

February 10, 2000

NICHOLAS F. BARRANCA
VICE PRESIDENT, OPERATIONS PLANNING

SUBJECT: Phase I Remote Encoding Center Consolidation
(Report Number DA-AR-00-001)

This report presents the results of our audit of the Phase I Remote Encoding Center Consolidation program. The purpose of this engagement was to evaluate the approval process and to review the program policies, procedures, and processes for consolidating the remote encoding centers. The audit disclosed that the Phase I Remote Encoding Center Consolidation program was properly approved and economically justified. In addition, there were sufficient policies, procedures, and controls in place over Phase I consolidations.

Although written comments to our report were not required, in a letter dated February 4, 2000, management expressed thanks to the Office of Inspector General for responding to their request for support. We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact [REDACTED], [REDACTED], at [REDACTED], or me at (703) 248-2300.

Richard F. Chambers
Assistant Inspector General
for Performance

Attachment

cc: Walter F. O'Tormey
Rosa L. Heeringa
John R. Gunnels

INTRODUCTION

Introduction

This report summarizes the results of our audit of the Phase I Remote Encoding Center Consolidation program (Project Number 99PA026DA000). The manager, Systems Integration Support requested the audit in a letter dated May 5, 1999. The purpose of the audit was to ensure that consolidations were conducted in accordance with postal regulations.

Results in Brief

Based on our audit and discussions with program management, we determined that the Postal Service completed the first two remote encoding center consolidations in accordance with postal regulations.¹

We determined that the Phase I Remote Encoding Center Consolidation program was properly approved and economically justified. However, we found that the net cash flow amount in the initial economic analysis of Phase I was overstated. Postal Service personnel agreed with our conclusion and revised the cash flow. Accordingly, this report contains no recommendations and requires no additional management action.

In addition, adequate policies and procedures were established to ensure adequate controls existed over the Remote Encoding Center consolidations.

Objectives, Scope, and Methodology

The objectives of our audit were to determine whether:

- 1) The Phase I Remote Encoding Center consolidation was properly approved and economically justified.
- 2) Policies, procedures, and processes were established to ensure adequate controls over the remote encoding center consolidations.

In completing the engagement, we reviewed documents and reports relating to the remote encoding center consolidation. We interviewed Postal Service Headquarters and field officials, visited the Hayward and Selma Remote Encoding

¹ Hayward, California, Remote Encoding Center was closed on September 1, 1999, and Knoxville, Tennessee, Remote Encoding Center was closed on November 10, 1999.

Centers in California,² and attended program meetings and training courses on the remote encoding center consolidation.

The audit was conducted from August 1999 through December 1999 in accordance with generally accepted government auditing standards. We reviewed internal controls to the extent we considered necessary under the circumstances.

Background

The Postal Service articulated its letter automation goals and strategies in the 1988 Corporate Automation Plan. This plan envisioned a national network of equipment, together with customer participation, that would result in the barcoding of virtually all letter mail. Letter mail without a barcode cannot be sorted on automated equipment.

When letter mail initially arrives at a mail processing plant, optical character readers attempt to “read” the address and/or apply a barcode based on the address information. If the optical character reader is unable to read the address, the mail-piece is subjected to the Remote Barcoding System.³ An image of the address is transmitted via telephone lines to a remote encoding center. Data conversion operators, working at computer terminals in the remote encoding centers, view the images and key in address information. This information is transmitted back to the plant, where another automated sorter applies a barcode corresponding to the address information. The mail-piece is then processed by automation.

The Postal Service implemented the Remote Barcoding System in three phases beginning in 1992 with full system deployment completed in July 1997. In August 1994, the Board of Governors approved remote computer reading that allowed computer resolution of addresses instead of manual encoding. This technology was implemented in the fall of 1995.

Enhancements to the remote computer reading equipment have increased the overall barcoding rate, thereby reducing

² Hayward, California, Remote Encoding Center was the first facility to close and the Selma, California, Remote Encoding Center was the respective gaining facility.

³ Remote Barcoding System technology barcodes mail that can not be “read” by Postal Service equipment/computers.

the manual keying workload at the remote encoding centers. In May 1999, the Board of Governors approved funding for further improvements in remote computer reading technology. Incremental software enhancements were scheduled for fall of 1999 and 2000.

Postal Service management determined that remote encoding center consolidations were necessary to control overhead costs as technological improvements reduced the workload at the centers. In March 1999, the postmaster general advised the Board of Governors of postal management's plan to close 9 of the 55 remote encoding centers. Postal Service management anticipate that future technological improvements will further reduce the workload and necessitate additional closings.⁴

⁴ On September 22, 1999, Postal Service has announced another phase of remote encoding center closings.

AUDIT RESULTS

Program Approval and Funding

We concluded that the vice president, Field Operations Support had the authority to fund the program as part of the operating budget.⁵ Remote Encoding Center program management worked closely with Finance officials to formulate the economic analysis and develop consolidation program documentation. After reviewing Postal Service policy, Finance officials determined that the remote encoding center consolidation was not a major operating expense investment and therefore did not require a Decision Analysis Report.⁶ Accordingly, the sponsoring vice president had the authority to fund the program as long as costs did not exceed budgeted funds. Also, according to Finance officials, the Remote Encoding Center Consolidation program was addressed in the approved Remote Barcoding Systems Decision Analysis Reports.⁷

Economic Analysis⁸

The Phase I remote encoding center consolidation will require no capital investment, and should generate a net positive cash flow of about \$69 million over its six-year life. During this period, the consolidation will cost approximately \$4 million and reduce overhead costs by \$15 million.

Policies, Procedures, And Processes

We determined, from our audit of the consolidation guide and the initial remote encoding center consolidations, that policies and procedures were sufficient to ensure transition with adequate controls. At the beginning of the program, program management personnel had no prior experience in, and the Postal Service had no formal policies and procedures in place for, closing and consolidating remote encoding centers. In May 1999, the program manager established a working group comprised of representatives from all major functional groups of the Postal Service to develop policies and procedures for the Remote Encoding Center Consolidation program. In October 1999, officials completed a detailed guide for executing the remote encoding center consolidation. This guide contained policies and procedures on consolidation activities such as:

- Remote encoding center closing planning.

⁵ Currently, the vice president, Operations Planning is responsible for the program.

⁶ Postal Service Handbook F-66, General Investment Policies and Procedures, Section 2-6.1

⁷ The Board of Governors approved funding the Remote Barcoding Systems in 1990, 1992, 1994, and 1995.

⁸ Based on Postal Service projections.

- Announcement day activities.
- Human Resources / Labor Relations activities.
- Developing an operational ramp-down plan.
- Communications plan.
- Finance activities.
- Time / attendance closeout activities.
- Purchasing, asset accountability and contract closeout.
- Social and recreational committee funds closeout.
- Maintenance activities.
- Remote Barcoding System equipment relocation.
- Office automatic data processing / phone/ security system activities.
- Personnel computer management operating data system closeout activities.
- Records retention and disposition.
- Building moveout.
- Follow-up.

Further, the Postal Service conducted training classes for key remote encoding center personnel on consolidation procedures. Consequently, the Postal Service managed to consolidate two remote encoding centers as part of Phase I consolidation.

Reduction In Force

The Postal Service took sufficient actions to address remote encoding center employee issues. All employees at the closing remote encoding centers are subject to the Postal Service's Reduction in Force process. The Postal Service addressed career bargaining employees' issues by executing a Memorandum of Understanding with the American Postal Worker's Union to facilitate the remote encoding center consolidations. In addition, the Postal Service agreed to consider transitional employees for other non-career assignments at surrounding facilities or at another remote encoding center. In April 1999, the Postal Service waived the "area of consideration" restrictions for career Executive and Administrative Schedule employees at the closing remote encoding centers. This waiver allowed these employees to apply for any Executive and Administrative Schedule vacancy nationwide. Affected Executive and Administrative Schedule employees were responsible for obtaining another assignment prior to the effective date of the Reduction in Force. They will be separated from the Postal Service if unsuccessful.

Conclusion	As a result of planning and developing policies and procedures, we believe the technical and operational risks of the Phase I Remote Encoding Center Consolidation have been minimized. The remaining remote encoding center consolidations should encounter few problems as long as the established guidelines and procedures are followed.
Management's Comments	Management stated they were encouraged by the results of our audit. They also noted that the audit validated their justification process and the numerous policies and procedures developed to ensure success with this program.
Evaluation of Management's Comments	Since there were no recommendations in the report, no further action is required.

APPENDIX. MANAGEMENT'S COMMENTS

NICHOLAS F. BARRANCA
VICE PRESIDENT, OPERATIONS PLANNING



February 4, 2000

RICHARD F. CHAMBERS

SUBJECT: Audit of the Phase I Remote Encoding Center Consolidation
(Report Number DA-AR-00-DRAFT)

This is in regard to the draft audit of the Phase I Remote Encoding Center (REC) Consolidation program.

We requested your assistance to validate that our REC Consolidation implementation plans were in compliance with all Postal regulations. We were encouraged by the results of your audit. It validated our justification process and the numerous policies and procedures developed to ensure success with this program.

In light of your audit findings, we do not believe it is necessary to conduct a formal exit meeting. I would like to thank you and your staff for responding to our request for support.

A handwritten signature in dark ink, appearing to read "Nicholas F. Barranca".

Nicholas F. Barranca

cc: Mr. John
Mr. Johnson
Mr. LaPoint
Mr. O'Tormey

**Major Contributors to
This Report**

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