July 1, 2010

LINDA A. KINGSLEY
ACTING VICE PRESIDENT, CAPITAL METRO AREA OPERATIONS

SUBJECT: Audit Report – Flats Sequencing System Operational Issues –
(Report Number DR-AR-10-005)

This report presents the results of our audit on the Flats Sequencing System (FSS) (Project Number 10XG006DR000). Our objective was to evaluate the FSS operations[1] in selected Northern Virginia District delivery units. This audit addressed operational risk and was initiated by the U.S. Postal Service Office of Inspector General (OIG). See Appendix A for additional information about this audit.

In October 2006, the U.S. Postal Service recommended approval of a $1.4 billion acquisition to develop, purchase, and deploy 100 FSS machines at 33 sites. FSS machines sort flat-sized mail such as large envelopes, newspapers, catalogs, circulars, and magazines into delivery walk sequence at high speeds and at a much higher productivity rate than the manual process. In full deployment, the FSS is expected to produce annual operational savings of $613 million. Delivery units should achieve this savings by eliminating manual carrier casings and reducing the number of routes, resulting in reduced workhours.

Conclusion

Northern Virginia District delivery units[2] have improved delivery operations with FSS. These units' improvements contributed to a 6-month cost reduction of $196,271 as well as a reduction of 79 city routes and a proportionate number of delivery vehicles. However, we identified several FSS machines that were unavailable for several months and processing issues that negatively impacted delivery operations. Specifically, we found:

[1] OIG Report, *Effects of Flats Sequencing System on Delivery Operations- Northern Virginia Districts* (Report Number DR-AR-09-011, dated September 28, 2009), included a review of delivery performance indicators for five of the 10 initial FSS sites during the pre-production test phase using one FSS machine. This report focuses on the full production environment where the district had two machines in operation, and 35 delivery units receiving FSS sequenced flats.

[2] The five Northern Virginia District delivery units reviewed were Fairfax-Chantilly, Leesburg Annex, Leesburg Main Post Office (PO), Manassas Annex, and Oakton.

- Eight delivery units[3] suspended from receiving FSS sequenced flat pieces between September and December 2009[4] due to the instability of the processing equipment[5] creating processing delays with seasonal mailings. While the units have since corrected the problem, city carriers manually cased approximately 13.4 million flat mailpieces and manual distribution clerks had to distribute 1.5 million flat mailpieces for 255 city routes.

- Over 145,000 pieces of mail required additional casing and sorting at the delivery units by city carriers and manual distribution clerks due to changes in the plant's processing time.[6] See Appendix B for our detailed analysis of this topic.

Consequently, we estimated the Postal Service incurred unrecoverable questioned costs of approximately $852,336 for fiscal years (FYs) 2009 and 2010. See Appendix C for our monetary impact.

We recommend the vice president, Capital Metro Area Operations:

1. Track and monitor Flats Sequencing System processing operations to reduce labor hours associated with additional manual sorting of unworked flat mail sent to delivery units.

2. Require plant and district managers to coordinate efforts in reviewing, updating, and complying with their integrated operating plans to ensure sequenced flat mail arrives timely to delivery units.

Management's Comments

Management agreed with the first finding and all the recommendations, but disagreed with the methodology in the second finding and our calculation of monetary impact. On the other hand, management stated they appreciated our conclusion regarding the delivery units improved delivery operations with FSS implementation. Thus, management requested the final report acknowledge the actual workhour and dollar

[3] Several of these suspended sites were included in our original sample. FSS was suspended in eight delivery units on September 14, 2009, due to machine problems and other operational issues. However, we did review the machine and operational issues and its impact on delivery operations in the Northern Virginia District for the selected units and these eight units.
[4] FSS-processing operations were suspended at the following eight delivery units: Arlington South, Community, Buckingham, Bailey's Crossroads, Mosby, Franconia, Kingstowne, and Turnpike. As of January 2010, these units have been receiving FSS-processed mail.
[5] Instability of the FSS equipment was discussed in OIG report *Flats Sequencing System: First Article Retest Results* (Report Number DA-AR-09-12, dated September 4, 2009).
[6] The FSS is equipped to process mail for approximately 17 hours per day, providing about 280,500 sequenced flats per day, per machine. The expectation is that there will only be one dispatch per zone per day, other than First-Class Mail®. Standard and Periodicals mail arriving for processing at an FSS facility after the cut-off time will be held until the next operational day or sent the same day to the delivery units as unworked mail requiring manual sorting and casing by clerks and carriers.

savings. Management stated savings to date include the reduction of 79 city routes and a proportionate number of delivery vehicles.

In response to recommendation 1, management stated the staff currently tracks FSS volume and compares this volume to non-sequenced flats received in delivery units daily. In addition, they stated performance reports are provided to the district on a daily basis since October 30, 2009. In response to recommendation 2, management stated district managers will review and update their integrated operating plans by September 30, 2010, to ensure sequenced flat mail arrives timely to delivery units.

In response to the monetary savings, management initially disagreed in part with the analysis of the unrecoverable questions costs, because they believe the reported volume is overstated and the report assumes the unworked mail should have been processed on the FSS. They provided additional information on this finding, and as a result, we made changes to our calculations. In discussions held on June 21, 2010, management agreed with the changes to our methodology and the estimated monetary savings. See Appendix D for management's comments in their entirety.

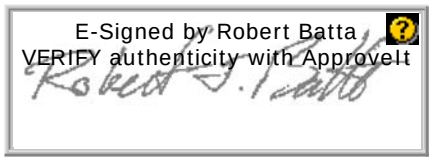
Evaluation of Management's Comments

The OIG considers managements' comments responsive to the findings and recommendations, and management's corrective actions should resolve the issues identified in the report.

Management indicated their disagreement with our estimated monetary impact of $1,412,391 and our methodology that all flat mail not in walk sequence was manually sorted and cased by clerks and carriers. On June 14, 2010, area officials expressed concerns with using the delivery units', total cased flat mail volume instead of the daily cased mail volume, and the average performance percentage based on daily volume for the calculation. Area officials subsequently provided additional operational information, including cased volume data and the district's FSS average performance percentage at 59 percent, during September and December 2009. Using the additional information, we recalculated our cost savings, which resulted in a reduction in the OIG estimated cost savings from $1,412,391 to $852,336.

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

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita Oliver, director, Delivery, or me at 703-248-2100.



Robert J. Batta
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

In October 2006, the Postal Service recommended approval of a $1.4 billion Phase I Decision Analysis Report (DAR) to develop, purchase, and deploy 100 FSS machines at 33 sites. The FSS machines sort flat-sized mail such as large envelopes, newspapers, catalogs, circulars, and magazines into delivery sequence at high speeds and at a much higher productivity rate than the manual process. FSS-processed mail will arrive at the delivery unit in walk sequence order, ready for delivery by the carrier with no additional mail movement or manual sorting required.

Management conducted FSS "pre-production" testing from December 2007 through May 2009 at the Dulles Processing and Distribution Center. In full deployment, the FSS is expected to produce annual operational savings of $613 million. The Postal Service should realize these savings once the delivery units eliminate the requirement for mail carriers to manually case flat mail. Since mail clerks would no longer need to manually sort flats, there should be a reduction in clerks' workhours at delivery units. Full production of FSS began in June 2009, and 80 delivery units are currently receiving FSS-processed mail. During a 24-hour period, each FSS machine will process flats into delivery point sequence within a 17-hour operational window. Units will hold Standard and Periodicals mail that arrives after cut-off time for processing at an FSS facility until the next operational day. Delivery date requests on mailpieces will be processed on the appropriate day.

The Postal Service had a difficult FY 2009. Mail volume declined by approximately 25 billion pieces. Due to declining mail volume of catalogs and Periodicals mail, the Postal Service decided to add nearly 300 ZIP Codes™ to the list of areas that FSS machines will serve. The 100 machines in Phase I of the FSS program will be spread among 42 city locations — including new sites in Houston, TX; Philadelphia, PA; Charlotte, NC; and Minneapolis and St. Paul, MN — rather than the 33 original city locations.

Prior to receiving FSS-processed mail, delivery units must achieve morning standard operating procedures II certification and complete carrier optimal routing database preparation for route adjustments. All routes must have an accurate, current, and complete Postal Service Form 3999, Inspection of Letter Carrier Route, on file. Management will make route adjustments for their units after FSS stabilizes and must make manual distribution clerk schedule adjustments in conjunction with receiving FSS-processed mail. The FSS significantly changes the periods available for supervisors to perform their work since carriers' office time is significantly reduced, while street time is expanded and begins earlier.

The FSS is a critical component of the Postal Service's strategy to contain costs through automating the flat mail stream.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the FSS operations in selected Northern Virginia District delivery units. Due to staggered FSS full production testing start dates, the selected delivery units reviewed were integrated into the process during different months of FY 2009. Our audit scope covered December 2008 to February 2010, which includes the 6-month period prior to receiving FSS-processed mail and the first 6 months of receiving FSS-processed mail[7] for each delivery unit reviewed. See Table 1.

Table 1. FSS Review Periods

FSS Site	6 Months Prior to Receiving FSS Mailpieces	First 6 Months of Receiving FSS Mailpieces
Fairfax Chantilly	January 2009 – June 2009	June 2009 – December 2009[8]
Leesburg Annex	January 2009 – June 2009	June 2009 – December 2009[9]
Leesburg Main Post Office	December 2008 – May 2009	July 2009 – November 2009
Manassas Annex	December 2008 – May 2009	June 2009 – November 2009
Oakton	February 2009 – July 2009	August 2009 – January 2010

Source: Postal Service Northern Virginia District Management

To accomplish our objective, we:

- Statistically selected five[10] FSS delivery unit locations in the Northern Virginia District.
- Reviewed operational issues throughout the district associated with delivery units receiving FSS sequenced flat mail.
- Reviewed applicable documentation, policies, and procedures such as the FSS DAR, dated October 20, 2006; the approved FSS Work Methods Memorandum of Understanding between the Postal Service and the National Association of Letter Carriers, dated November 24, 2008; and the *FSS Implementation Guide*, Version 1, dated May 2009.
- Extracted and analyzed data from the Enterprise Data Warehouse (EDW) Delivery Data Mart for cased and FSS mailpieces, city carrier office and overtime workhours, carriers returning after 1,700, managed service scans, and mail distribution clerk office hours.

[7] The scope limitations are due to differences in FSS production start dates for each delivery unit.
[8] We are including performance information for December 2009, because the Fairfax-Chantilly FSS activation date was June 26, 2009, leaving only 3 work days of FSS performance information.
[9] We are including performance information for December 2009, because the Leesburg Annex FSS activation date was June 26, 2009, leaving only 3 work days of FSS performance information.
[10] Our original sample included the Buckingham, Community, Oakton, Leesburg Annex, and McLean delivery units. We selected alternate units due to FSS activation dates and the deactivation of the FSS machines.

- Extracted and analyzed Customer Service Delivery Reporting System (CSDRS) Mail Condition, Curtailed and Delayed Mail, and Management Comment reports to determine the tracking and status of the mail as it arrives at the delivery unit.
- Extracted and analyzed CSDRS mail performance indicators from the WEB Executive Information System (WEBEIS).
- Conducted site visits at selected delivery unit locations.
- Interviewed Postal Service Headquarters, Capital Metro Area, and Northern Virginia District officials.

We conducted this performance audit from October 2009 through July 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on April 14 and 20, 2010, and June 14 and 21, 2010 including their comments where appropriate.

We extracted and analyzed data from EDW, CSDRS and WEBEIS. We assessed the reliability of data such as delivery performance indicators, cased and FSS flat mailpieces, carrier and clerk workhours and mail condition reports by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

The OIG has issued seven reports, and GAO has issued one report related to our objective in the last several years.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Flats Sequencing System on Delivery Operation – Northern Virginia District	DR-AR-09-011	9/28/2009	None	The five selected Northern Virginia District delivery units improved in delivery operations during the initial 6 months of FSS testing. Flat volumes decreased by more than 50 percent during this testing period, so we could not determine how much of these operational gains were due to implementation of the FSS. No recommendations were made in this report.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Flats Sequencing System: First Article Retest Results	DA-AR-09-012	9/4/2009	None	Although FSS machine performance improved since the original test, the system failed to meet key statement of work performance parameters. The Postal Service attributed FSS performance shortcomings to the lack of additional hardware and software solutions that were not incorporated into the First Article Testing 2A system. Failure to meet statement of work performance requirements would reduce forecasted savings and increase operational burdens. Management partially agreed with the finding and recommendation.
Flats Sequencing System Contractual Remedies	CA-AR-09-006	7/1/2009	$7,733,522	This audit determined that management of the FSS contract process resulted in increased financial risk to the Postal Service. Management agreed with findings and recommendations 1 and 2 but only partially agreed with the finding and recommendation 3.
Flats Sequencing System: Program Status	DA-AR-09-001	12/23/2008	None	The report determined that program management was attentive to system performance and schedule risks. Management agreed with the finding and recommendation in this report.
Management of Contract Changes – Flats Sequencing System	CA-MA-09-002	12/1/2008	None	The report did not identify any unnecessary or inappropriate increased costs to the Postal Service because of changes to the FSS contract. Management agreed with the finding and recommendation in this report.
Flats Sequencing System: Production First Article Testing Readiness and Quality	DA-AR-08-006	6/4/2008	None	The report determined the Postal Service needed to focus greater attention on workload, the First Article Testing schedule, and critical deliverables. Management generally agreed with the finding and recommendation in this report.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Flats Sequencing System Risk Management	DA-AR-07-003	7/31/2007	None	The report determined that Postal Service Engineering needed to focus greater attention on risk management standards to ensure the significant risks associated with deployment of the FSS were adequately identified and managed. Management agreed with findings and recommendations 1 and 2 but disagreed with findings and recommendations 3 and 4 of this report.
Mail Delivery Efficiency Has Improved, but Additional Actions Needed to Achieve Further Gains	GAO-09-696	7/15/2009	None	The Postal Service has taken steps to deliver mail more efficiently, including adjusting delivery routes to reflect declining volumes and investing in more efficient mail-sorting technologies. This report addressed how the Postal Service monitors delivery efficiency, characteristics of delivery units that affect their efficiency, and the status and results of the Postal Service's actions to improve delivery efficiency, in particular FSS. No recommendations were made in this report.

APPENDIX B: DETAILED ANALYSIS

Machine and Operational Issues

Although improvements occurred, we identified several FSS machines that were unavailable for several months and processing issues that negatively impacted delivery operations. As a result, the Postal Service incurred estimated unrecoverable questioned costs of $852,336 for FYs 2009 and 2010.

Suspension of FSS Processing

The FSS machines were unavailable for several months, which required employees to manually sort and case flats mailpieces in delivery units. Specifically, between September and December 2009, management suspended FSS processing for eight FSS activated delivery units requiring city carriers to case 13.4 million flat mailpieces and manual distribution clerks to sort approximately 1.5 million flat mailpieces for delivery. Capital Metro Area officials suspended FSS processing of flats mailpieces due to the instability of the FSS machines and the need for additional mailpieces testing of FSS processing equipment. While management has since corrected the problem, these Northern Virginia District delivery units incurred unrecoverable labor costs[11] of $797,818 and $41,383, respectively. See Tables 5 and 6.

Table 5. City Carriers' Workhours and Costs for Manual Processing

Delivery Unit	FYs 2009 and 2010 Casing Workhours	Total Cased Flats Mailpieces (100 Percent)	FYs 2009 and 2010 Cost of Casing Workhours (100 Percent)	Total Cased Flats Mailpieces (59 Percent)	FYs 2009 and 2010 Costs of Casing Workhours (59 Percent)
Alexander- Community	4,265	1,838,017	$185,021	1,084,430	$109,163
Bailey's Crossroad	4,228	1,822,317	183,567	1,075,167	108,304
Buckingham	3,368	1,451,738	146,266	856,525	86,297
Franconia	2,863	1,233,863	124,199	727,979	73,277
Kingstowne	2,624	1,130,866	113,805	667,211	67,145
Mosby	3,381	1,457,347	146,776	859,835	86,598
South Station	3,617	1,559,115	157,102	919,878	92,690
Turnpike	6,811	2,935,515	295,498	1,731,954	174,344
Totals	**31,157**	**13,428,778**	**$1,352,234**	**7,922,979**	**$797,818**

Source: EDW

[11] According to the FSS program, DAR delivery units should expect to capture an 85-percent savings rate for city carriers, and an 80-percent savings rate for manual distribution clerks; however, because FSS is processing at a 59-percent performance rate in the Northern Virginia District we used 59 percent in the OIG calculations. The calculated savings is based on a carrier's productivity rate of 431 flats per hours and a clerk's productivity of 1,006.25 pieces per hour. We used FYs 2009 and 2010 wage rates for the calculations.

Table 6. Manual Distribution Clerks' Workhours and Costs for Manual Processing

Delivery Unit	FYs 2009 and 2010 Sorting Workhours	Total Sorted Flats Mailpieces (100 Percent)	FYs 2009 and 2010 Cost of Sorting Workhours (100 Percent)	Total Sorted Flats Mailpieces (59 Percent)	FYs 2009 and 2010 Costs of Sorting Workhours (59 Percent)
Alexander- Community	220	221,871	$10,303	130,904	$6,079
Bailey's Crossroad	232	233,933	10,865	138,020	6,410
Buckingham	209	210,142	9,770	123,984	5,764
Franconia	107	107,626	4,995	63,499	2,947
Kingstowne	115	115,650	5,368	68,234	3,167
Mosby	180	181,575	8,439	107,129	4,979
South Station	167	168,361	7,827	99,333	4,618
Turnpike	269	270,841	12,575	159,796	7,419
Totals	**1,499**	**1,509,999**	**$70,142**	**890,899**	**$41,383**

Source: EDW

Late and Unprocessed Mail

We found 145,853 pieces of unworked flats that were not processed on the FSS machines before the flats arriving at two delivery units. According to delivery unit management, the processing facility changed its mail processing times (schedule) for flat mailpieces. The schedule change resulted in unworked flats arriving late at these units. Consequently, city carriers and manual distribution clerks had to manually case and sort this mail. See Table 7.

Table 7. CSDRS Mail Condition October 2009 – February 2010

Delivery Unit	Late-Arriving Mailpieces[12]	Unworked Flats
Fairfax Chantilly	131,609	0
Leesburg Annex	106,969	0
Leesburg Main PO	88,544	0
Manassas Annex	39,494	145,134
Oakton	50,494	719
Totals	**417,110**	**145,853**

Sources: CSDRS and WebEIS

[12] Since the total of the late-arriving mailpieces includes both letters and flats, we were unable to identify the actual number of flats mailpieces. We make no assumptions that these mailpieces would or should have been processed on FSS.

APPENDIX C: MONETARY IMPACT

We estimated a monetary impact of $852,336 in unrecoverable questioned costs[13] for FYs 2009 and 2010. We calculated the cost savings[14] based on additional labor cost incurred by selected Northern Virginia delivery units due to city carriers and manual distribution clerks casing and sorting flat mailpieces. See Tables[15] 8, 9, 10, 11, 12, 13, and 14.

Table 8. Summary of Cost Savings

Findings	Impact Category	Amount
Suspension of FSS Processing – City Carriers September FY 2009 Costs for Manual Casing (See Table 9)	Unrecoverable questioned costs	$125,482
Suspension of FSS Processing – City Carriers October – December FY 2010 Costs for Manual Casing (See Table 10)	Unrecoverable questioned costs	672,336
Suspension of FSS Processing – Manual Distribution Clerks September FY 2009 Costs for Manual Sorting (See Table 11)	Unrecoverable questioned costs	5,492
Suspension of FSS Processing – Manual Distribution Clerks October – December FY 2010 Costs for Manual Sorting (See Table 12)	Unrecoverable questioned costs	35,891
Late and Unprocessed Flats City Carriers October – February FY2010 Costs for Manual Casing (See Table 13)	Unrecoverable questioned costs	8,719
Late and Unprocessed Flats Manual Distribution Clerks October – February FY2010 Costs for Sorting (See Table 14)	Unrecoverable questioned costs	4,416
	Total	**$852,336**

Source: OIG Analysis

[13] Unrecoverable costs that are unnecessary, unreasonable or an alleged violation of law or regulation.
[14] According to the DAR for the FSS program, delivery units should expect to capture an 85-percent savings rate for city carriers and an 80-percent savings rate for manual distribution clerks; however, because the FSS is processing at a 65-percent performance rate we used 65 percent in the OIG calculations. The calculated savings are based on a carrier productivity rate of 431 flats per hour and clerk productivity is 1,006.25 pieces per hour. Calculations used FYs 2009 and 2010 wage rates.
[15] Totals may not add up due to rounding.

Table 9. September 2009 City Carrier Costs for Manual Casing

Delivery Unit	FY 2009 Number of Casing Workhours	Total Cased Flats Pieces (100 Percent)	FY 2009 Cost of Casing Workhours (100 Percent)	Total Cased Flat Pieces (59 Percent)	FY 2009 Costs of Casing Workhours (59 Percent)
Alexander- Community	730	314,487	$30,653	185,547	$18,085
Bailey's Crossroad	648	279,114	27,206	164,677	16,051
Buckingham	499	214,857	20,942	126,766	12,356
Franconia	494	212,796	20,741	125,550	12,237
Kingstowne	468	201,840	19,674	119,086	11,607
Mosby	534	230,089	22,427	135,753	13,232
South Station	525	226,351	22,063	133,547	13,017
Turnpike	1,166	502,489	48,978	296,469	28,897
TOTALS	**5,063**	**2,182,023**	**$212,684**	**1,287,394**	**$125,482**

Sources: EDW and OIG Analysis

Table 10. October – December 2009 City Carrier Costs for Manual Casing

Delivery Unit	FY 2010 Number of Casing Workhours	Total Cased Flats Pieces (100 Percent)	FY 2010 Cost of Casing Workhours (100 Percent)	Total Cased Flat Pieces (59 Percent)	FY 2010 Costs of Casing Workhours (59 Percent)
Alexandra - Community	3,535	1,523,530	$154,368	898,883	$91,077
Bailey's Crossroad	3,581	1,543,203	156,361	910,490	92,253
Buckingham	2,870	1,236,881	125,324	729,760	73,941
Franconia	2,369	1,021,067	103,457	602,430	61,040
Kingstowne	2,156	929,026	94,131	548,125	55,538
Mosby	2,847	1,227,258	124,349	724,082	73,367
South Station	3,092	1,332,764	135,039	786,331	79,673
Turnpike	5,645	2,433,026	246,520	1,435,485	145,447
TOTALS	**26,095**	**11,246,755**	**$1,139,549**	**6,635,586**	**$672,336**

Sources: EDW and OIG Analysis

Table 11. September 2009 Manual Distribution Clerk Costs for Manual Sorting

Delivery Unit	FY 2009 Number of Sorting Workhours	Total Sorted Flats Pieces (100 Percent)	FY 2009 Cost of Sorting Workhours (100 Percent)	Total Sorted Flat Mailpieces (59 Percent)	FY 2009 Costs of Sorting Workhours (59 Percent)
Alexander- Community	33	32,909	$1,494	19,416	$881
Bailey's Crossroad	33	32,917	1,494	19,421	881
Buckingham	22	21,811	990	12,868	584
Franconia	18	18,150	824	10,709	486
Kingstowne	19	19,069	865	11,251	511
Mosby	21	20,910	949	12,337	560
South Station	18	17,968	816	10,601	481
Turnpike	41	41,370	1,878	24,408	1,108
TOTALS	**205**	**205,104**	**$9,310**	**121,011**	**$5,492**

Sources: EDW and OIG Analysis

Table 12. October – December 2009 Manual Distribution Clerk Costs for Manual Sorting

Delivery Unit	FY 2010 Number of Sorting Workhours	Total Sorted Flats Pieces (100 Percent)	FY 2010 Cost of Sorting Workhours (100 Percent)	Total Sorted Flat Mailpieces (59 Percent)	FY 2010 Costs of Sorting Workhours (59 Percent)
Alexander- Community	188	188,962	$8,809	111,488	$5,197
Bailey's Crossroad	200	201,016	9,371	118,599	5,529
Buckingham	187	188,331	8,780	111,115	5,180
Franconia	89	89,476	4,171	52,791	2,461
Kingstowne	96	96,581	4,502	56,983	2,656
Mosby	160	160,665	7,490	94,792	4,419
South Station	149	150,393	7,011	88,732	4,137
Turnpike	228	229,471	10,698	135,388	6,312
TOTALS	**1297**	**1,304,895**	**$60,832**	**769,888**	**$35,891**

Sources: EDW and OIG Analysis

Table 13. October – February 2010 City Carrier Costs Manual Casing Unworked Flats

Delivery Unit	FY 2010 Number of Casing Workhours	Total Cased Unprocessed Flats Pieces (100 Percent)	FY 2010 Cost of Casing Workhours (100 Percent)	Total Cased Unworked Flat Pieces (59 Percent)	FY 2010 Costs of Casing Unworked Flats Workhours (59 Percent)
Fairfax Chantilly	0	0	$0	0	$0
Leesburg Annex	0	0	0	0	0
Leesburg Main PO	0	0	0	0	0
Manassas Annex	337	145,134	14,705	85,629	8,676
Oakton	2	719	73	424	43
Totals	**339**	**145,853**	**$14,778**	**86,053**	**$8,719**

Table 14. October – February 2010 Manual Distribution Clerk Costs for Manual Sorting

Delivery Unit	FY 2010 Number of Sorting Workhours	Total Sorted Unprocessed Flats Pieces (100 Percent)	FY 2010 Cost of Sorting Workhours (100 Percent)	Total Sorted Unworked Flat Mailpieces (59 Percent)	FY 2010 Costs of Sorting Workhours (59 Percent)
Fairfax Chantilly	0	0	$0	0	$0
Leesburg Annex	0	0	0	0	0
Leesburg Main PO	0	0	0	0	0
Manassas Annex	144	145,134	6,766	85,629	3,992
Oakton	15	719	719	424	424
Totals	**159**	**145,853**	**$7,485**	**86,053**	**$4,416**

APPENDIX D: MANAGEMENT'S COMMENTS

A/VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

June 11, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: OIG Draft Audit Report – Flats Sequencing System Operational Issues
(Report Number DR-AR-10-DRAFT)

The Capital Metro Area office has conducted a thorough review of the Transmittal of Draft Audit Report – Flats Sequencing System Operational Issues (Report Number DR-AR-10-DRAFT) dated May 25, 2010. The Capital Metro Area office agrees with the report's conclusion regarding savings from the Flats Sequencing System processing and its recommendations for improving the savings from FSS implementation.

Recommendation #1: Track and monitor Flats Sequencing System processing operations to reduce labor hours associated with additional manual sorting of unworked flat mail sent to delivery units.

Management Response #1:
FSS Volume/Processing Analysis
We agree with Recommendation #1. The report recommends that the Vice President, Capital Metro Area Operations track and monitor Flats Sequencing System processing operations to reduce labor hours associated with additional manual sorting of unworked flat mail sent to delivery units. The Area staff currently tracks FSS volume and compares this volume to non-sequenced flats received in delivery units each day. Performance reports are subsequently provided to the Northern Virginia Performance Cluster on a daily basis.

Recommendation #2: Require plant and district managers to coordinate efforts in reviewing, updating, and complying with their Integrated Operating Plans to ensure sequenced flat mail arrives timely to delivery units.

Management Response #2:
Compliance with Integrated Operating Plan
We have some disagreement with the findings and the analysis of unrecoverable questioned costs regarding Recommendation #2. The report also recommends that the Vice President, Capital Metro Area Operations require the Plant and District manager to coordinate efforts in reviewing, updating, and complying with their Integrated Operating Plans to ensure sequenced flat mail arrives timely to delivery units. The Area will require the Northern Virginia Performance Cluster managers to review and update their current Integrated Operating Plans to ensure sequence flat mail arrives timely to delivery units. The Area monitors the reporting of late trips through the Customer Service Daily Reporting System (CSDRS).

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Achieved FSS Savings
We appreciate the report's conclusion that Northern Virginia District delivery units have improved delivery operations with FSS. We request the final report also acknowledge actual workhour and dollar savings achieved beyond the report's statement of - "as a result of FSS, the NoVA District, have improved delivery operations". Savings to date include the reduction of 79 city routes and the reduction of a proportionate number of delivery vehicles.

Unrecoverable Questioned Cost
We disagree in part with the estimate of unrecoverable questioned cost of $1,412,391 cited in the report as a result of the suspension of FSS in eight delivery units during the latter part of calendar year 2009.

The report specified that eight delivery units were suspended from receiving FSS volume between September and December 2009 and used the reported flat volume for those months to compute unrecoverable questioned costs. However, EDW reports show that FSS volume was processed for those units during a portion of the time period cited in the report. Further, in computing the unrecoverable questioned costs, the report assumes that during that time period, the total flat volume for those units required F4 carrier route distribution. The Capital Metro Area office advised OIG officials during the exit review that flat mail for the suspended FSS delivery units was carrier routed on the AFSM100 during this period and therefore did not require manual F4 distribution.

Also related to the unrecoverable questioned costs, the report cited 145,853 pieces of unworked flat mail reported on the CSDRS Report and assumes that volume should have been processed on the FSS. However, it was not established that this volume was, in fact, FSS candidate mail. FSS volume assumptions for delivery units reflect a number of considerations including automation compatibility and the effects of mail arrival times compared with the scheduled FSS processing window at the plant for each unit. FSS flat mail processing is different from AFSM and letter mail processing. Flat mail processed on the AFSM is normally consolidated and processed late night/early morning hours, whereas FSS processing can start as early as 12 noon on the day prior to delivery and end at 5 AM on the day of delivery. All flat mail committed for the next day's delivery may not be available for the delivery units scheduled for the earlier FSS processing window including time-sensitive periodicals. If this mail was not scheduled to receive FSS processing, it is not accurate to include the distribution costs associated with this mail in the report.

Additionally, in computing unrecoverable questioned costs, the report's analysis used a District average FSS percentage of 65 percent, rather than using the actual FSS percentage for those specific units, which was lower.

For these reasons, Capital Metro Area Operations is concerned that the unrecoverable questioned costs cited in the report are overstated.

If you have any questions or require further information regarding this response, please contact Weldon Carson, FSS Project Manager, at 301-548-6949.

Linda A. Kingsley

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Tuesday, June 01, 2010

	Daily			2-Week Rolling Average			Year-to-Date		
Pass 1 Pieces Fed	Actual P1 Volume	Target P1 Volume	Achieve %	Actual P1 Volume	Target P1 Volume	Achieve %	Actual P1 Volume	Target P1 Volume	Achieve %
Columbus	154.9	138.0	112.3%	134.6	138.0	97.5%	141.4	138.0	102.5%
Col #1	130.4	138.0	94.5%	134.6	138.0	97.5%	142.3	138.0	103.1%
Col #3	179.4	138.0	130.0%	134.6	138.0	97.5%	140.5	138.0	101.8%
Dulles	155.6	184.0	84.5%	149.2	184.0	81.1%	141.1	184.0	76.7%
Dul #1	168.1	184.0	91.4%	148.7	184.0	80.8%	135.4	184.0	73.6%
Dul #2	163.8	184.0	89.0%	173.2	184.0	94.1%	166.8	184.0	90.6%
Dul #3	139.1	184.0	75.6%	140.5	184.0	76.3%	142.0	184.0	77.2%
Dul #4	151.2	184.0	82.2%	134.5	184.0	73.1%	120.1	184.0	65.3%
Kansas City	139.9	138.0	101.4%	106.0	138.0	76.8%	114.5	138.0	82.9%
Kan #1	135.9	138.0	98.5%	106.4	138.0	77.1%	118.5	138.0	85.9%
Kan #2	143.9	138.0	104.2%	105.6	138.0	76.5%	110.4	138.0	80.0%
Phoenix	89.7	95.3	94.1%	75.7	95.3	79.4%	76.1	95.3	79.8%
Phx #1	120.9	110.0	109.9%	95.8	110.0	87.1%	89.2	110.0	81.1%
Phx #2	70.8	88.0	80.4%	65.1	88.0	74.0%	78.4	88.0	89.1%
Phx #3	77.5	88.0	88.1%	66.1	88.0	75.2%	60.6	88.0	68.9%
National	134.6	143.1	94.1%	118.6	143.1	82.9%	119.9	143.1	83.8%

	Daily			2-Week Rolling Average			Year-to-Date		
Throughput	Actual Thrpt	Target Thrpt	Achieve %	Actual Thrpt	Target Thrpt	Achieve %	Actual Thrpt	Target Thrpt	Achieve %
Columbus	10,316	11,500	89.7%	10,355	11,500	90.0%	10,201	11,500	88.7%
Col #1	8,547	11,500	74.3%	10,430	11,500	90.7%	10,326	11,500	89.8%
Col #3	12,142	11,500	105.6%	10,280	11,500	89.4%	10,077	11,500	87.6%
Dulles	9,625	11,500	83.7%	9,361	11,500	81.4%	9,720	11,500	84.5%
Dul #1	9,766	11,500	84.9%	9,521	11,500	82.8%	9,397	11,500	81.7%
Dul #2	10,588	11,500	92.1%	10,405	11,500	90.5%	10,663	11,500	92.7%
Dul #3	8,613	11,500	74.9%	8,800	11,500	76.5%	9,804	11,500	85.2%
Dul #4	9,559	11,500	83.1%	8,658	11,500	75.3%	8,885	11,500	77.3%
Kansas City	11,250	11,500	97.8%	10,263	11,500	89.2%	10,505	11,500	91.4%
Kan #1	10,529	11,500	91.6%	10,138	11,500	88.2%	10,693	11,500	93.0%
Kan #2	12,028	11,500	104.6%	10,392	11,500	90.4%	10,312	11,500	89.7%
Phoenix	9,498	11,000	85.5%	8,702	11,000	79.1%	8,640	11,000	78.5%
Phx #1	9,044	11,000	82.2%	8,569	11,000	77.9%	8,383	11,000	76.2%
Phx #2	9,448	11,000	85.9%	8,559	11,000	77.8%	9,083	11,000	82.6%
Phx #3	9,999	11,000	90.9%	9,054	11,000	82.3%	8,486	11,000	77.1%
National	9,996	11,364	88.0%	9,560	11,364	84.1%	9,761	11,364	85.9%

	Daily			2-Week Rolling Average			Year-to-Date		
Operating Time	Actual Op. Time	Target Op. Time	Achieve %	Actual Op. Time	Target Op. Time	Achieve %	Actual Op Time	Target Op Time	Achieve %
Columbus	15.0	12.0	125.1%	13.0	12.0	108.3%	13.9	12.0	115.5%
Col #1	15.3	12.0	127.1%	12.9	12.0	107.6%	13.8	12.0	114.8%
Col #3	14.8	12.0	123.2%	13.1	12.0	109.1%	13.9	12.0	116.2%
Dulles	16.2	16.0	101.0%	15.9	16.0	99.6%	14.5	16.0	90.7%
Dul #1	17.2	16.0	107.6%	15.6	16.0	97.6%	14.4	16.0	90.1%
Dul #2	15.5	16.0	96.7%	16.6	16.0	104.0%	15.6	16.0	97.8%
Dul #3	16.2	16.0	100.9%	16.0	16.0	99.8%	14.5	16.0	90.6%
Dul #4	15.8	16.0	98.9%	15.5	16.0	97.1%	13.5	16.0	84.5%
Kansas City	12.4	12.0	103.6%	10.3	12.0	86.1%	10.9	12.0	90.8%
Kan #1	12.9	12.0	107.6%	10.5	12.0	87.5%	11.1	12.0	92.3%
Kan #2	12.0	12.0	99.7%	10.2	12.0	84.6%	10.7	12.0	89.2%
Phoenix	9.5	8.7	110.0%	8.7	8.7	100.3%	8.8	8.7	101.6%
Phx #1	13.4	10.0	133.7%	11.2	10.0	111.8%	10.6	10.0	106.4%
Phx #2	7.5	8.0	93.6%	7.6	8.0	95.0%	8.6	8.0	107.9%
Phx #3	7.7	8.0	96.9%	7.3	8.0	91.3%	7.1	8.0	89.3%
National	13.5	12.5	107.4%	12.4	12.5	98.9%	12.3	12.5	97.9%

	Daily			2-Week Rolling Average			Year-to-Date		
Accept Rate	Actual Acc. Rate	Target Acc. Rate	Achieve %	Actual Acc. Rate	Target Acc. Rate	Achieve %	Actual Acc. Rate	Target Acc. Rate	Achieve %
Columbus	89.3%	93.0%	96.0%	90.1%	93.0%	96.9%	89.6%	93.0%	96.3%
Col #1	91.0%	93.0%	97.8%	89.2%	93.0%	95.9%	88.7%	93.0%	95.4%
Col #3	88.1%	93.0%	94.7%	91.0%	93.0%	97.9%	90.5%	93.0%	97.3%
Dulles	93.2%	93.0%	100.3%	93.3%	93.0%	100.4%	93.1%	93.0%	100.1%
Dul #1	91.1%	93.0%	97.9%	93.2%	93.0%	100.2%	93.0%	93.0%	100.0%
Dul #2	95.9%	93.0%	103.1%	93.8%	93.0%	100.8%	93.4%	93.0%	100.4%
Dul #3	92.0%	93.0%	99.0%	92.7%	93.0%	99.7%	92.8%	93.0%	99.8%
Dul #4	93.9%	93.0%	101.0%	93.6%	93.0%	100.6%	92.8%	93.0%	99.8%
Kansas City	93.4%	93.0%	100.5%	91.9%	93.0%	98.8%	92.1%	93.0%	99.0%
Kan #1	91.7%	93.0%	98.6%	91.2%	93.0%	98.1%	92.1%	93.0%	99.1%
Kan #2	95.0%	93.0%	102.2%	92.6%	93.0%	99.6%	92.1%	93.0%	99.0%
Phoenix	92.2%	93.0%	99.1%	93.2%	93.0%	100.2%	92.0%	93.0%	98.9%
Phx #1	91.8%	93.0%	98.7%	93.3%	93.0%	100.3%	92.3%	93.0%	99.2%
Phx #2	91.9%	93.0%	98.9%	92.2%	93.0%	99.1%	91.7%	93.0%	98.6%
Phx #3	93.0%	93.0%	100.0%	94.1%	93.0%	101.1%	91.9%	93.0%	98.8%
National	92.3%	93.0%	99.2%	92.4%	93.0%	99.4%	92.0%	93.0%	98.9%

CSDRS Report for: 6/8/2010

CapMetro Area Late Trips Report from CSDRS

	200 CAP	210 BAL	220 NVA	230 RMD	270 GRB	280 MDC	290 GSC
DLY Pref	0	0	0	0	0	0	0
DLY Periodicals	0	0	0	0	0	0	0
DLY Priority	0	0	0	0	0	0	0
DLY Std-A	0	0	0	0	0	0	0
CUR Std-A Flats DS	739	13779	65001	100820	28,996	20063	16198
CUR Std-A Flats CS	84114	111321	19579	118688	33735	25996	50252
Missent Pref	2837	1581	2946	3706	1868	3609	315
Missorted	6277	6242	4174	2311	968	346	1516
TOTAL Late Trips	20009-1	21209-1	20136-1	22554-2		28307-2	29063-1
	20623-1	21742-1	22003-1	22801-3		28390-1	29150-1
	20653-2	21788-1	22031-2	22802-2		28428-1	29203-1
	20670-2	21801-1	22043-1	22980-1		28532-1	29210-1
	20706-1	21863-1	22060-1	23060-1			29678-1
	20710-2		22101-1	23061-1			
	20745-1		22172-1	23113-2			
	20755-2		22206-1	23224-1			
	20781-1		22301-1	23518-1			
	20782-2		22303-1	23692-1			
	20866-1		22305-1	23803-1			
	20905-3		22306-2	23832-2			
			22308-2	23851-1			
			22310-1	24426-2			
			22312-4				
Routes After 1700	465	393	251	264	231	131	170
Coll. Boxes Missed Early	0	0	0	0	0	0	0
1C Mail Left	0	0	0	0	0	0	25
Carriers After Last Dispatch	8	0	45	0	0	0	0
Missent Priority	285	45	66	61	43	51	18

The FSS percent for Wednesday (June 2, 2010), the same day the previous week, and the average past 4 like days for NoVA, Columbus, Mid-America, South Florida and Arizona District FSS sites are as follows:

Wed Jun 2, 2010

NoVA	62 %
Columbus	74 %
Mid-America	71 %
Arizona	74 %
South Florida	42 %

Prior Week (Same Day)

NoVA	67 %
Columbus	67 %
Mid-America	70 %
Arizona	75 %
South Florida	34 %

Like Day (Past 4 Weeks)

NoVA	66 %
Columbus	66 %
Mid-America	64 %
Arizona	73 %
South Florida	39 %

Point Diff versus Same Day Previous Week

NoVA	-	5 (points)
Columbus	+	7 (points)
Mid-America	+	1 (points)
Arizona	-	1 (points)
South Florida	+	8 (points)

Point Diff versus Like Day (Past 4 Weeks)

NoVA	-	4 (points)

Columbus	+	8 (points)
Mid-America	+	7 (points)
Arizona	+	1 (points)
South Florida	+	3 (points)

Actual Data Below is a 2 Week Moving Average

Total FSS 1st Pass Fed Pcs

2 WK Avg as of Jun 2)

NoVA	597 K	[622 K – Jun 2 DoD]
Columbus	269 K	
KC	212 K	
Arizona	227 K	

FSS Operational Throughput

Site	2 WK Avg as of Jun 2	
Col # 1	10,430	
Col # 2	10,280	
Dul # 1	9,521	[Jun 2 - Tput 9,768 / DT 0.17 Hours]
Dul # 2	10,406	[Jun 2 - Tput 10,588 / DT 0.00 Hours]
Dul # 3	8,800	[Jun 2 - Tput 8,613 / DT 0.00 Hours]
Dul # 4	8,658	[Jun 2 - Tput 9,559 / DT 0.00 Hours]
Kan # 1	10,138	
Kan # 2	10,392	
Arizona # 1	8,569	
Arizona # 2	8,559	
Arizona # 3	9,054	
National Avg.	9,560	

Note: DT – Downtime / DoD – Day of Delivery.
2 Week Total FSS 1st Pass pcs and Tput performance is from HQ generated reports. HQ generated Dulles daily totals are listed in brackets.