



April 16, 2008

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Marysville Processing and Distribution Facility Consolidation
(Report Number EN-AR-08-003)

This report presents the results of our audit of the Marysville, California Processing and Distribution Facility (P&DF) consolidation (Project Number 07XG045EN000). Our objectives were to determine why mail was not routed in accordance with the approved Area Mail Processing (AMP) package and why changes to the AMP were not reported in the post-implementation reviews (PIR), and to assess the service impacts associated with the consolidation and planned AMP reversal. We conducted this review at the request of the Senior Vice President, Operations, and in cooperation with U.S. Postal Service officials. Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

Our review concluded the following.

- Sacramento District management did not route mail volumes in accordance with the approved AMP because they stated they wanted to improve service performance at the Sacramento Processing and Distribution Center (P&DC), and considered rerouting the mail a normal operational decision instead of part of the AMP consolidation. The District Manager discussed the decision to reroute the mail with the Pacific Area Manager, Operations Support, who indicated the decision was to be made locally; however, we were not able to fully validate that conversation. A contributing factor to this situation was that AMP policy¹ did not specifically address implementing deviations from an approved AMP.
- The rerouted mail was not reported in the PIRs because of management oversight.
- Service impacts associated with the consolidation were not accurately reported in the AMP or the PIRs because of management oversight. Management subsequently decided to reverse the AMP consolidation because overnight service

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

between Chico, California and San Francisco, Oakland, and Stockton, California was downgraded. We determined that plans to reverse the Marysville AMP consolidation will return mail to previous service standards, but will result in net service downgrades for 138 three-digit ZIP Code™ pairs.

Rerouted Mail Volume

Mail volume transfers associated with the Marysville AMP consolidation did not follow the approved AMP. Specifically, approximately 20,000 pieces of last collection mail were rerouted each day from the Chico Post Office (PO) to the Redding Main Post Office (MPO) instead of to the Sacramento P&DC.

This occurred because the District Manager considered rerouting the last collection mail to be a normal operational decision instead of part of the AMP consolidation. In addition, the AMP policy did not specifically address implementing deviations from an approved AMP. As a result, service performance for eight ZIP Code pairs (including service from the Chico PO to the San Francisco, Oakland, and Stockton P&DCs) was downgraded from overnight to 2-day service. In addition, information shared with stakeholders was inaccurate. Click [here](#) to go to Appendix B for our detailed analysis of this issue.

We are not making a recommendation because the Postal Service is revising the AMP guidelines to address the reporting of deviations from approved AMPs.

Post-Implementation Reviews

The PIRs did not identify that mail had been rerouted to the Redding MPO for the Marysville AMP consolidation.

According to the Sacramento District Manager, management considered rerouting mail to be routine business and did not report it in the PIRs because of an oversight. In addition, at the time, there was no guidance for reporting deviations to the AMP. The revised Handbook PO-408 (currently in draft) addresses deviations from AMP proposals.

Because the PIRs did not identify the rerouting of mail, the Postal Service could not be sure that management was fully accountable for implementing decisions regarding AMPs. Click [here](#) to go to Appendix B for our detailed analysis of this issue.

Training should address the management oversight issue. In a previous U.S. Postal Service Office of Inspector General (OIG) report, we recommended the Postal Service conduct AMP training sessions after it implements the revised AMP policy. Therefore, this report does not include a recommendation for training.

Service Impacts

Rerouting the Chico PO's last collection mail to the Redding MPO resulted in service downgrades for that mail. Management did not report these downgrades in the AMP proposal or PIRs. As a result, the Senior Vice President, Operations, and Pacific Area management have approved plans to reverse the AMP. However, reversing the AMP will return mail to previous service standards, causing significant downgrades for all classes of mail.

The downgrades in service associated with rerouting mail to the Chico PO occurred because district management:

- Did not review service implications before moving the mail.
- Considered rerouting the last collection mail from the Chico PO to be a part of normal business that would improve service performance at the Sacramento P&DC.

As a result, management did not have accurate information on service impacts when evaluating the consolidation impacts of moving mail to the Chico PO for processing. In addition, reversing the Marysville AMP will return 138 ZIP Code pairs to pre-AMP service standards, resulting in downgraded service performance.

We recommend the Vice President, Pacific Area Operations:

1. Document costs and service implications from reversing the consolidation of the Marysville outgoing mail into the Sacramento Processing and Distribution Center.

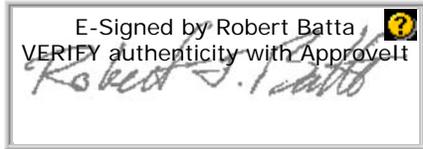
Management's Comments

Management agreed with our recommendation and planned to document cost and service implications by April 4, 2008. Management also provided clarifying information for various issues in this report. We have included management's comments, in their entirety, in [Appendix D](#).

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and the corrective actions should resolve the issue identified in the report. The OIG considers the recommendation significant, therefore, it requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when management completes the corrective action. The recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that it can be closed. In addition, where appropriate we incorporated management's suggestions to clarify the report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael A. Magalski, Director, Network Optimization, or me at (703) 248-2100.



for
Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

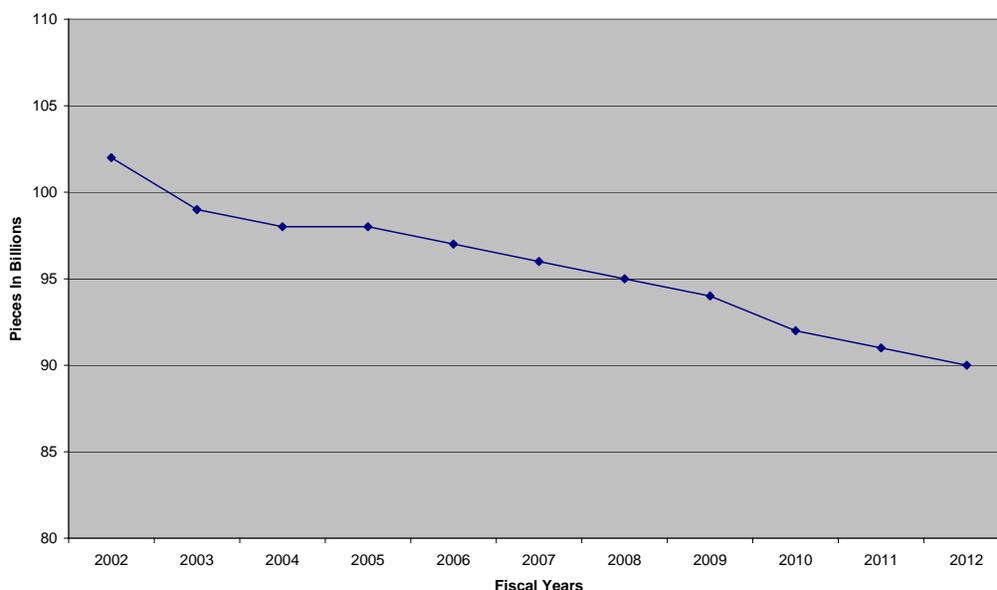
cc: Patrick R. Donahoe
William P. Galligan
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David E. Williams, Jr.
Rosemarie Calabrese-Fernandez
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service’s business environment is challenging due 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. In addressing these challenges, the Postal Service continually looks for opportunities to streamline operations, reduce costs, increase operational effectiveness, and improve service. Despite an increase in mail volume during fiscal year (FY) 2005, the aggregate volume of FCM declined by 6.3 percent (6.5 billion pieces) from FYs 2002 to 2007. In addition, the Postal Service projects that FCM volume will continue to decline. Figure 1 shows these trends.

FIGURE 1: FIRST-CLASS ACTUAL (2002 - 2007) AND PROJECTED (2008 - 2012) MAIL VOLUME



In addition, eCommerce and electronic messaging are slowly replacing personal paper-based correspondence and will continue to influence the volume growth of single-piece FCM. As FCM volume declines, the total number of mailpieces delivered to each address could decline as well.

The Postal Service’s strategic objectives are defined in its *Transformation Plan*,² which states the agency is committed to improving its operational efficiency by consolidating

² *Strategic Transformation Plan, 2006-2010, Annual Progress Report*, December 2006.

mail processing operations when feasible. In addition, the President's Commission³ 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 Enhancement Act⁴ (Postal Act of 2006), 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 consolidating operations in the mail processing network and performing PIRs. Issued in April 1995, these guidelines state that consolidations should improve operational efficiency and service, make optimum use of available resources, and ensure management's accountability for consolidating operations. The Postal Service is currently revising the AMP guidelines and testing the revised AMP worksheets. They expect to issue the revised AMP guidelines in the spring of 2008.

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.

The Sacramento P&DC and Marysville P&DF are in the Pacific Area. Management consolidated originating mail⁵ from the Marysville P&DF into the Sacramento P&DC as of February 1, 2006. The AMP proposal was for the three-digit ZIP Code 959.

In an August 2007 memorandum, the Senior Vice President, Operations, expressed concerns about implementation of the Marysville AMP and requested that the OIG review it because there appeared to be deviations between the approved AMP the Pacific Area submitted and the changes actually implemented. He also expressed concern that the deviations were not reported in the PIRs.

The approved AMP stated that all originating mail from the Marysville P&DF was to be consolidated into the Sacramento P&DC. The two Marysville PIRs reported that the AMP was implemented as approved. However, approximately 20,000 pieces of outgoing mail per day from the Chico PO were rerouted to the Redding MPO for processing, rather than to the Sacramento P&DC as stated in the approved AMP. This mail represents less than 10 percent of the mail volume transferred as part of the AMP consolidation.

³ The President's Commission on the United States Postal Service reported its findings on July 31, 2003.

⁴ Postal Accountability and Enhancement Act, Public Law 109-435, dated December 2006.

⁵ Outgoing mail is sorted within a mail processing facility and dispatched to another facility for additional processing or delivery.

This deviation affected overnight service to the San Francisco, Oakland, and Stockton P&DCs for the last mail collection originating at the Chico PO. Additionally, the change from the approved plan was not reported to the Pacific Area or headquarters in the two Marysville AMP PIRs. The Pacific Area conducted PLANET® Code seeding⁶ tests that showed the routing of the Chico PO's mail through the Redding MPO and the downgraded service standards. As a result of service downgrades, the Pacific Area has now approved plans to reverse the AMP consolidation.

The Postal Act of 2006 requires the Postal Service to establish a facilities plan, which must include information regarding cost-saving initiatives. The Postal Act of 2006 also requires the Postal Service to submit an annual report to Congress on how its decisions have impacted or will impact network rationalization plans. The report must include actions taken to identify excess capacity within the processing, transportation, and distribution networks and implement savings through realigning or consolidating facilities. The report must include overall estimated costs and cost savings.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective was to review selected aspects of the Marysville AMP consolidation. Specifically, we determined why mail volumes were not routed in accordance with the approved AMP package and why changes to the AMP were not reported in the PIRs, and we assessed service impacts from the AMP consolidation and planned AMP reversal. We reviewed applicable guidelines, including Handbook PO-408, and other documents including the Marysville AMP and the corresponding PIRs. We also conducted interviews with plant, district, area, and headquarters personnel.

We did not validate all costs, savings, or service performance associated with the consolidation of originating mail processing operations from the Marysville P&DF to the Sacramento P&DC.

This AMP proposal for consolidating mail processing operations was submitted to Postal Service Headquarters for approval and implementation in FY 2005 and our data analysis focused on the same time frames management used. We relied on data obtained from the Enterprise Data Warehouse, the 24-hour clock indicators, and the Transportation Information Management Evaluation System and Service Standard Directory. We did not directly audit the systems, but performed a limited review of data integrity to support our reliance on data. See [Appendix C](#) for a timeline of events in the consolidation.

We conducted this performance audit from October 2007 through April 2008 in accordance with generally accepted government auditing standards and included such

⁶ A PLANET (Postal Alpha-Numeric Encoding Technology) Code is a 12-digit barcode. The Postal Service's barcode sorting equipment reads the barcode and makes mail processing information (such as when and where the mail was processed) available. PLANET Codes applied to selected mailpieces can help track the path of the mailpiece.

tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on January 29, 2008, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

As indicated below, we issued three audit reports that addressed AMP policies. Management has addressed prior OIG audit recommendations in the proposed revisions to AMP policy.

Report Title	Report Number	Final Report Date
<i>Review of the Automated Area Mail Processing Worksheets</i>	EN-MA-08-001	Oct 19, 2007
<i>Service Implications of Area Mail Processing Consolidations</i>	EN-AR-07-002	Dec 05, 2006
<i>Area Mail Processing Guidelines</i>	NO-AR-06-001	Dec 21, 2005

APPENDIX B: DETAILED ANALYSIS

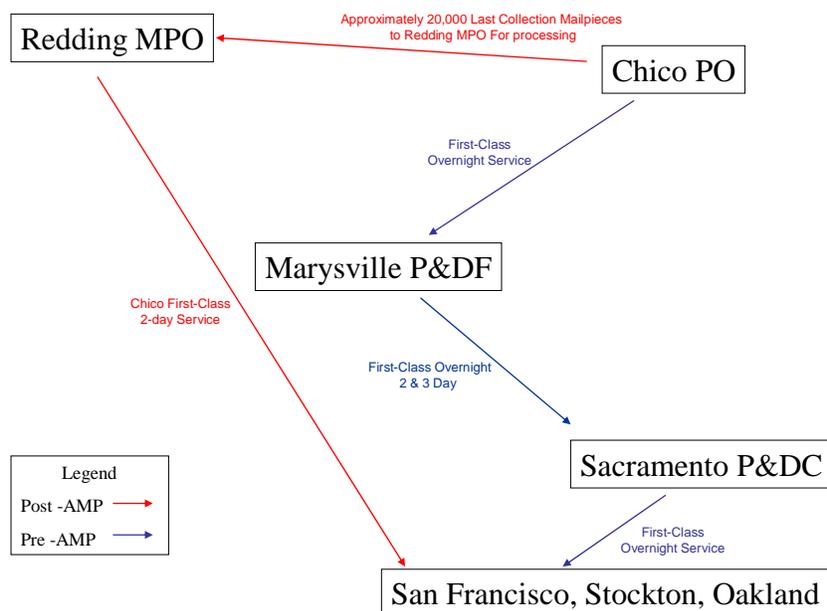
Rerouted Mail Volume

District management made mail volume transfers that did not follow the approved Marysville AMP package. Specifically, approximately 20,000 pieces of mail per day were rerouted from the Chico PO to the Redding MPO – which was not identified in the approved AMP – for processing.

Before management implemented the Marysville AMP, all Chico PO mail was sent to the Marysville P&DF for processing. FCM was then sent to the Sacramento P&DC for overnight delivery to the Stockton, Oakland, and San Francisco P&DCs.

After AMP implementation, all Chico PO mail was sent directly to the Sacramento P&DC for processing and distribution. However, within 1 month of AMP implementation, Chico's last collection mail was sent, instead, to the Redding MPO for processing and distribution. The Redding MPO had the capacity and was able to process the Chico PO's mail. However, mail routed through the Redding MPO to Stockton, Oakland, and San Francisco was downgraded to 2-day service standards. Chart 1 shows mail flow before and after the AMP.

Chart 1. Chico PO Last Collection Mail Flow Pre- and Post-AMP



This occurred because the District Manager indicated it would improve service performance at the Sacramento P&DC; the last collection mail at Chico did not always

arrive at the Sacramento P&DC by critical entry time, which contributed to a lower performance score for that plant. In addition, the District Manager considered rerouting the last collection mail at the Chico PO as a normal operational decision instead of as part of the AMP consolidation. The District Manager said she discussed the decision to reroute this mail with the Pacific Area Manager, Operations Support, who indicated the decision was to be made locally. However, we were not able to fully validate that conversation.

In addition, Postal Service guidance did not address deviations from an approved AMP. However, the revised Handbook PO-408,⁷ currently in draft, states that when substantive changes to the implemented AMP are warranted, the area AMP coordinator must outline those changes and provide revised worksheets and supporting justification to the managers who approved the original proposal and to the Senior Vice President, Operations.

The Pacific Area also performed two PLANET Code tests in 2006 and 2007. The Pacific Area learned of the mail being rerouted to Redding MPO as a result of the second test, performed from March 28 through April 4, 2007.

As a result of the rerouted mail volume, service performance for eight ZIP Code pairs (Chico PO to the San Francisco, Oakland, and Stockton P&DCs) was downgraded from overnight to 2-day service. This downgrade was not reported when the mail was rerouted.

Post-Implementation Reviews

The PIRs did not document that some mail had been rerouted to a facility not identified in the approved Marysville AMP. The Pacific Area learned that the Chico PO's last collection mail had been rerouted after completion of a second PLANET Code test on April 4, 2007. The test results showed that some mail was processed at the Redding MPO instead of the Sacramento P&DC as identified in the approved AMP. The second PIR was submitted to Postal Service Headquarters for approval on April 30, 2007, after management completed the PLANET Code testing.

This situation occurred mainly because of oversight by district and area management. In addition, the current criteria did not provide guidance on reporting modifications to an approved AMP in the PIRs. The existing Handbook PO-408 states that PIRs are designed to ensure the projected savings and improved operational efficiency have been achieved and management is accountable for implementing decisions regarding the AMP.

⁷ Revised Handbook PO-408 is planned for release in the spring of 2008. This guidance is found in the July 2007 draft version.

Because the PIRs did not state that mail had been rerouted, the Postal Service could not be assured that management was accountable for implementing decisions regarding the AMP consolidation.

Service Impacts

Postal Service officials performed several service reviews after implementation of the Marysville AMP. These reviews were performed to examine potential service issues and to determine whether the consolidated mail achieved service standards.⁸

Specifically:

- Headquarters performed a service review shortly after the AMP implementation, from February 6–13, 2006. The review was conducted because of irregularities in processing operations, transportation, maintenance, and delivery units. The issues identified were addressed with Sacramento District management and the Pacific Area Office.
- The Pacific Area Office performed a service review from January 11–18, 2007, and a follow-up review on March 14, 2007. The Pacific Area conducted the service reviews to identify processes that were negatively impacting overnight service performance. The team identified several opportunities for improvement in processing operations. In addition, Pacific Area management conducted on-site visits with local management to review operations.
- The Pacific Area performed two PLANET Code tests: one from June 6–29, 2006, and the other from March 28–April 4, 2007.⁹ The first PLANET Code test identified late scans for mail arriving at the Sacramento P&DC from the Chico PO. The second identified the mail rerouted to the Redding MPO. The area office sent the results to the Sacramento District Senior Plant Manager for review.

The service impacts of the Marysville AMP consolidation were not accurately reported in the AMP proposal or PIRs. Specifically:

- The original AMP proposal, dated October 17, 2005, did not report service downgrades for any of the mail classes. The AMP projected 13 upgrades in FCM and 56 upgrades in Priority Mail® service standards.
- The first and second PIRs, dated October 2006 and April 2007, did not show any downgrades in service standards because of the rerouted mail. However, the PIRs reported upgrades and downgrades in mail service for the various classes of mail. See Table 1 for details.

⁸ Because of their small size, the Postal Service did not include the Marysville and Chico facilities in the External First-Class Measurement system it uses to measure service performance.

⁹ PLANET Code testing was not required by the PIR process.

Table 1. Service Standards for Various Mail Products Due to Consolidation

Service Standard	Priority	First-Class	Periodicals	Packages	Standard	Total
Upgrade	56	13	34	20	29	152
Downgrade	0	0	6	0	8	14
Net	56	13	28	20	21	138

Additionally, the Pacific Area approved plans to reverse the Marysville AMP consolidation in August 2007. Reversing the AMP will result in:

- Net service downgrades for 138 three-digit ZIP Code pairs, including 13 FCM upgrades that were achieved by the consolidation.
- Service upgrades for eight three-digit ZIP Code pairs to Sacramento, Oakland, and San Francisco that were downgraded due to the rerouted mail.

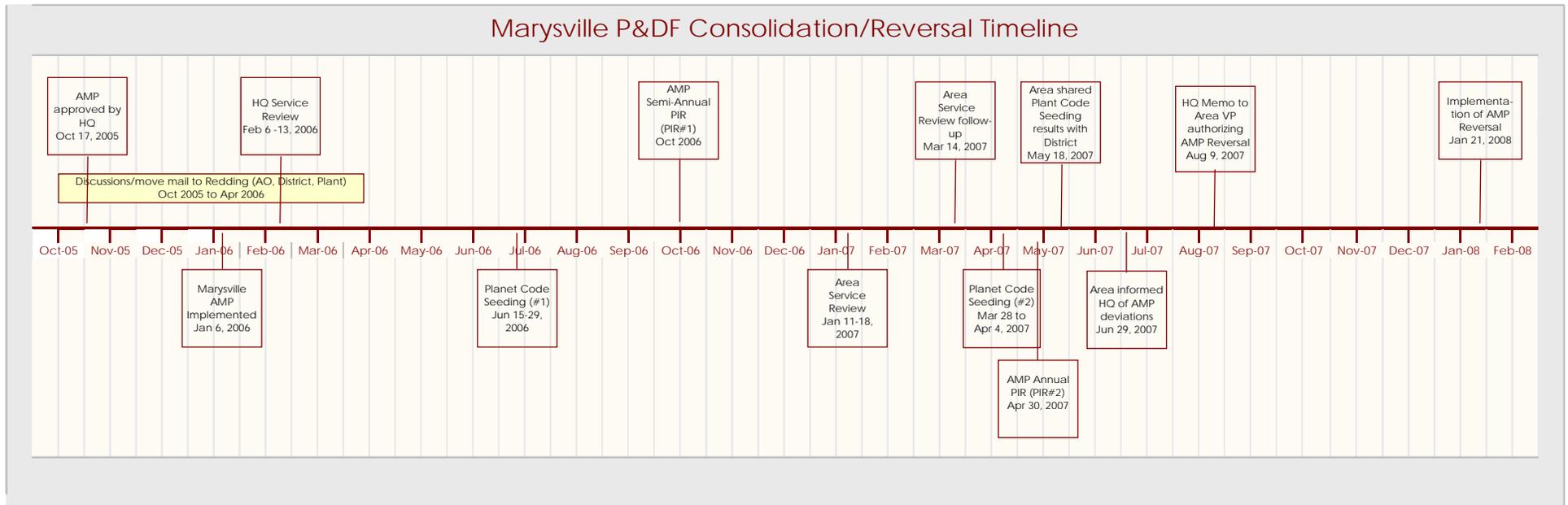
The discrepancies in reported service impacts occurred because district management:

- Did not review service implications before moving the mail.
- Identified FCM service downgrades that resulted from moving the last collection mail from the Chico PO to the Redding MPO for processing. Because FCM service downgrades were identified, the Postal Service is planning to reverse the AMP consolidation.

Handbook PO-408 states that impacts to service commitments should always be included in executive summaries of the AMP and PIRs. In addition, worksheets 7 and 8 require information on service downgrades for all classes of mail and service upgrades to FCM and Priority Mail. The handbook also states that in some circumstances, such as the inability to maintain service commitments, reversing an AMP may be necessary. Management's practice has been to implement AMPs only when they do not result in FCM service downgrades.

Because of these conditions, Postal Service officials did not have accurate information about service impacts when evaluating the consolidation. Reversing the AMP will also return 138 ZIP Code pairs to pre-AMP service standards, resulting in downgraded service performance.

APPENDIX C: MARYSVILLE PROCESSING AND DISTRIBUTION FACILITY CONSOLIDATION/REVERSAL TIMELINE



APPENDIX D: MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



March 31, 2008

JOHNSON JOHN
ACTING DIRECTOR, AUDIT OPERATIONS
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Marysville Processing and Distribution Facility Consolidation (Report Number EN-AR-08-DRAFT)

This provides management comments to the above referenced draft audit report. The draft report contained one recommendation specific to the Vice President, Pacific Area Operations.

Recommendation

Document costs and service implications from reversing the consolidation of the Marysville outgoing mail into the Sacramento Processing and Distribution Center.

Comments

Management agrees that rerouting the Chico PO's last collection mail to the Redding MPO resulted in potential service downgrades from those service standards which became effective with the approved Marysville AMP. These potential downgrades were not reported in the AMP proposal or PIRs as they were not intended as part of the AMP and were only fully identified outside the scope of the PIR review timeline and existing AMP guidelines. As a result of the Pacific Area identifying these deviations, and the potential risk to service performance, the Pacific Area submitted and received approval plans to reverse the AMP.

It must also be noted that service standards which were in place for mail originating from SCF 959 prior to the AMP are the same which are now in place after the reversal, and that the reversal was initiated due to the potential risk to service performance under the AMP proposed service standards. The draft report notes that the Pacific Area initiated PLANET Code™ testing that ultimately identified the deviation in question. However, it was not noted, but was shared with the auditors, that such testing was not required or envisioned as part of the AMP or PIR process. Additionally, this testing was specifically developed by the Pacific Area to attempt to address the lack of EXFC external measurement of service performance originating from, and destinating to, SCF 959 (a non-EXFC measured SCF), as well as the lack of guidance in the AMP guidelines for performing such measurements in this situation.

Management will document costs and service implications of the reversal and submit them to HQ Networks Integration no later than Friday, April 4, 2008 as an addendum to the Annual PIR Report. That addendum will also highlight the post reversal improvements in processing performance, as well as anticipated cost savings, in overall Sacramento processing operations, as measured by their 24 hour clock indicators, which include earlier 010 clearance performance, higher cancellations by 2000, and overall improvements in outgoing operational clearance times. It is anticipated that the reversal will be cost neutral and will resolve the potential OND service variances.

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Additionally, the report does not acknowledge that the current Pacific Area MOS and AVP conducted on-site visits with local management to review the operations prior to OIG involvement.

Also, the time of AMP, the West Sacramento P&DC was not in an operational state to assume the additional workload and local management did an *operational off-load* to meet operation commitments. The Sacramento District Manager did notify the Pacific Area that this action would take place.

The overnight, two and three day service commitments have been returned to pre-AMP commitments with the reversal of the AMP. Additionally, 3-Digit service pairs are currently set and measured under a national HQ sponsored program and not by Pacific Area.

Thank you for your consideration and for the additional time to prepare this report.



Michael J. Daley