

Impacts Associated with Local Transportation Optimization in Richmond, Virginia

AUDIT REPORT

Report Number 23-161-1-R24 | April 12, 2024



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Highlights

Background

The Postal Service deployed a major change to operations within the Richmond, VA, area on October 28, 2023, when it implemented its Local Transportation Optimization initiative. The initiative is designed to reduce the overall number of transportation trips to and from select Post Offices and increase the amount of mail transported on each trip. In this new initiative, the Postal Service will no longer transport mail collected at select delivery units to the Richmond Regional Processing and Distribution Center (RPDC) the same day it is collected. Rather, the mail will remain at the unit until the next day, delaying its entry into sorting operations.

What We Did

Our objective was to determine impacts associated with the Postal Service's new Local Transportation Optimization initiative in Richmond, VA.

What We Found

Although there may be significant savings, the Postal Service and public do not fully know the operational, service, and customer impacts of the Local Transportation Optimization initiative. The Postal Service implemented this change while simultaneously implementing its first RPDC, 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 service impact of Local Transportation Optimization, service performance decreased significantly in the weeks following implementation. Although service performance improved after peak mailing season concluded in January, it was still below levels compared to the same period last year for all mail classes. Further, this initiative will affect rural communities and individuals who mail letters and packages more than other users of the Postal Service.

Management stated once operations are stable, it estimates \$7 million in savings annually for the Richmond region from this initiative. Management added they are in the early stages of tracking savings from this initiative and will continue to do so as it is rolled out to other locations.

Recommendations and Management Comments

We made one recommendation to address the issues identified in the report, and Postal Service management agreed. Management's comments and our evaluation are at the end of the finding and recommendation. The U.S. Postal Service Office of Inspector General (OIG) considers management's comments partially responsive to the recommendation. See [Appendix C](#) for management's comments in their entirety.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 12, 2024

MEMORANDUM FOR: KELLY ABNEY
CHIEF LOGISTICS OFFICER & EXECUTIVE VICE PRESIDENT

Mary K. Lloyd

FROM: Mary Lloyd
Deputy Assistant Inspector General for Mission Operations

SUBJECT: Audit Report - Impacts Associated With Local Transportation
Optimization in Richmond, VA (Report Number 23-161-1-R24)

This report presents issues identified during our ongoing audit of Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA (Project Number 23-161).

All recommendations require OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. Recommendation 1 should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have questions or need additional information, please contact Todd J. Watson, Director, Network Processing, or me at 703-248-2100.

Attachment

cc: Postmaster General
Corporate Audit Response Management

Results

Introduction

This report presents the results of our audit of the Impacts Associated with Local Transportation Optimization in Richmond, Virginia (Project Number 23-161-1). Our objective was to determine impacts associated with this initiative.

See [Appendix A](#) for additional information about this audit.

Background

The Postal Service is implementing several strategies and initiatives as part of its 10-year strategic Delivering for America plan to achieve financial stability and service excellence. One of these strategies is to redesign its surface transportation network to create high performing, lower cost, efficient, and reliable surface transportation capable of moving mail volume on fewer trips.

To support this strategy, the Postal Service used a third-party contractor to develop a model to optimize its local transportation network. Postal Service management stated it spends \$3.3 billion annually on an inefficient and costly network to transport mail between its sorting facilities and delivery units. Management stated the model determined the Postal Service could save \$1.5 billion annually by reducing the overall number of transportation trips between sorting facilities and delivery units.

The Postal Service used this model to help develop its new Local Transportation Optimization initiative, which it deployed to its first region, Richmond, VA, on October 28, 2023. The initiative is designed to reduce the overall number of transportation trips between sorting facilities and delivery units, increase the amount of mail transported on each trip, and reduce

carbon emissions. In addition, the Postal Service expects this initiative will reduce labor costs and enable the Postal Service to reduce contractor-based transportation and hire more Postal vehicle operators.

Generally, this new initiative reduced the number of transportation trips to and from select delivery units from two to three trips per day to one trip per day. The Postal Service will no longer transport originating mail¹ collected at these specific delivery units to the Richmond Regional Processing and Distribution Center (RPDC) the same day it is collected. Rather, the mail will remain at the delivery unit until the next day, delaying its entry into sorting operations. Although mail will arrive at the processing facility later under this new initiative, Postal Service management has stated this will not impact First-Class Mail service performance nor require an adjustment to service standards.

The Postal Service fully implemented this change to facilities greater than 50 miles away from the Richmond RPDC.² Facilities greater than the 50-mile distance can become fully optimized, hybrid, or receive an exception from having its afternoon collection trips eliminated based on the amount of volume.³ A fully optimized facility has collection mail⁴ picked up at the same time the truck drops mail for delivery, while a hybrid facility has mail dropped off for delivery at all facilities on the route and the collection mail at these locations is subsequently picked up on the trucks' way back to the Richmond RPDC (see [Figure 1](#)).

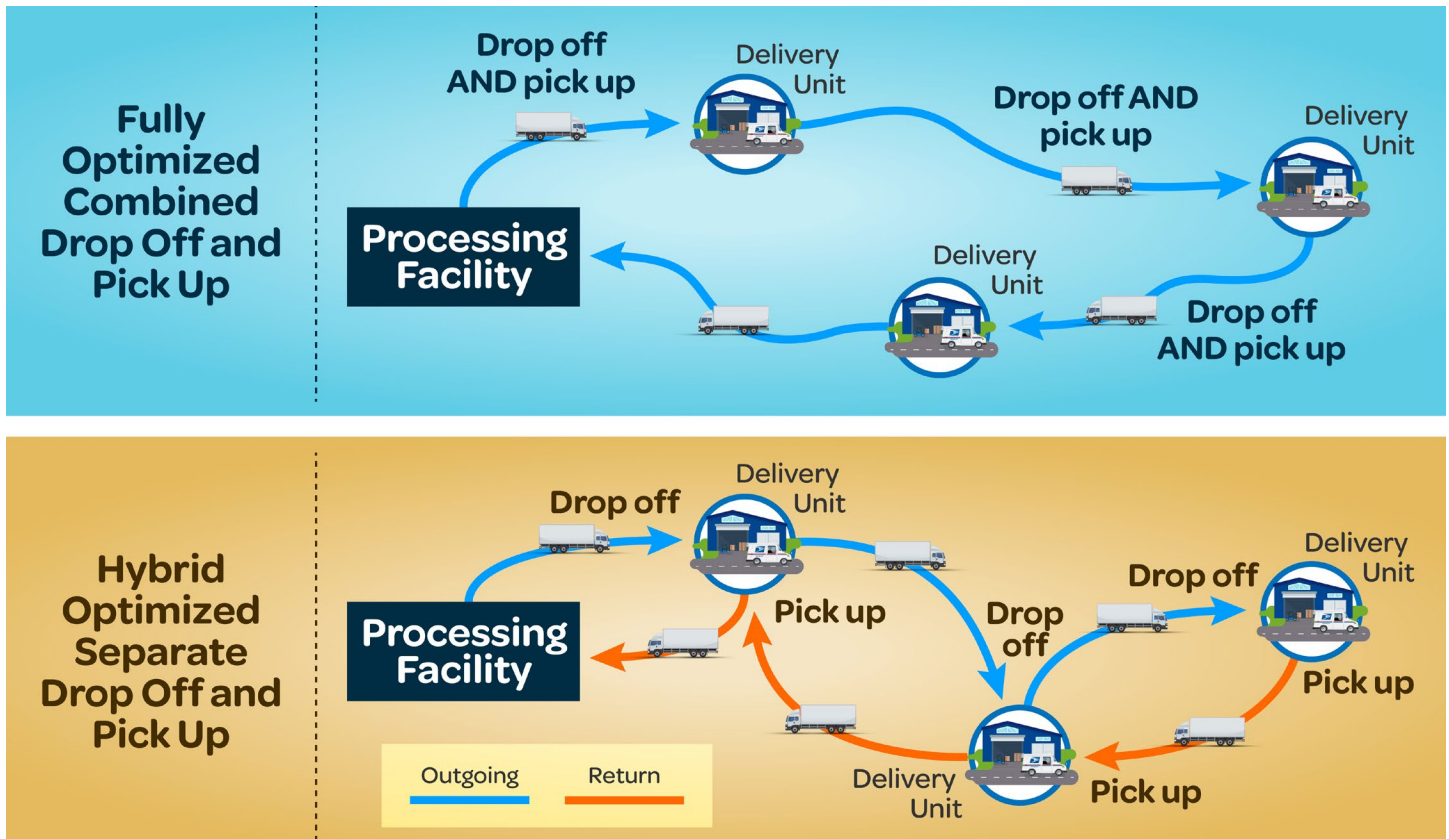
¹ Originating mail refers to where mail first enters the mailstream for processing and delivery.

² Initially the Postal Service implemented this change to facilities 25 or more miles away from the Richmond RPDC. However, on January 8, 2024, the Postal Service adjusted its methodology and implemented only at locations more than 50 miles from the Richmond RPDC.

³ The Postal Service can exempt facilities greater than 50 miles from having their afternoon collection transportation eliminated for various reasons, typically based on the volume. Thus, several Richmond facilities did receive an exemption and did not change their collection transportation schedule.

⁴ Mail collected from blue collection boxes, retail units, businesses, and residences.

Figure 1. Fully and Hybrid Optimized Route



Source: Postal Service Richmond Presentation on October 25, 2023.

See Table 1 for a breakdown of the number of facilities affected by the Local Transportation Optimization initiative in the Richmond region.

Table 1. Richmond Region Supported Facilities by Optimization Level⁵

Optimization Level	Number of Facilities	Percent of Total
Fully Optimized	287	58%
Hybrid Optimized	10	2%
No Change	196	40%
Total	493	100%

Source: U.S. Postal Service Office of Inspector General (OIG) analysis from Postal Service-provided data on February 15, 2024.

The Postal Service expanded its Local Transportation Optimization initiative to locations in Madison, WI, Green Bay, WI, and Milwaukee, WI in January 2024 and Portland, OR, and Atlanta, GA, in February 2024.

⁵ The Postal Service previously provided facilities by optimization level on December 12, 2023. We obtained an updated version on February 15, 2024, as facility optimization levels had been adjusted. The data provided on February 15 was utilized for all analysis.

⁶ Under U.S. Code Title 39, Section 3661, the Postal Service must seek a PRC advisory opinion when certain conditions occur that make changes affecting mail service on a nationwide or substantially nationwide basis.

The Postal Service expects to implement this initiative near 115 sorting facilities (roughly 50 percent of locations) in 2024 and is targeting nationwide implementation in 2025. Although the model estimates the Postal Service could save \$1.5 billion annually, management acknowledged there is a gap between savings estimated by the model and actual savings due to adjustments based on local needs when its implemented. Management added it will create savings estimates for each region as the initiative is rolled out. Implementing cost savings initiatives that may result in mail and packages taking longer to reach customers or not meeting service expectations increases the risk customers find quicker and more reliable alternatives. Additionally, with a future national implementation and potential impact to service, the Postal Service may have to seek a Postal Regulatory Commission advisory opinion.⁶

Finding #1: Impacts From the Local Transportation Optimization Initiative Not Fully Known

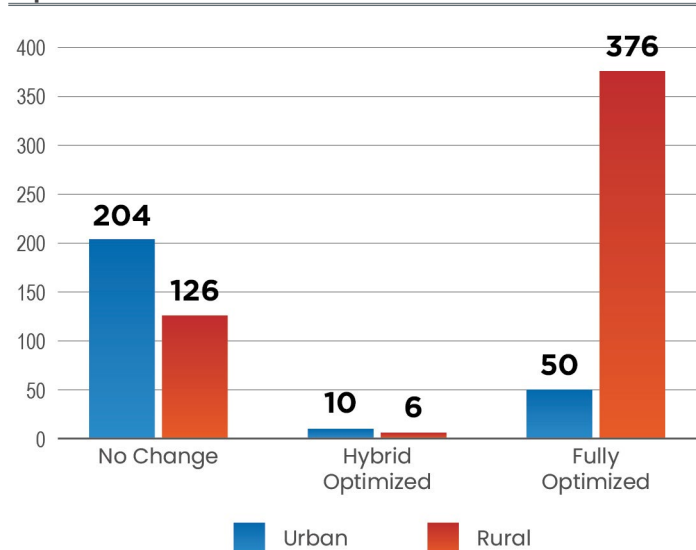
Although there may be significant savings, the Postal Service and public do not fully know the operational, service, and customer impacts of the Local Transportation Optimization initiative. The Postal Service implemented this change while simultaneously implementing its first RPDC, handling Election Mail for local elections, and processing the increased mail volumes of its peak mailing season in the same area. As a result, the OIG and the Postal Service are not able to identify the specific service and cost impacts of the Local Transportation Optimization initiative in Richmond through February 2024.

However, this initiative will affect rural communities and individuals who mail letters and packages more than other users of the Postal Service. Most of the locations having their transportation reduced are in rural areas and the type of mail remaining overnight are typically mail and packages mailed by individuals rather than large business mailings.

Customer Demographics Impacts

The Postal Service's decision to implement this initiative at facilities greater than 50 miles away from a processing facility indicates more rural ZIP Codes will be impacted than urban ones. Of the ZIP Codes affected by the Local Transportation Optimization initiative in the Richmond region, 86 percent were located within rural areas.⁷ Postal Service management has not notified these communities of the changes resulting from this initiative. See Figure 2 for urban and rural ZIP Codes affected by Local Transportation Optimization in the Richmond region.

Figure 2. Urban and Rural ZIP Codes by Optimization Level



Source: Informed Visibility and OIG analysis.

Initial Service Performance Impacts

While Postal Service management initially stated this initiative will not impact service performance or require adjustments to service standards, management later stated that once operations in Richmond stabilize, it estimates the initiative will have a 6 percentage point impact on the amount of single piece⁸ First-Class Mail and a 1.5 percentage point impact on the amount of overall composite⁹ First-Class Mail delivered on-time. While we are not able to isolate the impact Local Transportation Optimization had on service during the peak mailing season and RPDC implementation, service performance decreased significantly in the weeks following implementation. Specifically, in the eighteen weeks after the Postal Service implemented its Local Transportation Optimization initiative in the Richmond region, the percent of mail delivered on time from the region declined for all mail classes. Overall, for the period¹⁰ after implementing the optimization initiative, the amount of mail delivered on time decreased

⁷ Rural and urban ZIP Codes were determined based on Postal Service classification within its Informed Visibility system that tracks service performance.

⁸ These are individual pieces of mail that are typically mailed by individual users rather than large business mailers.

⁹ This is a weighed score combining scores of both individual pieces of mail and bulk business mailings.

¹⁰ October 28, 2023, through March 1, 2024.

compared to the same period last year (SPLY) and prior to implementation,¹¹ for the following classes:

- Composite First-Class Mail dropped about 21 percentage points compared to SPLY and before implementation.
- Priority Mail dropped about █ percentage points compared to SPLY and █ percentage points compared to before implementation.

- Priority Mail Express dropped █ percentage points compared to SPLY and █ percentage points compared to before implementation.
- Ground Advantage¹² dropped █ percentage points compared to SPLY and █ percentage points compared to before implementation.

In addition, service performance ranged from █ percent below current on-time service targets (see Table 2) and was lower than national performance during the same period.

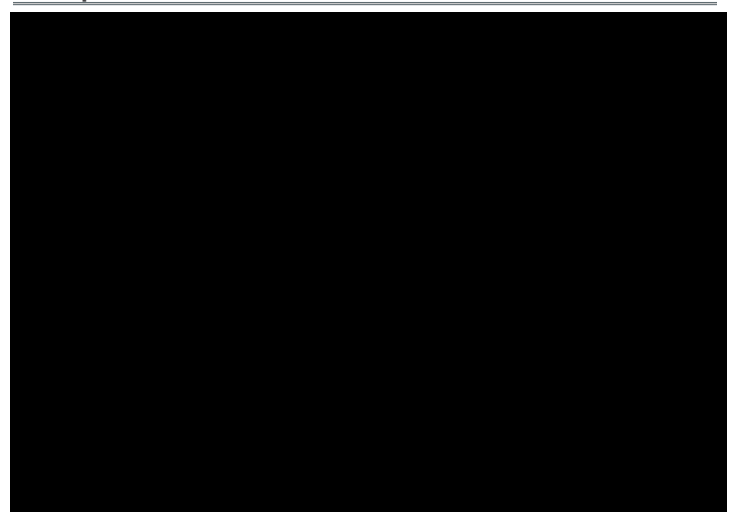
Table 2. Richmond RPDC Originating Service Performance

Mail Class	Service Performance Score – Prior to Implementation	Service Performance Score – Post Implementation	Difference in Performance	Fiscal Year 2023 National Target	Post Implementation Difference to Target
Composite First-Class Mail	86%	65%	21%	93%	28%
Ground Advantage	█	█	█	█	█
Priority Mail	█	█	█	█	█
Priority Mail Express	█	█	█	█	█

Source: Informed Visibility and OIG analysis.

Service performance improved once peak mailing season concluded in January 2024; however, service performance was still below levels prior to implementation of the initiative for all mail classes. For example, service performance for Priority Mail and Ground Advantage did improve at the end of December 2023, although it continues to be below SPLY. Composite First-Class Mail has also seen some improvement in service performance after peak season concluded, but continues to be lower than SPLY, national performance, and the period before implementation. See Figure 3 on Priority Mail and Ground Advantage and Figure 4 on composite First-Class service performance.

Figure 3. Ground Advantage and Priority Mail Composite Service Performance

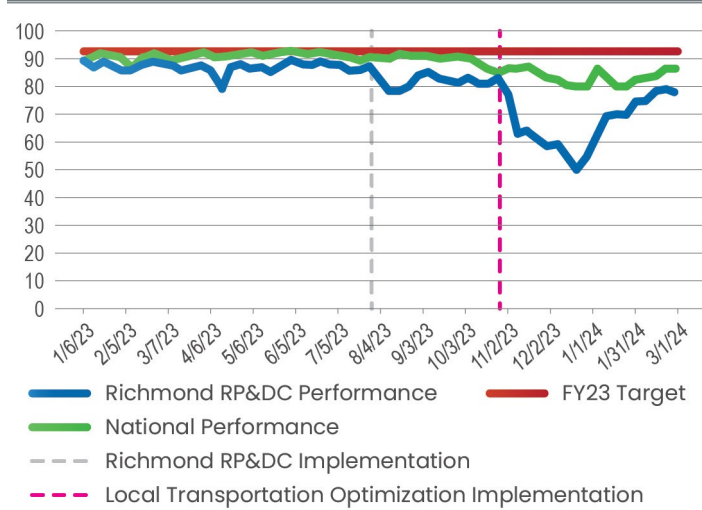


Source: Informed Visibility.

¹¹ December 31, 2022, through October 27, 2023.

¹² The Postal Service rebranded First-Class Package Service, Retail Ground, and Parcel Select to Ground Advantage on July 9, 2023.

Figure 4. Composite First-Class Mail Service Performance



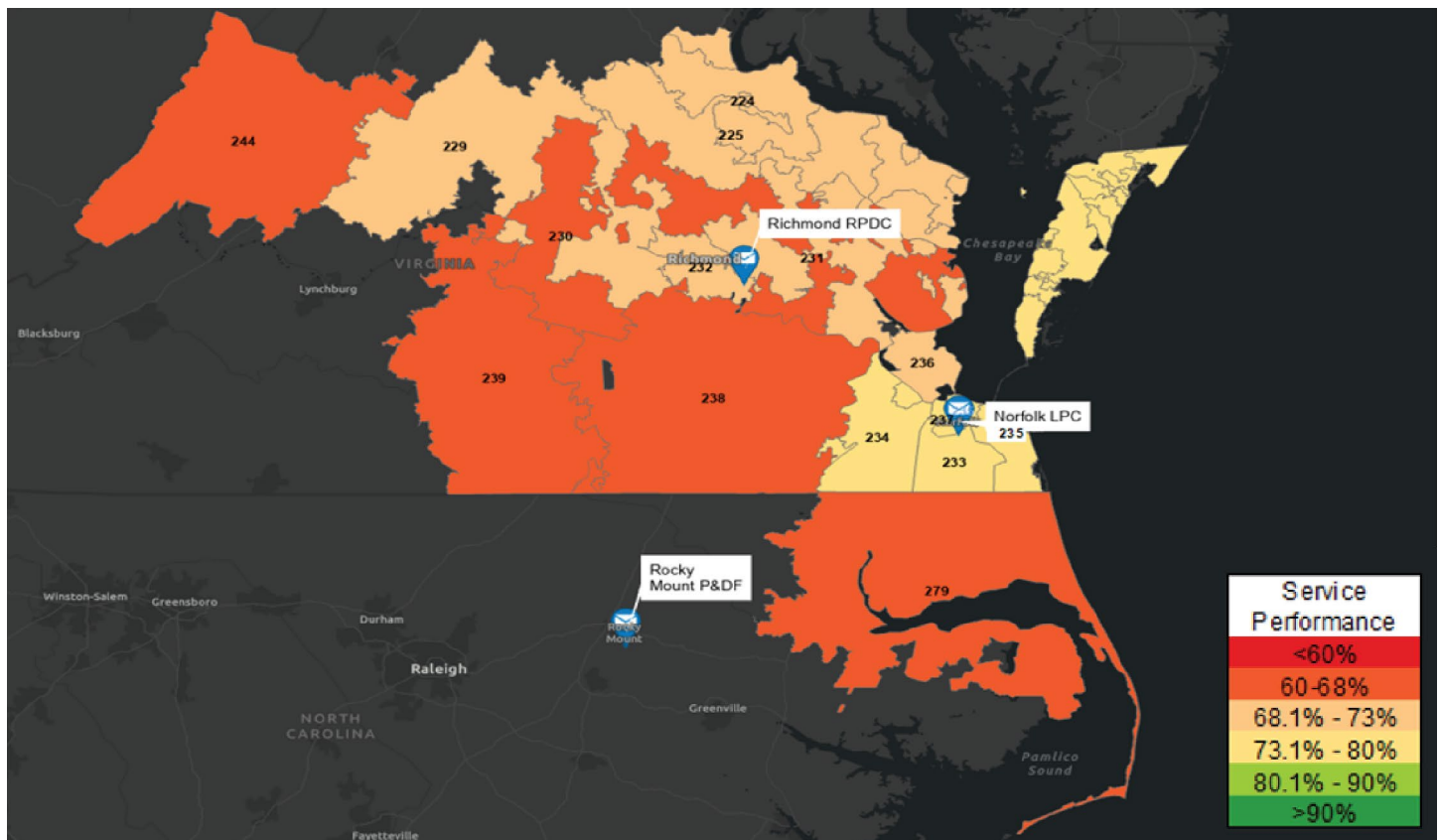
Source: Informed Visibility.

See [Appendix B](#) for additional information on service performance in the Richmond RPDC service area.

Customer First-Class Mail Performance Varies Greatly by ZIP Code

We found service performance of local single piece First-Class Mail¹³ in 3-digit ZIP Codes in the Richmond region varied greatly after the Postal Service implemented its Local Transportation Optimization initiative. No 3-digit ZIP Code met the service performance target, and service performance was significantly below target in ZIP Codes starting with 230, 239, and 244. ZIP Codes starting with 239 and 244 had the highest percentage of ZIP Codes fully optimized, while ZIP Codes starting with 235 and 237 had no ZIP Codes optimized. Those 3-digit ZIP Codes with no optimization had slightly better service performance scores than most ZIP Codes with any degree of optimization. See Figure 5 for the local 3-digit single piece service performance by Richmond associated ZIP Codes.

Figure 5. First-Class Mail Single Piece Local Service Performance by 3-Digit Richmond RPDC ZIP Codes



Source: Informed Visibility and OIG analysis.

¹³ We evaluated First-Class Mail single piece because it's the mail product that best represents individual users of the Postal Service. This included mail originating from and was destined to the Richmond region.

Operational and Election Mail Impacts

With the Postal Service implementing its first RPDC, handling the increased volumes of local Election Mail and its peak mailing season, and implementing the Local Transportation Optimization initiative, it is difficult to determine the cost impacts related to the initiative. We reviewed transportation costs and trips from October 28, 2023, through March 1, 2024, and determined the Postal Service was able to reduce over 65,000 to and from local transportation trips in the Richmond region compared to SPLY, but total Richmond RPDC transportation trip costs increased just over \$1 million. Management stated the model estimates \$7 million in savings annually for the Richmond region once operations are stable. Postal Service management stated they are in the early stages of tracking savings from this initiative and will continue to do so as it is rolled out to other locations.

Additionally, the Postal Service stated that how it handles Election Mail and ballots will be different in the locations where this initiative has been implemented. While the Postal Service does not have a documented national policy on how to handle Election Mail and ballots at post offices affected by the Local Transportation Optimization initiative, it did provide instructions in February 2024 on how the affected sites in the Richmond region should handle Election Mail. Typically, a post office completes an all-clear check each day during election season to ensure that no Election Mail and ballots remain at the facility. However, according to the instructions, Election Mail and ballots will remain at facilities overnight unless it is within four days of the election. During the four days before an election and through a state's Election Day deadline, local management will collect any ballots received that day and transport them in the evening to a hub for processing rather than letting them remain at the facility overnight. Postal Service management stated they do not anticipate the initiative will impact the timely processing or delivery of ballot mail and the election process will be implemented at all

future Local Transportation Optimization locations. A separate OIG audit¹⁴ is conducting observations of the Postal Service's compliance with these new instructions and other Election Mail polices and will report on the Postal Service's readiness for timely processing and delivery for the 2024 general election.

Further, with collection mail staying overnight at affected post offices, changes to other processes might be needed:

- Registered Mail and deposit remittances will likely need additional safeguards to remain at post offices overnight.
- Priority Mail Express mailed from affected areas would likely not meet service commitments and could be subject to refunds.
- Empty mail transportation equipment¹⁵ may not fit on the new routes. Prior to the change there were additional trips that could have transported empty equipment for re-use and now there is an increased risk it could accumulate and require extra transportation.

Not meeting service performance standards puts the Postal Service revenue, costs, and brand as a trusted service provider at risk. Implementing potential cost savings initiatives that result in mail taking longer to reach customers increases the risk customers find quicker and more reliable alternatives. There is also a risk the initiatives will fail to generate significant savings, degrade service, and harm the public's confidence in the Postal Service.

Recommendation #1

We recommend the **Chief Logistics Officer & Executive Vice President** establish milestones for realizing savings and conduct a cost-benefit of actual transportation savings and its impact on service performance, including customer demographic impacts.

¹⁴ Postal Service's Election Mail Readiness for the 2024 General Election, Project Number 24-016.

¹⁵ Mail transport equipment consists of containers (including sacks, pouches, trays, wheeled containers, pallets, etc.) used to contain mail during processing and while transporting it between postal facilities, delivery units, and mailers.

Postal Service Response

Management generally agreed with the finding but expressed concerns that the report might be misleading because the OIG has not demonstrated that the Local Transportation Optimization was the cause of any service impacts. Management also noted that the increase in Richmond RPDC transportation trip costs is relevant to the problems with implementation rather than the cost savings merits of the Local Transportation Optimization initiative.

Management stated that all facilities subject to Local Transportation Optimization are measured against a common set of parameters and thresholds that are applied consistently and non-discriminatorily, irrespective of the population density. Therefore, some rural facilities are not subject to Local Transportation Optimization, and conversely, some urban facilities are, and some rural facilities subject to Local Transportation Optimization will have exceptions if they meet the qualifying thresholds. Management also stated that the estimated impacts on service was a point in time estimate and did not account for the Postal Service making adjustments to operations to still make the applicable service targets. Further, management stated that the Postal Service provided instructions regarding the treatment of election mail at all Local Transportation Optimization impacted sites in states with primary elections and will continue to do so through the general election. Management generally agreed with the recommendation and the target implementation date is May 31, 2024.

OIG Evaluation

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments partially responsive to the recommendation.

As we noted, neither the Postal Service nor the OIG could identify the cost and service impacts related to Local Transportation Optimization because of the timing of the Local Transportation Optimization implementation. However, the application of the Local Transportation Optimization initiative

disproportionately affected customers living in rural areas in the Richmond region. Further, Postal Service's approach to implementing Local Transportation Optimization cost savings seems to indicate more rural ZIP Codes will be impacted than urban ones.

Management stated they have an integrated process to track progress and savings but did not respond to conducting a cost-benefit analysis of actual savings and the impact on performance and customer demographic impacts. Management will need to provide support to show this process with key dates to track savings, and the impact on service and customers.

Looking Forward

The Local Transportation Optimization initiative is a key component to accomplishing the Postal Service's goal to achieve financial sustainability. It is important for the Postal Service to achieve expected cost savings while preserving service performance when implementing initiatives such as this. As this is planned nationally, communication to stakeholders about this initiative is critical as it may have an impact on service, particularly to rural communities. Additionally, with a future national implementation and potential impact to service, the Postal Service may have to seek a PRC advisory opinion. Further, timely notification and coordination with facilities migrating to Local Transportation Optimization will aid in a successful transition. We plan to conduct additional audits on the effectiveness of this initiative as it is rolled out to other locations and eventually nationwide.

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Appendix A: Additional Information

Scope and Methodology

Our objective was to determine impacts associated with the Postal Service’s new Local Transportation Optimization initiative in Richmond, VA. To accomplish our objective, we:

- Reviewed policies, procedures, and documentation to gain an understanding of how the Postal Service planned to implement the Local Transportation Optimization initiative in the Richmond RPDC region.
- Analyzed First-Class, Priority Mail, Priority Mail Express, and Ground Advantage service performance from Informed Visibility before and after the implementation of the Local Transportation Optimization initiative. Specifically, we reviewed on-time service performance from week ending January 6, 2023, to March 1, 2024, for the Richmond RPDC and national performance compared to targets.
- Analyzed Richmond RPDC serviced facilities’ ZIP Code demographics by facility optimization level.
- Analyzed Richmond RPDC serviced facilities’ extra and total trips in comparison to the same period last year. In addition, calculated Richmond RPDC transportation costs compared to the same period last year.
- Interviewed Postal Service management to gain an understanding of the Local Transportation Optimization initiative and locations impacted.

We conducted this performance audit from January 2023 through April 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.

We notified management of our intent to report on the Transportation Optimization initiative on January 31, 2024, prior to the draft of this report. We discussed our observations and conclusions with them on March 25, 2024, and included their comments, where appropriate.

In planning and conducting the audit, we obtained an understanding of Richmond RPDC Local Transportation Optimization internal control structures 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, and 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 assessed the reliability of computer-generated data from the Enterprise Data Warehouse, Informed Visibility, Surface Visibility, and Facilities Database systems when performing our data analysis. We assessed the reliability of the data by interviewing Postal Service officials knowledgeable about the data and reviewed related documentation. We determined the data were sufficiently reliable for the purpose of this report.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact (in Millions)
<i>Effectiveness of the New Richmond Regional Processing and Distribution Center</i>	To assess the operational impacts related to the launch of the RPDC and identify successes, lessons learned, and opportunities.	23-161-R24	March 28, 2024	\$8.1

Appendix B: Richmond RPDC Service Performance Prior and Post Implementation

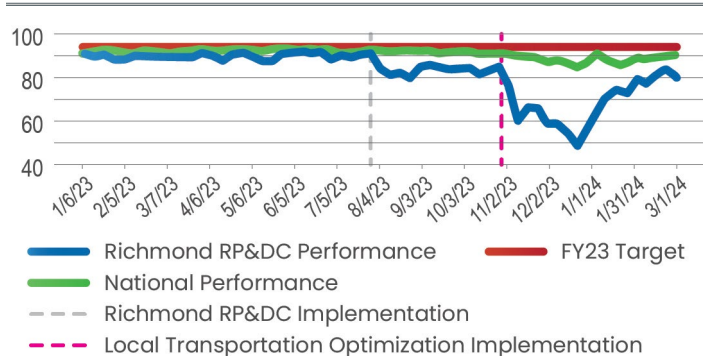
Post Implementation

In the 18 weeks after the Postal Service implemented its Local Transportation Optimization initiative, customers experienced lower on-time service performance for all mail classes. In addition, all mail classes were below target and national on-time performance.

Since implementation on October 28, 2023, the Richmond RPDC First-Class composite on-time performance dropped about 21 percentage points. Specifically, from December 31, 2022, through October 27, 2023, the facility had a First-Class on-time performance of about 86 percent. Since the implementation through March 1, 2024, the facility had a First-Class service performance of about 65 percent (28 percentage points below target).

Also, since implementation, the Richmond RPDC First-Class 2-Day composite on-time performance dropped about 22 percentage points. From December 31, 2022, through October 27, 2023, the facility had a First-Class 2-Day on-time performance of about 88 percent. Since the implementation through March 1, 2024, the facility had a First-Class 2-Day service performance of about 66 percent (28 percentage points below target). See Figure 6 for Richmond RPDC First-Class 2-Day composite compared to national performance and target.

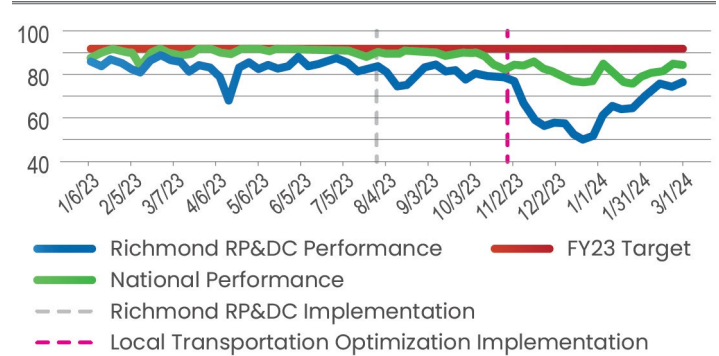
Figure 6. First-Class Mail 2-Day Composite Service Performance



Source: Informed Visibility.

Since implementation, the Richmond RPDC First-Class 3-5 Day composite on-time performance dropped 20 percentage points. From December 31, 2022, through October 27, 2023, the facility had a First-Class 3-5 Day on-time performance of 83 percent. Since the implementation through March 1, 2024, the facility had a First-Class 3-5 Day service performance of about 63 percent (29 percentage points below target). See Figure 7 for Richmond RPDC First-Class 3-5 Day composite compared to national performance and target.

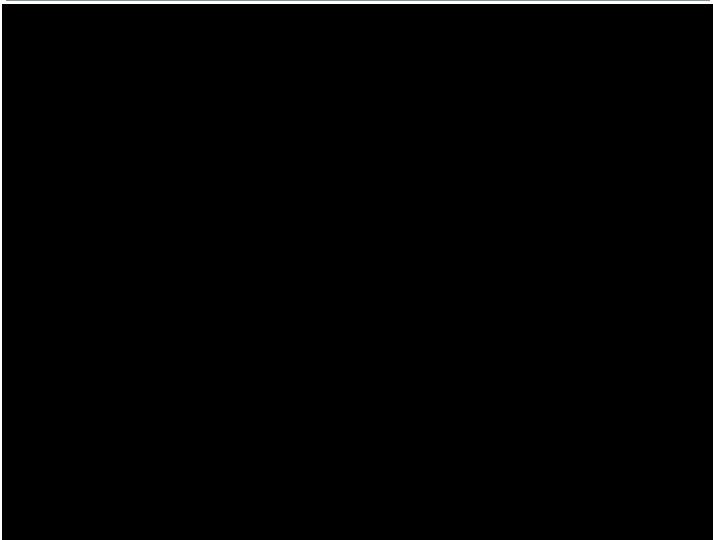
Figure 7. First-Class Mail 3-5 Day Composite Service Performance



Source: Informed Visibility.

Since implementation, the Richmond RPDC Priority Mail on-time performance dropped about 22 percentage points. From December 31, 2022, through October 27, 2023, the facility had a Priority Mail on-time performance of 88 percent. Since the implementation through March 1, 2024, the facility had a Priority Mail service performance of 66 percent (22 percentage points below target). See Figure 8 for Richmond RPDC Priority Mail composite compared to national performance and target.

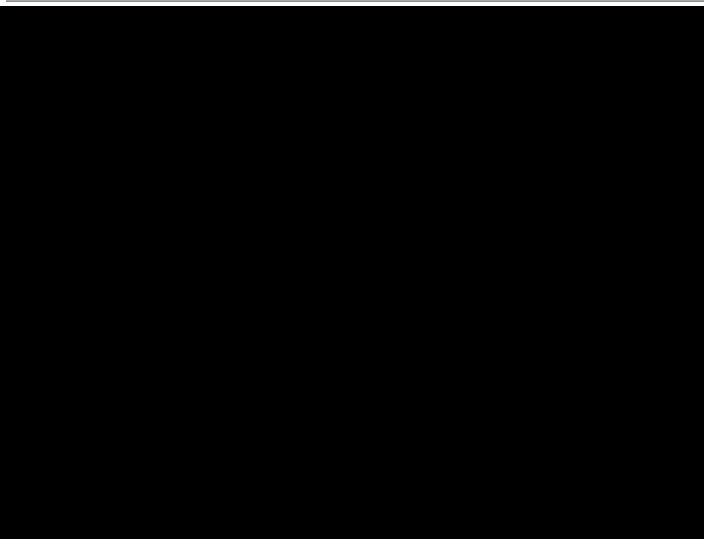
Figure 8. Priority Mail Service Performance



Source: Informed Visibility.

Since implementation, the Richmond RPDC Ground Advantage on-time performance dropped about █ percentage points. From December 31, 2022, through October 27, 2023, the facility had a Ground Advantage on-time performance of █ percent.¹⁶ Since the implementation through March 1, 2024, the facility had a Ground Advantage service performance of about █ percent (█ percentage points below target). See Figure 9 for Richmond RPDC Ground Advantage compared to national performance and target.

Figure 9. Ground Advantage Service Performance

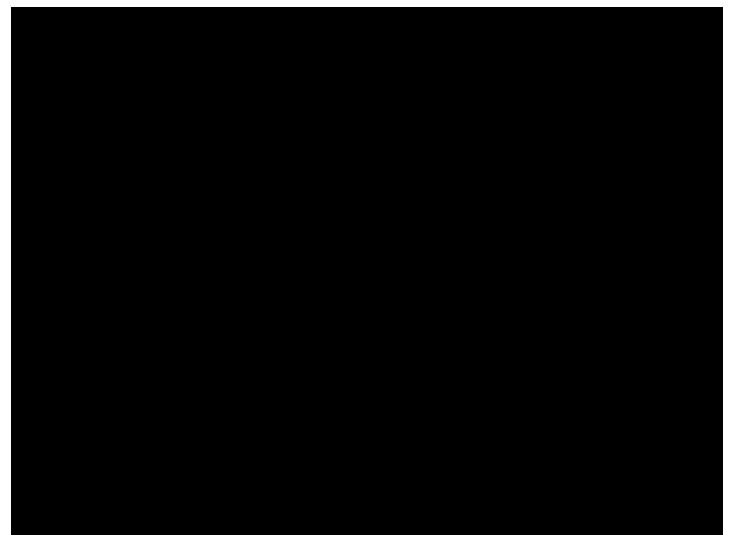


Source: Informed Visibility.

¹⁶ The Postal Service rebranded First-Class Package Service, Retail Ground, and Parcel Select to Ground Advantage on July 9, 2023.

Since implementation, the Richmond RPDC Priority Mail Express on-time performance dropped about █ percentage points. From December 31, 2022, through October 27, 2023, the facility had a Priority Mail Express on-time performance of █ percent. Since the implementation through March 1, 2024, the facility had a Priority Mail Express service performance of about █ percent (█ percentage points below target). See Figure 10 for Richmond RPDC Priority Mail Express composite compared to national performance and target.

Figure 10. Priority Mail Express Service Performance



Source: Informed Visibility.

Appendix C: Management's Comments



Date: April 10, 2024

JOHN CIHOTA
DIRECTOR, AUDIT SERVICES

SUBJECT: Management Response: Impacts Associated with Local Transportation Optimization in Richmond, VA (23-161-1-DRAFT)

Thank you for providing the Postal Service an opportunity to review and comment on the findings contained in the draft audit report titled: *Impacts Associated with Local Transportation Optimization in Richmond, VA*.

As you correctly recognize in your report, the Local Transportation Optimization (LTO) initiative is a critical initiative to achieve the goals of the *Delivering for America Plan*, which is to create an efficient, reliable, and sustainable network for the integrated movement of mail and packages. Our local transportation network is highly inefficient, as it is currently characterized by a large number of underutilized and unnecessary trips, due to the fact that the Postal Service currently operates separate trips to pick-up and drop-off mail and packages from delivery units. This leads to inefficient usage and high costs, particularly on longer local transportation lanes that transport lower amounts of volume. Pursuant to LTO, the Postal Service would for such lanes pick up originating volume entered the prior day on the same trip that is dropping off the destinating mail for delivery. This will serve to enhance the efficiency of our local transportation network and reduce costs by reducing the number of trips and improving the utilization of trips that are run, while also reducing carbon emissions and allowing the Postal Service to leverage a more stable local transportation fleet using employees, rather than contractors.

The Postal Service is pursuing this initiative in a deliberate and systematic fashion. The Postal Service will likely eventually implement this initiative throughout the country in the coming years, but the ultimate decisions and precise schedule are dependent on various factors including our learnings from the initial implementations; the current expectations discussed in the report should therefore be considered tentative at this time. The roll-out of any particular geographic area is preceded by a careful planning exercise to identify where exceptions are warranted and to design appropriate routes, and the consequent financial results that are achieved are therefore necessarily dependent on those processes.

Richmond was the first location in which LTO was implemented, and we have also implemented the initiative in a few additional locations. We are carefully monitoring results and making adjustments as appropriate. For instance, we are monitoring the impact on service, and whether our initial expectation – that LTO would not materially impact service performance results (beyond any short-term impacts that occur as the

initiative is implemented) – proves to be correct. We are therefore also assessing, based on this monitoring, whether LTO may implicate any statutory obligations, including those under 39 U.S.C. § 3661, as the initiative is rolled out to more geographic areas.

Below we address certain specific findings made by OIG:

Findings # 1: Management agrees with OIG that service performance declined in the Richmond RPDC service area due to a variety of factors, and that whether LTO had any impact on service declines in the region cannot be segregated or determined. Most prominently, and as OIG has noted in a prior report, the execution of the Richmond Regional Processing and Distribution Center had serious problems, with impacts on operations and our service performance. While OIG provides various charts showing service performance results in Richmond, the methodology used does not isolate any impact from LTO, as you concede in your report. Given your concession in this regard, we have concerns that the tone and tenor of your report might be misleading to a reader, since it is in large measure premised upon the notion that the LTO initiative is causing the referenced service impacts, but you have not demonstrated that LTO was the cause of any service impacts.

In a similar vein, the report acknowledges that the LTO initiative saved a significant number of local transportation trips and presumably a significant amount of money in local transportation costs. Your subsequent conclusion that Richmond RP&DC transportation trip costs increased is relevant to the problems associated with the Richmond RPDC implementation rather than to the cost saving merits of the LTO initiative.

Additional statements made in the report would benefit from further context. First, OIG notes that more rural ZIP Codes are implicated by LTO than urban ZIP Codes, but it is important to note that all facilities subject to LTO are measured against a common set of project parameters and thresholds (based on the distance of delivery units from the relevant processing facility) that are applied consistently and in a non-discriminatory fashion irrespective of the population density of the ZIP code involved. Therefore, some rural facilities are not subject to LTO at all (and, conversely, some urban facilities are), and furthermore some rural sites to which LTO might otherwise apply will have exceptions applied if they meet the qualifying thresholds.

Second, OIG states that the Postal Service provided certain estimated impacts on service, but it is important to note that this analysis was a point-in-time estimate that did not account for the prospect of the Postal Service making adjustments to our operations in order to move product more effectively through the network, thereby enabling us to still make the applicable service targets.

Third, while OIG states that there is no “documented national policy” on handling Election Mail at LTO sites, the OIG also recognizes that the Postal Service has developed a uniform policy that will apply to all LTO sites, for both primary elections and

the general election. This is consistent with the Postal Service's longstanding policies and procedures to deploy measures to connect blank ballots entered by election officials to voters, or completed ballots returned by voters entered close to or on Election Day to their intended destination. In that regard, the OIG accurately identified that the Postal Service provided instructions in February 2024 regarding the treatment of Election Mail at LTO locations. The Postal Service implemented the same approach at all LTO impacted sites in states with primary elections following LTO implementation and will continue to do so through the general election.

The following is our comment on the one recommendation:

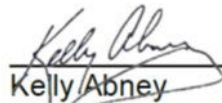
Recommendation 1: We recommend the **Chief Logistics Officer & Executive Vice President** establish milestones for realizing savings and conduct a cost-benefit of actual transportation savings and its impact on service performance, including customer demographic impacts.

Management Response/Action Plan:

Management generally agrees with the recommendation. As a result of the Richmond LTO, and cumulative lessons learned, management has integrated a process to track progress and savings. Cost savings opportunities on an individual site basis will vary based on contract agreements as well as size of the site campus. Service performance metrics, and hence customer impacts, are also continuously monitored. As noted above, however, the LTO initiative is premised upon a common set of project parameters and thresholds that are applied consistently and in a nondiscriminatory fashion irrespective of the population density of the ZIP codes involved, based upon the distance of delivery units from the relevant processing facility. That said, we will continue to assess those parameters to determine if any adjustments are appropriate.

Target Implementation Date: 05/31/2024

Responsible Official: Director, Logistics Network Implementation



Kelly Abney
Chief Logistics Officer & Executive Vice President

cc: Corporate Audit Response Management

OFFICE OF INSPECTOR GENERAL

UNITED STATES



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