OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Project Phoenix

Audit Report

September 14, 2011

Report Number IT-AR-11-009

OFFICE OF
INSPECTOR
GENERAL

UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 14, 2011

Project Phoenix

Report Number IT-AR-11-009

IMPACT ON:
The U.S. Postal Service Technology Solution Life Cycle (TSLC) process.

WHY THE OIG DID THE AUDIT:
Our objective was to determine the causes of Project Phoenix delays and cost overruns to identify potential project management process improvements.

WHAT THE OIG FOUND:
The Postal Service may prevent delays – such as those experienced on Project Phoenix – on future projects by improving the technology solution requirements, as well as the analysis and design process. Specifically, the Postal Service did not meet its projected goal to implement release 1.2 – the largest phase of Project Phoenix – in April 2010. As of June 2011, release 1.2 was 14 months behind schedule. This occurred because management did not adequately develop the technology solution requirements. As a result, management invested additional time and resources to revise requirements, reengineer back-end processes, and amend development work, which delayed Project Phoenix implementation.

WHAT THE OIG RECOMMENDED:

We recommended management modify the TSLC process to require the identification, documentation and analysis of back-end business processes and information technology systems during the technology solution requirements, analysis, and design phases.

WHAT MANAGEMENT SAID:
Management agreed with the recommendation and stated they will modify the TSLC process to include a mandatory customer deliverable that describes the impact on back office business functions. Management disagreed with the monetary impact stating the original revenue projections are unreliable due to downturn in the U.S. economy.

AUDITORS' COMMENT:
The U. S. Postal Service Office of Inspector General considers management's comments responsive. We believe the revenue projections, finalized in February 2009 when the economic downturn was underway, provide a reasonable basis for the potential monetary impact calculation.

Link to review the entire report

September 14, 2011

MEMORANDUM FOR: ELLIS A. BURGOYNE
CHIEF INFORMATION OFFICER AND
EXECUTIVE VICE PRESIDENT

E-Signed by Darrell E. Benjamin, Jr
VERIFY authenticity with e-Sign

FROM: Darrell E. Benjamin, Jr.
Deputy Assistant Inspector General
for Revenue and Systems

SUBJECT: Audit Report – Project Phoenix
(Report Number IT-AR-11-009)

This report presents the results of our audit of the U.S. Postal Service's Project Phoenix (Project Number 11RR006IT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Frances E. Cain, director, Information Technology, or me at 703-248-2100.

Attachments

cc: John T. Edgar
Paul E. Vogel
Linda A. Kingsley
Robert E. Dixon, Jr.
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction

This report presents the results of our review of the U.S. Postal Service's Project Phoenix[1] (Project Number 11RR006IT000). Postal Service management requested this audit, which addresses operational risk. Our objective was to determine the causes of project delays and cost overruns to identify potential project management process improvements.

Project Phoenix is a management initiative to modernize the Postal Service's ability to serve consumers and small businesses in a multichannel environment. The project includes digital access, both web and mobile, call center channels, and the development of re-usable technology for other retail channels. Project Phoenix focuses on enhancing the USPS.com website and re-engineering the underlying information technology (IT) that supports three key revenue-generating channels within the Postal Service: the website (USPS.com), the contact center, and retail. The project should enable the Postal Service to launch future revenue-generating products and services more quickly by re-using common IT components rather than building them from scratch.

Based on the overall success of the Phoenix Program, the Postal Service projected reductions to IT maintenance and systems integration costs, a projected shift of customer transactions from higher cost channels to lower cost channels, and expected improvements in development processes. Estimated new revenue growth through fiscal year 2016 was $1.9 billion, with expected cost savings of $273 million. The original project schedule called for software releases from September 2009 through completion in September 2011.

However, the Postal Service did not meet its projected goal to implement release 1.2 – the largest phase of Project Phoenix – in April 2010. As of June 2011, release 1.2 was 14 months behind schedule.

Conclusion

The Postal Service may prevent delays – such as those experienced on Project Phoenix – on future projects by improving the technology solution requirements process, [2] as well as the analysis and design[3] process. Specifically, management could benefit by adequately identifying, documenting, and analyzing business and technology requirements on future projects of similar scope and scale.

---

[1] Project Phoenix is also known as the Multi-Channel Customer Experience Improvement Project.
[2] The Technology Solution Requirements process is used to discover and document business and technology requirements for the development of a technology solution. These requirements include business, project, functional, technical, data, and usability requirements. The process applies to all technology solution projects including, but not limited to, the development of application or system software, the configuration of commercial off-the-shelf software, as well as telecommunications, database, network, and infrastructure projects.
[3] The Technology Solution Analysis & Design process translates the Technology Solution Requirements into an implementable design and finalizes the project's implementation schedule and costs. The process creates a documented design from approved technology solution requirements.

Project Delays

The Postal Service did not meet its project goal to implement release 1.2[4] – the largest phase of Project Phoenix – in April 2010. As of June 2011, release 1.2 was 14 months behind schedule. This occurred because management did not adequately develop the technology solution requirements. Specifically, the project team did not sufficiently identify, document and analyze back-end business processes and IT systems during the requirements, analysis, and design phases of the Technology Solution Life Cycle (TSLC).[5]

The project team did not adequately consider the impact business requirements might have on existing business processes – such as revenue reconciliation, management reporting, inventory management, and content management – during the early stages of the project. For example, management developed a requirement to enable a customer to purchase stamps and shipping labels using a single transaction. The prior e-commerce stamp purchase solution required a customer to generate a similar purchase using two separate transactions. The project team focused only on the front-end e-commerce software and realized later that modifying the software would require major modifications to the back-end revenue reconciliation processes and IT systems to accommodate performing just one transaction.

As a result, management had to invest additional time and resources to revise requirements, reengineer the back-end processes, and redo development work, all of which contributed to delayed implementation. Consequently, the project experienced $4.6 million in additional capital investment costs. Project delays can result in lost revenue and increased costs and may prevent the Postal Service from meeting its overall strategic goals and objectives. We determined that the impact of the project delays resulted in at least $152.8 million in lost potential revenue.[6]

Recommendation

We recommend the chief information officer and executive vice president direct the vice president, Information Technology, to:

1. Modify the Technology Solution Life Cycle process to require the identification, documentation, and analysis of applicable back-end business processes and information technology systems during the technology solution requirements, analysis, and design phases.

---

[4] Project Phoenix release 1.2 consisted of building the IT infrastructure and delivering most of the new features and functionality that will support the newly designed web site. Additionally, it included the creation of a new integrated ecommerce technology solution.
[5] TSLC is the corporate development methodology management uses to develop and implement technology solutions.
[6] Lost potential revenue calculated as of June 2011.

Management's Comments

Management agreed with the recommendation and stated that they will modify the TSLC process to include a mandatory customer deliverable that describes the impact on back-office business functions. Additionally, management will direct the IT Strategy and Compliance group to review the deliverable during process audits. The target completion date is November 4, 2011.

Management disagreed with the $152.8 million in potential monetary impact resulting from project implementation delays. Management stated that the Postal Service experienced financial difficulties resulting from the economic downturn and could not rely on original revenue projections that they used to justify the project. See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The U. S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and corrective actions should resolve the issue identified in the report.

Regarding the potential monetary impact, we understand that projections management used in the original estimates may or may not have materialized as a result of economic difficulties. However, we believe the revenue projections, finalized in February 2009 when the economic downturn was well underway, provide a reasonable basis for the potential monetary impact calculation.

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

Appendix A: Additional Information

Background

Project Phoenix is a management initiative to improve the underlying IT infrastructure that supports three key revenue-generating channels: the website (USPS.com), the contact center, and retail. Project Phoenix also includes a number of enhancements to USPS.com. Management plans to integrate the back-end IT infrastructure to enable both the website and the contact center to converge and use these resources to improve customer service and increase revenue. Management also plans to update the contact centers with desktops designed to provide agents with the resources to better address customer needs.

Management expects these improvements to support a more positive and consistent customer experience across channels and reduce IT maintenance and integration costs over time. Based on the original implementation schedule defined in the Decision Analysis Report, the new functionality included in the Project Phoenix initiative was to be implemented in two phases and multiple releases, with the largest release (release 1.2) completed by April 2010.

Objective, Scope, and Methodology

Our objective was to determine the causes of project delays and cost overruns to identify potential project management process improvements. To achieve our objective we reviewed project documents and interviewed project team members and key stakeholders.

We conducted this performance audit from April through September 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 8, 2011, and included their comments where appropriate.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Monetary Impact

Monetary Impact

Finding	Impact Category	Amount
Project Delays	Revenue Loss[7]	$152,775,596

---

[7] Amount Postal Service is (or was) entitled to receive but was underpaid or not realized because policies, procedures, agreements, requirements, or good business practices were lacking or not followed. May be recoverable or unrecoverable. May apply to historical events or a future period (in the sense perceived future losses may be prevented by the implementation of a recommendation).

Appendix C: Management's Comments

ELLIS A. BURGOYNE
CHIEF INFORMATION OFFICER
EXECUTIVE VICE PRESIDENT

**UNITED STATES
POSTAL SERVICE**

September 6, 2011

SHIRIAN HOLLAND
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Project Phoenix
                   Report Number IT-AR-11-DRAFT, Project Number 11RR006IT000

Thank you for the opportunity to review and comment on the subject draft audit report.
We are in agreement with recommendation 1, and the response is attached.

We disagree that the impact of the delay in Project Phoenix is $152.8M. The Postal Service has
suffered a tremendous financial impact from the downturn in the U.S. economy. The Phoenix
DAR went through a revision in the third quarter of FY11, which changed Phoenix to a non-
generative DAR based on the questionable nature of revenue projections in the context of the
country's and the Postal Service's financial situation. While some delay realizing revenue can be
attributed to the delay in the Phoenix project, the effect of the U.S. economic troubles cannot be
discounted in the overall financial picture.

The subject report and this response contain information related to potential security
vulnerabilities that, if released, could be exploited and cause substantial harm to the U.S. Postal
Service. The manager, Corporate Information Security will determine what portions of the report
should be considered as classified, restricted, and exempt from disclosure under the Freedom of
Information Act.

If you have any questions or comments regarding this response please contact Gerri Wallace,
Corporate Information Security at (202) 268-6821.

Ellis A. Burgoyne

Attachment

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260 1500
202-268-6900
FAX: 202-268-4492
ELLIS.A.BURGOYNE@USPS.GOV
WWW.USPS.COM

Project Phoenix
Report Number IT-AR-11-DRAFT, Project Number 11RR006IT000
Page -2-

cc: John T. Edgar
Paul E. Vogel
Kelly Sigmon
Robert E. Dixon, Jr.
Corporate Audit and Response Management

Project Phoenix
Report Number IT-AR-11-DRAFT, Project Number 11RR006IT000
Page -3-

We recommend the chief information officer and executive vice president direct the vice president, Information Technology, to:

1. Modify the Technology Solution Life Cycle process to require the identification, documentation, and analysis of applicable back-end business processes and information technology systems during the technology solution requirements, analysis, and design phases.

    Management Response/Action Plan:

    The Technology Solution Life Cycle will be amended to include a mandatory customer deliverable – Back-Office Business Assessment -- that describes the impact on back-office business functions. The deliverable will be included in the regular TSLC audits performed by the IT Strategy and Compliance Group.

    Target Implementation Date:
    The Technology Solution Lifecycle will be updated with a new process document by November 4, 2011.

    Responsible Official:
    The Manager, IT Strategy and Compliance will be responsible for ensuring that the Back-Office Business Impact Assessment is present for each TSLC project as part of the existing TSLC audit process.