal Service LTO optimization, service ZIP Codes, and 2020 census data.

Additionally, we analyzed the percent of each population impacted in the 15 LTO regions compared to the total of each population type (urban-rural) in those regions. We used the disparate impact methodology<sup>26</sup> for our analysis to determine the impact for the rural population. Our analysis shows that 5.6 about million (or 51.0 percent) of the 10.9 million rural population was impacted by LTO implementation. However, only about 3.6 million (or 10.1 percent) of the 36.1 million urban population was impacted by LTO implementation. Table 9. Urban vs. Rural Population Impacted by LTO in the 15 Regions

Optimization Level	Population Urban	Population Rural
Non-Optimized Offices	32,488,929	5,363,046
Optimized Offices	3,630,605	5,578,956
Total	36,119,534	10,942,002
Percent Non-Optimized Offices	89.9%	49.0%
Percent Optimized Offices	10.1%	51.0%

Source: OIG analysis of the Postal Service LTO optimization, service ZIP Codes, and 2020 census data.

<sup>25</sup> The census data created by the U.S. Census Bureau is designed for the ZIP Code Tabulation Areas (ZCTAs) to approximate ZIP Codes. Unlike ZIP Codes, which are primarily used for mail delivery, ZCTAs are built from census blocks and designed to provide a reliable framework for demographic and geographic analysis, offering a consistent basis for statistical data.

<sup>26</sup> Disparate impact (or adverse impact) refers to unintentional discriminatory practice. A disparate impact policy or rule is one that seems neutral but has a negative impact on a specific protected class of persons. Our methodology aligns with the Department of Justice's Title VI of the Civil Rights Act of 1964, which states that a typical disparity measure determines the proportion of protected persons and non-protected persons adversely affected. In this case, we used the rural population as the protected class type for our analysis.

## Appendix E: Management's Comments



December 10, 2024

JOHN CIHOTA DIRECTOR, AUDIT SERVICES

SUBJECT: Network Changes: Local Transportation Optimization (24-142-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report Network Changes: Local Transportation Optimization.

The Postal Service's current local transportation operations are not conducive to the logical, efficient, and reliable movement of mail and packages from origin to destination in the modern postal environment. The volume of mail collected through our retail facilities (including mail collected on carrier routes and entered at Post Offices) has declined substantially in recent decades: for instance, in FY 1997 there were 57 billion pieces of Single-Piece First-Class Mail, which by FY 2023 had declined by 80 percent to 12 billion pieces. Nevertheless, the Postal Service has not fundamentally adjusted our collection processes or our transportation network to account for that decline. This results in significant underutilization, high costs, and associated excess carbon emissions, and also impedes our service reliability.

To begin the process of correcting this clear deficiency of our current operations, the Postal Service conducted Local Transportation Optimization (LTO) pilots in a limited number of geographic areas to assess the operational and service implications of consolidating our local transportation operations for certain ZIP Codes, and to determine how it might be modified or enhanced to achieve our strategic goals of providing highquality, reliable, and efficient service in a financially sustainable manner. While we were initially of the view that we could potentially engage in such consolidation activities while meeting the current service standards, we have determined through the pilots that the LTO pilots did not go far enough in achieving necessary cost savings, and that it is also not possible to effectively optimize transportation and to be financially sustainable within the constraints of the current service standards. For those reasons, we concluded that our service standards therefore need to explicitly accommodate the fact that mail and packages entered the prior day would be picked-up on the next day's transportation route for certain ZIP Codes. We also determined that to fully leverage the efficiency and cost savings benefits of this approach, we need to expand the scope of the optimization initiative: the Regional Transportation Optimization (RTO) initiative, which is evolution of LTO, increases our ability to optimize transportation and to save money within a broader geography as compared to LTO. These matters are the subject of a pending request for an Advisory Opinion from the Postal Regulatory Commission.

The following are our comments to the Findings.

#### Findings #1: Service to Customers – Management Disagrees

As noted above, Management recognizes that LTO has impacted service performance, as it is not possible to effectively optimize transportation within the constraints of the current service standards. This is the reason we have proposed the service standard changes that are the subject of the pending Advisory Opinion request. We do not agree that the Postal Service should have conducted broader outreach with respect to the LTO pilots, which as noted above were intended to assess the operational and service implications of adjusting our local transportation operations, which we initially believed could be implemented in a manner consistent with our current service standards. Without concrete data indicating long-term, systemic delays, a broad outreach campaign would have been premature and could inadvertently raise concerns about service reliability. Now that we have determined to move forward with service standard changes, we will provide the appropriate public notices to our customers concerning RTO and the new service standards.

The Postal Service initiated an advisory opinion request once we determined that it was appropriate to move forward with implementing RTO on a nationwide basis, and to make changes to our service standards to align with RTO (as well as certain other operational initiatives we are pursuing). An advisory opinion must be sought when the specific requirements of the statute (as set forth in 39 U.S.C. 3661) are met, and the conduct of the LTO pilots did not meet these requirements, and therefore a request that concerned the LTO pilots would have been premature. While the OIG report suggests that an advisory opinion request may have been an appropriate tool for providing public notice of the LTO pilots, please note that we do not consider the advisory opinion process – which constitutes a laborious, time-intensive process of on-the-record administrative litigation – to be an appropriate means of providing public notice of initiatives that do not meet the Section 3661 requirements.

#### Findings #2: Security of the Mail - Management Agrees

Management agrees that the required safeguards have been put in place to secure mail. These efforts have occurred through collaboration and in partnership with the Delivery team. Extensive planning and training have been provided to delivery personnel and logistics suppliers in the appropriate procedures to ensure mail safety.

#### Findings #3: Expected Cost Saving – Management Agrees

Management agrees with the OIG findings that a process to effectively track, record, and calculate related LTO cost/savings should be established. Logistics management will provide the requested data, and any additional items requested as needed to satisfy Recommendation 2.

Following are our comments on each of the two recommendations:

**Recommendation 1:** We recommend the Vice President, Logistics, conduct outreach to affected customers notifying them of the changes to optimized offices and impacts to service.

Management Response/Action Plan:

Management **agrees** with this recommendation at this stage in the evolution, in that the Postal Service has publicly proposed to change our service standards and will engage in public communications to customers regarding the new service standards as part of any implementation process.

Note, however, that the Vice President of Logistics is not the appropriate owner for customer communications related to national initiatives. Logistics personnel do not engage directly with customers or manage communication channels.

Management will provide the communications referenced above after they are developed as part of any implementation process.

Target Implementation Date: 12/1/2025

Responsible Official: TBD

**Recommendation 2**: We recommend the Vice President, Logistics, develop and maintain detailed documentation outlining the cost savings resulting from the Local Transportation Optimization implementation for each region and include a comparison to planned savings.

Management Response/Action Plan:

Management **agrees** with this recommendation and acknowledges the importance of detailed and accurate documentation in evaluating the cost savings associated with the Local Transportation Optimization (LTO) initiative. However, it should be noted that not all sites included in the report were exclusively part of LTO implementation. In several regions, LTO was implemented concurrently with other initiatives, such as the Regional Processing and Distribution Center (RPDC) and Local Route Optimization (LRO) programs. Consequently, isolating the costs and savings directly attributable to LTO was not feasible, leading to potential variations in the financial representation of the initiative's impact.

To address this, management developed and implemented a tracking tool, the CLO Summary Report, through a multi-month iterative process. Officially approved for reporting in October 2024, the CLO Summary Report tracks critical operational metrics across various phases of the planning process and culminates in a comparison of Actual Financial Performance Report (FPR) costs, model savings, and planned savings. The data within the CLO Summary is quantified at the campus implementation level, providing a granular view of financial performance.

For financial reporting, HQ relies on the Enterprise Data Warehouse (EDW), particularly the Accounting Data Mart (ADM), to generate the FPR. As ADM/FPR data is reconciled monthly, it ensures accuracy but lacks real-time updates. In contrast, the Surface Transportation Spend (STS) dashboard draws from the continuously updated Accounts Payable module, which is not reconciled, leading to occasional misalignments between STS dashboard data and ADM/FPR reports. As a result, the CLO Summary Report may not align fully with HQ financial reporting.

The planned savings methodology supporting the CLO Summary Report is based on network modeling results. This approach applies a capture rate to the previous fiscal year's local (non-CDS) actual expenditures to calculate the "potential" savings for each implementation campus. Future documentation and reporting of LTO savings will adhere to this framework, with periodic updates provided to key stakeholders.

Management requests to close this recommendation upon issuance of the final report.

Target Implementation Date: 12/1/2025

Responsible Official: Director Logistics, Network Transformation (LTO)

E-SIGNED by ROBERT CINTRON on 2024-12-10 20:18:55 EST

Robert Cintron Vice President, Logistics

E-SIGNED by Steve.M Dearing on 2024-12-10 11:23:02 EST

Stephen Dearing Vice President, Chief Data and Analytics Officer

cc: Corporate Audit Response Management

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