

Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA

AUDIT REPORT

Report Number 23-161-R24 | March 28, 2024



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Highlights

Background

The U.S. Postal Service is redesigning its processing network with the goal of creating a best-in-class mail and package processing network as part of its 10-year strategic Delivering for America plan. The Postal Service plans to create a modernized network based around Regional Processing and Distribution Centers (RP&DC), local processing centers, and sorting and delivery centers. The Richmond Processing and Distribution Center became the first RP&DC, in July 2023, consolidating operations from nearby facilities. According to the Postal Service, the effectiveness of these new facilities is critical to the success of its strategic initiatives.

What We Did

Our objective was to assess the operational impacts related to the launch of the RP&DC and identify successes, lessons learned, and opportunities.

What We Found

While the Postal Service had successes when implementing its first RP&DC, it also faced many challenges and identified many lessons learned. The challenges caused the Postal Service to incur additional labor and transportation costs, totaling over \$8 million in questioned costs over the first four months of operations. The challenges also contributed to a decrease in service performance for the Richmond region that continued four months after launch.

We identified the following opportunities for the Postal Service to improve performance in the region and during implementation of future RP&DCs: reviewing facilities for pre-existing issues that could impact a successful rollout; including service performance as a measure of success; ensuring transportation schedules are aligned to operations and facilities adhere to the operating plans; and communicating more effectively with local management.

Recommendations

We made 10 recommendations to management that include: continuing to identify and address issues post launch; developing procedures to mitigate challenges before launch; coordinating the training for local managers to understand roles and responsibilities, engagement, leadership, and adequate supervision of operations; adopting a service performance measure of success; aligning and validating transportation schedules; recovering overpayments; establishing a process to communicate and solicit feedback from all local managers in the RP&DC region; updating its Mail Processing Facility Review policy; and communicating impacts to communities when moving processing operations for an entire 3-digit ZIP Code to another facility.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

March 28, 2024

MEMORANDUM FOR: DANE COLEMAN
VICE PRESIDENT, PROCESSING AND MAINTENANCE OPERATIONS

STEPHEN DEARING
VICE PRESIDENT, CHIEF DATA AND ANALYTICS OFFICER

ROBERT CINTRON
VICE PRESIDENT, LOGISTICS

TODD HAWKINS
VICE PRESIDENT, REGIONAL PROCESSING
OPERATIONS, EASTERN

ELVIN MERCADO
VICE PRESIDENT, RETAIL AND POST OFFICE OPERATIONS

Mary H. Lloyd

FROM: Mary Lloyd
Deputy Assistant Inspector General
for Mission Support

SUBJECT: Audit Report – Effectiveness of the New Regional Processing and
Distribution Center in Richmond, VA (Report Number 23-161-R24)

This report presents the results of our audit of effectiveness of the new Regional Processing and Distribution Center in Richmond, VA.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Todd Watson, Director, Network Processing, 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 Effectiveness of the New Regional Processing and Distribution Center (RP&DC) in Richmond, VA (Project Number 23-161). Our objective was to assess the operational impacts related to the launch of the RP&DC and identify successes, lessons learned, and opportunities. This audit focused on the network transformation and consolidation of operations at the Richmond RP&DC. See [Appendix A](#) for additional information about this audit.

Background

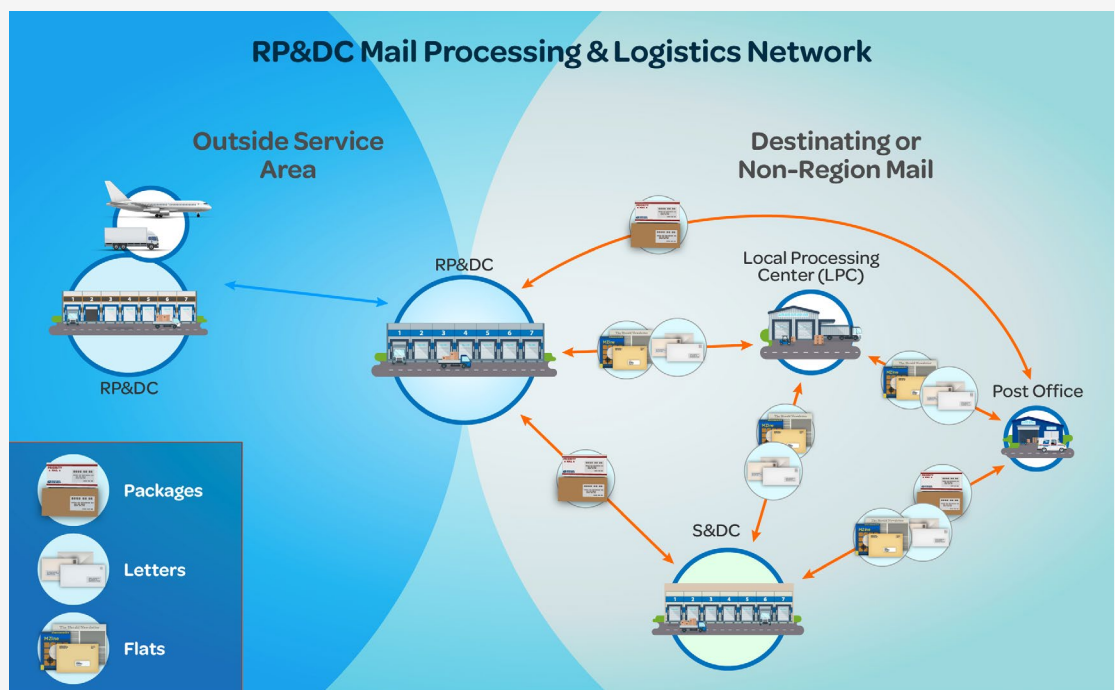
As part of its 10-year strategic Delivering for America plan, the U.S. Postal Service is redesigning its processing network with the goal of creating a best-in-class mail and package processing network. The Postal Service has plans to invest \$40 billion to create a modernized network based around RP&DCs, local processing centers (LPC), and sorting and delivery centers (S&DC).¹ RP&DCs are multi-purpose

distribution centers with common designs, layouts, and processing equipment. Each RP&DC will process mail and packages originating in its service area and have one or more associated LPCs to sort letters and flats for delivery carriers.² The goal of an RP&DC is to merge mail processing into a central facility within a region to reduce transportation costs and improve service reliability. See Figure 1 for an overview of the network redesign. Postal Service management stated this transformation is designed to rival its more sophisticated competitors, gain a larger share of the shipping business, and substantially improve reliability, performance, and value to customers.

“The Postal Service has plans to invest \$40 billion to create a modernized network based around RP&DCs.”

Figure 1. Mail Flow of Future Network³

Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on USPS Delivering for America presentations.



¹ An S&DC consolidates multiple delivery units and package sortation operations into one centrally located facility.

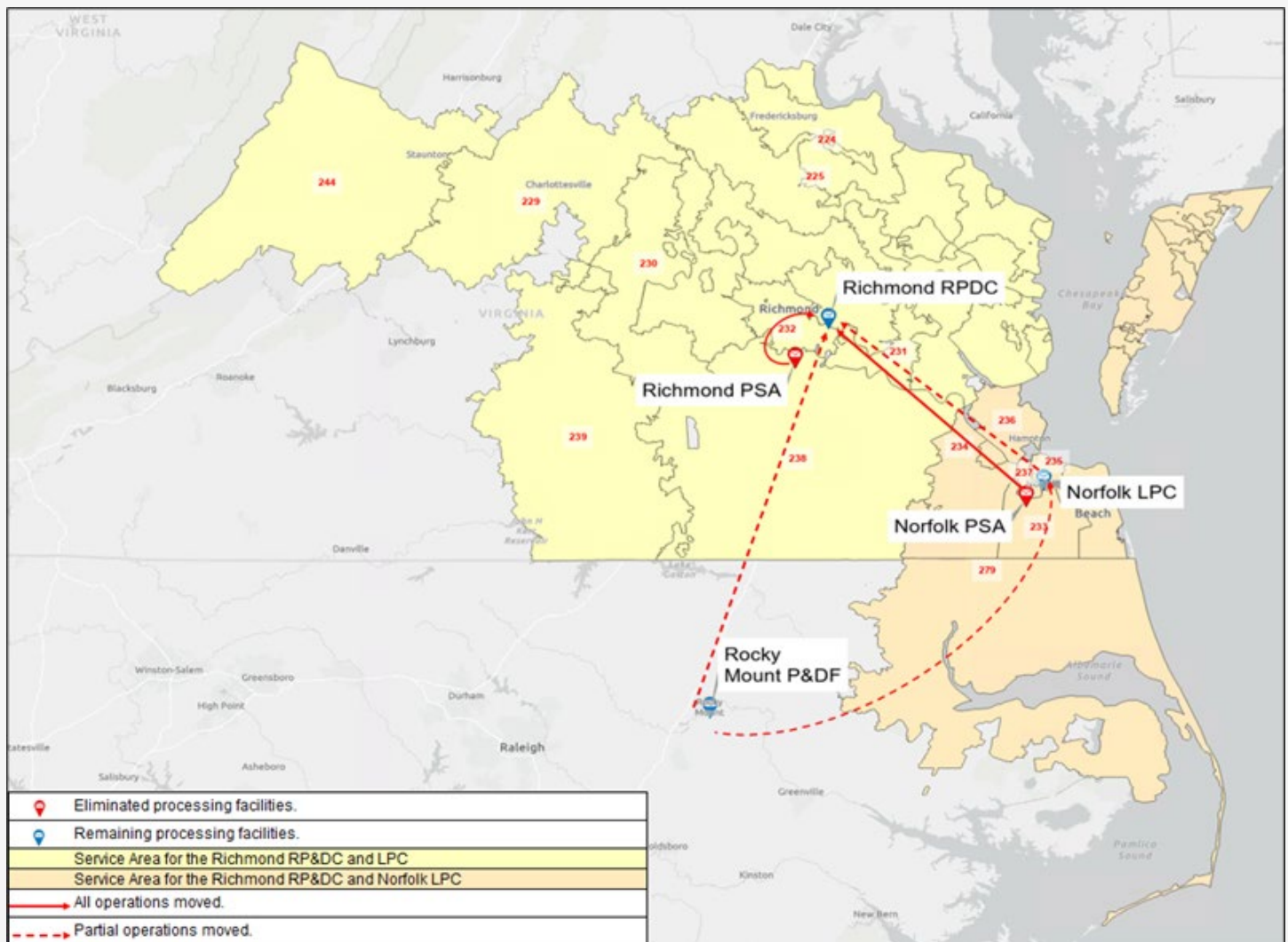
² LPCs also consolidate mail originating in its region and send it to the RP&DC for sorting.

³ Destinating mail is for delivery units within the local RP&DC service area compared to non-region mail that moves outside the service area.

The Postal Service plans to create about 60 RP&DCs to consolidate mail processing operations and reduce handling points in the processing and transportation networks. In January 2023, the Postal Service approved a \$25.4 million investment to convert the Richmond, VA, Processing and Distribution Center (P&DC) into the first RP&DC. The Postal Service set goals and metrics that included tracking labor and transportation savings associated with the consolidated operations, and estimated that over a 10-year period, they would realize savings of nearly \$186 million from the Richmond conversion.

In July 2023, the Postal Service completed the consolidation of operations from package sortation annexes (PSA), P&DCs, and terminal handling services⁴ in the Richmond metro and Norfolk, VA, areas to the Richmond RP&DC. Then, in October 2023, the Postal Service executed the last of the planned operational moves when it consolidated mail processing operations from the Rocky Mount, NC, Processing and Distribution Facility (P&DF) into the Richmond RP&DC.⁵ See Figure 2 for an overview of the service areas covered by the Richmond RP&DC network transformation.

Figure 2. Richmond Regional Processing and Distribution Center Service Area as of October 2023



Source: OIG analysis based on USPS Decision Analysis Report for the Richmond RP&DC.

⁴ Terminal handling involves the loading and unloading of mail to and from airline containers.
⁵ The Richmond region covers mail from ZIP Codes beginning with 224-225, 229-239, 244, and 279.

Findings Summary

While the Postal Service had successes when implementing its first RP&DC, it also faced serious challenges and identified various lessons learned. The challenges caused additional labor and transportation costs, and it is uncertain if expected savings will be achieved. The challenges also contributed to a significant decrease in service performance for the Richmond region that continued four months after launch, even as we concluded our audit fieldwork.

We also identified opportunities for the Postal Service to improve performance in the region and during implementation of future RP&DCs. Specifically, the Postal Service did not take actions to address known weaknesses before converting the Richmond, VA, facility into an RP&DC. Prior OIG reports noted issues with high management turnover, inadequate management oversight, low employee availability and staffing, and service performance at the prior Richmond P&DC. Many of these issues persisted into the launch of the RP&DC and continued through the scope of our review.⁶ Additionally, the Richmond RP&DC and other facilities in the region were not always following the new integrated operating plan⁷ to ensure mail was processed, transported, and delivered timely.

Finding #1: Successes and Lessons Learned from the Richmond RP&DC Launch

We conducted site visits at the Richmond RP&DC, and the Charlottesville, Hampton, and Norfolk S&DCs in October 2023 and reviewed the first four months of operations after the launch. During our site visits, we identified successes and challenges to the initial rollout. We also conducted interviews with Postal Service Headquarters management and obtained lessons learned identified by the Postal Service, which they plan to apply to future RP&DCs.

Postal Service Successes from RP&DC Launch

The Postal Service had successes before launching its first RP&DC located in Richmond, contributing to its goal of a best-in-class processing and delivery operations network. The Postal Service was able to complete many tasks without shutting down operations.

“The Postal Service had successes before launching its first RP&DC located in Richmond.”

The following are successes we observed during our site visits:

Integrating Services

Mail processing operations for ZIP Codes beginning with 228 were transferred to the Northern Virginia P&DC, and the Richmond RP&DC absorbed operations for ZIP Codes beginning with 279 as planned. Additionally, the Richmond RP&DC absorbed package operations from the Norfolk P&DC, and the previously outsourced terminal handling services. Further, processing operation times and plans were changed to meet the needs of new S&DC and LPC facilities.

High Output Package Sorter (HOPS)

Two new HOPS machines were installed in March 2023 to meet future package capacity requirements. HOPS are robust, state-of-the-art package sorters with comparable throughput to the most efficient package sorters used by the Postal Service. These machines handle mail with lower costs and sort packages to 200 separate containers. They are capable of sorting over 5,700 packages per hour.

Facility Layout

The Postal Service implemented a standardized workroom floor layout designed to provide an efficient mail flow throughout the facility. This included modifying, relocating, or removing 38 pieces of existing mail processing equipment, installing

⁶ This period was from July 29 through December 1, 2023.

⁷ The integrated operating plan is an executive-sponsored initiative aimed at improving coordination and communication between USPS processing and delivery unit facilities. *Postal Operations Manual (POM)*, Issue 9, dated August 31, 2023, Section 422, Area Offices, states that Area Offices have the responsibility to (a) “Monitor, evaluate, and direct, when necessary, mail processing in the area to ensure complete and continuing compliance with Headquarters guidelines and policies.”

charging stations for powered industrial vehicles, and establishing mail staging lanes. The Postal Service also installed ball decking to load and unload

terminal handling services equipment. See Figure 3. Also, new monitors were installed on all dock doors to display transportation schedules.

Figure 3. New Ball Decking For Terminal Handling Services

Ball Decking



Staged Containers on Ball Decking



Source: OIG photographs taken at the Richmond RP&DC on October 4, 2023.

Postal Service Lessons Learned from RP&DC Launch

While the Postal Service had successes, management also identified several lessons learned. Specifically, management completed a post implementation review 45 days after launch and identified the following as challenges when implementing its first RP&DC:

- The Postal Service did not complete several major activities in the implementation plan before launch, including:
 - Finalizing machine sort plans,⁸
 - Finalizing and validating transportation schedules, and
 - Identifying all post offices that have relationships with smaller post offices to send mail from and to the Richmond RP&DC.
- Local management didn't take ownership of changes and were deficient in operational execution.
- Dock staging lanes were congested and hindered mail flow from processing machines.

- Staffing was not fully aligned to the new operating plan.
- Employee absenteeism increased after the launch.
- Management did not train all employees on standard work instructions for new processes.
- New processing equipment was not performing as expected in the first few weeks.
- Transportation schedules developed by the implementation team did not account for all local needs and staffing levels of the Richmond Region and required adjustments after launch.

These issues added costs from the use of overtime and additional transportation and contributed to the significant decrease in service performance scores. Management stated they developed plans to address these issues and will work to improve design, planning, and execution to avoid a repeat of these challenges during the launch of future RP&DCs. Management added they are confident their strategy will stabilize operations and support the overall

⁸ Programs that assign ZIP Codes to sorting bins and allows mail processing equipment to sort mail and packages.

modernization mission. We agree that applying lessons learned when launching future RP&DCs is crucial to mitigating repeat issues and positions the Postal Service for greater operational success.

Recommendation #1

We recommend the **Vice President, Processing and Maintenance Operations**, continue to document the issues identified and actions taken to address issues in post implementation reviews of Regional Processing and Distribution Center (RP&DC) conversions, and use the cumulative lessons learned when activating future RP&DCs.

Finding #2: Pre-existing Issues Not Fully Addressed Caused Challenges

The Postal Service did not take actions to address known weaknesses before converting the Richmond P&DC into an RP&DC. OIG audits⁹ issued in 2021 and 2022 identified significant performance issues at the Richmond facility. These issues included inadequate management and employee staffing, low employee availability, high turnover, low service performance, missed clearance times,¹⁰ overcrowding, and low productivity.

“The Postal Service did not take actions to address known weaknesses before converting the Richmond P&DC into an RP&DC.”

We identified the following issues noted in previous reports still present during our review:

- Plant leadership instability – We previously noted the management turnover rate was, on average, almost 10 percent each year, higher than the nationwide average.¹¹ We recommended the Postal Service implement management staffing and retention strategies, and the Postal Service created a nationwide recruitment and retention strategy in October 2022. However, during our

review of the Richmond RP&DC, we noted there were three different plant managers in the four months since it launched. The plant manager is the key position responsible for managing and overseeing the timely processing and dispatch of mail, improving operations, and correcting problems to achieve goals. The plant manager works collaboratively with the manager of processing support, to develop machine run plans and align employee schedules, and works with logistics and operations to meet operating plans.

- Inadequate supervision – We previously noted newly promoted supervisors/ managers generally had not completed required training.¹² We recommended the Postal Service verify that required training for newly promoted supervisors and managers be completed to gain the needed knowledge, skills, and abilities to optimally perform their role. The Postal Service developed new courses in October 2022 to support personal growth and development of their managers and to better equip them to handle daily challenges. However, during our review of the Richmond RP&DC, we noted the Postal Service changed job descriptions for many manager and supervisor positions and some local managers and supervisors didn't fully understand new operations and mail flow. We also observed multiple instances of personnel throughout the facility not engaged with work. For example, we witnessed idle terminal handling service staff waiting for mail, and in one instance, a mail handler sleeping on a parked forklift. We found a general inattention to detail that resulted in mail left on or around machines, large amounts of machinable mail in manual processing, and in one case, mail over two months old left in a container in the truck yard. We also observed clutter and congestion in many areas of the workroom floor and around the loading docks. See [Figure 4](#) for examples of inadequate supervision.

⁹ *Late and Extra Trips at the Richmond, VA, Processing and Distribution Center* (Report Number 21-029-R21, dated January 11, 2021) and *Improving Service Performance and Mail Processing Efficiencies at Historically Low Performing Facilities* (Report Number 21-243-R22, dated August 8, 2022).

¹⁰ The latest time committed mail must clear a processing operation for dispatch or delivery.

¹¹ *Improving Service Performance and Mail Processing Efficiencies at Historically Low Performing Facilities* (Report Number 21-243-R22, dated August 8, 2022).

¹² *Ibid.*

Figure 4. Examples of Inadequate Supervision

Machinable Mail in Manual Processing



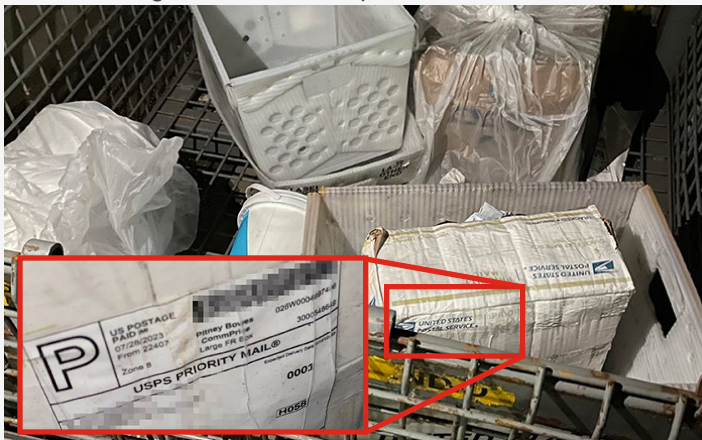
Source: OIG photograph taken at the Richmond RP&DC on October 5, 2023.

Non-mail Items on the Collections Dock



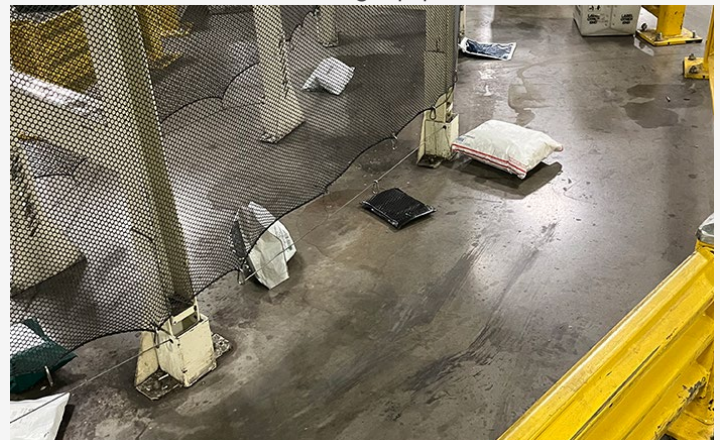
Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

Water Damaged Mail Dated July 28, 2023, Found in Truck Yard



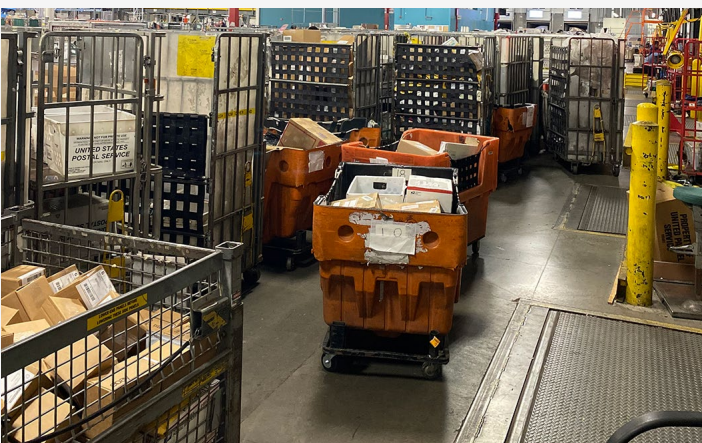
Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

Mail Left Around Mail Processing Equipment



Source: OIG photograph taken at the Richmond RP&DC on October 3, 2023.

Congested Collections Dock



Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

Mail Labeled as Empty Equipment



Source: OIG photograph taken at the Richmond RP&DC on October 5, 2023.

- Unauthorized overtime – Nearly 83 percent of all overtime hours at the facility since conversion (July 29, 2023, through December 1, 2023) were not authorized. Facility management is required to review data weekly to authorize all hours worked and take corrective action, if necessary. However, management at the Richmond RP&DC did not approve 95,710 hours of overtime and 13,510 penalty overtime hours¹³ totaling over \$5 million in questioned costs. In a separate report, we recommended the Postal Service implement consistent oversight procedures to verify overtime transactions nationwide. Management disagreed with this recommendation and as of March 2024, it is in the audit resolution process; therefore, we are not making a recommendation in this report.¹⁴
- Inadequate staffing – In a prior report, we noted facilities struggled with employee availability, in part due to the COVID-19 pandemic.¹⁵ Several other reports provided recommendations¹⁶ on efforts to increase employee availability and decrease unscheduled leave, and therefore, we did not make any additional recommendations. During our review of the Richmond RP&DC, we

“We found staffing was not sufficient to effectively perform mail processing and transportation operations.”

found staffing was not sufficient to effectively perform mail processing and transportation operations. Specifically, we observed: processing operations running without sufficient staff; a lack of postal vehicle operators, which did not allow the Postal Service to run all transportation needed to serve the Richmond region without outside contractors; and a lack of supervisors and expeditors and the inability to locate mail handlers on the workroom floor, causing delays on the dock and increased congestion. Local management cited staffing inadequacies as a challenge to implementation. Postal Service management also recognized in their post launch review that they needed to continue to align staffing with operations. See Figure 5 for examples of staffing impacts.

Figure 5. Examples of Delayed Operations Due to Inadequate Staffing

Insufficient Staff for Letter Cancellation Operation



Source: OIG photograph taken at the Richmond RP&DC on October 2, 2023.

Lack of Mail Handlers to Move Sorted Packages to Dispatch Dock



Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

¹³ The Postal Service pays penalty overtime to eligible employees at twice the employee’s hourly rate. Transactions are used to track whether an employee’s overtime or penalty overtime is authorized, and whether that authorization was scheduled.

¹⁴ *Penalty Overtime* (Report Number 23-065-R23, dated September 27, 2023).

¹⁵ *Improving Service Performance and Mail Processing Efficiencies at Historically Low Performing Facilities* (Report Number 21-243-R22, dated August 8, 2022).

¹⁶ *U.S. Postal Service’s Processing Network Optimization and Service Impacts* (Report Number 19XG013NO000, dated June 16, 2020) and *Unscheduled Leave – Absence Without Leave (AWOL) Status* (Report Number 21-140-R22, dated January 7, 2022).

- Service Performance – In our prior report, we noted deficiencies such as facility layout, overcrowded conditions, low employee availability and staffing, and inadequate management oversight contributed to the low service performance of the facility.¹⁷ We made recommendations for the Postal Service to address these issues, but many have remained into the launch of the RP&DC. As discussed later in this report, the Richmond RP&DC experienced a significant decline in service performance following the launch attributable, in part, to issues and opportunities we identified. The Postal Service set goals and metrics for implementing the Richmond RP&DC that included tracking labor and transportation savings; however, service performance was not included as a measure of success.

Selecting a facility without identifying and addressing known issues created additional challenges to successfully implementing the RP&DC model, increased costs, and contributed to the decrease in service performance. As a result, we were unable to determine if the challenges are unique to the Richmond RP&DC conversion or tied to preexisting conditions.

Recommendation #2

We recommend the **Vice President, Processing and Maintenance Operations**, develop procedures to identify and mitigate challenges at facilities scheduled to become a Regional Processing and Distribution Center before launch.

Recommendation #3

We recommend the **Vice President, Processing and Maintenance Operations**, coordinate the training of Richmond Regional Processing and Distribution Center (RP&DC) management on how to engage and lead team members and provide adequate supervision of operations, and deploy management training at future RP&DC sites prior to launch.

Recommendation #4

We recommend the **Vice President, Processing and Maintenance Operations**, in coordination with the **Vice President, Chief Data and Analytics Officer**, develop a scorecard to track service performance and include it as a measure of success at both the Richmond Regional Processing and Distribution Center (RP&DC) and when implementing future RP&DCs.

Finding #3: Inadequate Transportation Planning Affected Performance

As the Postal Service identified during its lessons learned review, we also found the Postal Service did not adequately plan and establish new transportation routes to support operations at the Richmond RP&DC. Specifically, headquarters and local management did not validate whether new transportation schedules were correct because the schedules were being adjusted the day before the launch, resulting in insufficient time to set up and make changes to routes. Further, the implementation team did not account for all local needs – such as mailer and commercial package pickups – when it developed the new transportation plan. Finally, the plan included less contractor transportation and more postal vehicle operators to transport mail; however, the Richmond RP&DC was not able to hire sufficient postal vehicle operators to cover the newly created routes.

“The Postal Service did not adequately plan and establish new transportation routes to support operations at the Richmond RP&DC.”

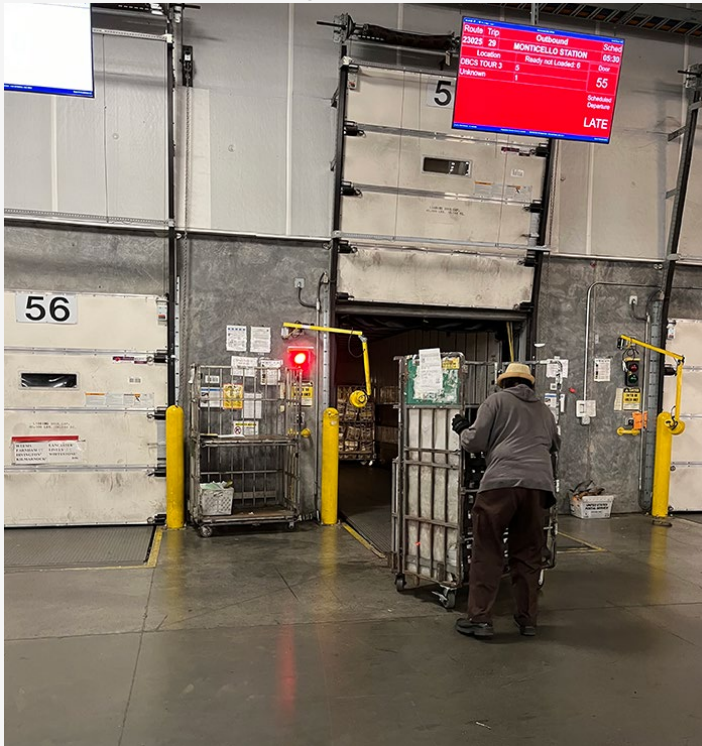
The Postal Service continued to change transportation schedules and routes into December 2023 as processing operations changed. The following are examples we observed of transportation not aligned to operations at the Richmond RP&DC:

- A trip scheduled to Monticello Station departed 55 minutes late because mail processing operations were still ongoing.
- A trip departed with one container of mail to the Hampton S&DC. See [Figure 6](#).

¹⁷ *Improving Service Performance and Mail Processing Efficiencies at Historically Low Performing Facilities (Report Number 21-243-R22 dated August 8, 2022).*

Figure 6. Examples of Misaligned Transportation Schedules

Trip Departing Late to Monticello Station Waiting for Mail to Finish Processing



Source: OIG photograph taken at the Richmond RP&DC on October 5, 2023.

Underutilized Transportation to Hampton SDC



Source: OIG photograph taken at the Richmond RP&DC on October 2, 2023.

As a result, all six key performance indicators that logistics management uses to evaluate transportation performance showed declines in performance. Specifically, when comparing the 18 weeks after launch of the Richmond RP&DC to the same period last year:¹⁸

- Extra trips¹⁹ increased from 959 to 7,730 trips, or about 706 percent,
- Late trips²⁰ increased from 17,478 to 22,770 trips, or about 30 percent,
- Canceled trips²¹ increased 5,524 to 15,741 trips, or about 185 percent,

- Unrecorded trips — trips that arrived or departed but were not completely recorded in the Postal Service's tracking system — increased from 8 to 2,835 trips, or about 35,337 percent,
- Trips departed, not arrived²² increased from 13 to 135 trips, or about 938 percent,
- Trailer use²³ decreased one percentage point from 54 to 53 percent. This change was due both to an actual decrease in the truck volume utilization and a lack of compliance with scanning containers, which is necessary to calculate use.

The Postal Service used extra trips to help bridge the gap between scheduled routes and operational needs. See [Figure 7](#) for a comparison of extra trips in the Richmond region.

¹⁸ This is for pay periods 16 through 25 in fiscal years 2022 and 2023.

¹⁹ An unplanned additional truck transportation trip for an existing route, resulting in increased transportation costs.

²⁰ Transportation truck trips arriving or departing after scheduled time.

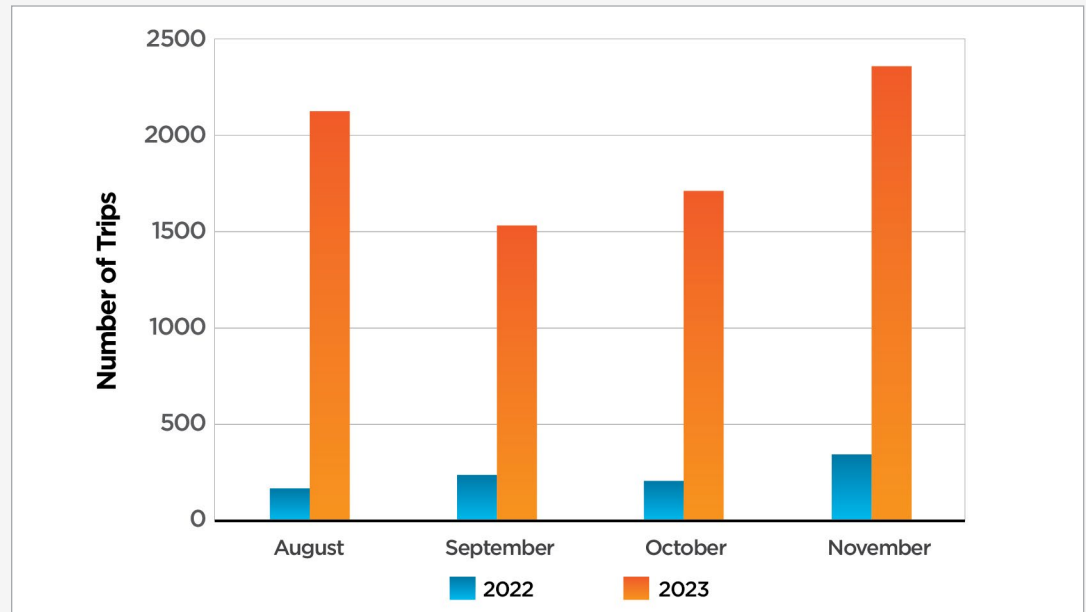
²¹ Occur when the Postal Service cancels a trip for various reasons, or when the contractor fails to perform the scheduled trip.

²² These trips indicate the trip was recorded or scanned at the originating facility, but not recorded or scanned at the destination facility.

²³ Measures how many containers of mail are on a trailer compared to the number of containers that could be loaded on to a trailer.

Figure 7. Extra Trips from July 29 to December 1, 2023, Compared to the Same Period in the Previous Year²⁴

Source: OIG analysis of Surface Visibility data.



The inadequate transportation planning and ongoing changes contributed to lower service performance and increased costs. In addition, we found dock personnel did not omit over 400 trips from the payment systems as required when contractors failed to complete the scheduled trip.²⁵ We estimate the Postal Service incurred over \$3 million of questioned costs for the increased number of extra, late, and cancelled trips in the region from July 29 through December 1, 2023.

Recommendation #5

We recommend the **Vice President, Logistics**, align transportation schedules to operations and validate with local management before launching Regional Processing and Distribution Centers.

Recommendation #6

We recommend the **Vice President, Logistics**, direct personnel to record omitted trips in the data systems and pursue recovery of payments for cancelled trips at the Richmond Regional Processing and Distribution Center.

Finding #4: Challenges Implementing the Integrated Operating Plan

Postal Service processing, transportation, and delivery managers at the Richmond RP&DC and supporting facilities did not always adhere to the regional integrated operating plan. As part of the RP&DC transformation, Postal Service headquarters management changed operating plans to integrate RP&DC, LPC, and S&DC operations.²⁶ Management expected these changes to improve transportation use and provide timely and efficient delivery of mail and packages.

However, during our site visits, we identified the following examples of processing, transportation, and delivery operations not aligned to the new plan:

- Packages committed for delivery the next day required subsequent processing after operations were complete. Specifically, package sorting machines used to sort packages for delivery units had designated bins to send mail to other package sorting machines. Operations ended at the same time for all machines and thus packages in these bins remained at the facility until operations resumed the next day. See [Figure 8](#).

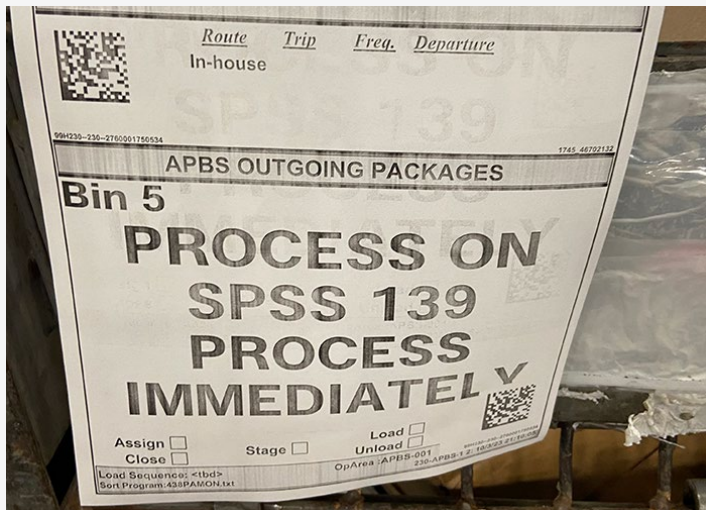
²⁴ The graph for August includes trip data from July 29 to 31, and the graph for November includes trip data for December 1.

²⁵ Standard Operating Procedure *Omit/Cancel Reasons*, dated July 18, 2022, and Management Instruction PO-530-2017-1, *Highway Contract Route Exceptional Service Performance Payment Reconciliation*, dated August 31, 2017.

²⁶ The Richmond integrated operating plan adjusted mail arrival and dispatch times, extended mail processing times, and decreased package rehandling.

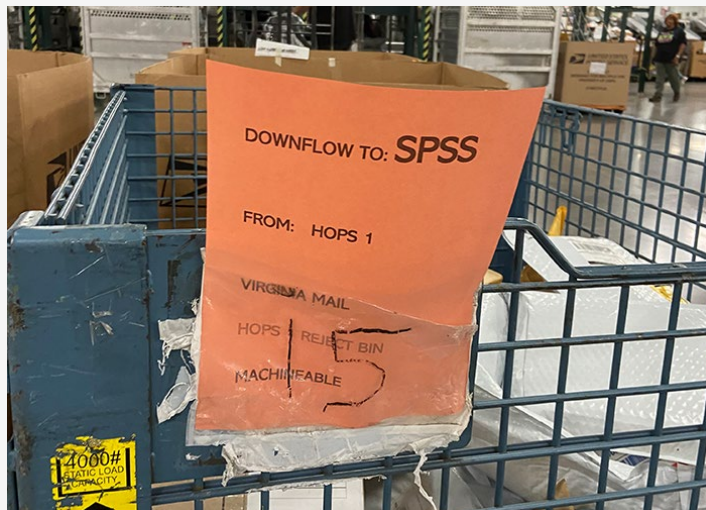
Figure 8. Examples of Packages Remaining at Facility for Additional Sorting

Downflow Container of Destinating Mail Not Processed After Operations Stopped



Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

Reject Container of Destinating Mail Not Processed After Operations Stopped

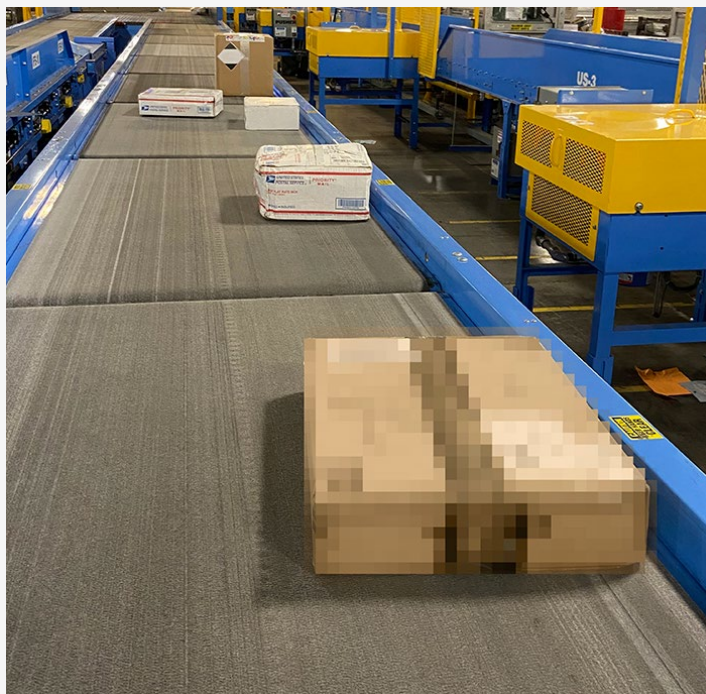


Source: OIG photograph taken at the Richmond RP&DC on October 4, 2023.

NOTE: This mail was processed on the HOPS with expected delivery the next day. However, this bin flowed from the HOPS to the Small Package Sorting System after operations were complete and remained until operations resumed the next day.

- Package operations were shut down at the scheduled time for dispatch and any packages left on mail processing equipment remained at the facility until the operation resumed the next day. Richmond personnel should have run the mail processing equipment until all packages loaded on the machine were sorted. See Figure 9.

Figure 9. Mail Left on and Around Processing Equipment After Shut Down



Source: OIG photograph taken at the Richmond RP&DC at 1:54 am on October 5, 2023.



Source: OIG photograph taken at the Richmond RP&DC at 7:24 am on October 5, 2023.

Packages arrived from other network facilities shortly after sorting operations finished for the day. These packages remained at the Richmond RP&DC until the

next day when sorting operations resumed, and likely didn't meet service goals. See Figure 10.

Figure 10. Packages Arriving After Operations Were Completed



Source: OIG photographs taken at the Richmond RP&DC on October 4, 2023.

Collection mail arrived late, after sorting operations were finished for the day. This mail remained unprocessed until the following day. See Figure 11.

Collections mail arrived at the RP&DC without proper separation. This caused delays as mail was sent to incorrect operations. See Figure 11.

Figure 11. Collections Mail Arriving Late and Not Separated Properly

Late Arriving Collections Mail



Source: OIG photograph taken at the Richmond RP&DC at 3:20 am on October 4, 2023.

Priority Express Mail, Non-Machinable Packages, and Hazardous Materials Co-mingled



Source: OIG photograph taken at the Richmond RP&DC on October 2, 2023.

Packages, Letters, and Flats Mixed with Priority Express Mail



Source: OIG photograph taken at the Richmond RP&DC on October 2, 2023.

Flat Tub Containing Mixed Mail Types Including Priority Mail Express Under Packages



Source: OIG photograph taken at the Richmond RP&DC on October 2, 2023.

Generally, these issues occurred because of numerous changes that were implemented after launch, inadequate coordination and communication with local management in developing and implementing the operating plan, and being the first region to experience these changes. Local management stated they didn't fully understand mail flow within the RP&DC, weren't aware of changes to transportation schedules until they happened, and that they weren't solicited for input on the plan. At the exit conference, management stated that they have continued to make improvements to the operating plan to align mail volume with processing operations.

An effective integrated operating plan ensures that mail is processed and moved through the Postal Service network efficiently to achieve on time delivery. Failure to have and adhere to an effective operating plan will cause delayed mail, which leads to decreased customer satisfaction and damage to the Postal Service brand. Further, local personnel uniquely understand the challenges to processing, transporting, and delivering mail in their area. By failing to communicate effectively with local personnel, the Postal Service headquarters management limited its ability to gather feedback on the changes made and implement corrective action promptly.

Recommendation #7

We recommend that the **Vice President, Regional Processing Operations, Eastern Region**, in coordination with the **Vice President, Retail and Post Office Operations**, train all management personnel in the Richmond region to understand and perform their roles and responsibilities as stated in the Richmond Regional Processing and Distribution Center integrated operating plan.

Recommendation #8

We recommend the **Vice President, Processing and Maintenance Operations**, in coordination with the **Vice President, Retail and Post Office Operations**, implement a process to communicate with and solicit feedback from affected managers when developing plans for and implementing future Regional Processing and Distribution Centers.

Finding #5: Cost, Service and Customer Impacts After RP&DC Launch

The challenges the Postal Service experienced implementing its first RP&DC caused the Postal Service to incur additional labor and transportation costs and increased the risk that the Postal Service will not achieve expected savings. These challenges also contributed to a decrease in service performance for the Richmond region during the four months after launch. Additionally, the Richmond RP&DC operating plan does not support next day Priority Mail and required the Postal Service to extend the amount of time it takes to deliver that product.

“The challenges contributed to a decrease in service performance for the Richmond region.”

Expected Savings

The Postal Service expects to save about \$15 million in FY 2024 and a total of \$186 million over a 10-year period by consolidating operations into the Richmond RP&DC (see Table 1).

Table 1. Estimated Savings for Richmond RP&DC

Savings Type	FY 2024 Savings	Savings over 10 Years
Mail Processing Labor	\$7,744,000	\$90,016,000
Maintenance Labor	\$2,022,000	\$23,508,000
Package Support Annex	\$ -	\$13,892,000
Transportation Contract	\$5,177,000	\$58,272,000
TOTAL	\$14,943,000	\$185,688,000

Source: USPS Decision Analysis Report for the Richmond RP&DC.

The Postal Service plans to reduce workhours and positions in the region to generate mail processing labor savings. This includes eliminating 238 positions at the Norfolk LPC and Rocky Mount P&DF; however, as of December 1, 2023, the Postal Service had not reduced any mail handler or clerk bid positions in the Richmond region. Overall workhours and overtime²⁷ in the region increased by 2 percent since the launch of the RP&DC despite about a 9 percent decrease in mail volume for the region. See Figure 12 for a comparison of workhours from July 29, 2023, through December 1, 2023, to the same period in 2022.²⁸

Additionally, the Postal Service plans to eliminate 24 contracted transportation trips at the Norfolk LPC since packages originating in Norfolk are now sent through the Richmond RP&DC. However, as of December 1, 2023, only nine trips had been eliminated. We also found the Postal Service incurred additional transportation costs resulting from an

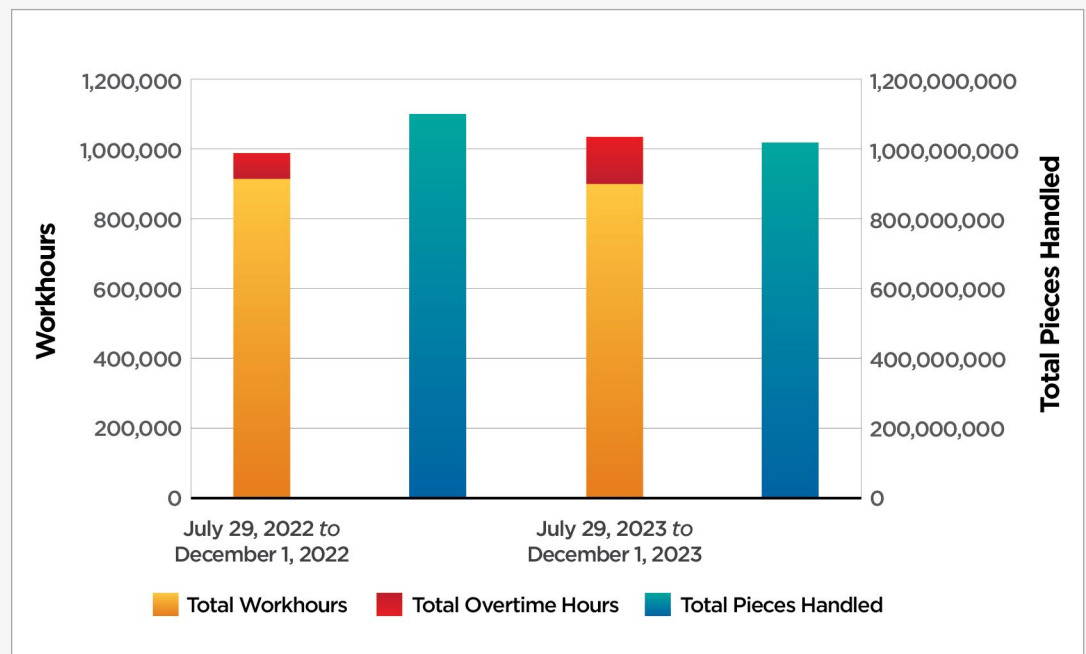
increase in extra, late, and cancelled transportation trips after conversion.

Further, the Postal Service plans to eliminate two leased package sortation annexes as part of the RP&DC conversion. However, due to a lack of available floor space during the 2023 peak season, the Postal Service used the Richmond PSA to consolidate and dispatch packages sorted at the Richmond RP&DC.

At this time, it is unclear if the Postal Service will realize the expected savings associated with consolidating operations into the Richmond RP&DC. We plan to further evaluate service performance and expected savings at the Richmond RP&DC and other RP&DCs in a future project and will provide updates on the Postal Service’s progress to improve service performance and realize savings. Additionally, the recommendations we offered throughout this report, if implemented, should mitigate issues identified and result in positive impacts to service and cost.

Figure 12. Comparison of Workhours to Same Period in the Previous Year

Source: OIG analysis of Web Management Operating Data System data.



²⁷ Hourly employees are entitled to regular overtime after working 40 hours in one week, while certain eligible employees are entitled to penalty overtime. Regular overtime is paid at one and a half times the employee’s hourly rate.

²⁸ This is for pay periods 17 through 25 in fiscal years 2022 and 2023.

Service Performance

The percent of mail and packages delivered on time in the Richmond region declined after launch of the RP&DC through August 2023. The Postal Service was able to increase the percent of mail delivered on time for all mail classes in September but was still below service levels from before the launch. The percent of mail and packages delivered on time declined significantly beginning in October when the Postal Service implemented its Local Transportation Optimization²⁹ initiative while simultaneously making changes to the RP&DC, handling Election Mail for local elections, and processing the increased mail volumes of its peak mailing season in the same area. While we are not able to isolate the specific service and cost impacts of the Local Transportation Optimization initiative, we plan to issue a separate report on Postal Service's Local Transportation Optimization initiative.³⁰ Therefore, we did not make a recommendation in this report.

One of the biggest changes associated with the launch of the Richmond RP&DC was the change in processing operation times necessary to meet the needs of new S&DC and LPC facilities. In the new Richmond RP&DC operating plan, package operations are scheduled to be completed before local mail would arrive at the facility to be sorted. Thus, this model does not support next day service products such as local Priority Mail. In response, on October 16, 2023, the Postal Service added an extra day to local Priority Mail service, thus making it a two-day service standard.³¹

Unclear Policy for Determining if Public Should be Informed of Impacts Associated with Richmond RP&DC

The Postal Service conducted no formal public outreach before consolidating mail processing operations from the Norfolk, VA P&DC and Rocky Mount, NC P&DF to the Richmond RP&DC. In July of 2023, originating package operations from three-digit ZIP Code 233 through 237 were consolidated from the Norfolk, VA P&DC into the Richmond RP&DC, 83 miles

away. In October, all mail volume from three-digit ZIP Code 279 were moved from the Rocky Mount, NC P&DF to the Richmond RP&DC and Norfolk, VA LPC, 146 and 129 miles away, respectively. After conversion to the Richmond RP&DC, the Postal Service changed Priority Mail service standards for over 600 ZIP Codes within the service area.

The Postal Service is legally required³² to provide adequate public notice to communities affected when closing or consolidating a processing facility. This includes providing information regarding service changes and affording those communities the opportunity to provide input on the decision. Then, the Postal Service must consider that input before making a final decision. However, the law does not define what constitutes a consolidation.

To comply with the law, the Postal Service developed the Mail Processing Facility Review (MPFR) process, requiring it to conduct an MPFR when consolidating all originating or destinating mail distribution operations from one postal facility to another.³³ An MPFR also reviews the service standard impacts for all classes of mail, considers issues that customers may encounter, identifies impacts to staffing, and analyzes the savings and costs associated with moving mail processing operations. As part of the MPFR process, the Postal Service must communicate these impacts to its stakeholders, hold a public input meeting, and allow submission of written comments. After the meeting, the Postal Service must take any resulting input into account before making a final decision.

The consolidation of mail processing from the Norfolk, VA LPC appears to meet the requirements to trigger an MPFR. However, Postal Service management stated its long-standing interpretation of this requirement is the review process is only required when all operations move outside of a "service area". However, this interpretation is not formally documented in its policy, nor does the policy define what the Postal Service considers a "service area".

29 The Local Transportation Optimization initiative is designed to reduce the overall number of transportation trips and improve utilization. The Postal Service reduced the number of transportation trips to and from select delivery units from 2-3 trips per day to one trip per day. The Postal Service won't transport the originating mail collected at these delivery units to the Richmond RP&DC until the day after it is collected, adding extra time to the current process.

30 *Impacts Associated with Local Transportation Optimization in Richmond, Virginia* (project number 23-161-1).

31 Service standards specify timeliness targets for delivering mail after receiving it from a customer.

32 39 USC §3691 Section Note (c)(3)(D).

33 Handbook PO-408 *Mail Processing Facility Review* (issued July 2023).

Further, based on its current policy and this interpretation, the Postal Service could arguably consolidate and move all operations from the Rocky Mount, NC P&DF, or other facilities, without conducting MPFRs and informing the public. Specifically, the Postal Service can move one three-digit ZIP Code at a time to other service areas without public review as long as the original processing facility retains operations. This could be repeated until all mail processing is moved to another facility if the last move is within the same service area. Since these exemptions are not documented in policy, there could be future consolidations where the Postal Service determines that a review is not required.

When the Postal Service's policy for conducting MPFRs is not clear and service changes are not communicated to affected areas, it harms the Postal Service's reputation and public trust.

Recommendation #9

We recommend that the **Vice President, Processing and Maintenance Operations**, update Handbook PO-408 to include the definition of service area, and clearly define when Mail Processing Facility Reviews are required.

Recommendation #10

We recommend that the **Vice President, Processing and Maintenance Operations**, communicate any impacts to customers when permanently moving processing operations of a three-digit ZIP Code to another processing facility.

Looking Forward

RP&DCs are a key component to accomplishing the Postal Service's goal to achieve financial sustainability. To attain the service performance and cost savings expected, the Postal Service will need to implement these changes with greater accuracy to become a best-in-class processing and delivery operations network. We plan to conduct additional audits on the effectiveness of future RP&DCs, LPCs, and S&DCs and evaluate the Postal Service's progress of implementing its 10-year Delivering for America plan.

Management's Comments

Management generally agreed with the findings and recommendations but disagreed with recommendation 10, partially agreed with the monetary impact, and provided additional clarification for findings 4 and 5. See [Appendix B](#) for management's comments in their entirety.

Regarding finding 4, management stated the challenges reported on implementing the integrated operating plan have been addressed. Management noted they have better aligned mail arrival with machine processing windows.

Regarding finding 5, management disagreed with the report's inference that an MPFR was required in connection with the Richmond RP&DC initiative. Management stated that their long-standing approach has been to apply the review processes only when consolidating all originating and/or all destinating operations between facilities in different service areas as defined by reference to the 3-digit ZIP Code. Management added they have not applied the review process when centralizing operations between multiple processing plants that are part of the same service area and already serve the same geographic area. Management also stated their long-standing practice constitutes a reasonable and appropriate interpretation of the statutory and regulatory obligations under Section 302 of the Postal Accountability and Enhancement Act, as effectuated by the MPFR process in Handbook PO-408.

Management stated that it is not reasonable to suggest that the Postal Service would decide where to conduct specific processing operations solely to avoid the MPFR process and their past practice clearly shows that the opposite is true. Management stated that they routinely engage in numerous review processes when undertaking processing network modernization initiatives and had engaged in 59 separate MPFR proceedings in the past year, as part of implementing the Delivering for America Plan.

Regarding the monetary impact, management disagreed with the methodologies the OIG used to calculate the over \$8 million in questioned costs. Management stated that the report is incorrect to imply that the overtime was not appropriately

utilized because management did not “authorize” the time. Management stated that the employees were engaged in duties necessary for the movement of the mail, and if overtime is worked without direction from the supervisor, it is “disallowed” and therefore not paid.

Management also disagreed with the methodology used to calculate cancelled transportation trips. Management stated that they are not able to use an across-the-board calculation because payment recoupments are based on individual contract agreements and each contract is different. Many contracts have different rates of payments depending on advance notice cancellation.

Management agreed with the \$2,948,034 in costs for extra trips; however, disagreed that the implementation team did not account for all local needs. Management agreed that mailer and commercial package pickups were not included in the model, stating that they knew at the startup that additional service was necessary to supplement the local complement and additional services were acquired and set in place prior to activation. Management stated that the OIG did not consider the cost compared to running the Postal Vehicle Services fleet at full complement.

Regarding recommendation 1, management stated that they have an integrated process in place to identify, document, and address opportunities as part of the RP&DC implementation. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 2, management stated they have a process in place to assess the pre-implementation health of a facility and have established a process to assess plant capability and identify issues that need to be addressed pre-launch. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 3, management stated that proper training on how to engage and lead team members and provide adequate supervision of operations is a critical element of success, and that has been part of the objective from day one. Furthermore, lessons learned from Richmond enable

them to continually improve this process and results through cross-functional engagement. The target implementation date is July 31, 2024.

Regarding recommendation 4, management stated they have robust service performance metrics in place with visual scorecards that quickly identify opportunities across all RP&DCs. RP&DC service performance are provided daily to show current week and 10-week trend performance of mail and packages. Management added that a dashboard was developed and is used to analyze service performance for each RP&DC and as the RP&DC’s are activated, they are incorporated into existing reports, dashboards, and diagnostic tools. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 5, management stated that robust pre-planning meetings occur with operations and delivery prior to RP&DC and S&DC implementations. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 6, management stated that local logistics is reviewing the omitted trips in their system and are pursuing omitted service. The target implementation date is April 5, 2024.

Regarding recommendation 7, management stated that training has been provided to management personnel. Post Office Operations and the Processing and Logistics department under Retail Post Office Operations created Learn and Grow training sessions in quarters 3 and 4 of FY 2023 in preparation for mail and packaging changes. In addition, a series of standard work instructions were updated and created for mail preparation and dispatch for administrative offices, hubs, and S&DCs. Management added that trained specialists will visit post offices and processing facilities in the morning and evening to conduct observations on processes. Finally, management stated a national team will be created to assist in problem solving, training, and facilitating between Customer Service, Logistics, and Processing for every plant nationwide. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 8, management stated that they have completed this work and plans have already been developed, along with an effective communication process for RP&DCs. Management stated they have a process in place to communicate with and solicit feedback from affected managers and for ongoing communication between processing and retail and delivery. Management requested closure of this recommendation upon issuance of the report.

Regarding recommendation 9, management stated that they have clear, long-standing policies related to consolidations and will revise the text of Handbook PO-408 to provide further clarity on these issues, after following all required processes and consultations. The target implementation date is May 31, 2025.

Regarding recommendation 10, management disagreed with the recommendation to the extent it presumes that moving processing operations in a single service area leads to service impacts. Management stated they will report service impacts to customers as appropriate. Management also stated the recommendation is “overbroad and unnecessary” and would impede efficient operations. Management stated they will continue to keep customers informed of service impacts through their normal reporting channels, including the public-facing service performance dashboard.

Evaluation of Management’s Comments

The OIG considers management’s comments responsive to recommendations 1–9 in the report, and the corrective actions should resolve the issues identified. We consider management’s comments nonresponsive to recommendation 10 and will work with the Postal Service through the formal audit resolution process.

Regarding recommendation 1, management stated they have an integrated process but did not provide support outlining how they identify, document, and address issues and use lessons learned when activating future RP&DCs. We will keep this recommendation open until the Postal Service provides support for this process.

Regarding recommendation 2, management’s comments do not address how they will assess plant capabilities and mitigate challenges before launching an RP&DC. We will keep this recommendation open until the Postal Service provides documentation of this process.

Regarding recommendation 5, management’s comments do not address how they will align transportation schedules to operations and validate with local management before launching an RP&DC. Management stated they have robust planning meetings, but we found that schedules were being adjusted the day before the launch, resulting in insufficient time to set up and make changes to routes. Management will need to provide support to show a time bound process with key dates to validate transportation prior to launching an RP&DC.

Regarding recommendation 7, management stated that training was provided to personnel in the Richmond region in quarters 3 and 4 of FY 2023. However, the supporting documentation provided by the Postal Service is a training slide deck that does not show completed training records or that personnel have been trained on the integrated operating plan since the time of our fieldwork. Management will need to provide support that all management personnel in the Richmond region have received this training in order to close the recommendation.

Regarding recommendation 8, management stated they have developed a communication process to solicit feedback from individual facilities about mail quality and variances. However, the support provided does not show how management will obtain input from local management when planning and implementing future RP&DCs. Management will need to provide support for this communication process as part of RP&DC planning in order to close the recommendation.

Regarding the disagreement with the monetary impact, management stated that all employee overtime was necessary and under supervisory control; however, they did not properly identify and authorize overtime in the data system. Further, Richmond management could provide no supporting

documentation to show that the overtime was approved. Regarding the methodology to identify questioned costs for cancelled trips, the OIG did not use an across-the-board calculation but used the actual costs related to each contract with a contractor cancellation.

All recommendations require OIG concurrence before closure. The OIG requests written confirmation when corrective actions are completed. Recommendations 1-3, 5-9, and 10 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that all recommendations can be closed. We consider recommendation 4 closed with the issuance of this report.

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Appendix A: Additional Information

Scope and Methodology

The team evaluated mail processing operations in the Richmond, VA, region from July 29, 2023, through December 1, 2023.

To accomplish our objective, we:

- Reviewed policies, procedures, manuals, training materials, and the Delivering for America strategic plan to gain an understanding of how the Postal Service planned to operate, manage, monitor, and oversee operations in the Richmond region.
- Interviewed Postal Service management to gain an understanding of management responsibilities, metrics for success, the internal control environment, and the establishment of the RP&DC.
- Reviewed Decision Analysis and Detailed Capital Investment reports to understand capital investment justifications and the anticipated return on investment.
- Reviewed and compared operating plans including clearance, dispatch and departure times, processing performance, operating expenses, and trip schedules to identify changes after consolidating operations.
- Analyzed and reviewed staffing, workhours, and overtime from Time and Attendance Collection System data.
- Judgmentally selected the Norfolk, VA, LPC and two S&DCs to observe how operations aligned with the Richmond RP&DC.
- Visited the Richmond RP&DC to observe collections, mail processing, and dispatch operations and terminal handling service operations. We observed facility conditions and interviewed processing facility personnel to identify successes and challenges from the launch of the RP&DC.
- Interviewed local management including plant managers; manager, distribution operations; managers, program support; supervisors, and logistics personnel to discuss changes to operations.

We conducted this performance audit from September 2023 through March 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 February 13, 2024, and included their comments where appropriate.

In planning and conducting the audit, we obtained an understanding of the RP&DC internal control structure 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 three components were significant to our audit objective:

- Control Activities
- Information and Communication
- Monitoring

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, information and communication, and monitoring that were significant within the context of our objectives. Our recommendations, if

implemented, should correct the weaknesses we identified.

We used data from the Enterprise Data Warehouse, Informed Visibility, Surface Visibility, Time and Attendance Collection System, Transportation Contract Support System, Web Management Operating Data System, Web End of Run, and Address

Management System. We assessed the reliability by testing for completeness, accuracy, and validity; evaluated differences in the data; interviewed agency and Postal Service officials knowledgeable about the data; and compared data across systems. 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 (in Millions)
<i>Penalty Overtime</i>	To assess the Postal Service's management of penalty overtime.	23-065-R23	9/27/2023	\$140.9
<i>Improving Service Performance and Mail Processing Efficiencies at Historically Low Performing Facilities</i>	To evaluate service performance and processing efficiencies at 10 low performing mail processing facilities and determine potential areas for improvement.	21-243-R22	8/8/2022	\$82.4
<i>Transfer of Mail Processing Operations from Selected Facilities</i>	To review the U.S. Postal Service's plan to transfer processing operations from 18 mail processing facilities and analyze its adherence to established policy as well as identify any associated risks and opportunities.	21-240-R22	5/4/2022	None
<i>Unscheduled Leave - Absence Without Leave (AWOL) Status</i>	To assess the management of U.S. Postal Service employees in AWOL status to identify opportunities to timely address AWOL status and manage costs.	21-140-R22	1/7/2022	\$11.4
<i>Late and Extra Trips at the Richmond, VA, Processing and Distribution Center</i>	To assess the causes for late and extra trips from the Richmond, VA, Processing & Distribution Center (P&DC) to delivery units.	21-029-R21	1/11/2021	None
<i>U.S. Postal Service's Processing Network Optimization and Service Impacts</i>	To determine if the Postal Service's processing network is operating at optimal efficiency and meeting service standards.	19XG013NO000	6/16/2020	\$385.6

Appendix B: Management's Comments



March 22, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA (23-161-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings and recommendations contained in the draft audit report titled: Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA.

The Postal Service's Delivering for America Plan ("DFA Plan") is intended to organize our outmoded operational methods for processing, transporting, and delivering the nation's mail and packages—to change our approach from one that had grown over many years to be disorganized, complicated, and costly, and through which we persistently failed to meet our service performance targets, into one that deploys logically sequenced and precise operational processes and practices. It is only through these efforts that we can achieve cost-effective, efficient, and reliable service, to both ensure that we can meet our service performance targets, as well as be financially sustainable over the long-term. At the same time, while transformational change is critical, it is also never easy, even when it is for the better, particularly when considering an organization that is the size of the Postal Service, and whose current network and operating practices are so misaligned. As we implement the DFA Plan, we aim to minimize any service disruptions that may occur to the extent possible, and to recover as quickly as possible when they do arise. We also will use any challenges that arise as an opportunity to learn and make adjustments to the initiatives we are pursuing.

The Richmond Regional Processing and Distribution Center (RPDC) – the first RPDC to be activated -- illustrates both the complications that can arise in implementation, and how we have learned and made adjustments to our DFA initiatives to improve execution. While extensive planning occurred prior to launch, we faced numerous challenges during implementation that impacted service performance on a regional level, due to a variety of factors identified by the OIG, most of which were avoidable. We have undertaken extensive efforts to thoroughly address these challenges and issues in Richmond, which has led to continued performance improvement.

In addition, we have reviewed the weaknesses identified in the Richmond implementation and made appropriate adjustments to our planning and execution processes and timelines. While our overall RPDC rollout schedule was paced in a manner to avoid impact on national service performance (and therefore the above-described issues in Richmond did not materially impact national service), with the time in between

implementation of each RPDC we have intensified our review of our baseline operating practices to assure their ability to accommodate the necessary changes at the pace required.

While we largely agree with most of the findings and recommendations in your report, we do want to clarify certain aspects and disagree with certain elements of the report, and with the calculated monetary impact, as more fully explained below.

Clarification of Disagreements with Certain Findings in the Report:

Finding # 4 - Management does not disagree with Finding #4 but wishes to clarify that the challenges reported in implementing the Integrated Operating plan were addressed as identified prior to issuance of the Report. Adjustments have been made to improve the volume arrival profile and align volume arrival with machine processing windows. Expectations are that processing operations are completed on schedule without inefficient reactions to late arriving volume.

Finding # 5 – Management disagrees with those aspects of Finding #5 that concern the Mail Processing Facility Review (MPFR) processes as set forth in Handbook PO-408 to the extent the report infers that an MPFR was required in connection with the Richmond RPDC initiative. The Postal Service's long-standing approach has been to apply the Handbook PO-408 processes only when consolidating all originating and/or all destinating operations between facilities in different service areas (defined by reference to the 3-digit ZIP Code). We have therefore not applied those processes when simply centralizing operations between multiple processing plants that are part of the same service area, and hence already serve the same geographic area. We also have not applied the PO-408 process when consolidating operations between a particular plant and a subordinate facility (e.g., moving operations from an annex into a plant). This long-standing practice constitutes a reasonable and appropriate interpretation of our statutory and regulatory obligations under Section 302 of the Postal Accountability and Enhancement Act (PAEA), as effectuated by the MPFR process in the PO-408.

This long-standing approach to applying the PO-408 means that the MPFR process does not apply to all movement of operations out of facilities.

Furthermore, the hypothetical that the Report constructs to insinuate that the Postal Service might in the future "game" our procedures to avoid the MPFR process belies our operational realities and ignores the fact that we have been engaged in a significant number of MPFRs in connection with the DFA Plan, which demonstrates that the OIG's purported concerns are misplaced. Indeed, the Postal Service has been unable to conceive of a plausible/practical scenario in which we would ever attempt to avoid the MPRF process entirely by gradually moving all operations out of a processing plant and into another processing plant that was originally in a different service area by one operation at a time. In that regard, the Postal Service makes decisions on where to conduct operations for specific 3-Digits ZIPs based on operational and logistical

considerations, and it is not reasonable to suggest that the Postal Service would make decisions on where to conduct specific processing operations solely to avoid the MPFR process. Rather, the Postal Service's past practice clearly shows that the opposite is true, and that the Postal Service routinely engages in numerous PO-408 processes when undertaking processing network modernization initiatives. Indeed, the Postal Service has been engaged in 59 separate MPFR proceedings in the past year, as part of implementing the Delivering For America Plan.

Disagreements with Monetary Impacts:

Finally, Management also disagrees with the methodologies used to calculate the Monetary Findings of over \$8 million in questioned costs. For the Unauthorized Overtime Costs, the report implies that the overtime was not appropriately utilized because management did not "authorize" the time. This is an incorrect assumption. The employees were engaged in duties necessary to the movement of the mail. If overtime is worked without direction from the supervisor, it is "disallowed" and therefore not paid.

Management disagrees with the methodology used to calculate cancelled transportation trips. We are not able to use an across-the-board calculation. Cancellation recoups are based on individual contract agreements. Each contract is different based on whether it is in TCSS or ILE. Many contracts have different rates of payments depending on advance notice cancellation.

Management agrees with the \$2,948,034 costs, however disagrees that the implementation team did not account for all local needs. While it is known that mailer and commercial package pickups were not included in the model, local logistics made adjustments within their own schedules to account for these. It was known at the startup and during the transition that additional service was necessary to supplement the local complement at the time and additional services were acquired and set in place prior to activation. The OIG did not take into consideration in their report of exceptional service the cost compared to running the PVS fleet at full complement.

Following are our comments on each of the ten recommendations:

Recommendation 1: We recommend the Vice President, Processing and Maintenance Operations, continue to document the issues identified and actions taken to address issues in post implementation reviews of Regional Processing and Distribution Center (RP&DC) conversions, and use the cumulative lessons learned when activating future RP&DCs.

Management Response/Action Plan:

Management agrees with this recommendation and requests closure at the issuance of the Final Report. Management has an integrated process in place to identify, document and address opportunities as part of the RPDC implementation.

Target Implementation Date: 5/31/2024

Responsible Official:
Director, Network Transformation

Recommendation 2: We recommend the Vice President, Processing and Maintenance Operations, develop procedures to identify and mitigate challenges at facilities scheduled to become a Regional Processing and Distribution Center before launch.

Management Response/Action Plan:
Management agrees with this recommendation and requests closure at the issuance of the Final Report. The Postal Service has a process in place to assess pre-implementation health of a facility. We have established a process to assess plant capability and identify issues that need to be addressed pre-launch.

Target Implementation Date: 05/31/2024

Responsible Official:
Director, Network Transformation

Recommendation 3: We recommend the Vice President, Processing and Maintenance Operations, coordinate the training of Richmond Regional Processing and Distribution Center (RP&DC) management on how to engage and lead team members and provide adequate supervision of operations, and deploy management training at future RP&DC sites prior to launch.

Management Response/Action Plan:
Management agrees with this recommendation. Proper training on how to engage and lead team members and provide adequate supervision of operations is a critical element of success, and that has been part of the objective from day one. Furthermore, lessons learned from Richmond enable us to continually improve this process and results through cross-functional engagement.

Target Implementation Date: 07/31/24

Responsible Official: Sr. Director, Network Transformation

Recommendation 4: We recommend the Vice President, Processing and Maintenance Operations, in coordination with the Vice President, Chief Data and Analytics Officer, develop a scorecard to track service performance and include it as a measure of success at both the Richmond Regional Processing and Distribution Center (RP&DC) and when implementing future RP&DCs.

Management Response/Action Plan:

Management agrees with this recommendation and requests closure at the issuance of the Final Report. We currently have robust service performance metrics in place with visual scorecards that help us quickly identify opportunities across all RPDCs.

RPDC service performance push reports are provided daily that show current week to date performance for Mail and Packages. These push reports also include a 10-week trend to assist with analysis of ongoing performance. Also, a dashboard was developed and is utilized to provide analysis of service performance for each RPDC and the associated origin/destination lanes. As the RPDC's are activated, they are incorporated into existing reports, dashboards, and diagnostic tools.

Target Implementation Date: 5/31/2024

Responsible Official:

Senior Director, Network Transformation

Recommendation 5: We recommend the Vice President, Logistics, align transportation schedules to operations and validate with local management before launching Regional Processing and Distribution Centers.

Management Response/Action Plan:

Management agrees with this recommendation and requests closure at the issuance of the Final Report. Robust pre-planning meetings occur with Operations and Delivery (SDC team) prior to RPDC and SDC implementations.

Target Implementation Date: 05/31/2024

Responsible Official:

South Atlantic Logistics Division Director

Recommendation 6: We recommend the Vice President, Logistics, direct personnel to record omitted trips in the data systems and pursue recovery of payments for cancelled trips at the Richmond Regional Processing and Distribution Center.

Management Response/Action Plan:

Management agrees with this recommendation. Local Logistics is reviewing the Omits in STAF and are pursuing omitted service. Documentation can be provided to show progress.

Target Implementation Date: 04/05/2024

Responsible Official:

South Atlantic Logistics Division Director

Recommendation 7: We recommend that the Vice President, Regional Processing Operations, Eastern Region, in coordination with the Vice President, Retail and Post Office Operations, train all management personnel in the Richmond region to understand and perform their roles and responsibilities as stated in the Richmond Regional Processing and Distribution Center integrated operating plan.

Management Response/Action Plan:

Management agrees with this recommendation and requests closure at the issuance of the Final Report. Training has been provided to management personnel. Post Office Operations, and Processing and Logistics department under Retail Post Office Operations, created Learn and Grow training sessions in FY23 Q3 and FY'23 Q4 in preparations for CPDO's mail/packaging changes. In addition, a series of standard work instructions were updated and created as needed for mail preparation and dispatch for administrative offices, hubs as well as S&DCs.

A series of IOP GEMBA's was created as well as an IOP GEMBA platform. Trained IOP Specialists will visit post offices and processing facilities in the morning and evening to conduct observations on processes that pertain to the IOP Dashboard, Integration Operating Plan, and MAQPAQ application, scanning and visibility. Finally, a special project was recently approved that will create a national GEMBA team; with the goal to GEMBA every plant nationwide, assist in problem solving, training, and facilitating between Customer Service, Logistics and Processing.

Target Implementation Date: 5/31/2024

Responsible Official:

Senior Division Director, South Atlantic

Recommendation 8: We recommend the Vice President, Processing and Maintenance Operations, in coordination with the Vice President, Retail and Post Office Operations, implement a process to communicate with and solicit feedback from affected managers when developing plans for and implementing future Regional Processing and Distribution Centers.

Management Response/Action Plan:

Management agrees with this recommendation and requests closure at the issuance of the Final Report. Management has completed this work. Our plans have already been developed, along with an effective communication process for RPDCs. We have a process in place to communicate with and solicit feedback from affected managers and for ongoing communication between processing and retail/delivery.

Mail Arrival Quality / Plant Arrival Quality (MAQPAQ): A key tenet of the larger Integrated Operating Plan is the Mail Arrival Quality/Plant Arrival Quality (MAQ/PAQ) application.

The application provides a platform in which individual facilities are able to cite variances in volume quantity, composition and arrival time. The computer-based system allows processing/logistics and delivery/customer service to report variances with mail quality in real time. It provides a communication platform to track and review relevant information related to issues identified and maintains historical data for later analysis and reporting.

<https://blue.usps.gov/retail/iopl-programs.htm#tab2>

Target Implementation Date: 5/31/2024

Responsible Official:
Senior Director, Network Transformation

Recommendation 9: We recommend that the Vice President, Processing and Maintenance Operations, update Handbook PO-408 to include the definition of service area, and clearly define when Mail Processing Facility Reviews are required.

Management Response/Action Plan:
Management agrees with this recommendation as we interpret it. In that regard, while the Postal Service has clear, long-standing policies related to consolidations. We will revise the text of the Handbook PO-408 to provide further clarity on these issues, after following all required processes and consultations.

Target Implementation Date: 5/31/25

Responsible Official: Sr. Director, Strategic Planning and Implementation

Recommendation 10: We recommend that the Vice President, Processing and Maintenance Operations, communicate any impacts to customers when permanently moving processing operations of a three-digit ZIP Code to another processing facility.

Management Response/Action Plan:

Management disagrees with this recommendation to the extent it presumes that moving processing operations in a single service area leads to service impacts. We will report service impacts to our customers as appropriate.

By way of further explanation, the Postal Service moves processing operations with the needs of the customers in mind, and in most cases, there is no impact to service. For example, a move may be from one building to another across the street, or from a leased building back into a larger facility nearby. Therefore, the blanket nature of this recommendation is overbroad and unnecessary and would impede efficient operations. That said, the Postal Service will continue to keep customers informed of service impacts

of whatever cause based upon our normal reporting channels, including the public facing service performance dashboard.

Target Implementation Date: N/A

Responsible Official: N/A

E-SIGNED by DANE.A COLEMAN
on 2024-03-22 12:46:26 EDT

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Vice President, Processing and Maintenance Operations
E-SIGNED by ROBERT CINTRON
on 2024-03-22 16:20:34 EDT

Robert Cintron
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Steve M. Dearing
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Elvin Mercado
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Todd Hawkins
Vice President, Regional Processing Operations, Eastern

cc: Corporate Audit Response Management

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