United States Government Accountability Office

Report to Congressional Requesters

January 2014

U.S. POSTAL SERVICE

Actions Needed to Strengthen the Capital Investment Process

GAO-14-155

GAO Highlights

Highlights of GAO-14-155, a report to congressional requesters

January 2014

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Actions Needed to Strengthen the Capital Investment Process

Why GAO Did This Study

USPS has reached its statutory borrowing limit and has projected unsustainable losses. GAO's prior work has stated USPS's financial challenges hinder its ability to make capital investments. GAO was asked to review USPS's capital investment process.

This report addresses the extent to which USPS follows leading practices for four phases of capital investments: planning, selecting, managing, and evaluating. GAO identified the phases and leading practices primarily by analyzing the Office of Management and Budget's capital investment guide and compared them with USPS's policies and practices. External stakeholders with both public and private-sector experience reviewed the leading practices and found them to be reasonable for USPS. To examine how USPS policies were applied in specific cases, GAO reviewed 5 of 28 capital investments greater than $25 million that were approved for funding since fiscal year 2007.

What GAO Recommends

USPS should, among other recommendations, modify some of its capital investment policies to more closely align with leading practices, particularly for planning, selecting, and evaluating capital investments and regularly examine the extent to which managers reassess projects. USPS partially concurred or concurred with all of GAO's recommendations. GAO continues to believe that all of its recommendations are valid and implementation will help to improve USPS's capital investment process as discussed further in this report.

View GAO-14-155. For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

What GAO Found

For each of the *four phases* of capital investments, USPS's conformance with leading practices varied. There are several practices within each of the phases. GAO assessed conformance as "substantial" if USPS's policy conformed to all or almost all elements of the practice, and as "partial" if USPS's policy conformed to some elements, or GAO identified cases in the five projects reviewed where the policies were not consistently applied.

For *planning* capital investments, USPS substantially conformed to most of the leading practices, such as identifying mission needs and gaps in services, reviewing and approving a framework for selecting its investments, and developing a long-term capital investment plan. However, USPS did not substantially conform to other practices such as evaluating alternative investments by considering whether an external entity could perform all or part of a function because USPS's investment policies do not require such evaluations. However, USPS is not precluded from conducting such evaluations. Modifying its policies to require such evaluations could place USPS in a better position to ensure the evaluations are completed and to identify the best option for reducing costs and increasing the quality of investments.

For *selecting* capital investments, USPS substantially conformed to most of the leading practices, such as ranking and prioritizing, and linking its investments with budget considerations. However, consistent with its investment policy, USPS developed business cases for approval by project rather than following leading practices that call for using a portfolio approach of allocating resources based on overall organizational goals linked to the agency's mission. Modifying policies to require a comprehensive portfolio approach would better enable USPS to consider projects alongside those that have been funded to select the mix of investments that best meets its mission needs.

For *managing* capital investments, USPS conformance with leading practices was mixed. For example, consistent with leading practices, USPS established oversight for its capital investments and tracks cost, schedule, and performance data for initiatives. USPS policy requires comparing the planned-investment timeline and performance metrics to actual results to reassess and determine whether to continue, amend, or terminate a project, consistent with leading practices. USPS managers, however, could only verify that such a reassessment occurred for one of the five projects GAO reviewed. Examining the extent to which managers regularly reassess projects to continue, amend, or stop a project would help to establish crucial accountability for limited resources.

For *evaluating* capital investments, USPS conformance with leading practices was partial. USPS policy calls for a comparison of actual return-on-investment and performance data for completed projects against expected results, consistent with leading practices. However, four of the five projects GAO reviewed did not have comparable return-on-investment data, thereby limiting the ability of managers to assess the investment's impact, identify modifications to potentially improve performance, and revise the investment process. Finally, USPS policy does not require incorporating best practices or lessons learned after project completion—another leading practice—which limits opportunities for USPS to improve its process in a way that could benefit future investments.

Contents

Abbreviations

APBS	Automated Parcel and Bundle Sorter
CPIC	Capital Planning and Investment Control
DBCS	Delivery Bar Code Sorter
DQI	Distribution Quality Improvement
DRIVE	Delivering Results, Innovation, Value and Efficiency
FERS	Federal Employment Retiree System
FSS	Flats Sequencing System
IRC	Investment Review Committee
OIG	Office of Inspector General
OMB	Office of Management and Budget
PARS	Postal Automated Redirection System
ROI	return on investment
USPS	U.S. Postal Service

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

January 7, 2014

The Honorable Thomas R. Carper
Chairman
The Honorable Tom Coburn, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Susan M. Collins
United States Senate

The U.S. Postal Service (USPS) has insufficient revenues to cover its expenses, has reached its statutory borrowing limit of $15 billion, and has projected unsustainable losses. In its fiscal year 2013 Integrated Financial Plan,[1] USPS forecasted 4 months during the year when its average available funding was estimated at or below $1 billion—enough to cover just 4 days of expenses. USPS's Postmaster General stated that this is an unacceptable level of resources for an organization with $65 billion in revenues. We added USPS to our High Risk List in 2009 due in part to the challenges USPS faces with this deteriorating financial situation.[2] USPS's limited budgetary resources heighten the importance of making wise capital investments to modernize and improve productivity.

USPS is required to fulfill its mission of providing prompt, reliable, and efficient universal service to the public while remaining financially self-sustaining. USPS is bound by specific legal and other restrictions that limit its ability to make certain types of business decisions—such as eliminating particular lines of business, cutting back services, and/or altering its business model in ways that inhibit its universal service obligation. For example, in February 2013, USPS announced plans to transition to a new delivery schedule by August 2013 that would limit its Saturday mail delivery to packages and mail addressed to Post Office Boxes. However, USPS postponed its plans after some legislative issues were raised.

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[1] The Integrated Financial Plan is an executive summary document that includes the operating plan, capital investment plan, and financing plan for the fiscal year.

[2] GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability,* GAO-09-937SP (Washington, D.C.: July 28, 2009).

USPS's limited resources have constrained its funding for capital investments[3] to fulfill its primary mail-delivery mission and restructure and modernize its operations. For example, about 10 years ago, USPS was scheduled to replace large portions of its approximately 210,000-vehicle fleet, but has deferred the replacements—as well as other capital-investment needs—due to a shortage of funds. As packaging and shipping continue to be an area of revenue growth, it will be important for USPS to invest in vehicles to effectively serve that market and meet its mission of providing prompt, reliable, and efficient mail service to all areas of the country. Effective capital investments can improve productivity, provide much-needed cost savings, and prevent larger, more costly expenses in the future. You asked us to review USPS's capital investments. This report addresses the extent to which USPS conformed to leading practices for planning, selecting, managing, and evaluating its capital investments.

To describe the extent to which USPS follows leading practices, we compared USPS's process for planning, selecting, managing, and evaluating capital investments to leading practices. We identified leading practices for the four phases—planning, selecting, managing, and evaluating capital investments—through analysis and review of the Office of Management and Budget's (OMB) Capital Programming Guide supplement to Circular A-11. This guide identifies leading practices from government agencies and the private sector. We also reviewed examples of executive agency implementation of the Capital Planning and Investment Control (CPIC) process.[4] We identified leading practices that are applicable to USPS's distinctive situation of having certain characteristics of a public agency and a private corporation. Internal and external subject matter experts with experience in both the public and private sectors reviewed the leading practices we identified and found them to be reasonable for USPS capital investments. We then compared

[3] For the purpose of this report, capital investments include land, structures, equipment (including motor and aircraft fleets), and intellectual property (including software), that have an estimated useful life of 2 years or more. Capital investments exclude items acquired for resale in the ordinary course of operations or held for the purpose of physical consumption, such as operating materials and supplies.

[4] Capital Planning and Investment Control (CPIC) is a process that executive branch agencies use to select, manage, and evaluate information technology investments in alignment with the process for making budget, financial, and program management decisions in order to maximize the value of investments while assessing and managing risk.

the identified leading practices to USPS's capital investment process. To understand USPS's capital investment process, we reviewed USPS policies and related documentation and interviewed USPS officials.

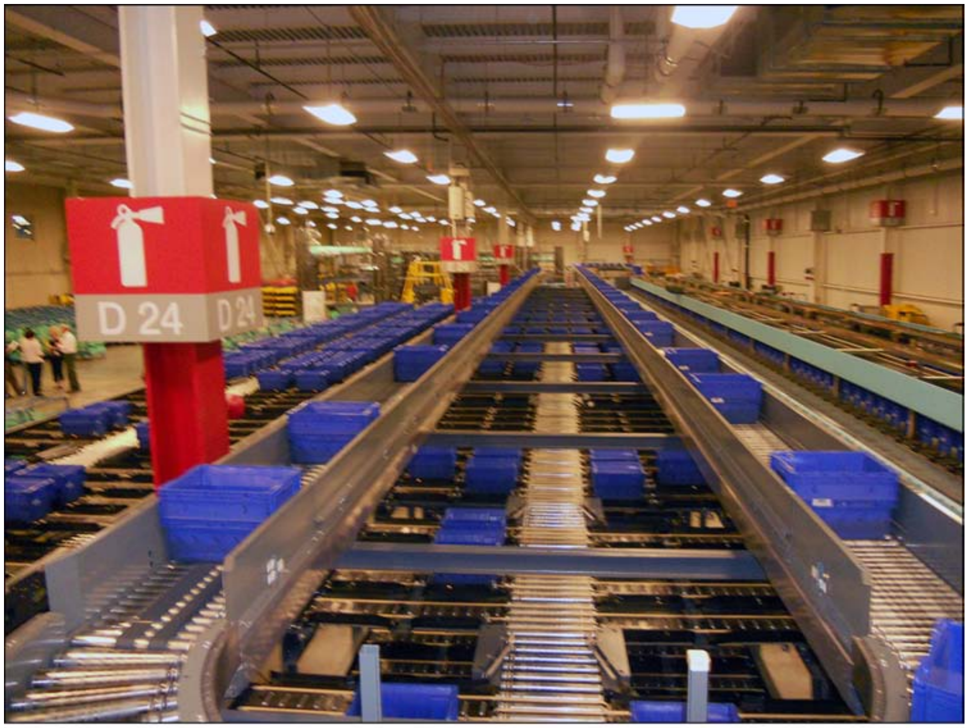
For more in-depth review, we also selected 5 of 28 capital investment projects that were high cost (each greater than $25 million) and were approved for funding after USPS experienced net losses in fiscal year 2007. From the 28 projects, we selected the four projects that had a projected positive return on investment according to USPS, were not specific to a particular geographic area, and were completed by fiscal year 2012. We included a fifth project that is fully deployed, but not yet complete due to the need for numerous and significant software updates. For each of these projects, we reviewed documentation and interviewed program managers to gather more detailed information about how USPS policies were applied in specific cases and to determine whether USPS policies were consistently followed for the selected projects (see table 1). Findings from our review of the selected capital investments do not support generalizations about the overall extent to which USPS followed leading practices for its capital investments, but rather illustrate whether and how policies were applied in specific cases. See also table 3 for more details on these five projects.

Table 1: Selected USPS Capital Projects

Capital investment projects	Description
Automated Parcel and Bundle Sorter (APBS)—Service Life Extension Program	APBS machines add new hardware and software to extend the useful life of existing parcel and bundling machines by at least 10 years and add new automation capabilities.
Additional Delivery Bar Code Sorters (DBCS 6) and stacker modules	DBCS is a multi-level, high-speed machine that reads barcodes and sorts letter mail to bins sorted by Zip Code and is the central component of USPS's letter automation program.
Distribution Quality Improvement (DQI) Program—Phase 2	DQI software enables USPS to encode the 9 percent of mail that cannot be bar-coded due to incorrect or incomplete addresses.
Postal Automated Redirection System (PARS)—Letter Incentive	A national PARS software database automatically forwards undeliverable-as-addressed mail.
Flats Sequencing System (FSS), Phase 1	FSS machines automate the sorting of flat-sized mail into delivery sequence (see fig. 1). USPS officials told us that FSS is fully deployed but not considered complete as software updates are numerous and significant.

Source: GAO summary of USPS information.

Figure 1: Flats Sequencing System, Palatine, Illinois



Source: GAO.

Note: The Flats Sequencing System is USPS's most costly investment ever. It is a large, complex machine requiring about 30,000 square feet in order to sort flat-sized mail into delivery sequence at much higher speeds and productivity than a manual process.

Our analysis identified for each investment phase—planning, selecting, managing, and evaluating—a series of leading practices that should be followed while the projects are within that phase. We used two separate rating scales to assess the leading practices and capital investment phases. For each leading practice, we assessed USPS's level of conformance, as follows:

- Substantial: USPS policy conformed to all or almost all elements.
- Partial: either (1) USPS policy conformed to some elements; or (2) USPS policy conformed substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied.
- Minimal/none: USPS policy conformed to few or no elements.

Then, for each investment phase, we assessed USPS's overall level of conformance, as follows:

- High: USPS substantially conformed to all or almost all of the leading practices.
- Medium: USPS substantially conformed to multiple leading practices.
- Low: USPS substantially conformed to one or none of the leading practices.

To report on USPS's expenditures on capital investments for the past 10 years and to identify projects that met our selection criteria, we requested data from USPS. We assessed the reliability of these data through review of related documents and interviews with knowledgeable agency officials. We found the data sufficiently reliable for our purposes of reporting on the amounts spent by USPS on capital investments during the past 10 years, and for selecting the five high-cost capital investments we reviewed. For more information on our scope and methodology, see appendix I.

We conducted this performance audit from March 2013 to January 2014 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Background

USPS's capital investment process incorporates two main activities: planning and project approval (see table 2).

Table 2: USPS's Capital Investment Planning and Project Approval

Activity	Reviewing authority	Steps in planning and project approval
Planning	Executive Leadership Team (executive leaders) • Postmaster General • Deputy Postmaster General • Chief Operating Officer • Chief Information Officer • Chief Financial Officer • General Counsel • Chief Marketing and Sales Officer • Chief Human Resources Officer	Each functional area[a] submits capital expenditure requests by project, including project type, location, cost, and any potential savings. The executive leaders prioritize projects based on need and expected "return on investment."[b] The Finance Infrastructure unit[c] recommends projects for budget inclusion and returns the requests to the executive leaders for approval and inclusion in the capital investment plan. The capital investment plan is incorporated into the Integrated Financial Plan—an executive summary document for the fiscal year.
Project approval	Investment Review Committee (IRC) • Chief Operating Officer • Chief Information Officer • Chief Financial Officer • General Counsel • Chief Marketing and Sales Officer • Chief Human Resources Officer	For capital project requests: Exceeding $5 million, the IRC meets monthly to review the business case. An executive leader serves as a program sponsor and presents the business case to the IRC, which votes on whether to recommend investment. Postmaster General has final approval authority. From $1 million to $5 million, a business case is required, and is submitted to the Technology Review Committee for review. Less than $1 million, approvals are made by the Finance Infrastructure manager according to funding availability.

Source: GAO summary of USPS information.

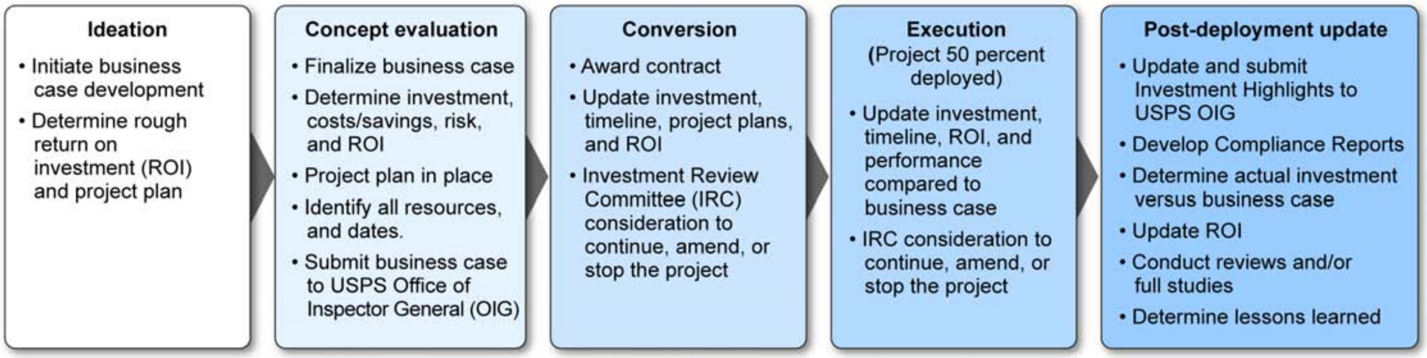
[a] Functional areas include performance clusters, districts, plants, areas, headquarter units, and national programs.

[b] A "return on investment" is a figure of merit used to help make capital investment decisions that is calculated by considering the annual benefit divided by the investment amount.

[c] USPS's Finance Infrastructure unit is responsible for aligning future capital investments with USPS's strategic goals.

In addition, USPS implemented tollgates in December 2006 to enable IRC awareness, involvement, and decision making for all investments greater than $5 million (see fig. 2). According to USPS, tollgates are updates intended to keep the IRC informed by raising and resolving issues throughout the phases of the capital investment review and approval process.

Figure 2: USPS Capital Investment Tollgates

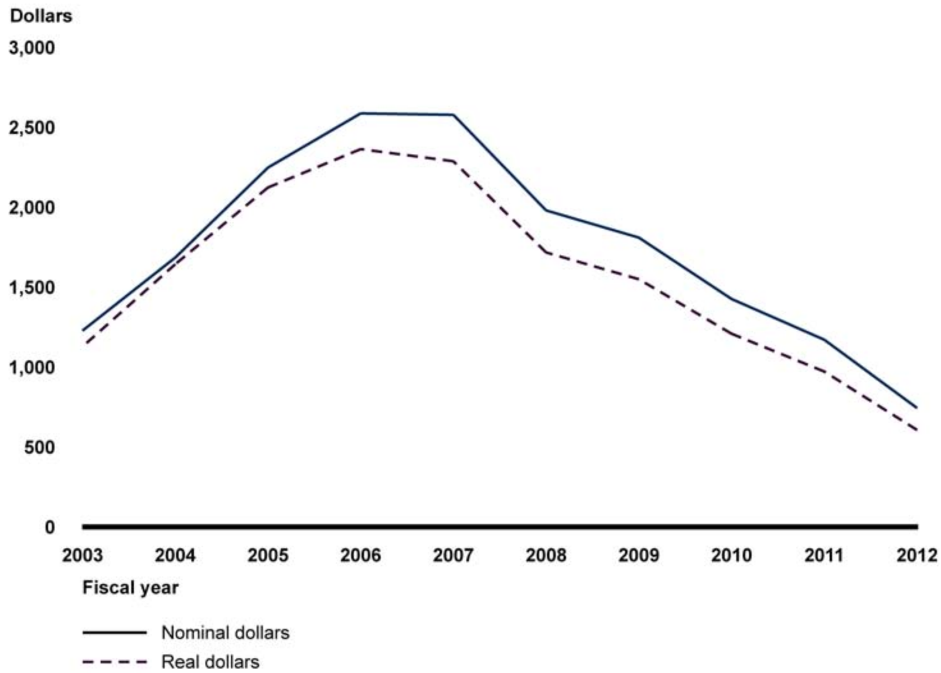


Source: GAO summary of USPS information.

Note: USPS officials told us that as of December 2011, a sponsor is required to create a briefing for IRC review but is not required to make the presentation in person.

However, given its financial position, USPS is limited in its ability to finance capital investments and has spent $17.5 billion on capital investments over the past 10 fiscal years, but has sharply decreased its spending since fiscal year 2007 (see fig. 3).

Figure 3: USPS Capital Outlays, Fiscal Years 2003 to 2012 (Dollars in Millions)



Source: GAO analysis of USPS information.

Note: Real dollars based on fiscal year 2003.

Since 2009, USPS has taken the following actions, to address its financial situation, which affect its management of capital investments. For example:

- In 2009, USPS implemented a capital-spending freeze to conserve resources. Any capital initiative seeking funding must receive an exception-approval from USPS's Finance and Planning unit demonstrating that the initiative (1) is needed for safety, health, or legal requirements, or (2) is required to sustain customer service, such as mail delivery, or (3) will have a high return on investment with a short payback period.

- In 2011, USPS created Delivering Results, Innovation, Value and Efficiency (DRIVE), a portfolio of strategic initiatives, which is intended to improve business strategy development and execution. DRIVE consists of managing a portfolio of 44 initiatives, half of which are active, that are intended to help close USPS's income gap by 2015. For example, one DRIVE initiative—Build a World Class Package Platform—seeks to build an infrastructure to support and promote

USPS's growing package delivery business. USPS's executive leaders developed and oversee the DRIVE initiatives. USPS's Office of Inspector General (OIG) recently assessed DRIVE and found that the management process compares favorably to the identified 20 best-in-class program management practices of 13 companies in the private sector.[5]

- In 2012, USPS developed a 5-year plan to restructure and modernize its operations and improve its financial situation. The 5-year plan estimates $2 billion annually for capital outlays for fiscal years 2015 through 2017.

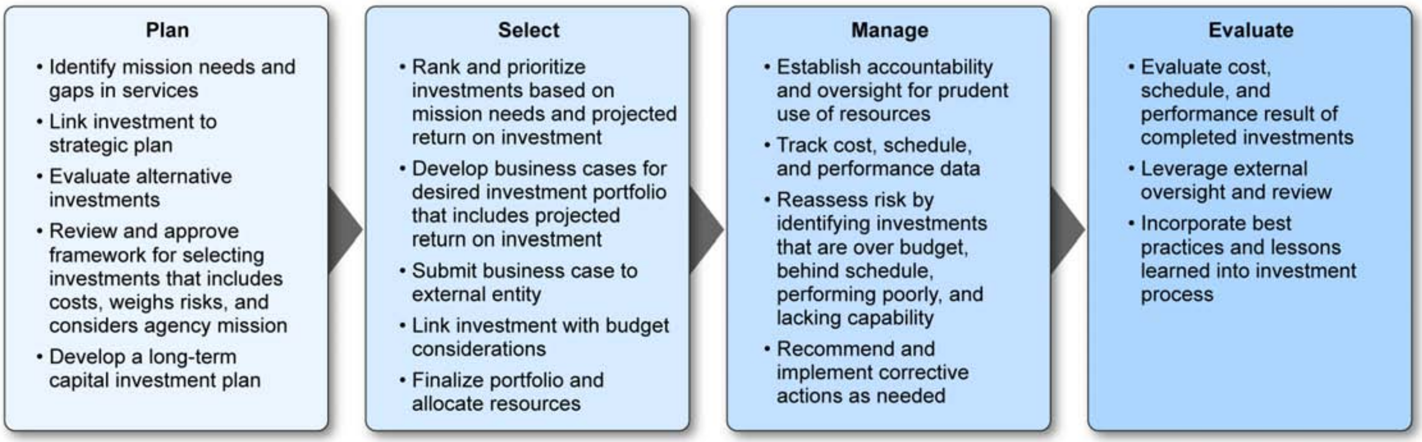
Notwithstanding these actions, our prior work[6] has shown that although a successful capital investment depends on a range of factors,[7] following leading practices will more likely result in investments that meet mission needs, are well-managed, and achieve cost, schedule, and performance goals. Figure 4 shows the capital investment phases and the leading practices that we identified for each.

[5] U.S. Postal Service, Office of Inspector General, *Delivering Results, Innovation, Value, and Efficiency Management,* DP-AR-13-008 (June 19, 2013).

[6] See for example, GAO, *United States Postal Service: Opportunities to Strengthen IT Investment Management Capabilities*, GAO-03-3 (Washington, D.C.: Oct. 15, 2002) and *Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-making,* GAO/AIMD-10.1.13 (Washington, D.C.: Feb. 3, 1997).

[7] Capital investments have an element of risk due to factors outside of an agency's control, such as greater than anticipated costs for raw materials and labor. Furthermore, success depends on not only planning and selecting, but also managing and evaluating practices at the project level.

Figure 4: GAO Identified Capital Investment Phases and Leading Practices



Source: GAO analysis of capital investment leading practices.

USPS's Conformance to Leading Practices Varies by Capital Investment Phase

In summary, we determined that USPS's conformance to leading practices is medium for planning, selecting, and managing capital investment projects, and low for evaluating them, based on our review of USPS policy and the practices employed for the five selected projects.

Figure 5: USPS's Conformance to Capital-Investment Leading Practices

Phase	Conformance
Plan	◐
Select	◐
Manage	◐
Evaluate	○

Key
● High
◐ Medium
○ Low

Source: GAO analysis.

For Planning Capital Investments, USPS's Conformance to Leading Practices Is Medium

USPS substantially conformed to three, and partially conformed to two, of five leading practices for planning capital investments (see fig. 6).

Figure 6: USPS's Conformance to Leading Practices for Planning Capital Investments

Phase	Leading practices	Conformance
Plan	Identify mission needs and gaps in services	●
	Link investment to strategic plan	◐
	Evaluate alternative investments	◐
	Review and approve framework for selecting investments that includes costs, weighs risks, and considers agency mission	●
	Develop a long-term capital investment plan	●

● Substantial (USPS policy conforms to all or almost all elements)

◐ Partial (USPS policy conforms to some elements; or USPS policy conforms substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied)

○ Minimal/none (USPS policy conforms to few or no elements)

Source: GAO analysis.

Specifically, we found that USPS's process for planning capital investments substantially:

- Identifies mission needs and gaps in service: Each year, USPS issues a capital commitment budget call to the executive leaders, vice presidents, and budget coordinators to identify mission needs and gaps in services. Executives are to work with their teams to submit their capital investment requests for the next fiscal year and include a brief narrative describing each proposed project, why it is needed, the amount needed for the project, and whether it supports a DRIVE initiative.

- Reviews and approves the framework for selecting investments: USPS has several different sources of guidance for capital investments. The most comprehensive guidance is USPS's General Investment Policies and Procedures.[8] Since those policies and procedures were developed, USPS has created its tollgates (see figure 2). Program managers told us that they also use USPS's Technology Acquisition Management Process Guidelines as their

[8] USPS, *General Investment Policies and Procedures: Handbook F-66* (Washington, D.C.: November 2005).

primary guidance.[9] This guidance, however, does not include the updates made in December 2011. USPS also conducts annual internal investment overviews for selected projects. These various sources comprise USPS's framework for selecting its investments. USPS officials told us that the current guidance is a slide presentation available on the agency's internal website. They also said that they are planning to update the guidance, but did not provide a time frame for completing this effort. Thus, while USPS has reviewed and approved a framework for selecting its investments, it does not currently have a clear, single-source, standard set of policies and procedures that reflect the selection framework. A time frame for completing efforts to update its policies and procedures into a single-source guide could better position USPS to hold its managers accountable for completing the effort as intended. Moreover, a single-source guide could enable better transparency for selecting investments. Such transparency would establish crucial accountability for limited resources.

- Develops a long-term capital investment plan: USPS has a 10-year capital investment plan that is used for internal-planning purposes, even though actual capital investments depend on budgetary resources.

In addition, we found that USPS's process for planning capital investments partially:

- Links investments to its strategic plan: USPS has linked capital investments to strategic initiatives listed in its 5-year business plan, which was developed in 2012 to bring USPS to a point of financial viability. The business plan addresses financial challenges facing USPS, actions the agency plans to take to address its financial outlook, and external factors USPS believes could inhibit it from financial viability. USPS's 5-year business plan also contains seven "strategic initiatives" that are linked to DRIVE initiatives (see app. II for more detail). USPS refers to its 5-year business plan as its strategic plan. However, USPS's business plan focuses on the agency's financial condition while a traditional strategic plan is more comprehensive and is intended to address the agency's overall

[9] USPS, *Technology Acquisition Management: Process Guidelines 2.0* (September 2010).

mission.[10] For example, there may be nonfinancial external factors, traditionally identified in a strategic plan, that could affect USPS's ability to achieve some of the DRIVE initiatives.

While USPS does link its capital investments to its business plan, its financial constraints limit its ability to implement capital investments. For example, according to USPS OIG officials, USPS has already deferred, and may need to further defer, investments to replace its fleet of delivery vehicles and comprehensive facility maintenance. If USPS is unable to obtain planned revenues or cost savings, it may need to significantly limit future capital investments to those needed to meet safety and health needs, and legal obligations. According to USPS, the inability to replace aging or potentially obsolete vehicles and infrastructure could affect its quality of service and lead to a loss of business and increased costs. In our 2011 report on USPS's aging fleet,[11] we found that the majority of USPS's delivery vehicles are approaching the end of their expected operational lives. We recommended that USPS develop a strategy for addressing its delivery fleet needs that considers the effects of likely operational changes and legislative fleet requirements. In 2013, USPS officials told us that they were taking steps to implement our recommendation, including studying the issues raised in our report.

- Evaluates alternative investments: USPS policy states that it seeks to determine viable alternatives, but its policy does not take into account whether an external entity, such as the private sector, could perform part or all of a mail-processing or delivery function—as OMB guidance (leading practices) advises.[12] While USPS has contracted with private sector entities to support USPS's functions, USPS policy does not require consideration of whether it would be advantageous for a

[10] Our prior work has shown that strategic planning is the starting point and foundation for defining what the agency seeks to accomplish, identifying the strategies it will use to achieve desired results, and then measuring how well it succeeds in reaching results-oriented goals and achieving objectives. See GAO, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (Version 1)*, GAO/GGD-10.1.16 (Washington, D.C.: May 1, 1997).

[11] GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet*, GAO-11-386 (Washington, D.C.: May 5, 2011).

[12] Specifically, OMB *A-11* guidance states that management should assess whether the investment needs to be undertaken by the requesting agency because no alternative private sector or governmental source can better support the function.

private sector entity to support part or all of a processing or delivery function. For example, USPS contracted for the development of its PARS software system, but did not consider whether a private sector entity—either in partnership with USPS or independently—could perform part or all of the function of automatically redirecting undeliverable mail. USPS officials, however, told us that a provision in its labor contracts limits its ability to consider external entities for supporting an entire function; however, USPS is not specifically prohibited from doing so.[13] The officials added that USPS has a Strategic Initiative Action Group that reviews, approves, and monitors proposed outsourcing initiatives to ensure that they meet the requirements of these bargaining unit agreements. However, USPS did not provide evidence that it took such consideration for its mail-processing or delivery functions. It is also not clear whether USPS considered certain strategies used by foreign postal operators. For example, according to the USPS OIG, contracting with private operators to sell aging vehicles could provide immediate cash, and leasing a new fleet of vehicles could result in the operational benefits of having a modern fleet without assuming fixed costs.[14] Until USPS modifies its policies to require such consideration, USPS may not be placing itself in a position to identify the best option for reducing costs and increasing the quality of its capital investments. USPS officials told us, however, that many foreign postal operations have been privatized and are not subject to the same government oversight as USPS. In February 2011, we also reported on how the strategies of foreign posts' can inform USPS modernization.[15]

[13] USPS's labor contracts with the American Postal Workers Union and National Postal Mail Handlers Union include a provision (Article 32) stating that when evaluating subcontracting proposals, USPS must consider five factors—public interest, cost, efficiency, availability of equipment, and qualification of employees—and determine whether subcontracting will have a "significant impact" on work performed by postal employees covered by collective bargaining agreements. If so, USPS must compare the costs of performing proposed work with postal employees and with a contractor, notify the affected union that USPS is considering subcontracting, and consider union input before making a decision.

[14] USPS's OIG reported on a strategy used by foreign postal operators to sell their aging vehicle fleet to a private firm specializing in leasing, financing, and vehicle fleet management, which then leases a new fleet of vehicles to the postal operator and provides maintenance services. United States Postal Service Office of Inspector General, *Public-Private Partnerships: Best Practices and Opportunities for the Postal Service,* RARC-WP-13-011 (June 24, 2013).

[15] GAO, *U.S. Postal Service: Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize,* GAO-11-282 (Washington, D.C.: Feb.16, 2011).

For Selecting Capital Investments, USPS's Conformance to Leading Practices Is Medium

USPS substantially conformed to three, and partially conformed to two, of five leading practices for selecting capital investments (see fig. 7).

Figure 7: USPS's Conformance to Leading Practices for Selecting Capital Investments

Phase	Leading practices	Conformance
Select	Rank and prioritize investments based on mission needs and projected return on investment	●
	Develop business cases for desired investment portfolio that includes projected return on investment	◐
	Submit business case to external entity	●
	Link investment with budget considerations	●
	Finalize portfolio and allocate resources	◐

● Substantial (USPS policy conforms to all or almost all elements)

◐ Partial (USPS policy conforms to some elements; or USPS policy conforms substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied)

○ Minimal/none (USPS policy conforms to few or no elements)

Source: GAO analysis.

Specifically, we found that USPS's process for selecting capital investments substantially:

- Ranks and prioritizes investments based on mission needs and projected return on investment: After USPS makes its initial budget call, the executive leaders rank and prioritize capital requests based on need, the expected return on investment, the impact on customer experience, and the ability to support key initiatives.

- Submits business cases to an external entity: As part of the IRC review process, USPS submits business cases for all projects with total funding over $5 million to its OIG for review. For investments $25 million or greater, USPS OIG shares its assessments and conclusions with the USPS program sponsor, USPS headquarters officials, the IRC,[16] and with Congress.

[16] USPS OIG attends the monthly IRC meeting as a non-voting member. The IRC is intended to establish USPS investment direction, policy, and procedures; ensure compliance with investment policy procedures; and prioritize resource utilization. The IRC reviews and votes on individual projects greater than $5 million in combined total capital and expense investment.

- Links investments with budget considerations: USPS links capital investments with the overall budget when developing its annual Integrated Financial Plan. Specifically, as described in table 2, during budget planning, the Finance Infrastructure unit recommends projects for inclusion in the capital budget through a multi-step review process, the results of which are then incorporated into the Integrated Financial Plan. In fiscal year 2013, capital budget requests totaled approximately $2.1 billion, while forecasted capital needs totaled $752 million.

USPS partially conformed to developing its business cases and allocating resources toward a desired portfolio. Investment portfolios are broad categories of investments that are linked by similar missions to better fulfill that specific mission and minimize overlapping functions. A portfolio perspective enables an organization to focus on projects that best meet its overall goals, rather than on projects that only meet the objectives of specific program areas. Given USPS's financial condition, a portfolio approach is especially important. However, with the exception of the DRIVE initiative,[17] USPS develops its business cases for approval and allocates resources by project rather than by portfolio. More specifically, USPS officials develop business cases for each specific project that include projected return on investment for approval and funding. As our prior work at federal agencies making substantial capital investments has shown,[18] selecting investments on a project rather than portfolio approach may lead to duplicative functions that do not integrate well together to perform the desired mission. Furthermore, modifying USPS's policies to require a comprehensive portfolio approach would enable USPS to consider proposed projects alongside those that have been funded to select the mix of investments that best meets its mission needs.

[17] DRIVE consists of 44 strategic initiatives organized by broad categories.

[18] See for example, GAO, *VA Real Property: Realignment Progressing, but Greater Transparency about Future Priorities Is Needed,* GAO-11-197 (Washington, D.C.: Jan. 31, 2011); and *Department of Homeland Security: Billions Invested in Major Programs Lack Appropriate Oversight*, GAO-09-29 (Washington, D.C.: Nov.18, 2008).

For Managing Capital Investments, USPS's Conformance to Leading Practices is Medium

USPS substantially conformed to two, and partially conformed to two, of four leading practices for managing capital investments (see fig. 8).

Figure 8: USPS's Conformance to Leading Practices for Managing Capital Investments

Phase	Leading practices	Conformance
Manage	Establish accountability and oversight for prudent use of resources	●
	Track cost, schedule, and performance data	●
	Reassess risk by identifying investments that are over budget, behind schedule, performing poorly, and lacking capability	◐
	Recommend and implement corrective actions as needed	◐

● Substantial (USPS policy conforms to all or almost all elements)
◐ Partial (USPS policy conforms to some elements; or USPS policy conforms substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied)
○ Minimal/none (USPS policy conforms to few or no elements)

Source: GAO analysis.

Specifically, we found that USPS's process for managing capital investments substantially:

- Establishes accountability and oversight for prudent use of resources: USPS policy establishes accountability and oversight of resources by assigning a leader to oversee capital investment projects. For example, the executive leaders assign one member as accountable for each DRIVE initiative. USPS assigned a program manager to each of the five selected projects that we reviewed. In addition to oversight, these program managers were responsible for directing and controlling program activities and addressing challenges. For example, with respect to challenges, the APBS program manager told us that he coordinated the logistics and timing of work for three individual contracts on his project—which included managing three requests for proposal, three statements of work, and three suppliers.

- Tracks cost, schedule, and performance data for investments: USPS policy calls for tracking cost, schedule, and performance data for investments with approved funding greater than $5 million. For DRIVE initiatives, USPS developed a dashboard to monitor the progress of financial and nonfinancial milestones and impacts. Generally, the dashboard flags cost, schedule, and performance milestones that are in danger of being missed or have been missed. For capital investments greater than $25 million, USPS issues an Investment Highlights publication semiannually to provide a detailed, single-source overview. The Investment Highlights publication also contains an electronic reference that tracks cost, schedule, and performance data for all capital investments over $5 million, including those for each of the five projects we reviewed. Program managers for the selected projects told us that updates might be provided to senior management more frequently—on a weekly, monthly, or as needed basis.

In addition, we found that USPS's process for managing capital investments partially:

- Reassesses risk by identifying investments that are over budget, behind schedule, performing poorly, and lacking capability: While USPS policy reassesses risk by identifying investments that are over budget, performing poorly, and lacking capability, this practice was not consistently followed for the five projects we reviewed. Prior to December 2011, USPS policy stated that the IRC was to receive two briefings at the conversion and execution tollgates[19] explaining how planned investment, timeline, and performance metrics were comparing to actual results. The purpose was to reassess and determine whether to continue, amend, or terminate a project.[20] USPS officials told us that they made an internal decision in December 2011 to no longer require in-person briefings and instead have executive leaders work more closely with program managers and staff. The executive leader is then responsible for updating the IRC on the project status. In addition, USPS policy calls for a program sponsor to prepare a modified business case with updated costs, timelines, benefits, and scope if a capital investment is expected to exceed its approved funding or deviate significantly from its approved scope. The modified business case is then presented to the original authorities who vote whether to approve the modification, which would include any corrective actions, in order to continue the capital investment. However, USPS officials could only verify that a reassessment decision to continue, amend, or terminate an investment occurred for one of the five projects we reviewed. While a conversion briefing was held for four of the projects, and a business

[19] While USPS did not specify precisely when a conversion tollgate briefing was to occur, an execution tollgate briefing was to occur once 50 percent of an investment's equipment was deployed or 50 percent of its major facility construction was complete.

[20] Three of our selected projects were completed before December 2011—DBCS, DQI and PARS. APBS was completed in September 2012 and FSS is deployed and scheduled for completion in June 2014 due to needed software upgrades.

case modification was held for the fifth, USPS officials could only provide evidence of an IRC reassessment for DBCS, which USPS decided to continue. Examining the extent to which managers regularly reassess projects to continue, amend, or stop a project, would help manage risk, given limited resources.

- Identifies problems and implements corrective actions as needed: USPS officials told us that executive leaders typically hold regular meetings with the program managers and other team members, meetings that have led to identifying problems and implementing corrective actions for continuing a project. For the five selected projects we reviewed, USPS did not provide documentation that such discussions were held. Effective decision making relies on free exchange of information among a variety of stakeholders—particularly those who might be skeptical about an investment and can provide constructive insight and information; the more open the process, the more likely errors in fact or methodology will be uncovered.[21] The absence of a transparent reassessment of risk to identify projects that need to be amended or terminated inhibits USPS's ability to implement needed corrective actions for projects that are over budget, behind schedule, or not meeting performance targets. Therefore, examining the extent to which managers identify problems and implement corrective actions can better position USPS to make the best use of its resources.

[21] National Research Council, *Investments in Federal Facilities: Asset Management Strategies for the 21st Century* (Washington, D.C.: 2004).

For Evaluating Capital Investments, USPS's Conformance to Leading Practices Is Low

USPS partially conformed to the three leading evaluation practices (see fig. 9).

Figure 9: USPS's Conformance to Leading Practices for Evaluating Capital Investments

Phase	Leading practices	Conformance
Evaluate	Evaluate cost, schedule, and performance result of completed investments	◐
	Leverage external oversight and review	◐
	Incorporate best practices and lessons learned into investment process	◐

● Substantial (USPS policy conforms to all or almost all elements)

◐ Partial (USPS policy conforms to some elements; or USPS policy conforms substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied)

○ Minimal/none (USPS policy conforms to few or no elements)

Source: GAO analysis.

Specifically, we found that USPS partially conformed to the leading practice of:

- Evaluating cost, schedule, and performance results of implemented investments: USPS policy calls for a comparison of the actual return-on-investment and performance data for completed projects, against the expected return-on-investment and performance results in the business case. This comparison is usually included in the detailed capital investment reports—based on compliance reports—that are used to create the Investment Highlights publication. To assist with evaluating an investment, the compliance reports are to be regularly updated.[22] In addition, USPS sometimes performs a final performance study.[23] However, the detailed capital investment reports for four of the five projects we reviewed did not have observed return-on-investment data that could be compared to expected return on investment, and two projects did not have actual performance metrics compared to their expected results. To explain the missing comparisons, USPS officials told us that if a project is on budget and on schedule, they assume that it will achieve the expected return on

[22] The compliance reports are to be updated quarterly from the time a project is approved until two full quarters after the quarter in which the project is completed.

[23] USPS refers to these performance studies as after-cost studies, which are prepared for larger scaled projects or when a project experiences cost or schedule problems or has the potential to experience such problems.

investment. If performance data are missing, USPS officials told us that the program sponsor can ask the program manager for this information. One project, APBS, had complete return-on-investment and performance data comparable to its business case. Return-on-investment measures provide managers with valuable insight regarding any financial benefit attributable to a project. Performance measures help to identify problems, evaluate underlying factors, and determine needed adjustments. The absence of updated return on investment and performance data means that USPS cannot completely (1) assess the investment's impact on strategic performance, (2) identify modifications that may be needed to improve performance, and (3) revise the investment process based on lessons learned. As a result, regularly reassessing projects by reviewing actual performance results after investment completion can provide USPS with a valuable opportunity to gain feedback necessary for improving future capital investments.

- Leveraging external oversight and review of its capital investments: For initiatives with approved capital funding greater than $25 million, USPS semiannually provides its OIG the Investment Highlights publication for informational purposes, but does not seek oversight or feedback from its OIG or other entities, such as a consultant or peer reviewer. Subject matter experts have found that a third party should evaluate a capital investment using a predetermined set of metrics that will result in real data on which to make improvements in the process or to inform future decisions on capital investments.[24] External oversight and review is important and useful to hold an entity accountable for its performance.

- Incorporating best practices and lessons learned into the investment process: USPS does not require developing or updating best practices after project completion. Nevertheless, one of the program managers for a selected project that we reviewed told us that USPS identified, documented and followed industry best practices for program implementation—based on experience with various program vendors and contractors. Regarding lessons learned, USPS policy calls for documentation of "unexpected situations"[25] upon project

[24] National Research Council, *Investments in Federal Facilities: Asset Management Strategies for the 21st Century* (Washington, D.C.: 2004).

[25] Unexpected situations could include changes in planned cost, schedule, and performance.

completion but does not require communicating lessons learned to other program managers. One of the program managers for the five selected projects provided us with documented lessons learned, but could not provide evidence of how such lessons were used. Another program manager told us that sometimes, when a project is completed, managers are assigned to new projects without adequate time to document lessons learned on the completed project. The absence of documented best practices and lessons learned that could be incorporated into the capital investments process limits opportunities for USPS to improve its process in a way that could benefit future investments.

Conclusion

Given that USPS's financial situation and the limitations of its business model hamper its ability to prevent future losses, it is crucial for USPS to use its scarce resources to prioritize and make wise capital investments, particularly those that reduce costs. USPS has taken positive steps in this direction, and our analysis of a range of projects shows that USPS substantially followed the majority of leading practices for planning and selecting capital investments. USPS's 5-year business plan, for example, is a positive step toward an agency-wide strategic plan that links capital investments to strategic initiatives. However, substantially following all leading practices—including those for managing and evaluating capital investments—could better ensure that USPS's investments are well-managed and achieve cost, schedule, and performance goals, an accomplishment that in turn could enhance USPS's financial viability. Conversely, not substantially following all leading practices may result in inefficient spending of limited resources, thereby putting USPS at even further financial risk.

Recommendations for Executive Action

To strengthen USPS's capital investment process, we are making three recommendations related to USPS policy and consistent application of leading practices. The Postmaster General and executive leaders should:

1. Establish a time frame for developing a clear, detailed, single-source, standard set of policies and procedures that reflect the capital investment selection phase;

2. Modify capital investment policies to more closely align with the following leading practices, including:

- for planning capital investments, consider whether an external entity could better support all or part of a desired function when evaluating alternative capital investment options;
- for selecting capital investments, use a portfolio approach for developing business cases and finalizing and allocating resources; and
- for evaluating capital investments, seek and leverage external oversight and review, from a consultant or peer reviewer, and require that best practices and lessons learned be incorporated into the review process; and

3. Regularly examine the extent to which executives and program managers consistently follow all leading practices, particularly for:
   - identifying problems and reassessing risk while managing a project; and
   - evaluating the cost, schedule, and performance results of completed projects.

Agency Comments and Our Evaluation

We provided a draft of this report to USPS for review and comment. USPS provided comments, which are reprinted in appendix III. USPS concurred or partially concurred with our recommendations and stated that there are always opportunities for improvement and that it can clearly benefit from our recommended actions to strengthen its investment process.

USPS partially concurred with our first recommendation that USPS establish a time frame for developing a clear, detailed, single-source set of standard policies and procedures that reflect the capital-investment selection phase. USPS responded that it plans to revise its *General Investment Policies and Procedures* handbook during the second quarter of fiscal year 2014 to include the capital-investment selection process. However, USPS also stated that an established capital selection process is already in place, although it is not included in the handbook. As described in the report, USPS has several sources of guidance and it does not have a clear, single-source, standard set of policies and procedures that reflect the selection framework. We are pleased that USPS has now established a time frame for developing such guidance, which could better position USPS to hold its managers accountable and better enable transparency for selecting investments.

USPS partially concurred with our second recommendation to modify its capital investment policies to more closely align with leading practices in the areas of planning, selecting, and evaluating capital investments.[26] With regard to planning capital investments by considering whether an external entity could better support all or part of a desired function when evaluating alternative investment options, USPS concurred. However, USPS stated it currently has procedures in place to consider viable options and provided examples of cases in which it has outsourced non-core functions. USPS further noted that it considers outsourcing work that is currently performed by bargaining unit employees and outsourcing will always be considered if it is in the financial best interest of USPS and meets collective-bargaining requirements. However, as noted in the report, USPS did not provide us with documentation that it considered outsourcing part or all of a mail-processing or delivery function. USPS could better conform to this leading practice if it considered the potential role of an external entity for all capital investments. This could place USPS in a better position to identify the best option for reducing costs and to increase the quality of its investments.

With regard to selecting capital investments by using a portfolio approach for developing business cases and finalizing and allocating resources, USPS partially concurred and stated that it uses an organization-wide portfolio approach for review during the capital-budget-planning process, and that it will continue to clearly communicate the portfolio approach and incorporate it into USPS's revised investment policy. However, we found that USPS develops its business cases for approval and allocates resources by project rather than portfolio. As noted in the report, selecting investments on a project rather than portfolio approach may lead to duplicative functions that do not integrate well to perform the desired mission. Requiring a more comprehensive portfolio approach would enable USPS to consider proposed projects alongside those that have been funded to select the mix of investments that best meets its mission needs. Thus, we continue to believe that the USPS should use a portfolio approach for developing business cases to fully address the recommendation.

[26] USPS responded separately to the three aspects of this recommendation—planning, selecting, and evaluating capital investments. Our response to USPS's comments addresses these three aspects within the recommendation.

With regard to evaluating capital investments by seeking and leveraging external oversight and review and requiring that best practices and lessons learned be incorporated into the investment process, USPS concurred. However, USPS responded that it has previously contracted with highly respected external entities to review capital investment plans, and that it will continue to evaluate the need to hire consultants when necessary. While this is a positive practice, USPS can extend their external oversight and review when evaluating capital investments in addition to reviewing investment plans. In addition, external oversight and review are leading practices for all investments that could help USPS obtain data on which to make improvements in the process or to inform future investment decisions. USPS also stated that it will ensure that lessons learned and investment performance results are shared with its management and will be available for review on USPS's internal website. With further regard to lessons learned, USPS also stated that it will ensure that each group is aware of the status of major investments and the lessons learned for current and future projects. However, USPS did not state that it would modify its investment policies to require that best practices and lessons learned be incorporated into the review process. We continue to believe that USPS should modify its investment polices as recommended. The absence of consistent documents for all investments limits opportunities to improve the process to benefit future investments.

USPS concurred with our third recommendation that it regularly examine the extent to which executives and program managers consistently follow all leading practices particularly for: identifying problems and reassessing risk while managing a project and evaluating the cost, schedule, and performance results of completed projects. USPS stated that it would require program sponsors to ensure that their presentations appropriately address project cost, schedule, and performance information. This is a positive step toward improving USPS's ability to gain feedback necessary for improving future capital investments.

As agreed with your office offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions on this report, please contact me at (202) 512-2834 or stjamesl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Contact information and key contributors to the report are listed in appendix IV.

Lorelei St James

Lorelei St. James
Director
Physical Infrastructure Issues

Appendix I: Scope and Methodology

To describe the extent to which the U.S. Postal Service (USPS) follows leading practices, we compared USPS's process for planning, selecting, managing, and evaluating capital investments to leading practices. We identified leading practices for the four phases—planning, selecting, managing, and evaluating capital investments—through analysis and review of the Office of Management and Budget (OMB) Capital Programming Guide supplement to Circular A-11, which identified leading practices from government agencies and the private sector,[1] and examples of executive agency implementation of the Capital Planning and Investment Control (CPIC) process.[2] We identified leading practices that are applicable to USPS's business model, which requires it to fulfill its mission of providing prompt, reliable, and efficient universal service to the public while remaining financially self-sustaining. However, unlike a private corporation, USPS is bound by legal and other restrictions that limit its ability to make certain types of business decisions—such as eliminating particular lines of businesses, cutting back on services, and/or altering its business model in ways that inhibit its universal service provision. External[3] and internal subject matter experts with experience in both the public the private sectors reviewed the leading practices we identified and found them to be reasonable for USPS capital investments as applicable. These experts all provided comments that we incorporated into our capital investment leading practices. We compared our identified leading practices to USPS's capital investment process. To understand USPS's capital investment process, we reviewed USPS policy, documentation, and testimonial evidence on the capital investment process. USPS officials reviewed our initial description and provided feedback, which we incorporated into our work. We also met with USPS officials responsible for the Delivering Results, Innovation, Value and Efficiency (DRIVE) strategic initiatives to assess the extent to which

[1] For example, the programming guide identified establishing accountability and oversight when managing capital investments as a leading practice found in the private sector.

[2] Capital Planning and Investment Control (CPIC) is a process that executive branch agencies use to select, manage, and evaluate information technology investments in alignment with the process for making budget, financial, and program management decisions in order to maximize the value of investments while assessing and managing risk.

[3] The National Academies referred us to engineers with public and private capital investment expertise. The National Academies comprises four organizations: the National Academy of Sciences, National Academy of Engineering, Institute of Medicine, and National Research Council.

USPS conformed to the leading practice of linking its capital investments to its strategic plans. We also met with and obtained documentation from USPS's Office of Inspector General (OIG), to obtain an overall assessment of USPS's capital investment process.

To gather more detailed information about how USPS policies were applied in specific cases, and to determine whether USPS policies were consistently followed for a selection of high-cost capital investment projects, we selected 5 of 28 projects that were approved for over $25 million and were approved for funding after USPS experienced net losses in fiscal year 2007. From these 28 projects, we selected the four that had a positive projected return on investment as determined by USPS, were not specific to a particular geographical area,[4] and were completed by fiscal year 2012. We included a fifth project (that was fully deployed, but not yet complete) due to USPS's significant investment in the project (see table 3). We met with the program managers for each of the projects and reviewed documentation to assess the process for managing and evaluating these projects, and we conducted site visits to see four of the five projects. The selected investments do not support generalizations about the overall extent to which USPS followed leading practices for its capital investments, but rather illustrate whether and how policies were applied in specific cases. We also met with the USPS OIG to discuss USPS's management and evaluation of the selected projects.

[4] For example, we did not include a project aimed at expanding a postal-processing and distribution center for just a specific location.

Table 3: Selected USPS Capital Projects (Dollars in Millions)

Capital projects	Description	Fiscal year completed	Cost	Total projected savings
Automated Parcel and Bundle Sorter (APBS)— Service Life Extension Program	APBS machines add new hardware and software to extend the useful life of existing parcel and bundling machines by at least 10 years and add new automation capabilities.	2012	Approved: $94.3 Actual: $60.3	**$125.6**
Additional Delivery Bar Code Sorters (DBCS 6) and stacker modules	DBCS is a multi-level, high-speed machine that reads barcodes and sorts letter mail to bins sorted by Zip Code and is the central component of USPS's letter automation program.	2008	Approved: $74.5 Actual: $75.7	**$35.0**
Distribution Quality Improvement (DQI) Program—Phase 2	DQI software enables USPS to encode the 9 percent of mail that cannot be bar-coded due to incorrect or incomplete addresses.	2010	Approved: $60.4 Actual: $60.6	**$27.0**
Postal Automated Redirection System (PARS)—Letter Incentive	A national PARS software database automatically forwards undeliverable-as-addressed mail.	2010	Approved: $45.4 Actual: $45.4	**$19.3**
Flats Sequencing System (FSS), Phase 1	FSS machines automate the sorting of flat-sized mail into delivery sequence.	Fully deployed. Expected completion in 2014.[a]	Approved: $1,493.0 Estimated upon completion: $1,279.0	**$968.2**

Source: GAO summary of USPS information.

[a] USPS officials told us that FSS is fully deployed but not considered complete as software updates are numerous and significant.

Our analysis found that each investment phase—planning, selecting, managing, and evaluating—should consist of a series of leading practices that should be followed while the projects are within that phase. We used two different rating scales to assess the leading practices and capital investment phases. For each leading practice, we assessed USPS's level of conformance, as follows:

- Substantial: USPS policy conformed to all or almost all elements.
- Partial: Either (1) USPS policy conformed to some elements; or (2) USPS policy conformed substantially, but we identified instances in the five projects we reviewed where the policies were not consistently applied.
- Minimal/none: USPS policy conformed to few or no elements.

Then, for each investment phase, we assessed USPS's level of conformance, as follows:

- High: USPS substantially conformed to all or almost all of the leading practices.
- Medium: USPS substantially conformed to multiple leading practices.
- Low: USPS substantially conformed to one or none of the leading practices.

To describe the effects of not substantially conforming to a leading practice, we reviewed prior GAO work and the work of others including the USPS OIG and the National Research Council, and OMB and CPIC guides.

To report on USPS expenditures on capital investments for the past 10 years and to identify the five projects that met our selection criteria, we requested data from USPS. We assessed the reliability of these data through review of related documents and interviews with knowledgeable agency officials. We found the data sufficiently reliable for our purposes of reporting on the amount spent on capital investments in the past 10 years and for selecting the five high-cost capital investments we reviewed.

We conducted this performance audit from March 2013 to January 2014 in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix II: U.S. Postal Service's Strategic Initiatives and Corresponding Delivering Results, Innovation, Value, and Efficiency (DRIVE) Initiatives

USPS strategic initiative[a]	Corresponding Delivering Results, Innovation, Value and Efficiency (DRIVE) initiatives
Operational initiatives	
Networks Consolidation: A two-phase approach to consolidate approximately 200 mail-processing facilities and relocate equipment from the reduced volume workload for estimated savings of $3.4 billion by 2017. Phase 1 implemented in Spring 2013, and Phase 2 is to begin in Spring 2014.	Optimize Network Operations Optimize Facility Footprint Supply Chain Integration
Retail Optimization: In high-traffic post offices, increase self-service equipment, and in rural areas, establish Village Post Offices[b] for estimated savings of $1.6 billion by 2017.	Transform Access Integrate Costing and Pricing for Profitable Revenue Growth Acquire, Grow, and Retain Customers 1 & 2 Improve Customer Experience 1 & 2 Build Funnel and Launch Innovations Grow Small Business Revenue Market New and Existing Products and Services 1 & 2
Delivery Optimization: Increase mail delivery to centralized locations instead of curbside or door-to-door for estimated savings of $1.8 billion by 2017.	Optimize Delivery Operations *Shipping Growth*
Legislative initiatives	
5-Day Mail including 6-Day Package Delivery: Eliminate Saturday mail delivery and continue Saturday package delivery in support of online purchases and commercial packages for estimated savings of $2 billion annually.	Optimize Delivery Operations *Legislative and Regulatory Agenda* Building a World Class Package Platform
Postal Health Plan: Adopt a new USPS-administered health care plan for current employees and new hires, eliminating $5.7 billion of prefunding to the federal health insurance program and transferring retirees into the new health care plan. Estimated savings are $8 billion annually through 2016.	Establish USPS Healthcare Plan *Legislative and Regulatory Agenda*
Federal Employment Retiree System (FERS) overfunding refund: Reduce FERS obligation and normal cost contribution, based on USPS-specific assumptions and demographics for estimated savings of $0.3 billion annually.	*Legislative and Regulatory Agenda*
Workforce and non-personnel	

USPS strategic initiative[a]	Corresponding Delivering Results, Innovation, Value and Efficiency (DRIVE) initiatives
Operational initiatives	
Renegotiate and arbitrate with unions on wages and increase the proportion of non-career employees to 20 percent for estimated savings of $4.3 billion by 2017.	Develop Labor Agreement to Build Future Workforce Improve Employee Availability Resolve Disputes Effectively Analyze Workforce Needs and Manage the Change Develop Talent *Employee Engagement Talent, Recruiting and Retention*

Source: GAO summary of USPS information.

Note: Not all initiatives were active in fiscal year 2013; inactive initiatives are in italics.

[a] As identified in USPS's 5-year business plan for achieving financial and operational viability and self-sufficiency.

[b] USPS launched a retail partnership, called the Village Post Office, in July 2011 in which existing small businesses provide a limited range of postal products and services in small communities where underutilized yet costly post offices may close, be consolidated with another nearby post office, or have their hours of service reduced

Appendix III: Comments from the U.S. Postal Service

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER
EXECUTIVE VICE PRESIDENT

UNITED STATES POSTAL SERVICE

December 13, 2013

LORELEI ST. JAMES
DIRECTOR, PHYSICAL INFRASTRUCTURE
UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

SUBJECT: Draft Report—United States Postal Service: Actions Needed to Strengthen the Capital Investment Process (GAO-14-155)

Thank you for providing the United States Postal Service (USPS) with the opportunity to review and comment on the draft report titled *United States Postal Service: Actions Needed to Strengthen the Capital Investment Process (GAO-14-155).* The USPS comments will center on both general and specific concerns regarding the GAO findings and recommendations. The report addresses four phases of capital investments: 1) Planning Capital Investments; 2) Selecting Capital Investments; 3) Managing Capital Investments; and, 4) Evaluating Capital Investments. The GAO concluded that the USPS substantially conformed to most of the leading practices (cited in three of the four phases of capital investments) and partially conformed in one of the phases.

The report states that "Given the USPS's financial situation and the limitations of its business model hamper its ability to prevent future losses, it is crucial for USPS to use its scarce resources to prioritize and make wise capital investments, particularly those that reduce costs."; and concludes that "USPS has taken positive steps in this direction, and our analysis of a range of projects shows that they have substantially followed the majority of leading practices in planning and selecting capital investments. USPS's 5-year business plan, for example, is a positive step towards an agency-wide strategic plan that links capital investments to strategic initiatives."

The report identifies actions to strengthen the USPS investment process by working to ensure that USPS substantially follows all leading practices including those for managing and evaluating capital investments. There were no areas where GAO concluded that the USPS has minimal or no conformance to leading practices.

There are always opportunities to improve any process, and the USPS can clearly benefit from the recommended actions to strengthen the USPS Investment Process.

Recommendations for Executive Action

1. Establish a timeframe for developing a clear, detailed, single-source, standard set of policies and procedures that reflect the capital investment selection phase.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-5000
202-268-5272
FAX: 202-268-4364
www.usps.com

The USPS partially agrees with this recommendation as an established process for capital selection is already in place but is not included in the current USPS *General investment Policies and Procedures: Handbook F-66*. This process will be incorporated into the revised *Handbook F-66* that is due for completion during quarter 2, fiscal year (FY) 2014 and is managed by Finance and Planning. The established process includes:

- Define target capital commitments and expenditures for the FY
- Capital Budget Call (April)
- Executive Leadership Team (ELT) Capital Requests prioritized with narratives and costs/savings/revenue estimates (April)
- All requests reviewed and prioritized based on FY capital target (April-May)
- Capital Commitment Budget input into model to calculate capital cash expenditures and depreciation (April-May)
- ELT review and vote on final FY capital budget (June)
- Capital commitments and cash outlays included in the Integrated Financial Plan for Board of Governors Approval (July-November)
- Daily, weekly, and monthly tracking (ongoing)
- Monthly updates to the Investment Review Committee (IRC) (ongoing)
- Capital freeze exception process (ongoing)
- Investment Review and Approval - Decision Analysis Report (DAR) process
- Capital reallocations requested, reviewed, and approved as needed throughout the FY (ongoing as needed)
- Investment tracking (ongoing)

USPS investments selections are prioritized by the following criteria which are included in the Capital Freeze Exception process and will be included in USPS standard policies and procedures: 1) needed for safety and/or health, or legal requirements; 2) required to provide service; 3) those projects that have a high return on investment and a positive net cash flow within a very short period.

2. Modify capital investment policies to more closely align with the following leading practices including:

   - For planning capital investments, consider whether an external entity could better support all or part of a desired function when evaluating alternative capital investment options;

USPS agrees with the recommendation and currently considers viable alternatives for investments as noted in the USPS investment policies: "An economic analysis is used to identify the most economically beneficial resolution to a problem—that is, the alternative that will result in the highest net present value (NPV), lowest costs, or greatest savings, and to determine the financial impact of the project. The economic analysis may also be used to determine the priority among projects in the same category…Determining Viable Alternatives - In preparing the DAR, the sponsor usually identifies various solutions to the defined problem, and then analyzes those that are deemed viable. Alternatives that do not substantially comply with Postal Service requirements are eliminated without being evaluated (e.g., an alternative that does not fully meet employee considerations, service, and space standards)."

The USPS has outsourced non-core functions in areas such as Information Technology, Inside Sales, Training, and Program Management. Operational activities have been considered for outsourcing in the past; such as Priority Mail Processing Centers and Remote Encoding Centers (RECs), with both of these functions being returned to USPS operations. In the case of the RECs, the activities were brought in-house as a result of an arbitration decision.

- 3 -

Current operational activities that are outsourced in certain postal facilities include mail transportation, vehicle maintenance and repair services, and custodial cleaning of postal facilities.

USPS must follow the collective bargaining agreement through the Strategic Initiatives Action Group (SIAG), which is managed by Human Resources and also includes representation from Operations and Finance. SIAG considers the larger-scale outsourcing of work that is currently being done by bargaining unit employees. The contractual requirements of certain labor contracts do not preclude outsourcing, which will always be considered if it is in the financial best interest of the USPS and meets the collective bargaining requirements.

3. For selecting capital investments, use a portfolio approach for developing business cases and finalizing and allocating resources;

USPS again partially agrees with the recommendation as the USPS uses an organization-wide portfolio approach comprised of initiatives from each ELT organization which is reviewed by the entire ELT during the capital budget planning process.

We will continue to clearly communicate the portfolio approach and ensure that this is incorporated into revised USPS Investment Policy.

4. For evaluating capital investments, seek and leverage external oversight and review, from a consultant or peer reviewer, and require that best practices and lessons learned be incorporated into the review process.

The USPS agrees with the recommendation although we have previously contracted with highly respected external entities to review capital investment plans. We will continue to evaluate the need to hire consultants when necessary or when we identify an internal lack of expertise. This will ensure that USPS investments are consistent with the strategic vision for the company, ensure that lessons learned and investment performance results are shared with USPS management via IRC meeting presentations and discussions, and that the lessons learned information be available for management review on the USPS Investment Review and Approval BlueShare Website.

Management will discuss the major points from the semi-annual Investment Highlights report at IRC meetings to ensure that each group is aware of the status of the major investments and the lessons learned for current and future projects.

5. Regularly examine the extent to which executives and program managers consistently follow all leading practices, particularly for:

   - Identifying problems and reassessing risk while managing a project, and
   - Evaluating the cost, schedule, and performance results of completed projects.

The USPS agrees with the recommendation and will require sponsors to present the post-approval tollgate presentations to the IRC (as was done prior to December 2011). This will be in conjunction with the Capital Investment group including the post-approval tollgate dates in DARs and project timelines in presentations given to the IRC. The Capital Investment group will follow up with the sponsors to ensure that tollgate presentations appropriately address the project performance, updated cash flow ROI and NPV, and lessons learned, and that post-approval tollgate presentations are appropriately scheduled for the IRC meetings.

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Major Capital Investment costs, benefits, schedule, and risks will continue to be tracked via quarterly compliance reports and the semi-annual Investment Highlights publication which is shared with USPS management, the Office of Inspector General, and the GAO. The Investment Highlights provides an overview of capital investment projects greater than $25 million. These investment projects typically take two or more years from the time they are approved to begin capturing savings and to be fully implemented. The Investment Highlights provides the status of each program as of the date of the report.

Again, the USPS thanks the GAO for the opportunity to comment on its draft report. If you or your staff wishes to discuss any of these comments further, I or my staff is available at your convenience.

Joseph Corbett

cc: Shaun E. Mossman, (A) Vice President, Finance and Planning
Sally K. Haring, Manager, Corporate Audit Response Management

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Lorelei St. James, (202) 512-2834 or stjamesl@gao.gov

Staff Acknowledgments

In addition to the individual named above, Amelia Shachoy, Assistant Director; Samer Abbas; Amy Abramowitz; Russell Burnett; Jennifer Clayborne; Thanh Lu; Joshua Ormond; Amy Rosewarne; and Crystal Wesco made key contributions to this report.

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