



November 9, 2006

ANTHONY M. PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA

DOUGLAS H. MORROW
MANAGER, HAWKEYE DISTRICT

CLARION E. FELCHLE
MANAGER, DAKOTAS DISTRICT

SUBJECT: Audit Report – Sioux City, Iowa, Processing and Distribution Facility
Consolidation (Report Number EN-AR-07-001)

This report presents the results of our audit of the predecisional consolidation proposal for the Sioux City, Iowa, Processing and Distribution Facility (Project Number 06XG036EN000). Members of Congress and U.S. Postal Service management requested this audit, which is the third in a series of audits of Area Mail Processing (AMP) consolidations.

The Postal Service provided adequate support for its analyses of workhours, transportation, and facility costs in the AMP proposal, and our additional analyses provided confirming evidence for the consolidation. Management generally complied with AMP guidance and maintained supporting documentation. However, we identified some inconsistencies in AMP proposal data, and inaccurate information may have been shared with stakeholders. We are making four recommendations in this report.

Management agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The OIG considers all 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

follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Tammy L. Whitcomb, Director, Evolutionary Network Development, or me at (703) 248-2100.



Colleen A. McAtee
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: William P. Galligan
David E. Williams
Steven R. Phelps

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objectives, Scope, and Methodology	2
Prior Audit Coverage	4
Part II	
Audit Results	5
Data Supports the Consolidation	5
Potential Risks of Consolidation	9
Compliance with Area Mail Processing Guidance	10
Postal Service Actions	14
Recommendations	14
Managements' Comments	14
Evaluation of Management's Comments	15
Other Matters	
Appendix A. Map of Affected ZIP Codes	16
Appendix B. Prior Audit Coverage	17
Appendix C. Plant Performance for Fiscal Year 2005 Percentage Achievement for Group Seven Plants	19
Appendix C. continued – Plant Performance for Fiscal Year 2005 Percentage Achievement for Group Five Plants	20
Appendix D. Management's Comments	21

EXECUTIVE SUMMARY

Introduction

At the request of members of Congress and U.S. Postal Service management, the U.S. Postal Service Office of Inspector General (OIG) reviewed the Sioux City, Iowa Area Mail Processing (AMP) predecisional proposal. The proposal involved consolidation of outgoing¹ and partial incoming² mail processing operations from the Sioux City, Iowa, Processing and Distribution Facility (Sioux City P&DF) into the Sioux Falls, South Dakota, Processing and Distribution Center (Sioux Falls P&DC) and Sioux City, Iowa, Main Post Office (Sioux City MPO). Management projected that the consolidation would save approximately \$873,000 during the first year. Our objective was to assess the justification for and impact of the proposed consolidation.

Results in Brief

The Postal Service provided adequate support for its analyses of workhours, transportation, and facility costs in the AMP proposal, and our additional analyses provided confirming evidence for the consolidation. The Postal Service determined that approximately 5,800 mail processing workhours could be eliminated if operations were transferred from the Sioux City P&DF to the Sioux Falls P&DC and Sioux City MPO.

When we reviewed performance data for the two plants, we found excess mail processing capacity. The AMP proposal showed that the plants could eliminate one Advanced Facer Cancellor System through this consolidation, and our analysis confirmed that the outgoing mail volume could be processed using fewer workhours and less equipment.

The consolidation is projected to improve productivity and service, but we identified some potential risks. For example:

- The window of time available for processing outgoing mail is tight and could be further stressed by late-arriving mail from Sioux City.

¹ Outgoing mail is sorted within a mail processing facility and dispatched to another facility for additional processing or delivery.

² Incoming mail is received by a postal facility, usually for distribution and delivery within the delivery area of the receiving facility.

- The 24-hour clock indicators³ for Sioux Falls are currently below target.
- The 95-mile distance between the plants increases the consolidation risk.
- The loss of six docks in Sioux City because of the facility closure could affect transportation.
- The transition may require employees to be trained to perform new operations.

Management should be attentive to these issues as they implement the consolidation and adjust plans as needed to minimize mail processing and delivery delays.

Management generally complied with AMP guidance⁴ and maintained supporting documentation. However, we found some discrepancies with the AMP proposal and supporting documentation.

- Two highway contract routes were missing from the transportation analysis.
- Because the AMP proposal did not include the elimination of six custodian positions, it underestimated the impact on craft employees.
- Five of the service standard⁵ upgrades listed in the Sioux City AMP proposal were contingent on the approval of a separate AMP proposal.
- The AMP proposal was not consistent with data provided to support relocation of equipment, and facility savings calculations were slightly overstated.
- Estimated employee relocation costs could not be validated.

³ The 24-hour clock indicators show how key operations affect each other and may influence service. Each indicator is a key link in providing service to downstream facilities and customers. A Postal Service analysis has shown that some sites failing to meet the indicators can still meet service goals.

⁴ Handbook PO-408, *Area Mail Processing Guidelines*, provides a framework for consolidating operations in the mail processing network. This national policy was issued by Postal Service Headquarters.

⁵ Service standards are the Postal Service's expectation that a piece of mail will be delivered to its intended destination within a prescribed number of days, after proper deposit by the customer.

- The AMP proposal gave conflicting information on whether the consolidation would result in a facility closure.

Because of these discrepancies, the cost savings and service impacts projected in the AMP may be inaccurate. In addition, the Postal Service may have shared inaccurate information with stakeholders.

Several factors contributed to potential inaccuracies in the AMP data shared with stakeholders. First, the AMP policy did not contain detailed guidance for completing some worksheets. For example, we could not validate projected employee relocation expenses because the Postal Service did not have a methodology for completing the worksheet. Conflicting information in the AMP proposal on whether the consolidation would result in closing a facility was due to management indecision about which facility would be closed. Lastly, although the Handbook PO-408 required detailed reviews of the proposal by various management levels, the reviews did not identify these inconsistencies.

The Postal Service needs to produce accurate AMP data and follow AMP processes so that the decisions made by executives are supported and stakeholders can have confidence that decisions are appropriate. Providing inaccurate information to external stakeholders could negatively affect public perception of the AMP process, and reduce needed support for the Postal Service's efforts to consolidate the processing network.

Postal Service Actions	During our review, management was revising the Handbook PO-408. They expect to complete an initial draft in early 2007. Local management also began revising the AMP proposal as we informed them of our concerns during the audit.
------------------------	---

Summary of Recommendations	We recommend that management complete revisions to the Sioux City AMP to accurately document impacts on employees, equipment, transportation, facilities, and service, and submit the revised proposal to Postal Service Headquarters. Additionally, we recommend that management communicate updated information on the
-----------------------------------	--

Sioux City AMP proposal to stakeholders. Finally, we recommend that management provide detailed instructions for documenting facility information and estimating employee relocation expenses.

**Summary of
Management's
Comments**

Management agreed with the findings and recommendations in this report. Management has revised the Sioux City feasibility study to include updated information identified by the OIG and submitted the revised feasibility study to Postal Service Headquarters on November 3, 2006. Management provided additional comments on issues that the Postal Service feels are significant and require clarification. Management's comments, in their entirety, are included in Appendix D.

**Overall Evaluation of
Management's
Comments**

Management's actions taken or planned are responsive to the recommendations and should correct the issues identified in the findings.

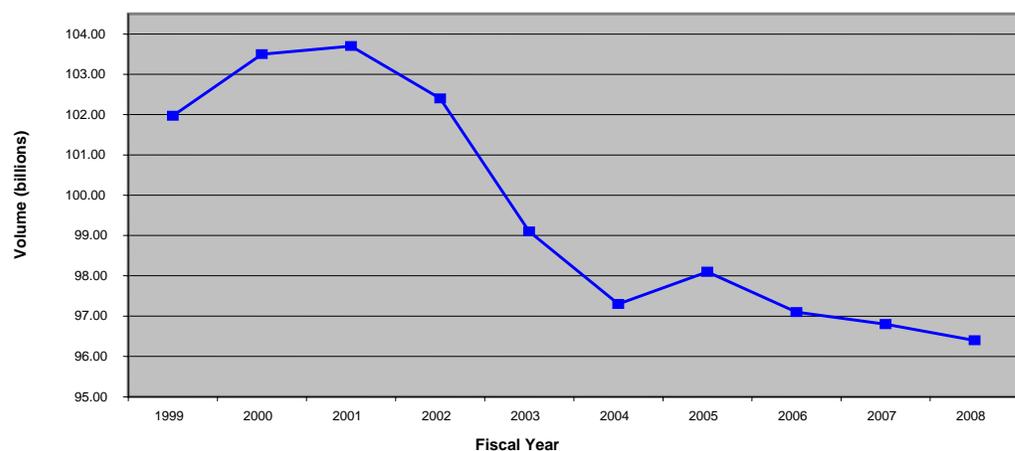
INTRODUCTION

Background

The U.S. Postal Service's mail processing network is one of the largest in the world, with over 179,000 employees, 675 mail processing facilities, 16,750 highway network routes, 214,000 vehicles, and operating costs of \$25 billion annually. The Postal Service has recognized the need for a comprehensive redesign of its processing and transportation network. The Postal Service's *Strategic Transformation Plan: 2006-2010* described this initiative as Evolutionary Network Development (END). The goal of END is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service.

This realignment of the Postal Service's domestic network is being conducted in response to declining First-Class Mail® volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demographics. Despite a recent increase in mail volume, the aggregate volume of First-Class Mail declined by 5 percent from fiscal years (FY) 2001 to 2005. In addition, the Postal Service projects that First-Class Mail volume will continue to decline. Chart 1 shows these trends.

Chart 1: First-Class Actual (FYs 1999-2005) and
Projected (FYs 2006-2008)



The Postal Service uses Area Mail Processing (AMP) policy to consolidate mail processing functions, eliminate excess capacity, increase efficiency, and make better use of resources. The Postal Service defines AMP as the consolidation of all originating and/or destinating distribution operations from one or more post offices into another automated or mechanized facility to improve operational efficiency and/or service.

The Sioux City Processing and Distribution Facility (P&DF), the Sioux Falls Processing and Distribution Center (P&DC), and the Sioux City Main Post Office (MPO) are located in the Western Area. Postal Service management proposes to consolidate the Sioux City, Iowa, P&DF's outgoing⁶ and partial incoming⁷ mail processing into the Sioux Falls, South Dakota, P&DC and the Sioux City, Iowa, MPO.

The AMP proposal affected outgoing mail for ZIP Codes 510-513 and incoming mail for ZIP Codes 512-513. This mail is currently processed at the Sioux City P&DF. The AMP proposal involves transferring the processing of this mail to the Sioux Falls P&DC. The remaining incoming mail processing currently performed at the Sioux City P&DF would move to the Sioux City MPO. (See Appendix A for a map of the affected ZIP Codes.) Management projected that consolidating mail processing operations from the Sioux City P&DF to Sioux Falls P&DC and Sioux City MPO would save nearly \$873,000 during the first year. These savings are primarily from labor cost reductions (\$592,347) and vacating the P&DF (\$499,478), which are estimated at slightly over \$975,000 annually. According to the proposal, transportation costs are expected to increase by about \$100,000, service to most customers is projected to remain the same, and some overnight service standards may improve.

**Objective, Scope, and
Methodology**

At the request of members of Congress and Postal Service management, we reviewed the predecisional AMP proposal to consolidate the Sioux City P&DF's outgoing

⁶ Outgoing mail is sorted within a mail processing facility and dispatched to another facility for additional processing or delivery.

⁷ Incoming mail is received by a postal facility, usually for distribution and delivery within the delivery area of the receiving facility.

and partial incoming mail processing into the Sioux Falls P&DC and the Sioux City MPO.

Our objective was to assess the justification for and impact of the Sioux City AMP proposal. We reviewed applicable network change guidelines, including Handbook PO-408, *Area Mail Processing (AMP) Guidelines*, and the *Area Mail Processing (AMP) Communications Plan*. We performed trend and cost analyses of mail volume, workhours, transportation, and productivity for each facility and conducted other analytical procedures to determine the potential impacts of the consolidation.

We relied on Postal Service data systems, including the Breakthrough Productivity Initiative (BPI) website, the Management Operating Data System (MODS), the Web Enterprise Information System, and the Enterprise Data Warehouse (EDW) to analyze mail volumes, service performance, service indicators, and workhours.⁸ We also used information from the Transportation Information Management Evaluation System and the Transportation Contract Support System (TCSS) to review, verify, and validate transportation data; the Web Complement Information System to review employee complement issues; and the Service Standards Directory (SSD) to review service implications of the AMP.

We verified key AMP data against Postal Service records and reports, including planned workhour reductions, transportation costs, numbers and types of employee positions affected, and projected service implications to customers. Because of time constraints, we did not verify all the data used to support the AMP proposal, but we focused on areas that were most likely to result in cost savings or significantly affect key stakeholders. We also checked the accuracy of data by confirming our analyses and results with managers. Our review focused primarily on predecisional data approved by district and area management. Completing the consolidation may result in differences from initial projections for workhour reductions, service standards, transportation costs, and other projected costs.

⁸ In order to be consistent with data in the AMP proposal, we focused on FY 2005 data.

We conducted this audit from June through October 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

We issued five prior reports: one on the Handbook PO-408, *Area Mail Processing Guidelines*; two on the efficiency of mail processing operations, including our assessment of pending AMPs at the Main Post Office in Mansfield, Ohio, and at the Canton, Ohio, P&DC; and two on the justification and impact of AMP consolidations at the Pasadena, California, and Bridgeport, Connecticut, facilities. For details of prior audit coverage, see Appendix B.

AUDIT RESULTS

Data Supports the Consolidation

The workhour, transportation, and facility cost analyses included in the AMP proposal were supported and provided adequate justification for the consolidation.

- As part of the AMP process, the Postal Service analyzed the workhours used to process mail at the Sioux City P&DF and determined that approximately 5,800 workhours could be eliminated if that mail were processed at the Sioux Falls P&DC and the Sioux City MPO.
- To validate this analysis, we selected 22 of the 90 operations listed in the AMP proposal.⁹ The workhour savings from these 22 operation numbers amounted to approximately \$374,185 in annual cost savings, or 85 percent of the cost savings for craft employees. We matched the data in the AMP documents to Postal Service MODS and EDW data and found that Postal Service data adequately supported all 22 operations.
- From Postal Service Headquarters, we obtained an analysis that used END simulation models to determine the feasibility of the Sioux City AMP proposal. This analysis concluded that the AMP was feasible for consolidating mail processing operations from the Sioux City P&DF to the Sioux Falls P&DC and the Sioux City MPO.¹⁰

Our analyses of productivity, capacity, and customer service provided additional support for the consolidation.

- The Postal Service was proposing to transfer Sioux City P&DF mail to a larger plant that ranked higher in percentage of BPI target productivity achieved. As of the end of FY 2005, the Sioux Falls P&DC achieved 81.8 percent of BPI target productivity and ranked ninth out of 50 similar-sized plants. In contrast, the Sioux City P&DF achieved 67.2 percent of BPI target

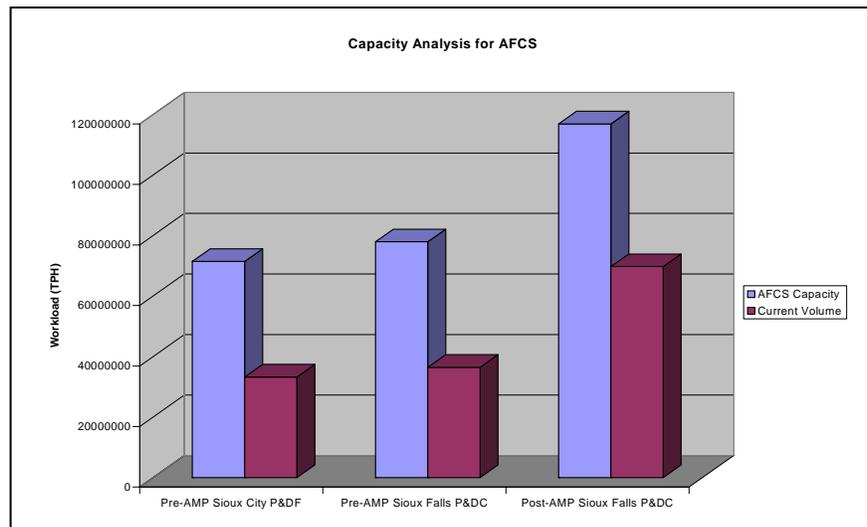
⁹ These operation numbers included 010, 014, 015, 030, 035, 060, 074, 120, 180, 229, 231, 271, 272, 321, 630, 776, 811, 816, 834, 881, 884, and 918.

¹⁰ We did not audit the END simulation model outputs or verify the analysis provided, nor did we assess how this specific AMP fits into the END strategy.

productivity and was ranked 39th out of 55 similar-sized plants. However, the Sioux City P&DF had a higher productivity rate per workhour than the Sioux Falls P&DC.¹¹ (See Appendix C for charts comparing each plant with similar-sized plants for FY 2005.)

- The plants had excess capacity for processing mail, and the consolidation was projected to reduce excess machine capacity and improve machine utilization. The two plants had four Advanced Facer Cancellor Systems (AFCS), which face the mail in the proper direction and cancel postage on outgoing letters. The AMP proposal indicated that the plants could eliminate one AFCS through this consolidation, and our analysis confirmed that the outgoing mail volume could be processed using fewer AFCS. Chart 2 shows that cancellation capacity exists to process Sioux City P&DF outgoing mail at the gaining plant.

Chart 2: Capacity Analysis for the AFCS

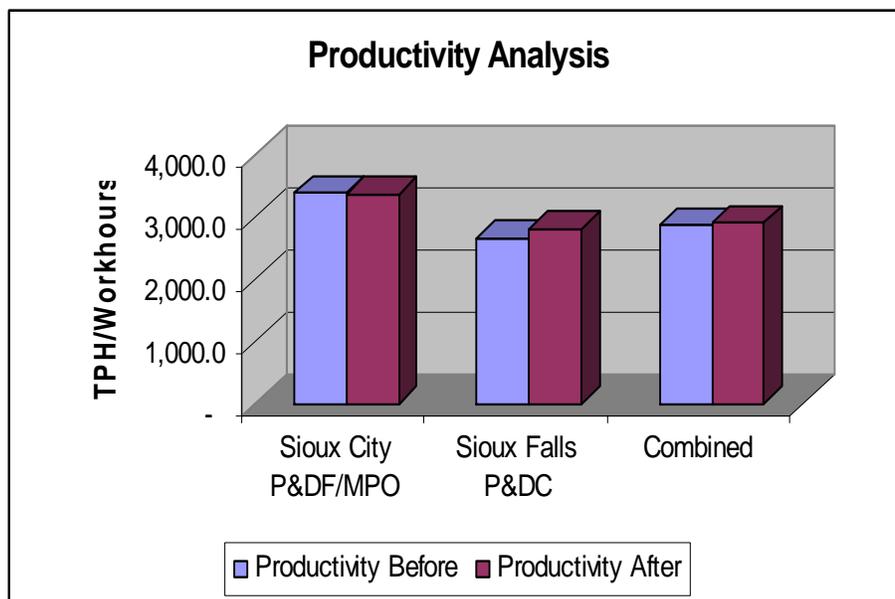


Note: Total pieces handled (TPH) refers to the number of handlings necessary to distribute each piece of mail from the time of receipt to dispatch, including multiple handlings of each piece.

¹¹ Management said the Sioux City P&DF had a higher productivity per workhour than the Sioux Falls P&DC because of the different functions of each plant.

- Moving the Sioux City P&DF mail to the Sioux Falls P&DC and the Sioux City MPO should improve overall productivity slightly because mail will be processed using fewer resources. Chart 3 shows the projected increase in combined productivity.

Chart 3: Analysis of Projected Productivity After the AMP Consolidation



Note: The productivity rates are computed using TPH for every mail processing workhour. Productivity rates after consolidation are based on FY 2005 mail volumes and workhour data in the Sioux City AMP.

- The Postal Service does not expect the AMP proposal to have a negative effect on customer service. Management stated that there would be no changes to local mail collection box pickup times, local retail services would remain the same, and business customers would continue to deposit their mail at the Sioux City business mail entry unit.
- We did not identify any necessary additional costs to expand the Sioux Falls P&DC to accommodate the relocation of equipment from Sioux City P&DF, as the facility at Sioux Falls is large enough to accommodate the equipment.

- An analysis of External First Class Measurement (EXFC)¹² scores for Sioux Falls P&DC and Sioux City P&DF showed that service performance for mail transferred to the Sioux Falls P&DC should improve. Sioux Falls P&DC's EXFC service scores are higher than Sioux City P&DF and exceed the national goals for overnight and 2-day service. Chart 4 compares EXFC scores for both facilities with national goals.

Chart 4: EXFC Comparison for FY 2006 Year to Date

FY 2006 EXFC Scores	National Goal	Sioux City Score	Sioux Falls Score
Overnight Composite	95	95.86	96.86
2-Day Composite	92	90.46	93.12
3-Day Composite	90	86.69	89.34

Note: Service data as of August 14, 2006

39 U.S.C. Chapter 4, § 403 (a) states, "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services" Handbook PO-408 also sets guidelines for consolidating mail processing operations.¹³

The consolidation should allow the Sioux Falls P&DC to better use existing capacity, as well as the additional capacity created by relocating processing equipment from Sioux City P&DF. As a result, consolidating mail from the Sioux City P&DF to the Sioux Falls P&DC and the Sioux City MPO should reduce workhours needed to process the mail and improve productivity and service.

¹² EXFC measurement is a system run by an independent contractor that carries out service performance tests on certain types of First-Class Mail deposited in collection boxes and business mail chutes. It provides national, area, performance cluster, and city estimates that are compared with service goals.

¹³ Handbook PO-408, *Area Mail Processing Guidelines*, provides a framework for consolidating operations in the mail processing network. This national policy was issued by Postal Service Headquarters. It states that changes should support the Postal Service's strategic objectives, make optimum use of available resources, and establish management's accountability for making decisions.

**Potential Risks of
Consolidation**

The consolidation is projected to improve productivity and service, but we identified some potential risks.

- The window of time available for processing outgoing mail is tight and could be further stressed by late-arriving mail from Sioux City.
- The 24-hour clock indicators¹⁴ for Sioux Falls P&DC were below some established targets, which increased the potential risk for affecting service. Examples of key indicators below established targets include cancellations by 8:00 p.m., outgoing secondary mail cleared by midnight, mail assigned to commercial airlines or Federal Express by 2:30 a.m., and trips on time.
- The 95-mile distance between the Sioux City P&DF and the Sioux Falls P&DC increases the risk that local mail originating and destinating in Sioux City may not be processed in a timely manner.
- The loss of six docks in the transition from the Sioux City P&DF to the Sioux City MPO could affect transportation routes during peak times.¹⁵
- Employee attrition and the need to fill vacancies in the Sioux City commuting area before moving employees to the Sioux Falls P&DC may result in the loss of skilled plant employees needed to process the mail transferred to the Sioux Falls P&DC. This transition may require increased time for employee training and orientation to new operations.

It is difficult to determine whether management can successfully mitigate these risks in implementing this consolidation. Management should be attentive to these issues as they implement the consolidation and adjust plans as needed to minimize mail processing and delivery delays.

¹⁴ The 24-hour clock indicators show how key operations affect each other and may influence service. Each indicator is a key link in providing service to downstream facilities and customers. A Postal Service analysis has shown that some sites failing to meet the indicators can still meet service goals.

¹⁵ The Sioux City P&DF has 19 docks, while the Sioux City MPO has 13 docks.

**Compliance with
Area Mail
Processing
Guidance**

Management generally complied with AMP guidance and maintained supporting documentation. However, we found discrepancies between the AMP proposal and supporting documentation for transportation costs, the number of employees affected, service standard changes, equipment relocation costs, facility costs, and facility closure information.

Several factors contributed to the potential inaccuracies in the AMP data shared with stakeholders. First, the AMP policy did not contain detailed guidance for completing some worksheets. For example, we could not validate projected employee relocation expenses because the Postal Service did not have a methodology for completing the worksheet. Conflicting information in the AMP proposal on whether the consolidation would result in closing a facility was due to management indecision about which facility would be closed. Lastly, although the AMP guidelines required reviews of the AMP proposal by various management levels, the reviews did not identify these inconsistencies.

To add credibility to the consolidation process, the Postal Service must provide support for AMP data and follow the AMP process. Handbook PO-408 states that a vital aspect of implementing an AMP is timely, clear communication with all parties. The *AMP Communications Plan*, which was issued in September 2005 and reissued in February 2006, added communication requirements and provided templates to assist notification.

The following sections explain the AMP proposal's inaccuracies or inconsistencies with transportation costs, employees affected, service standards changes, equipment relocation costs, facility costs, employee relocation costs, and facility closure information.

Transportation Costs: Analysis of the transportation requirements and associated costs for the 20 highway contract routes (HCR) listed in the proposal showed the following discrepancies:

- Two HCRs (510BE and 51037) were affected by the proposed consolidation, but were not included in the AMP proposal. According to Sioux Falls personnel, HCR 510BE was not included when the proposal was submitted because management had not decided to close the facility in Sioux City. Closing the facility will eliminate the need for route 510BE, which will save an additional \$57,460. At the same time, HCR 51037 was not included because it was considered insignificant; however, including it would increase costs by \$10,000. Including these two HCRs would reduce the estimated increase in annual transportation costs by \$47,460, or approximately 40 percent of the total additional transportation costs of \$116,548 reported in the AMP proposal.
- By using the TCSS to validate the cost data, we identified some discrepancies with estimated mileage rates for 13 HCRs. Postal Service officials said that to allow for increasing fuel costs, they used estimated rates instead of existing contract rates, and this accounted for the differences. These cost estimates appear reasonable; however, the proposal did not document the methodology used to determine the increase in mileage rates.

Employees Affected: The AMP understated the number of employees affected. When validating the numbers, the OIG identified the following discrepancies:

- The AMP proposal did not include the elimination of six custodial positions, understating the impact on craft personnel.
- Worksheet 5, Impact on Craft Personnel — Number of Positions, did not include complete staffing numbers for all craft positions listed.

Contributing to these discrepancies were conflicting information in the AMP proposal on whether the consolidation would result in closing a facility, and inconsistent sources for obtaining data on the employee complement and completing the staffing worksheets.

Changes in Service Standards: Most service should remain the same after the consolidation, and some overnight service may improve. However, when we validated the impact of the AMP consolidation on service standards, we found some discrepancies and inadequate supporting documentation.

- The AMP documented 31 service upgrades¹⁶ for First-Class Mail between three-digit ZIP Code origin and destination pairs. The OIG could validate 24 of these upgrades. Five upgrades were contingent on another AMP consolidation and should not have been documented in this proposal. The remaining two upgrades could not be validated.
- The AMP proposal did not document any service standard downgrades. A service analysis completed using the SSD identified over 6,000 potential service standard downgrades for all classes of mail. Postal Service officials stated they would revise the SSD so that service standards currently in place for Sioux City would remain after the consolidation, but we could not validate this action.

Equipment Relocation Costs: Validation of equipment relocation costs showed that management had underestimated costs by \$47,808.¹⁷ Management had not included the relocation of equipment from the Sioux City P&DF to the Sioux City MPO as part of the proposal.

Facility Costs: Validation of the projected facility cost savings showed support for 96 percent of the projected savings. The AMP proposal included worksheet 11 (Facility Workfloor Evaluation at the Consolidated Facility), which documented projected facility savings. The worksheet identified cost savings of \$500,000 based on closing the Sioux City P&DF facility. These cost savings were due mainly to maintenance and utility costs. We found minor errors in the supporting data that would

¹⁶ Projected service standard upgrades mean the Postal Service expects to deliver mail to its intended destination more quickly.

¹⁷ Management indicated that they could reduce projected equipment relocation costs by using Postal Service employees to move equipment during a weekend.

reduce the projected savings for vacating the Sioux City P&DF by \$20,511, down to \$479,489. Not having detailed guidance for completing worksheet 11 contributed to the discrepancies noted.

Employee Relocation Expenses: The AMP proposal listed no projected employee relocation expenses, although these expenses could be part of the consolidation. Estimating employee relocation expenses is a challenge because many factors affect whether these expenses will eventually be incurred. One factor is filling vacancies in the local commuting area before transferring employees; another is computing distances between employees' residences and their former and new duty stations. Handbook PO-408 does not address these factors, and the AMP proposal did not include a methodology to support the calculation that no relocation expenses would be incurred. As a result, projected employee relocation expenses could not be validated.

Facility Closure Information: Management did not provide clear and accurate information to stakeholders on whether the Sioux City AMP proposal would result in closing a facility. The AMP proposal's executive summary states that pursuant to the Worker Adjustment and Retraining Notification Act, the Postal Service is not closing a plant or laying off any employees at Sioux City P&DF. Additionally, the summary of the consolidation on the Postal Service website does not mention closing the Sioux City P&DF. However, about half of the cost savings associated with the consolidation and included in the proposal—approximately \$500,000—was contingent on closing the Sioux City P&DF.

Management stated that when the proposal was prepared, they had not determined which facility in Sioux City might be closed. Thus, they did not include specific information regarding the closure of the Sioux City P&DF in the AMP proposal's executive summary, the presentation for external stakeholders, or the website.

Providing incomplete or inaccurate information to external stakeholders could negatively affect public perception of the AMP process. Keeping stakeholders informed is important to gaining support for the Postal Service's efforts to consolidate the processing network.

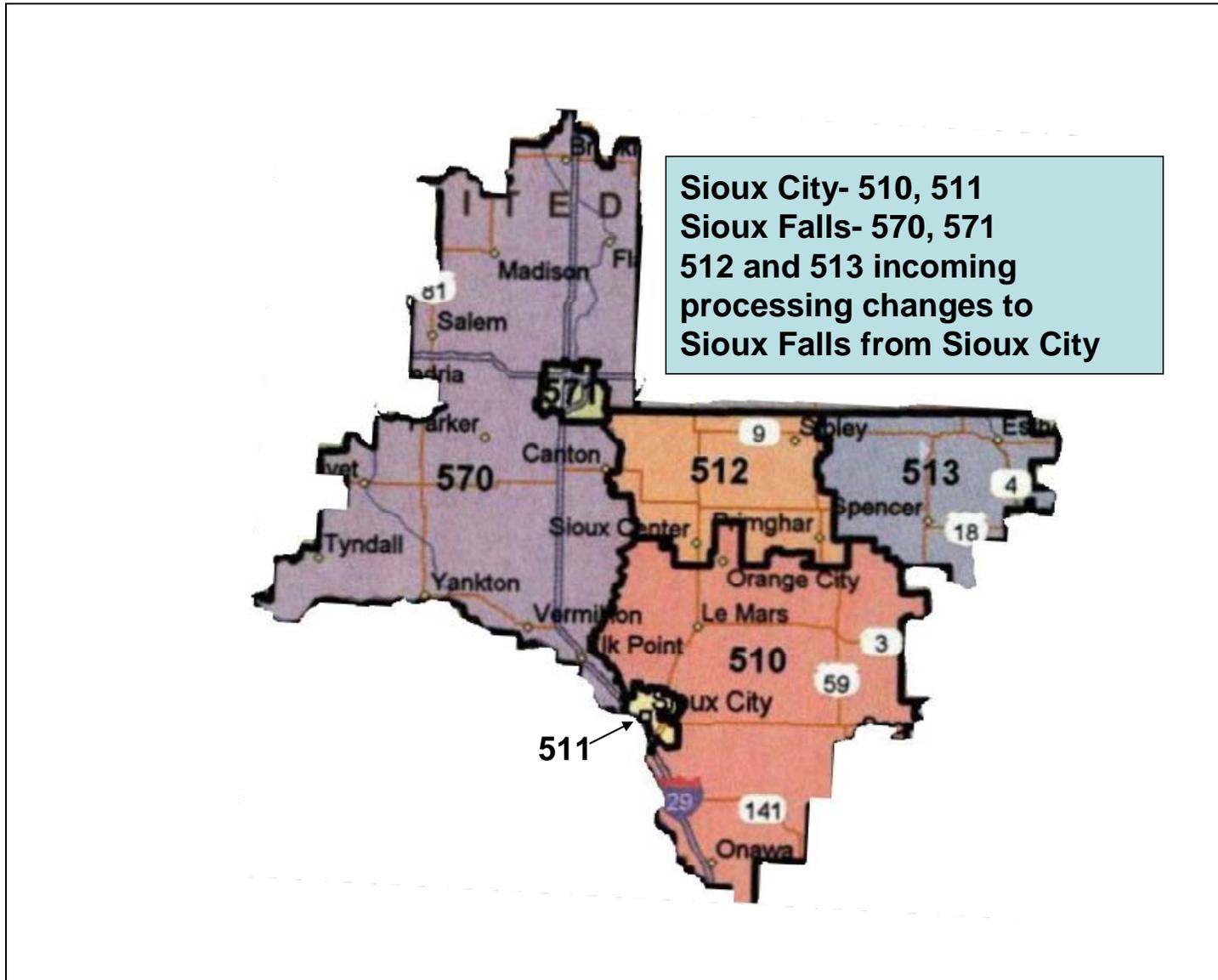
Postal Service Actions	During our review, management was revising the Handbook PO-408. They expect to complete an initial draft in early 2007. Additionally, local management began revising the AMP proposal as we informed them of our concerns during the audit.
Recommendations	<p>We recommend that the managers, Hawkeye and Dakotas Districts, in conjunction with the Vice President, Western Area:</p> <ol style="list-style-type: none">1. Complete revisions to the Sioux City Area Mail Processing proposal and executive summary to accurately document the impacts on employees, equipment, transportation, and facilities, and submit the revised proposal to Postal Service Headquarters.2. Communicate updated information on the Sioux City Area Mail Processing proposal with stakeholders. <p>We recommend that the Vice President, Network Operations, update the Handbook PO-408, <i>Area Mail Processing Guidelines</i> to:</p> <ol style="list-style-type: none">3. Provide detailed instructions for completing facility information by requiring clarification of whether a facility closure is proposed, and identifying data sources for completing the worksheets.4. Establish a methodology and instructions for estimating employee relocation expenses.
Management's Comments	<p>Management agreed with the finding and recommendations in this report. Management has revised the Sioux City, Iowa AMP feasibility study to include the updated information and the adjustments identified by the OIG. Management will update the Sioux City, Iowa AMP summary brief posted on the Postal Service website to reflect the information in the revised study. Once headquarters approves the study, area management will communicate the decision and impacts to stakeholders in a complete and timely manner.</p> <p>In addition, headquarters is revising Handbook PO-408 to clarify instructions and data sources for completing the Facility Workfloor Evaluation worksheet and to include a methodology for considering potential relocation cost impacts in both AMP proposals and Post-Implementation Reviews.</p>

**Evaluation of
Management's
Comments**

Management's comments are responsive to the audit finding and recommendations. Management's actions, taken or planned, should correct the issues identified in the report. In their comments, management expressed a concern that the report did not include information provided during the audit regarding possible service standard inaccuracies. While we received this information during the audit, we were unable to validate it against the Service Standards Directory. This directory is used nationwide by the Postal Service to document service standards.

APPENDIX A

MAP OF AFFECTED ZIP CODES



APPENDIX B

PRIOR AUDIT COVERAGE

OIG, *Area Mail Processing Guidelines* (Report Number NO-AR-06-001, dated December 21, 2005). The AMP process was fundamentally sound, appeared credible, and provided a Post-Implementation Review process to assess the results of mail processing consolidations. However, management of the AMP process and guidance could be improved. AMPs were not processed or approved in a timely manner, Post-Implementation Reviews were not always conducted, and stakeholders' resistance affected the approval process. The OIG recommended the Postal Service update AMP guidance, comply with policy, and address stakeholder resistance. Management agreed with the findings and recommendations.

OIG, *Efficiency Review of the Mansfield, Ohio, Main Post Office* (Report Number NO-AR-05-004, dated December 8, 2004). The Postal Service could increase operational efficiency at the Mansfield Main Post Office (MPO) by reducing mail processing workhours by 24,000, which would allow the Mansfield MPO to achieve 90 percent of targeted goals. This reduction assumes that mail volume will not significantly change from FY 2003 levels and could produce a cost avoidance of approximately \$7.6 million based on labor savings over 10 years. The OIG recommended the manager, Northern Ohio District, reduce mail processing workhours at the Mansfield MPO by 52,000, based on FY 2003 workhour usage. We also recommended consolidating outgoing mail operations into the Akron P&DC, as the Eastern Area AMP study recommended. Management agreed, and the actions planned were responsive to the issues identified.

OIG, *Efficiency Review of the Canton, Ohio, Processing and Distribution Facility* (Report Number NO-AR-05-013, dated September 22, 2005). The Postal Service could increase operational efficiency at the Canton P&DF by reducing mail processing workhours by 202,000. This reduction, which assumes that mail volume will not significantly change from FY 2004 levels, could produce a cost avoidance of approximately \$64 million based on labor savings over 10 years. We recommended the manager, Northern Ohio District, reduce mail processing operations at the Canton P&DF by 93,000 workhours based on FY 2004 workhour usage. We also recommended consolidating outgoing mail operations into the Akron P&DC, thereby saving an additional 109,000 workhours. Management agreed, and the actions planned were responsive to the issues identified.

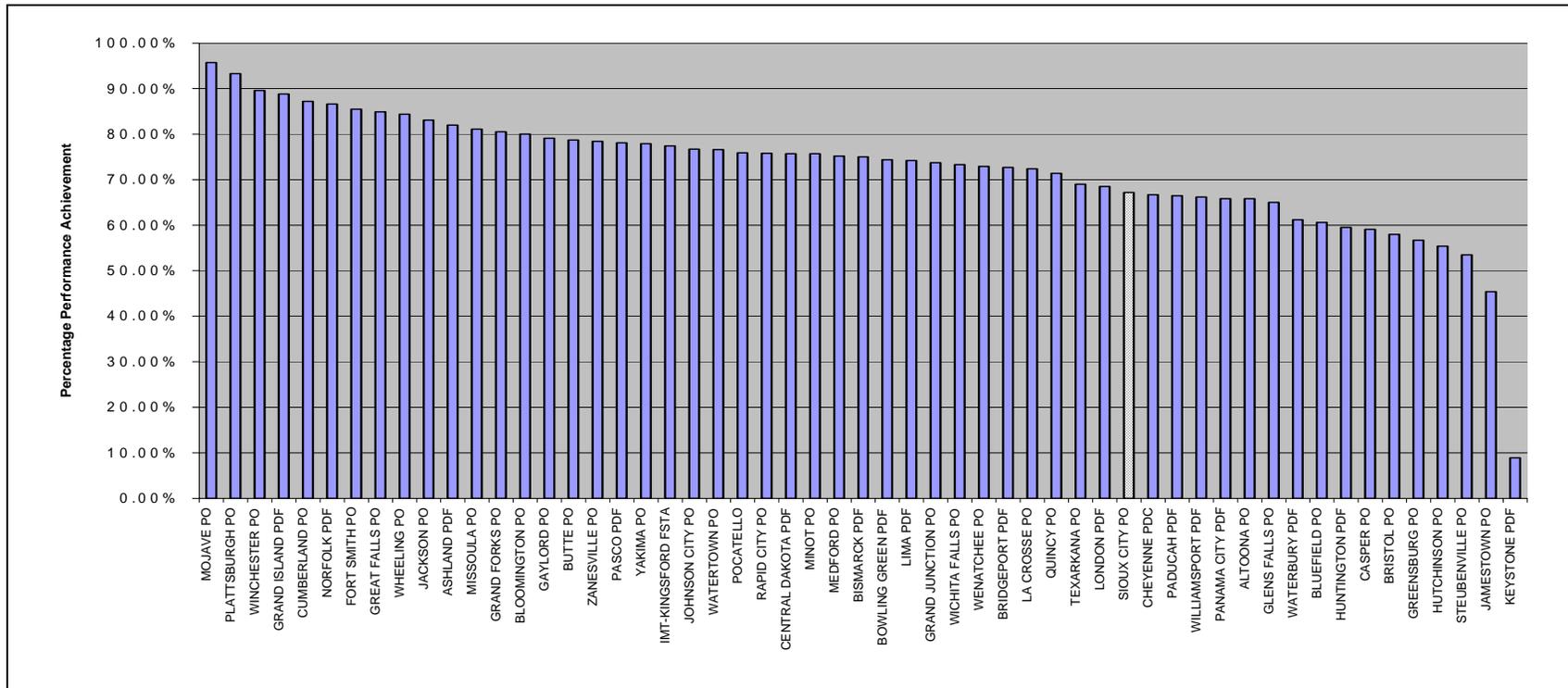
OIG, *Pasadena, California, Processing and Distribution Center Consolidation* (Report Number EN-AR-06-001, dated September 26, 2006). The workhour cost analysis included in the AMP proposal was supported, and additional OIG analyses provided confirming evidence for the consolidation. However, in the

development, approval, and implementation of the Pasadena AMP proposal, management did not always comply with the processes outlined in policy, and some data in the AMP proposal were inaccurate, incomplete, or unsupported. The OIG recommended that management revise the Pasadena AMP proposal to document all service standard changes and transportation costs. We also recommended that management establish central files for approved AMP proposals and supporting documentation to facilitate Post-Implementation Reviews. Finally, we recommended that management update AMP policy. Management generally agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report.

OIG, *Bridgeport, Connecticut, Processing and Distribution Facility Outgoing Mail Consolidation* (Report Number NO-AR-06-010, dated September 30, 2006). The Postal Service was justified in moving outgoing mail processing operations from the Bridgeport P&DF to the Stamford, Connecticut, P&DC. The consolidation should have minimal impact on employees, use excess mail processing capacity, reduce labor costs, increase processing efficiency, and potentially improve delivery service. Transportation costs may increase slightly, but the consolidation will allow expansion of Bridgeport P&DF carrier operations. The Postal Service implemented this consolidation during our audit. Consequently, we did not make recommendations pertaining to the consolidation itself, since our assessment supported management's actions. However, we identified some weaknesses in management controls over the processing and approval of the AMP proposal, and we recommended that Postal Service maintain supporting documentation and use current data for future AMP proposals. Management agreed with our recommendations and agreed to maintain supporting documentation and use current data.

APPENDIX C

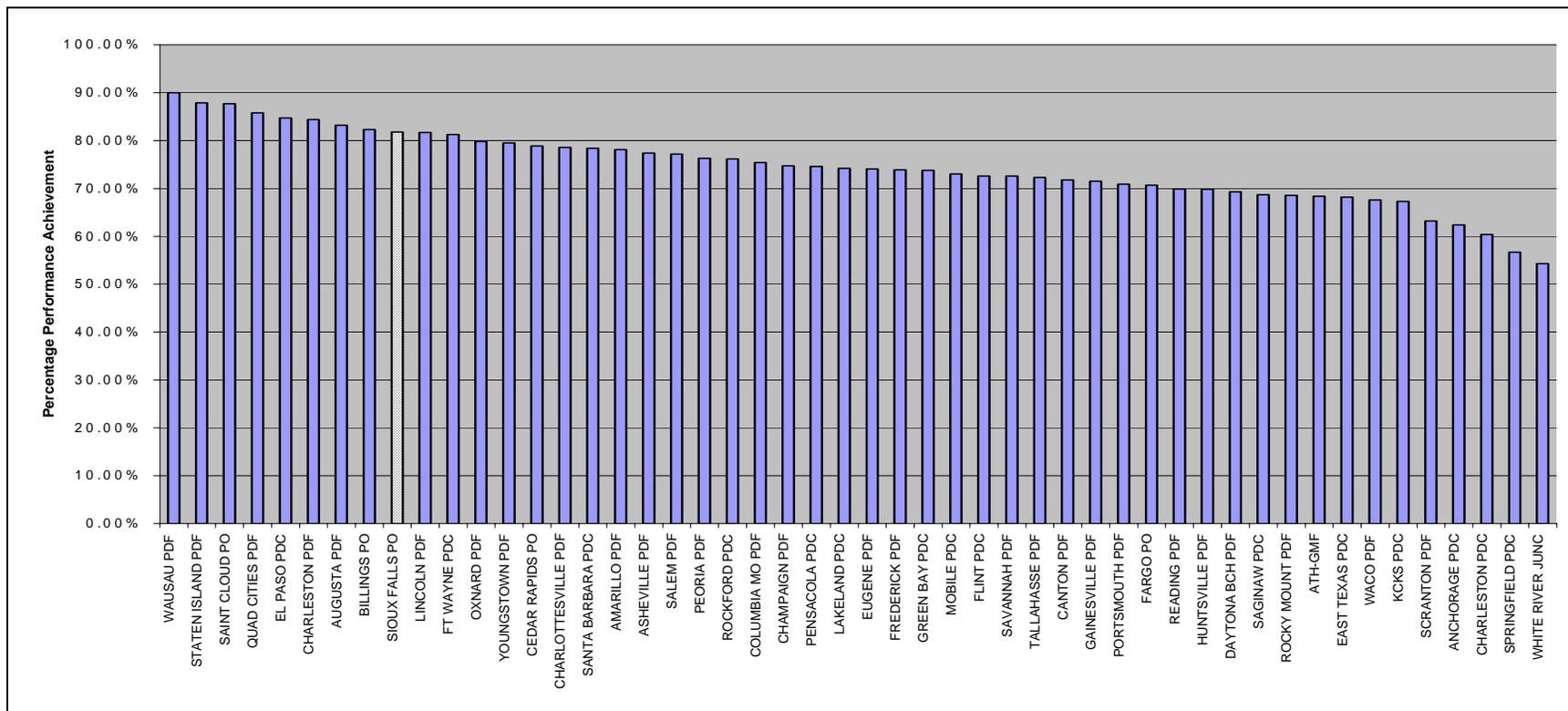
PLANT PERFORMANCE FOR FISCAL YEAR 2005 PERCENTAGE ACHIEVEMENT FOR GROUP SEVEN PLANTS



Note: Mail processing facilities are divided into seven groups according to mail volume, with Group One plants the largest and Group Seven plants the smallest. Sioux City P&DF ranked 39th out of 55 Group Seven plants in performance achievement to BPI target. Source: Enterprise Data Warehouse

APPENDIX C - continued

PLANT PERFORMANCE FOR FISCAL YEAR 2005
PERCENTAGE ACHIEVEMENT FOR GROUP FIVE PLANTS



Note: Sioux Falls P&DC is classified as a Group Five plant, the fifth largest plant category based on mail volume. It ranks ninth out of the 50 Group Five plants in performance achievement to BPI target. Source: Enterprise Data Warehouse.

APPENDIX D. MANAGEMENT'S COMMENTS



November 8, 2006 .

Ms. Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations
Office of the U.S. Postal Service Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report on the Sioux City, Processing and Distribution Facility
Consolidation (Report Number EN-AR-07-DRAFT)

Dear Ms. McAntee:

This is in response to the Inspector General's draft audit report on the Sioux City, Iowa Processing and Distribution Facility (P&DF) pre-decisional Area Mail Processing (AMP) consolidation proposal. We appreciate the professional manner in which this audit was conducted and the accuracy and attention to detail practiced in its construction. Overall we agree with the recommendations in the report and individual responses to those recommendations.

Prior to specifically addressing the recommendations and other issues identified in the audit report, we feel it is important to emphasize two key points that were clearly delineated within the audit report contents:

1. The audit report states, "The Postal Service provided adequate support for its analyses of work hours, transportation and facility costs in the AMP proposal, and our additional analyses provided confirming evidence for the consolidation." The audit goes on to state, "The work hour, transportation and facility cost analyses included in the AMP proposal were supported and provided adequate justification for the consolidation." These statements clearly endorse the Postal Service's contention that the proposed consolidation of some distribution processes from Sioux City, Iowa, to Sioux Falls, South Dakota is a sound business decision and is in the best interest of both the Postal Service and its customers.
2. Although there were some oversights in the development of the initial AMP feasibility study documentation, there is nothing to support any contention that the study was constructed in such a manner to intentionally mislead or misinform any stakeholders involved in the AMP process.

The audit report makes four recommendations to the Postal Service. The first two recommendations are addressed by Western Area management, and numbers three and four by headquarters Network Operations.

4011 Encl. 11/15/06
W. Area Mgmt. 11/15/06

- 2 -

Responses to each recommendation are as follows:

Recommendation #1:

Complete revisions to the Sioux City, Area Mail Processing proposal and executive summary to accurately document the impacts on employees, equipment, transportation, and facilities, and submit the revised proposal to Postal Service Headquarters.

Response:

We agree with this recommendation. The Sioux City, Iowa AMP feasibility study has been revised to include updated information and the adjustments identified by the OIG during the audit of the pre-decision feasibility study. The revised feasibility study proposal was submitted to Postal Service Headquarters on November 3.

Recommendation #2:

Communicate updated information on the Sioux City, Iowa AMP proposal with stakeholders.

Response:

We agree with this recommendation. The Sioux City, Iowa AMP summary brief posted on <http://www.usps.com> will be updated to reflect the information in the revised AMP feasibility study. In addition, once the Postal Service Headquarters reaches a decision on the AMP proposal, the local, district, area, and headquarters management will communicate the decision and impacts to stakeholders in a complete and timely manner.

Recommendation #3:

Provide detailed instructions for completing facility information by requiring clarification of whether a facility closure is proposed, and identifying data sources for completing the worksheets.

Response:

We agree with this recommendation. A multi-functional team sponsored by headquarters' Processing Operations has been tasked with updating and revising Handbook PO-408, Area Mail Processing Guidelines. The revised document will clarify instructions and data sources for completing the Facility Workfloor Evaluation worksheet. We expect that a draft Handbook PO-408 document will be available in early 2007.

Recommendation #4:

Establish a methodology and instructions for estimating employee relocation expenses.

Response:

We agree with this recommendation. In the past, the implementation of most AMP proposals has had minimal, if any costs associated with employee relocations. Expectations were to capture and document those costs in the post implementation review (PIR) process. The revision of Handbook PO-408 will include a methodology for considering potential employee relocation cost impacts for worksheet 10 in both AMP Proposals and PIR.

Additional Comments:

The audit report requests specific responses only to the four formal recommendations listed above. However, the report also identifies several additional issues that the Postal Service feels significant and that require additional comment and clarification. Inclusion of these comments will provide for a more distinct understanding of the issues and facts associated with the Sioux City, Iowa P&DF AMP feasibility study.

- 3 -

1. When the initial feasibility study was being completed, there was insufficient data available to specifically identify if one of the two postal facilities in Sioux City, Iowa would be discontinued or if both facilities would continue to be operated, but at reduced levels. In the interests of not "overstating" savings and ensuring that the feasibility study provided only the most conservative estimates of positive operational impacts, no assumptions were made as to the possible disposal of either building. However, subsequent to the initial study and prior to the OIG audit, it became apparent to postal management that should the consolidation go forward, the remaining postal operations in Sioux City, Iowa could be adequately conducted utilizing just the Main Post Office (MPO) facility. Thus, the current Sioux City, Iowa P&DF would no longer be required for postal operations and could be disposed of. This conservative approach with the initial feasibility study resulted in the understatement of overall savings to be garnered from no longer needing the facility and from the reduction in maintenance and custodial requirements.
2. Referencing comment #1 (above), potential costs associated with moving mail processing equipment from the Sioux City, Iowa P&DF to the Main Post Office were not included in the initial AMP feasibility study. However, now that these plans are more clearly defined, cost estimates for those moves have been included in the revised feasibility study submitted to headquarters.
3. Two highway contract routes (510BE and 51037) are identified in the audit report as "missing from the transportation analysis." Impacts on changes to these routes were not included in the initial feasibility study due to the circumstances outlined in comment #1 (above), and the belief that the route modifications would be minor. The revised AMP feasibility study transportation analysis includes the impacts from making the route modifications and includes additional transportation savings of \$47,460 per year.
4. The audit report references the Service Standards Directory (SSD) as the source document which identifies "6,000 potential service standard downgrades for all classes of mail." This use of SSD information does not accurately reflect the actual service impacts of the AMP proposal. The OIG has assumed that the initial proposal received from the field is a complete listing of all service standard changes. The full list of service standard changes, especially those pertaining to Periodicals, Package Services and Standard Mail are generally developed by Headquarters. As the study clearly identifies, service provided to First-Class and Priority Mail will not be adversely impacted but would actually improve (as validated in the audit report on page 12 of the audit report).

During the review process an adjustment affecting Periodicals, Standard Mail and Package Services mail was agreed to by Area and Headquarters management on July 24, 2006. As a result, these mail classes will be accepted, transported, and handled by the same methods currently in place in Sioux City, Iowa today. This eliminates from consideration the "6,000 potential service standard downgrades" referenced in the draft audit report. The OIG was provided an official communiqué from Postal Service Headquarters stating that the SSD would not be modified to reflect any Periodicals, Package Services and Standard Mail service standard downgrades due to this revision in the AMP proposal.

5. The audit report states that the initial feasibility study identified 31 3-digit pair service standard upgrades for First-Class and Priority Mail, but only 24 of these upgrades could be validated. In an attempt to provide a broader picture of the impact from Postal Service expectations, five service standard upgrades that could only be achieved through the implementation of another AMP proposal were included in the Sioux City, Iowa study. The Postal Service agrees, that five upgrades should not have been included and they have been excluded from the revised AMP proposal. However, the other two service standard upgrades questioned, Sectional Center Facility (SCF) 572 to

- 4 -

SCF 512 and SCF 573 to SCF 512, have been verified and documentation provided to the OIG. Thus, a more accurate assessment of service standard upgrades would list them at 26 not 24 as identified within the audit. Upgraded service standards can be requested at any time by local and area management. This information was conveyed to the OIG via e-mail dated September 27, 2006.

It should also be noted that during the review and revision of the initial predecisional AMP feasibility study, service standards for eight additional upgrades to 3-digit ZIP Code pairs (510/560, 510/561, 511/560, 511/561, 512/560, 512/561, 513/560, 513/561) for First-Class and Priority Mail were identified and they are included on worksheets 7, and 7a in the revised AMP feasibility study.

Potential Risks of Consolidation Implementation

In addition to the four recommendations and the feasibility study data issues addressed above, the audit report identifies a number of "potential risks" that the Postal Service must be cognizant of should the AMP be implemented. The Postal Service offers the following comments on those identified "potential risks" local management considers minimal.

1. The audit report identifies transporting mail 95 miles from Sioux City, Iowa to Sioux Falls, South Dakota as a potential risk. Transportation links of this type are quite common within the South Dakota and Iowa areas and are successfully performed hundreds of times each week. The high level of service performance maintained within both of these states demonstrates that transportation efforts are not a "challenge" and do not present any type of appreciable service risk.
2. The loss of six docks in the transition of operations from the Sioux City, Iowa P&DF to the Sioux City, Iowa MPO is also noted as a potential risk. The consolidation of the remaining Sioux City P&DF processing operations to the Sioux City MPO will involve operating in an environment with 13 docks rather than the 19 currently in use at the Sioux City P&DF. However, operational simulations have demonstrated that the remaining Sioux City postal operations can be effectively conducted with 13 dock doors at the Sioux City, Iowa MPO.
3. The audit report considers the possible loss of skilled plant employees for the Sioux Falls, South Dakota P&DC a potential risk due to employee placement. The current plant operations is highly automated resulting in a very efficient process for training new employees that are fully productive and therefore have minimal impact on replacing skilled employees.

If you have any questions or require additional information regarding our response to recommendations 1 and 2, please contact Mike Matuzek, Manager, Operations Support for the Western Area at (303) 313-5001. Please refer any questions regarding our responses to recommendations 3 and 4, to David Williams, Manager, Processing Operations at (202) 268-4305.


Tony Pajunas
for Vice President
Network Operations


Sylvester Black
Vice President
Western Area Operations

cc: Mr. Galligan
Mr. Williams
Mr. Matuzek
Mr. Field
Mr. Phelps