



August 14, 2007

ANTHONY M. PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation (Report Number EN-AR-07-004)

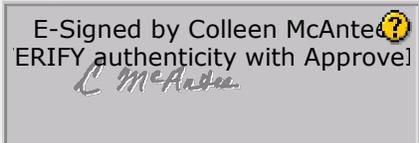
This report presents our audit results for the post-implementation reviews (PIR) of the Marina Processing and Distribution Center (P&DC) Area Mail Processing (AMP) consolidation into the Los Angeles and Long Beach P&DCs (Project Number 07XG001EN000). Our objectives were to determine whether the Marina PIRs were supported and accurate and whether the Postal Service realized the projected economy and efficiency of the consolidation. In addition, we reviewed the service impact of the consolidation and its compliance with Handbook PO-408, *Area Mail Processing Guidelines*. This audit was self-initiated and conducted in cooperation with U.S. Postal Service officials.

Our audit disclosed the support and accuracy of the Marina PIRs could be improved. However, the economy and efficiencies associated with the consolidation resulted in considerable savings. Our analyses provided confirming evidence for reduced workhours, considerable cost savings (including about \$75 million from the sale of the Marina P&DC facility), and improved productivity. Additionally, according to management, they accomplished workhour reductions without any involuntary employee separations and no grievances were filed as a result of closing the Marina P&DC. However, we noted the Marina PIRs contained significant misstatements in the area of workhours, transportation, and associated costs. We also noted data retrieval timeframe issues, service impacts during first year after consolidation, and Handbook PO-408 compliance issues. 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 U.S. Postal Service Office of Inspector General (OIG) considers recommendations 1, 2, 3 and 4 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 Michael A. Magalski, Director, Network Optimization, or me at (703) 248-2100.



Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
William P. Galligan
David E. Williams
William Almaraz, Jr.
Gerard K. Ahern
Virginia Tovar
Rowena Dufford
Katherine S. Banks

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objectives, Scope, and Methodology	3
Prior Audit Coverage	4
Part II	
Audit Results	5
Data Supports the Consolidation	5
Assessment of the Cost Savings in the Post-Implementation Reviews	6
Workhour Savings Calculations	6
Transportation Savings Calculation	7
Annual Associated Savings and One-Time Associated Costs	8
Assessment of Service Performance Associated with the Consolidation	8
Employee Impact	10
Compliance with Area Mail Processing Guidance	11
Postal Service Actions	12
Recommendations	12
Management's Comments	13
Evaluation of Management's Comments	13
Appendix A. Pacific Area Map	14
Appendix B. Prior Audit Coverage	15
Appendix C. Marina Area Mail Processing Consolidation and Post-Implementation Review Timeline	19
Appendix D. Post-Implementation Review Savings Calculation Analysis	20
Appendix E. Management's Comments	22

EXECUTIVE SUMMARY

Introduction

The U.S. Postal Service Office of Inspector General (OIG) reviewed post-implementation reviews (PIR) for the Area Mail Processing (AMP) consolidation of mail processing operations from the Marina Processing and Distribution Center (P&DC) into the Los Angeles and Long Beach P&DCs. (See Appendix A for a map of the Pacific Area.) Our objectives were to determine whether the Marina PIRs were supported and accurate and whether the Postal Service realized the projected economy and efficiency of the Marina AMP consolidation. In addition, we reviewed the service impact of the consolidation and compliance with Handbook PO-408, *Area Mail Processing (AMP) Guidelines*.¹ This audit was self-initiated and conducted in cooperation with Postal Service officials.

Results in Brief

Our audit disclosed the support for and accuracy of the Marina PIRs could have been improved. However, the economy and efficiencies associated with the consolidation resulted in considerable savings. Our analyses provided confirming evidence for cost savings and improved productivity. Specifically, management:

- Reduced workhours by 621,856 at affected facilities between fiscal years (FY) 2003 and 2006.
- Improved productivity at the Los Angeles and Long Beach P&DCs after the consolidation.
- Received about \$75 million from the sale of the Marina P&DC facility.

Additionally, according to management, they accomplished workhour reductions without any involuntary employee separations and no grievances were filed as a result of closing the Marina P&DC.

However, we noted the Marina PIRs contained significant misstatements in the area of workhours, transportation, and associated costs. Specifically:

¹ Handbook PO-408, *Area Mail Processing Guidelines*, dated April 1995, provides a framework for consolidating operations in the mail processing network.

- Management reported workhour savings of \$17.4 million in the annual PIR. Our analysis indicated savings of \$21.1 million.
- Transportation cost savings were understated by approximately \$2.4 million in the annual PIR.
- Annual associated costs savings were overstated by \$7.6 million due to labor hour savings duplication.

The data retrieval timeframe² can have a significant impact on reported savings. For example, management obtained data from the most recent full fiscal year (FY 2003) prior to the AMP proposal and reported workhour savings of \$17.4 million. However, using data from the most current four quarters prior to the AMP proposal as the basis to calculate workhour reductions reduces the savings from \$21.1 million to \$7.3 million. Our analyses showed 68 percent of workhour savings claimed were realized prior to the June 2004 AMP feasibility study. Using more current data would increase the likelihood of accurately identifying savings directly related to consolidation initiatives.

Additionally, significant degradations in service occurred after the Marina AMP consolidation and management did not project these degradations in the AMP proposal or describe them in the PIRs. Management implemented an improvement plan to address the service issues and service performance scores have improved.

Further, management did not always comply with the processes outlined in Handbook PO-408. We noted supporting documentation retention issues and data presentation concerns.

Several factors contributed to the discrepancies in the AMP proposal and the PIRs. First, the AMP process was unfamiliar to local management and employees. The AMP guidance did not state whether to use average or actual labor rates and did not clearly identify data selection dates for the AMP and PIRs. In addition, the guidance did not identify other cost-saving initiatives underway concurrently with the AMP. Lastly, although AMP guidance required

² Handbook PO-408 does not specify data selection timeframes.

reviews of the AMP and PIRs, the reviews did not identify all discrepancies.

Following AMP processes and preparing accurate AMP/PIR documentation are important in developing consistent information for supporting management decisions, ensuring management accountability, and strengthening stakeholders' confidence that decisions are appropriate.

Postal Service Actions	In previous OIG AMP consolidation reports, we have reported some of the same control weaknesses as those identified in the Marina consolidation and have provided recommendations to correct these systemic issues. (See Appendix B.) We consider management's ongoing and planned actions ³ sufficient to address the weaknesses identified in this audit related to AMP/PIR preparation policy, training, and supporting documentation retention. Therefore, this report does not include recommendations for those issues.
-------------------------------	--

Summary of Recommendations	We recommend the Vice President, Pacific Area Operations, correct the Marina annual PIR and resubmit it to Postal Service Headquarters for approval. We recommend the Vice President, Network Operations, clarify the AMP guidelines to include specified data retrieval timeframes and require a description in the AMP and PIR of other cost-saving initiatives underway concurrently with the consolidation. Additionally, we recommend that area and headquarters officials establish a rigorous review process to more effectively identify AMP and PIR errors.
-----------------------------------	--

Summary of Management's Comments	Management agreed with the findings and recommendations in this report. Management agreed to revise the annual Marina PIR, prepare AMP proposals using data from the most current completed four postal quarters, disclose other cost-saving initiatives underway during AMP development in the AMP Executive Summary, and develop and review the AMPs and PIRs using area level cross-functional review teams. We have included management's comments, in their entirety, in Appendix D.
---	---

³ Management is revising AMP policy and expects to have a draft completed in FY 2007. These ongoing and planned management actions are based, in part, on prior audit report recommendations.

**Overall Evaluation of
Management's
Comments**

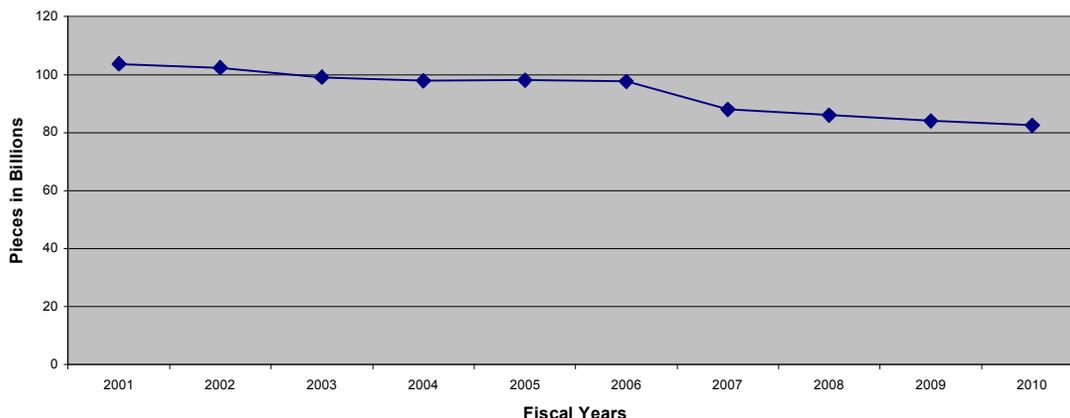
Management's actions taken or planned are responsive to the recommendations and should correct the issues identified in the findings.

INTRODUCTION

Background

The U.S. Postal Service has recognized the need to redesign and optimize its processing and transportation network in response to declining First-Class Mail® (FCM) volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demographics. The goal of these evolving optimization efforts is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service. Despite a recent increase in mail volume, the aggregate volume of FCM declined by 5 percent (or 5.5 billion pieces) from fiscal years (FY) 2001 to 2005. In addition, the Postal Service projects FCM volume will continue to decline. Figure 1 shows these trends.

Figure 1: First-Class Actual (2001-2005) and Projected (2006-2010) Mail Volume



The Postal Service’s strategic objectives are defined in its *Transformation Plan*, which states it is committed to improving its operational efficiency by consolidating mail processing operations when feasible. In addition, the President’s Commission⁴ found the Postal Service had more facilities than needed and recommended optimizing the facility network by closing and consolidating unneeded processing centers. The Postal Accountability and

⁴ The President’s Commission on the U.S. Postal Service reported its findings on July 31, 2003.

Enhancement Act, signed into law on December 20, 2006, further encourages the Postal Service to continue streamlining its processing and distribution network to eliminate excess costs.

Handbook PO-408 provides a framework for performing area mail processing (AMP) consolidations and performing post-implementation reviews (PIR). Initially published in 1995, these guidelines state consolidations should improve operational efficiency and/or service, make optimum use of available resources, and ensure management's accountability for the consolidation of operations.

The Postal Service uses the AMP process to consolidate mail processing functions and to eliminate excess capacity, increase efficiency, and better use 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.”

In addition to providing instructions for the AMP proposal, the guidelines require management to conduct two PIRs of the consolidation. According to Handbook PO-408, the PIR process facilitates:

- Comparing projected to actual results.
- Ensuring accountability for decision making.
- Meeting corporate/local goals and objectives.

In late 2004, management conducted a feasibility study for the consolidation of all mail processing operations from the Marina Processing and Distribution Center (P&DC) into the Los Angeles and Long Beach P&DCs. Management approved the AMP consolidation proposal and a Decision Analysis Report for renovation of the Los Angeles P&DC in January 2005. This proposal was the largest consolidation attempted thus far, and management projected employee impacts and cost savings to be significantly greater than those realized with other consolidations. The Postal Service moved the originating and destinating mail processing operations, reassigned approximately 1,100 employees,

removed and transferred automated equipment, and closed the Marina facility by July 8, 2005. The building was sold on August 28, 2006, for \$75 million.

As required by Postal Service policy, area officials approved the semiannual PIR⁵ in April 2006, two full quarters after closing the Marina facility. Area personnel submitted the annual PIR for headquarters' review and approval in October 2006. (See Appendix C.) Headquarters' approval of the annual PIR is pending completion of this report.

**Objectives, Scope,
and Methodology**

Our objectives were to determine whether the Marina PIRs were supported and accurate and whether the Postal Service realized the projected economy and efficiency of the Marina AMP consolidation. In addition, we reviewed the service impact of the consolidation and its compliance with Handbook PO-408. To accomplish our objectives, we reviewed the cost analyses of workhours, transportation and associated costs, performance indicators before and after the consolidation, service performance, and other analytical procedures as necessary.

We relied on Postal Service data systems, including the Enterprise Data Warehouse, Breakthrough Productivity Initiative website, the Management Operating Data System, the Web Enterprise Information System, Web Complement Information Systems, the Transportation Contract Support System, and Service Standards Directory. We verified key PIR data against Postal Service records and reports, including workhour reductions, transportation costs, number and types of employee positions affected, and service implications to customers.

We conducted this audit from November 2006 through August 2007 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.

⁵ Handbook PO-408 refers to the semiannual and annual PIRs. The Postal Service has also referred to these as "PIR 1" and "PIR 2" and "first PIR" and "last PIR."

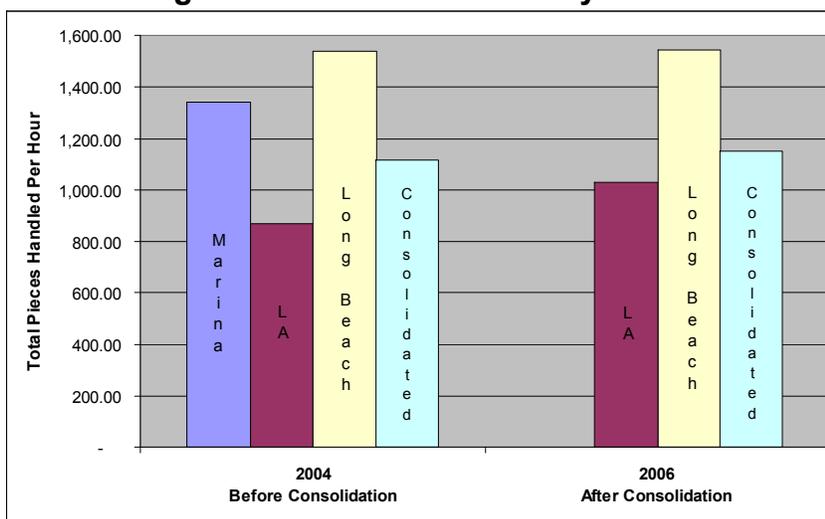
Prior Audit Coverage The U.S. Postal Service Office of Inspector General (OIG) has issued 10 reports related to AMP guidelines, AMP consolidation initiatives, and PIRs. (See Appendix B.)

AUDIT RESULTS

Data Supports the Consolidation

Our audit disclosed the support and accuracy of the Marina PIRs could have been improved. However, the economy and efficiencies associated with the consolidation resulted in considerable savings. Workhours used in the facilities have been reduced by 621,856 since FY 2003. Also, the consolidation contributed to improved productivity. Figure 2 depicts productivity at the Marina P&DC prior to the consolidation and the productivity at the Los Angeles and Long Beach P&DCs before and after the consolidation.

Figure 2: Annual Productivity Ratios



Note: Marina P&DC's annual productivity after the consolidation is not shown because the Marina facility closed on July 8, 2005, as a result of the AMP consolidation.

However, we noted the Marina PIRs contained significant misstatements in the areas of workhours, transportation, and associated costs. Additionally, significant degradations in service occurred after the consolidation. Further, management did not always comply with the processes outlined in Handbook PO-408.

Following AMP processes and preparing accurate AMP/PIR documentation are important in developing consistent information for supporting management decisions, ensuring management accountability, and strengthening stakeholders' confidence that decisions are appropriate.

**Assessment of the
Cost Savings in the
Post-Implementation
Reviews**

Both PIRs contained significant misstatements in the area of workhours, transportation, and associated costs. (See Appendix D for a summary savings analysis.) For example, the annual PIR:

- Understated workhour savings by approximately \$4 million.
- Understated transportation cost savings by approximately \$2.4 million.
- Overstated annual associated costs savings by \$7.6 million.

**Workhour Savings
Calculations**

Our analysis provided confirming evidence of a significant reduction in workhours and cost savings. We validated the reported workhour reductions of 621,856 and associated annual savings of \$17,400,395.

However, we noted Handbook PO-408 does not specify what labor rates to use or how current the source data should be. Labor rates and data selection timeframes can have a significant impact on reported savings. For example:

- Management calculated workhour savings using average labor rates instead of actual labor rates. Recalculating annual savings using actual labor rates results in a \$4 million increase in annual savings, from \$17.4 million to \$21.1 million.
- Management used data from the most recent full fiscal year (FY 2003) prior to AMP implementation as the timeframe for calculating the \$17.4 million in workhour savings. However, if management used more current data (i.e., the most current four quarters prior to the AMP proposal), it would reduce workhour savings from \$21.1 million to \$7.3 million. Our analyses showed the Postal Service realized 68 percent of workhour savings claimed prior to the June 2004 AMP feasibility study. Using the most current data prior to the AMP study as the basis for calculating actual workhour reductions after

consolidation and identifying other cost-saving initiatives underway concurrently with the AMP would increase the likelihood of identifying savings directly related to consolidation initiatives.

Transportation Savings Calculations Management did not comply with the Postal Service criteria in Handbook PO-408 when obtaining transportation data for the PIRs.⁶ Our review disclosed management did not use transportation cost data from the correct postal quarters (PQ) and did not use the original AMP submission package as the baseline for the PIR savings/cost calculations. As a result, transportation cost savings were understated by approximately \$3.6 million in the semiannual PIR and by \$2.4 million in the annual PIR.

Figure 3 below shows the dollar amounts and data retrieval dates the Postal Service used for the transportation savings/costs reported in both PIRs.⁷ We recalculated savings/costs using data from Handbook PO-408 required PQs. Figure 3 also shows the associated variances.

Figure 3: Postal Service vs. OIG Transportation Costs/Savings Calculations for the PIRs

A	B	C	D	E	F
Postal Service	Postal Service Baseline <i>June 30, 2005</i>	Transportation Costs PIR 1 <i>July 1, 2005</i>	Transportation Costs PIR 1 <i>(Col B – C)</i>	Transportation Costs PIR 2 <i>Post-July 1, 2006</i>	Transportation Costs PIR 2 <i>(Col C – E)</i>
	\$17,358,241.29	\$17,883,872.61	(\$ 525,631.32)	\$17,875,278.82	(\$ 517,037.53)
OIG	AMP Proposed Cost (Baseline) <i>Jan. 11, 2005</i>	Transportation Costs PIR 1 <i>April 1, 2006</i>	Transportation Savings PIR 1 <i>(Col B – C)</i>	Transportation Costs PIR 2 <i>Oct. 1, 2006</i>	Transportation Savings PIR 2 <i>(Col B – E)</i>
	\$18,515,383.76	\$15,476,885.56	\$3,038,492.20	\$16,677,438.25	\$1,837,945.51
Variance	\$ 1,157,142.47	(\$ 2,406,987.05)	\$3,564,129.52	(\$1,197,840.57)	\$2,354,983.04

According to Postal Service officials responsible for preparing the transportation PIR worksheets, the misstatements occurred mainly because management did not provide adequate training. Postal Service officials stated they were not provided classroom or one-on-one PIR

⁶ Handbook PO-408 requires management to obtain information for the semiannual PIR from the second full PQ after implementation and information for the annual PIR from the first four full PQs following implementation. In both the semiannual and annual PIRs, management is to use information from the original AMP submission package. Headquarters is to notify the area within 30 days after receiving the package of the final disposition of the PIR.

⁷ Timeframes the Postal Service uses to obtain transportation costs for the PIRs were unclear because supporting documentation was not maintained. Based on numerous discussions with Postal Service personnel, we obtained a general idea of those dates. (See Table 1.)

preparation training. Further, they stated they were unaware Handbook PO-408 contained PIR preparation guidance.

Annual Associated Savings and One-Time Associated Costs	Annual associated savings were misstated in both PIRs. ⁸ Specifically, annual associated savings for automation and maintenance related labor hours on Worksheets 10 and 10a, <i>Annual Associated and One-Time Costs</i> , were duplicated with savings from Worksheets 4 and 4a, <i>Annual Workhour Savings/Cost</i> . The duplication resulted in an annual associated savings overstatement of \$7.6 million.
--	--

We attribute these inaccuracies in reported financial data to insufficient training and inadequate oversight. Management stated their expertise is not in finance and the details of the PIRs for a facility closure require specialized oversight.

Assessment of Service Performance Associated with the Consolidation

At the time of the Marina AMP and PIRs, Handbook PO-408 did not require specific service performance reporting. Service declines at the LA P&DC in 2005 and early 2006 prompted public and congressional interest and were the subject of another OIG audit issued in February 2007.⁹ The audit reported significant service impacts occurred during the first year following the consolidation. For example, delayed mail increased from 7.98 million pieces in June 2005 — the month before the Marina P&DC closed — to over 21 million in July 2005 — the month after the facility was closed. As a result of the delays, service performance at the Los Angeles Customer Service District declined significantly from FY 2004 levels. For example, in FY 2004, Los Angeles was above the national average in service scores in all service categories.¹⁰ In comparison, 1 year later the Los Angeles District was below national average scores in all categories except for the 2-day category. Management attributed the service performance scores declines to the consolidation as well as equipment issues that were not consolidation-related. The audit further stated performance scores had shown substantial improvement by the time of our analysis (August 2006).

⁸ Instructions in Handbook PO-408 for Worksheet 10 state, “This worksheet evaluates the AMP total annual associated costs not listed on any other worksheet” and requires that experts “list all one-time costs for each office being consolidated and for the AMPC facility.”

⁹ Service performance was audited and results reported in the OIG report titled *Timeliness of Mail Processing at the Los Angeles, California, Processing and Distribution Center* (Report Number NO-AR-07-001, dated February 9, 2007). The report is summarized in Appendix B.

¹⁰ Service categories include overnight, 2-day, and 2- and 3-day composite.

Our follow-up analysis indicated continued service score improvements. Figure 4 depicts the LA P&DC exceeded national averages for two of the three External First-Class Measurement (EXFC)¹¹ categories between April 2006 and March 2007. The overnight score remained below the national average.

Figure 4: EXFC Service Category Comparison

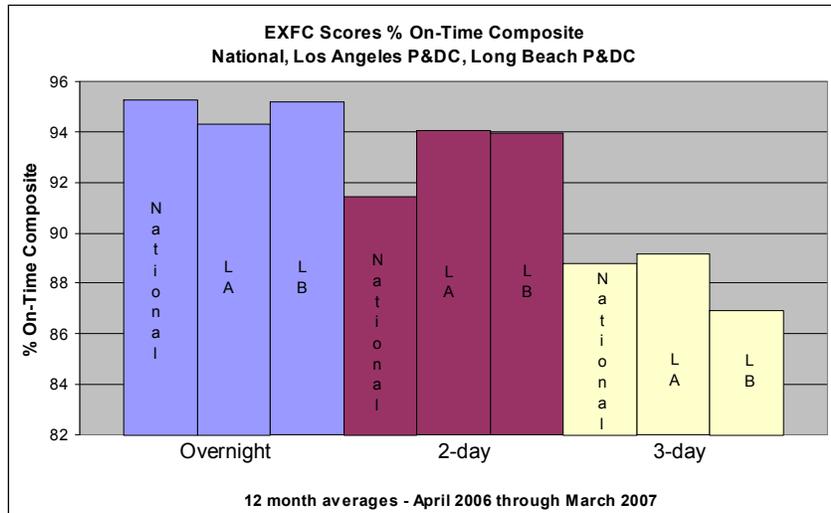


Figure 5 shows FY 2007 delayed mail trends continued improving from FY 2006 performance. During FY 2007, the percentage of delayed mail for the Los Angeles P&DC was below the averages for similar sized facilities for all classes of mail.

¹¹ EXFC is defined as “a performance measurement system that measures FCM performance from the time mail enters the mail stream until it is delivered to a household, small business, or post office box.”

Figure 5: Delayed Mail Comparison

CLASS OF MAIL	Percent Delayed to Total Volume FY 2005		Percent Delayed to Total Volume FY 2006		Percent Delayed to Total Volume Year-to-Date March FY 2007	
	Los Angeles	Group 1	Los Angeles	Group 1	Los Angeles	Group 1
FIRST-CLASS	0.01	0.41	0.11	0.53	0.18	0.56
PRIORITY	0.67	0.24	0.04	0.96	0.26	0.80
PERIODICALS	15.20	7.54	31.95	10.60	1.10	6.98
STANDARD	5.73	4.45	8.94	7.10	2.94	8.78
PACKAGE SERVICES	0.00	0.26	0.02	0.75	0.07	1.30
TOTAL	3.44	2.57	5.75	4.15	1.56	4.75

Due to significant public and congressional concerns about delayed mail, Postal Service Headquarters requested that management evaluate the service impacts of the consolidation. Pacific Area managers provided a Service Improvement Action Plan to headquarters at the time of the annual PIR. The Service Improvement Action Plan included increased use of performance measurement systems, review of transportation and delivery options, and managerial options such as Every Piece Every Day audits and Overnight Delivery turnaround volume monitoring. Management submitted the action plan separately and did not include it in the PIR.

Accurately predicting and assessing the service impacts of a consolidation are critical to ensuring that it does not negatively impact customers or that, if it does impact them, management takes corrective actions to ensure they address these impacts timely. Additionally, service continues to be a key stakeholder concern and accurately assessing these impacts in a PIR is one way the Postal Service can demonstrate its level of attention to this important issue.

Employee Impact

According to management, despite the significant workhour reduction, they did not have to initiate a Reduction in Force or require Voluntary Early Retirement Authority in implementing the Marina closure. Additionally, no employee involuntarily lost employment and no grievances were filed as a result of the consolidation.

**Compliance with Area
Mail Processing
Guidance**

The PIR process was partially effective in identifying discrepancies in the original AMP proposal and correcting those in the calculation of the actual costs and benefits. For example, management:

- Did not include Worksheet 3, *Communication Documentation*, in the AMP and recreated it.
- Identified and corrected duplication of Executive Administrative Schedule (EAS) workhour savings in the AMP.
- Noted (although did not explain) extra costs associated with equipment moves.

However, management did not always comply with the processes outlined in Handbook PO-408. We found discrepancies with data selection, data support, and data presentation.

Data Selection: Subject matter experts were inconsistent in their data selection dates for completing the worksheets in the AMP and the semiannual and annual PIRs. For example:

- They obtained workhours worksheet data from FYs 2003 and 2006.
- They obtained transportation worksheet data from FY 2005.
- They obtained the worksheet data for wages from FY 2004.

Data Support: Subject matter experts did not always maintain supporting documentation for the PIRs, as required by Handbook PO-408. Some subject matter experts were unable to provide original worksheets for our review, exact dates for data retrievals, and documents (such as emails and spreadsheets) to support the coordination process.

Data Presentation: We noted the number of “craft personnel gains/loss” reported in the annual PIR summary

section was misstated. The number of craft employee losses should have been 213 instead of 321. We determined the number of “craft personnel gains/loss” reported in the supporting worksheet was correct, but was not carried forward to the summary section correctly.

Several factors contributed to the discrepancies in the AMP proposal and PIR:

- Although the AMP/PIR process has been in use for over 30 years, there has been limited use of the process over the last few years. As a result, the process was unfamiliar to local management and employees.
- The AMP guidance did not clearly identify sources and the methodology for completing worksheets.
- Management reviews were not rigorous enough to identify significant worksheet preparation errors.

Following AMP processes (which include conducting timely and accurate PIRs) is important for supporting management decisions, ensuring management accountability for making decisions, and strengthening stakeholder confidence that decisions are appropriate.

Postal Service Actions

In previous OIG AMP consolidation reports, we have reported some of the same control weaknesses as identified in the Marina consolidation and provided recommendations to correct these systemic issues. (See Appendix B.) We consider management’s ongoing and planned actions sufficient to address weaknesses identified in this audit related to AMP/PIR preparation policy, service analysis, training, and supporting documentation retention. Therefore, this report does not include recommendations for those issues.

Recommendations

We recommend the Vice President, Pacific Area Operations:

1. Correct the Marina annual post-implementation review and resubmit it to Postal Service Headquarters for review and approval.

We recommend the Vice President, Network Operations:

2. Clarify the area mail processing (AMP) guidelines to identify and use the most current four postal quarters prior to the AMP submission as a source for the AMP and post-implementation review baseline data.
3. Include a description of other cost-saving initiatives underway concurrently with the consolidation—and the projected savings associated with those initiatives—in the area mail processing and post-implementation review.
4. Establish a more rigorous review process at the area and headquarters levels to more effectively identify misstatements and errors in methodology.

**Management's
Comments**

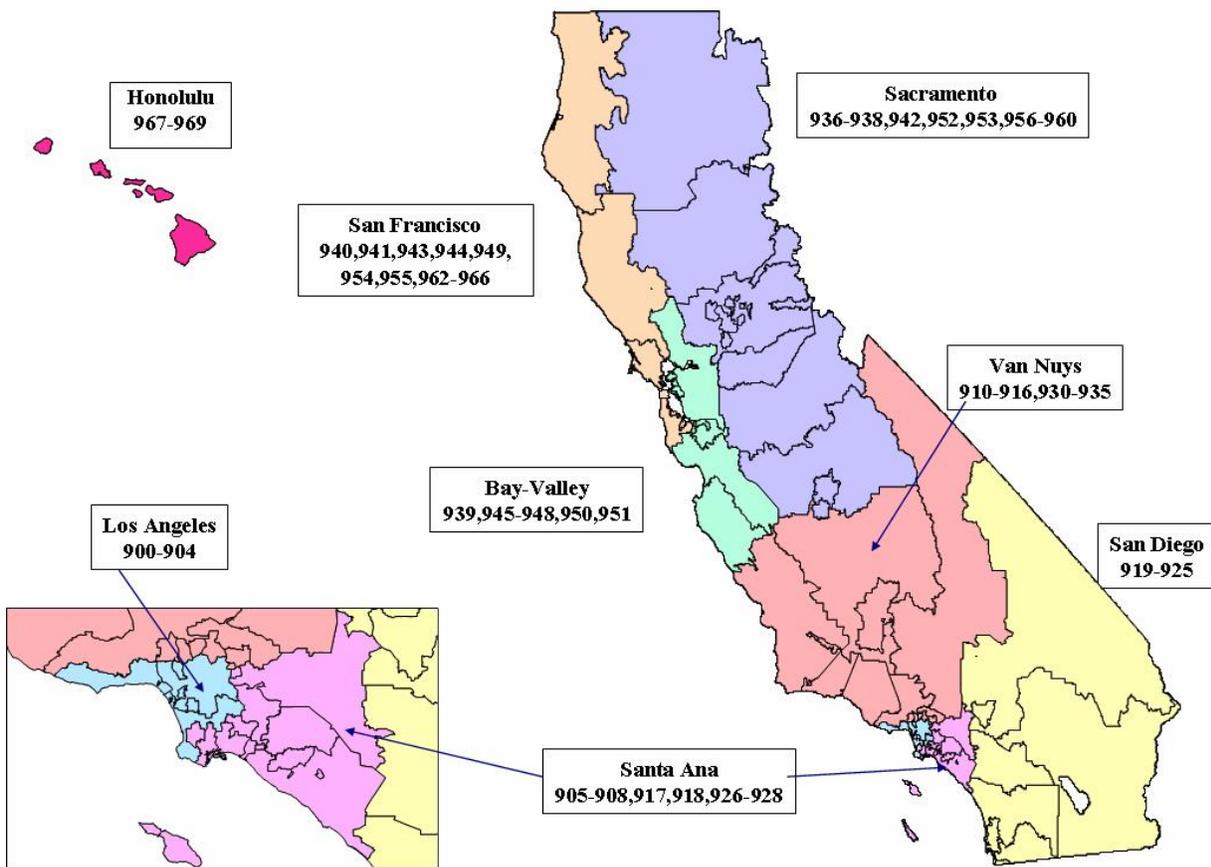
Management agreed with the findings and recommendations in this report. Management stated they will revise the annual Marina PIR and submit it to headquarters for approval by September 30, 2007. Management also agreed to include in the revised Handbook PO-408, *Area Mail Processing Guidelines*, a requirement to prepare AMP proposals using data from the most current completed four postal quarters, disclose other cost-saving initiatives underway during AMP development in the AMP Executive Summary, and develop and review the AMPs and PIRs using area level cross-functional review teams.

**Evaluation of
Management's
Comments**

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

APPENDIX A

PACIFIC AREA MAP



APPENDIX B

PRIOR AUDIT COVERAGE

The OIG report titled *Efficiency Review of the Mansfield, Ohio, Main Post Office* (Report Number NO-AR-05-004, dated December 8, 2004) found the Postal Service could increase operational efficiency at the Mansfield Main Post Office (MPO) by reducing 24,000 mail processing workhours, which would allow the facility to achieve 90 percent of targeted goals and could produce a cost avoidance of approximately \$7.6 million based on labor savings over 10 years. We recommended the District Manager, Northern Ohio District, reduce mail processing operations at the Mansfield MPO by 52,000 workhours 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.

The OIG report titled *Efficiency Review of the Canton, Ohio, Processing and Distribution Facility* (Report Number NO-AR-05-013, dated September 22, 2005) found the Postal Service could increase operational efficiency at the Canton Processing and Distribution Facility (P&DF) by reducing mail processing workhours by 202,000, which could produce a cost avoidance of approximately \$64 million based on labor savings over 10 years. We recommended the District 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.

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

The OIG report titled *Status Report on the Evolutionary Network Development Initiative* (Report Number NO-MA-06-001, dated March 20, 2006) found the Postal Service Evolutionary Network Development (END) initiative continued to evolve. This report documented the progress to date of network changes and identified some key challenges. The Postal Service is taking an incremental approach to streamlining the mail processing networks using END as a framework. This represents a shift from its initial focus of optimizing the performance of the entire mail processing and

transportation infrastructure. Management has stated the only realistic course is to continuously examine the network for inefficiencies and redundancies and to standardize the best operational practices. We recognized that transforming the infrastructure is difficult and complex. The Postal Service's processing and logistics network is one of the largest networks in the world. Research supports an incremental approach due to complex and advancing technology, and the unpredictable environment the Postal Service faces. An incremental planning approach also supports prototype and pilot testing. This report contained no recommendations.

The OIG report titled *Pasadena, California Processing and Distribution Center Consolidation* (Report Number EN-AR-06-001, dated September 26, 2006) found the workhour cost analysis included in the AMP proposal was supported. 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 AMP proposal data was inaccurate, incomplete, or unsupported. The OIG recommended management revise the Pasadena AMP proposal to document all service standard changes and transportation costs. Additionally, we recommended that management establish central files for approved AMP proposals and supporting documentation to facilitate PIRs. Finally, we recommended management update AMP policy. Management generally agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report.

The OIG report titled *Bridgeport, Connecticut, Processing and Distribution Facility Outgoing Mail Consolidation* (Report Number NO-AR-06-010, dated September 30, 2006) found the Postal Service was justified in moving outgoing mail processing operations from the Bridgeport P&DF to the Stamford, Connecticut, P&DC. The consolidation was expected to have minimal impact on employees, make use of 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 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.

The OIG report titled *Sioux City, Iowa, Processing and Distribution Facility Consolidation* (Report Number EN-AR-07-001, dated November 9, 2006) found the Postal Service provided adequate support for its analysis of workhours, transportation, and facility costs in the AMP proposal. Our additional analysis 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 recommended 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 recommended that management communicate updated information on the Sioux City AMP proposal to stakeholders. Finally, we recommended and management agreed to provide detailed instructions for documenting facility information and estimating employee relocation expenses.

The OIG report titled *Service Implications of Area Mail Processing Consolidations* (Report Number EN-AR-07-002, dated December 5, 2006) found the Postal Service could improve the way it documents impacts in the AMP proposals and PIRs. Management did not fully document changes to service standards (both upgrades and downgrades) in the AMP proposals. Management also did not include an analysis of service performance data in the AMP proposals or an analysis of service performance after a consolidation for the PIRs. Lastly, the consolidation proposal did not consistently address other potential changes affecting customer service such as collection box pick-up times, access to business mail entry units (BMEUs), and changes to retail services that may be associated with AMP consolidations. We recommended management revise AMP policy to improve guidance for completing the service standards information and measuring service performance at affected plants for AMP proposals and PIRs. Additionally, we recommended management require changes to collection box pick-up times, access to BMEU operations, and changes to retail operations be documented in proposals. Finally, we recommended and management agreed to update the Collection Point Management System to provide a historical record of changes to collection box pick-up times.

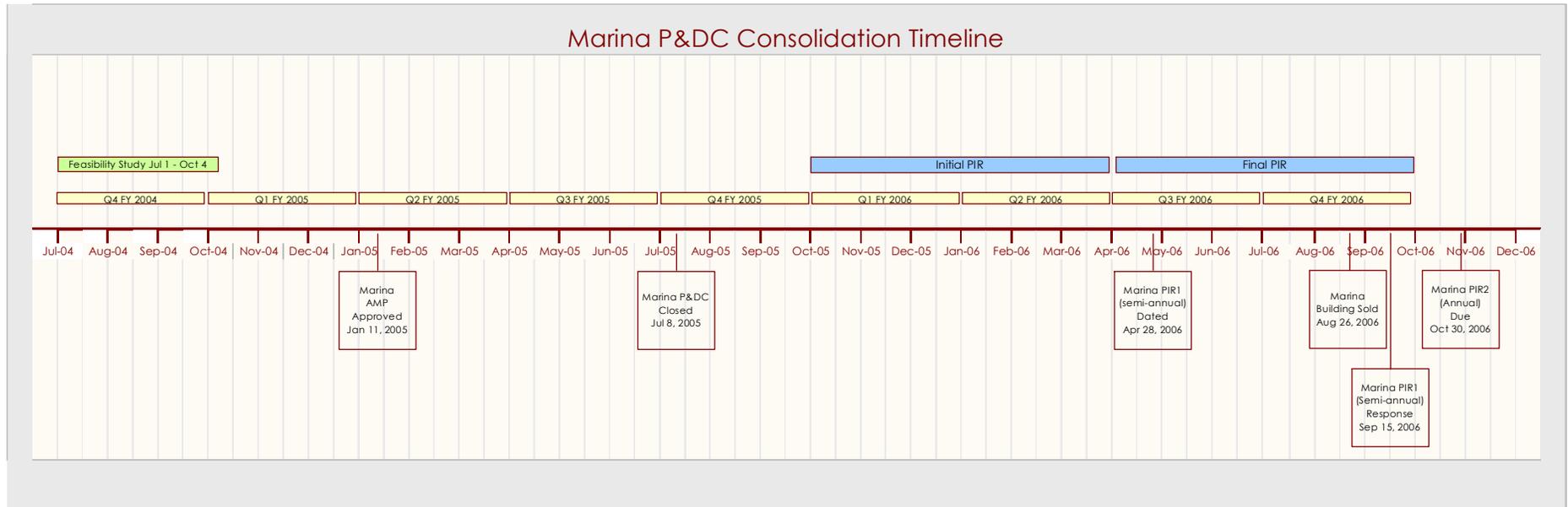
The OIG report titled *Timeliness of Mail Processing at the Los Angeles, California, Processing Distribution Center* (Report Number NO-AR-07-001, dated February 9, 2007) found that during the period July 2005 through May 2006, the Los Angeles P&DC had difficulty with the timely processing of mail, resulting in mail delays and service declines. However, the Los Angeles P&DC had made significant improvements and, as of August 2006, the Los Angeles District met or exceeded national service score averages. Specifically, we found that delayed mail had been significantly reduced since May 2006 (the month used as the basis of the inquiry). In addition, the Los Angeles P&DC had less delayed FCM, Priority Mail®, and Package Services Mail® than similar-sized facilities but more delayed Standard Mail® and Periodicals, indicating that improvements were still necessary in the timely processing of these types of mail. To improve the timely processing of mail, we recommended and management agreed to correct deficiencies in the processing of Periodicals and Standard Mail, and continue monitoring and adjusting mail processing operations to ensure that all mail is processed in a timely manner.

The OIG report titled *Review of the Steubenville Youngtown, Ohio, Outgoing Mail Consolidation* (Report Number NO-AR-07-003, dated March 30, 2007) found that

consolidating the Steubenville MPO outgoing mail processing operations into the Youngstown P&DF achieved desired results. The workhour and transportation cost analysis included in the PIR showed the Postal Service achieved projected savings. Our analysis provided confirming evidence for cost savings, improved service performance, and increased productivity. However, management did not always comply with the processes outlined in Handbook PO-408. We found discrepancies with the AMP proposals, the timing of the PIR, and the data used to support the PIR. We recommended and management agreed to conduct training on the AMP policy after they update Handbook PO-408.

APPENDIX C

MARINA AREA MAIL PROCESSING CONSOLIDATION AND POST-IMPLEMENTATION REVIEW TIMELINE



APPENDIX D

SAVINGS CALCULATION ANALYSIS

Semiannual PIR - Postal Service and OIG Results and Comparison						
	AMP Original Projection (Col B)	AMP Original Projection Modified (Col C)	Postal Service Current Estimate Semiannual PIR (Through PQ 2 FY 2006) (Col D)	Postal Service Projected Variance Between AMP and Semiannual PIR (Col E)	OIG Current Estimate Semiannual PIR (Through PQ 2 FY 2006) (Col F)	Variance Between Postal Service Calculated Semiannual PIR and OIG Calculated Semiannual PIR (Col G)
				(Col D-C)		(Col F-D)
Annual Workhours	9,170,375	9,170,375	9,338,544	168,169	18,930,458	9,591,914
EAS Workhours	2,784,852	0	0	0	0	0
Transportation	860,761	860,761	525,631	335,130	3,038,498	3,564,129
Annual Associated	6,326,000	6,326,000	8,051,713	1,725,713	403,680	7,648,033
Total Annual Savings/Cost	\$17,420,466	\$14,635,614	\$16,864,626	\$2,229,012	\$22,372,636	\$5,508,010
One-Time Associated	7,971,000	7,971,000	8,616,369	645,369	8,616,369	0
One-Time Indemnity	145,743	145,743	0	145,743	0	0
Total One-Time	\$8,116,743	\$8,116,743	\$8,616,369	\$499,626	\$8,616,369	0
Total First Year	\$9,303,723	\$6,518,871	\$8,248,257	\$1,729,386	\$13,756,267	\$5,508,010

Note: Savings are in black, costs are in red.

APPENDIX D

SAVINGS CALCULATION ANALYSIS (Continued)

Annual PIR - Postal Service and OIG Results and Comparison						
	AMP Original Projection (Col B)	Original Projection Modified (Col C)	Postal Service Current Estimate (Thru PQ 4 FY 2006) (Col D)	Postal Service Projected Variance (Col E) (Col D-C)	OIG Current Estimate LA & Long Beach (Thru PQ 4 FY 2006) (PIR 2) (Col F)	Variance Between Postal Service PIR 2 and OIG PIR 2 (Col G) (Col F-D)
Annual Workhours	9,170,375	9,170,375	17,400,395	8,230,020	21,131,333	3,730,938
EAS Workhour	2,784,852	0	0	0	0	0
Transportation	860,761	860,761	517,038	343,723	1,837,946	2,354,984
Annual Associated	6,326,000	6,326,000	8,051,713	1,725,713	403,680	7,648,033
Total Annual Savings/Cost	\$17,420,466	\$14,635,614	\$24,935,070	\$10,299,456	\$23,372,959	\$1,562,111
One-Time Associated	7,971,000	7,971,000	8,616,369	645,369	8,616,369	0
One-Time Indemnity	145,743	145,743	0	145,743	0	0
Total One-Time	\$8,116,743	\$8,116,743	\$8,616,369	\$499,626	\$8,616,369	\$0
Total First Year Savings/Cost	\$9,303,723	\$6,518,871	\$16,318,701	\$9,799,830	\$14,756,590	\$1,562,111

Note: Savings are in black, costs are in red.

APPENDIX E. MANAGEMENT'S COMMENTS

TONY PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS



August 3, 2007

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

SUBJECT: Transmittal of Draft Audit Report – Post Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation (Report Number EN-AR-07-DRAFT)

This is in response to the audit results for the Post Implementation Review (PIR) of the Marina, California, Area Mail Processing (AMP) Project Number 07XG001EN000 and addresses the four recommendations identified in the audit report.

We have no Freedom of Information Act exemption concerns associated with the draft audit report.

Recommendation 1: Correct the Marina annual PIR and resubmit it to Postal Service headquarters for review and approval.

Response: The Pacific Area agrees with this recommendation. The annual PIR for Marina will be revised by Pacific Area management and submitted to headquarters by September 30.

Recommendation 2: Clarify the area mail processing (AMP) guidelines to identify and use the most current four postal quarters prior to the AMP submission as a source for the AMP and post-implementation review baseline data.

Response: Network Operations agrees with this recommendation. Instructions for new worksheets designed for an AMP proposal and for PIRs require use of data from the most current, completed four postal quarters. The revised Handbook PO-408, *Area Mail Processing Guidelines*, will be circulated for internal postal review and clearance within 30 days of the receipt of the final Government Accountability Office report on *Mail Processing Realignment Efforts Underway Need Better Integration and Explanation*.

Recommendation 3: Include a description of other cost-saving initiatives underway concurrently with the consolidation - and the projected savings associated with those initiatives - in the area mail processing and post-implementation review.

Response: Network Operations agrees with this recommendation. The revised Handbook PO-408, *Area Mail Processing Guidelines*, will require that initiatives underway during the development of the AMP proposal or during the time of the PIRs that increase or decrease costs or savings be identified in the AMP Executive Summary Narrative brief or on applicable worksheets.

475 L'ENFANT PLAZA SW
WASHINGTON, DC 20260-7100
202-268-4948
Fax: 202-268-5002
www.usps.com

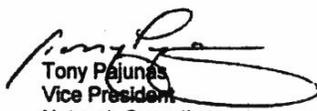
- 2 -

Recommendation 4: Establish a more rigorous review process at the area and headquarters levels to more effectively identify misstatements and errors in methodology.

Response: Network Operations agrees with this recommendation. The revised Handbook PO-408, *Area Mail Processing Guidelines*, will require that AMPs and PIRs be developed and reviewed by area level cross-functional review teams. In addition, the use of the new automated AMP and PIR worksheets will significantly diminish methodology errors.

We would like to thank the audit team for their efforts in reviewing the AMP and PIR process utilized during the Marina facility closure as well as their confirmation that excess capacity in more efficient plants was being properly pursued in this AMP.

If you have any questions or require additional information regarding our response to the first recommendation, please contact Drew Aliperto, Manager, Operations Support, Pacific Area, at (858) 674-3100. For questions regarding the last three recommendations, please contact David Williams, Manager, Processing Operations, at (202) 268-4305.



Tony Pajunas
Vice President
Network Operations



Michael J. Daley
Vice President
Pacific Area Operations

cc: Mr. Galligan
Mr. Williams
Mr. Williamson
Mr. Field