



February 15, 2018

MEMORANDUM FOR: LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING



FROM: Kimberly F. Benoit
Deputy Assistant Inspector General
for Information Technology and Major Investments

SUBJECT: Fiscal Year 2017 Decision Analysis Report Summary
(Report Number MI-CAP-18-001)

The U.S. Postal Service Office of Inspector General (OIG) reviews decision analysis reports (DAR) in advance of Investment Review Committee (IRC) meetings to determine whether the requested investments are reasonable business decisions and are in the best interest of the U.S. Postal Service (Project Number 18TDA003MI000). The purpose of this memorandum is to summarize the results of our reviews of DARs during fiscal year (FY) 2017.

The Postal Service uses an investment review process to evaluate DARs for recommendation and approval prior to investment activity. The IRC reviews and votes on projects of \$5 million or more of combined total capital investments, deployment/implementation expenses, and annual operating costs.¹ DARs are used to justify the expenditure for investment projects that are either an economic opportunity or a means of correcting or eliminating a problem to sustain existing postal operations into the future. DARs include a cash flow analysis and a calculated Return on Investment (ROI); as well as necessary details such as back-up documentation to enable the IRC to make informed decisions on the use of postal funds.

During FY 2017, investment requests included the purchase of vehicles and package processing equipment, upgrade of mail processing equipment software, lease renewals, and research and development proposals.

¹ The IRC is comprised of the Chief Financial Officer, Chief Operating Officer, General Counsel, Chief Human Resources Officer, Chief Information Officer, and Chief Marketing and Sales Officer.

In FY 2017, the OIG evaluated 64 DARs² totaling \$2.90 billion that required the Postal Service Headquarters Finance team's validation and subsequent IRC approval or disapproval. We provided our individual reviews to DAR sponsors and the IRC considered these reviews during its approval process. Six of the 64 investment requests that we reviewed (totaling \$1.42 billion) were subsequently canceled prior to receiving the Postmaster General's approval.

We determined that all of the DARs reviewed in FY 2017 were reasonable business decisions or in the best interest of the Postal Service; however, we identified concerns for eight DARs that totaled \$218.8 million. We had concerns related to the proposed ROIs for five of these eight DARs, including overly optimistic savings projections, nonrealistic achievable results, dependencies on various cost reduction goals and factors, and overstating the ROI without the associated revenue metrics. Management should continue to evaluate proposed ROIs carefully as part of the investment review process. In the three other DARs, we reported concerns related to projected processing goals that management had not previously accomplished, the lease terms, and staff relocation numbers. As part of the IRC meetings, we engaged the Postal Service and discussed these concerns with management.

The specific concerns we identified were as follows:

Package Platform Redesign Phase 1 Network Returns

We believe the projected ROI of ██████ percent is at risk because of optimistic labor savings and revenue contributions.

- The labor savings of over ██████ appears to be incremental. These types of savings are difficult, if not impossible, to capture because of their incremental nature and existing labor agreements.
- The revenue contribution of about ██████ annually assumes that once the Postal Service can provide visibility into package details and individual pricing, customers will return. However, the DAR does not address the potential pricing impact of providing complete package visibility to existing and former customers.
- There is still no full explanation for the advanced funding request.

² In FY 2017, the OIG adjusted its methodology to include DARs based on the OIG memorandum issued date prior to the IRC meeting. As a result, we determined that twelve DARs approved in FY 2016, for a total of \$310.09 million, were not captured in the FY 2016's DAR Summary Memorandum. These twelve DARs are included in this summary.

Informed Visibility Business Case Modification 2

Based on our review of the DAR (including all backup), we believe that approval of the DAR modification is required to protect the original investment and modification of over [REDACTED]. However, we continue to be concerned that the ROI depends on three cost reduction goals totaling more than [REDACTED]. These three goals are as follows:

- The Postal Service depends on the PRC's agreement to remove the cost with the probable objection of mailers.
- Operational efficiency from the use of Informed Visibility will be necessary to ensure that adequate measurement metrics are in place to measure the cost/benefit.
- Rural measurement is a relatively new requirement that is not fully known at this point and could become much more costly than projected.

Product Tracking & Reporting Enhancements (FY 2017)

We believe that achievement of the almost [REDACTED] ROI will be difficult to measure and could be overstated. We noted the following measures:

- There are no revenue-specific tools or metrics to measure the increased revenue assumption based on a [REDACTED] capture rate.
- The DAR assumption is that Intelligent Mail Package Barcode (IMpb) collection rates for customer noncompliance fees can be increased with the proposed product tracking & reporting (PTR) enhancements.
- We believe management needs to establish an expense funding cycle for future PTR investments and determine an annual or biannual capital funding budget to anticipate future PTR capital needs.

Expansion of Package Sorters (APBS/APPS Bin Upgrade, Phase 2)

Achievement of the ROI depends on eliminating full-time equivalents, which is not possible because of existing labor agreements. As a result, local management will need to ensure the DAR's projected performance metrics are achieved and the resulting labor savings opportunities are managed to reduce overtime and idle time, although this may not achieve the projected ROI.

Global e-commerce Marketplace (GeM): Market Test

We did not consider the projected ROI of [REDACTED] in our decision. We are concerned about ensuring that any future DAR contain comprehensive cash flow projections and a delineated Postal Service exit strategy with suppliers in order to support development of a Postal Service product within the market.

Additional Package Processing Equipment

Our previous Small Package Sorting Systems (SPSS) audit, the ongoing High Throughput Package Sorter (HTPS) audit work, and our review of current SPSS performance metrics indicates that all projected processing goals for the SPSS and HTPS have not been accomplished. This will require a concerted effort by local and national management to reach the projected goals.

██████████, Centralized Package Distribution Center (CPDC)³

We are concerned about the lease term and the future untenable position it could cause the Postal Service in 13 years when it comes to relocating the CPDC. In addition, without additional identified savings, this new facility will be a cost center for the Postal Service that will affect the revenue contribution of packages.

Long Beach, CA Processing & Distribution Center and Vehicle Maintenance Facility Asset Optimization

The OIG has 23 staff relocating rather than 28 as stated in the DAR.

The OIG appreciates the collaboration with the Finance and Planning team during the evaluation of DARs and looks forward to our continued participating in the investment review process.

Management's Comments

Management stated they appreciate the OIG's work and are pleased that the DARs reviewed were reasonable business decisions or in the best interest of the Postal Service. Management also stated that project sponsors review OIG responses and consider whether any recommendations require a change to the DAR. Additionally, before the IRC votes on each project, management asks the OIG for input. Finally, management stated they will take all OIG recommendations under advisement and seek to address them either within the DARs or through discussion with the OIG.

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

Evaluation of Management's Comments

The OIG considers management's comments responsive.

³ The DAR was subsequently canceled after receiving the Postmaster General's approval.

Appendix A: Management's Comments

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING



February 9, 2018

Kimberly F. Benoit,
Deputy Assistant Inspector General
for Information Technology and Major Investments

SUBJECT: Draft Fiscal Year 2017 Decision Analysis Report Summary
(Report Number MI-CAP-18-DRAFT)

We appreciate the work of the Office of Inspector General (OIG) in providing the Postal Service with analysis and in some cases recommendations regarding Decision Analysis Reports (DAR) coming before the Investment Review Committee (IRC). Project Sponsors review the OIG responses as part of the Concurrence process and consider whether any recommendations require a change to the DAR. Additionally, before the IRC votes on each project, the Chief Financial Officer asks the OIG representative for their input on the project. If there are any issues raised, they are discussed in the meeting.

We are pleased that the OIG has found that the DARs were reasonable business decisions or were in the best business interest of the Postal Service. We will take all recommendations by the OIG under advisement and will seek to address them either within the DARs where appropriate or by discussion with the OIG.

A handwritten signature in black ink that reads "Luke Grossmann".

Luke Grossmann

cc: Ms. Banks
Mr. Orth