January 7, 2010

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Status Report on the Postal Service's Network Rationalization Initiatives (Report Number EN-AR-10-001)

This report presents the results of our audit of Network Rationalization Initiatives (Project Number 09XR001EN000). This review is part of a series to evaluate the U. S. Postal Service's Network Rationalization[1] initiatives. Our objectives were to evaluate the Postal Service's progress in streamlining the network since fiscal year (FY) 2005; and identify the key challenges in the planning, development, and implementation process. This self-initiated audit addresses operational and strategic risks. See Appendix A for additional information about this audit.

Conclusion

Between FYs 2005 and 2009, the Postal Service made progress in its effort to streamline its mail processing and transportation infrastructure; however, management has been unable to adjust resources to fully offset mail volume declines, resulting in a deteriorating financial condition. Mail volume decreased by approximately 35 billion pieces during this period. See Appendix B for our detailed analysis of this topic. In response, management has:

- Reduced approximately 205.2 million workhours — the equivalent of 117,273 employees — with the majority in mail processing and customer service functions.

- Reduced 37 million highway contract route (HCR) miles (but overall transportation expenses increased by $1.5 billion).

- Closed 68 airport mail centers (AMCs) and 12 remote encoding centers (RECs).

- Realigned bulk mail center (BMC) operations with no BMC closures.

[1] The Postal Service has referred to its network redesign as Evolutionary Network Development (END), Network Integration and Alignment, and Network Rationalization. We use Network Rationalization throughout this report for consistency.

- Consolidated originating mail operations at 13 processing and distribution centers (P&DCs) and closed two P&DCs.

While management has taken unprecedented action to reduce costs, additional opportunities remain to reduce excess capacity in the plant network.

Streamlining the network presents the Postal Service with many challenges in planning, developing, and implementing rationalization initiatives. The most immediate challenge is to dramatically reduce costs and eliminate inefficiencies fast enough to enable the Postal Service to meet its financial obligations, while complying with its Universal Service Obligation.[2] The economic downturn and resulting mail volume declines continue to complicate this difficult financial situation. Additional challenges include opposition to infrastructure changes, resistance to First-Class Mail® (FCM) service downgrades, facilities with long-term leases, workforce inflexibilities, facility data consistency and reliability, and lack of a comprehensive network plan.

To remain financially viable, the Postal Service must effectively streamline the mail processing and transportation network and optimize the workforce.[3] The Postal Service has embarked on a journey of transformational changes. Management, congress, unions, and stakeholders must work together during this period of rapid change to ensure network rationalization initiatives have the energy needed to be successful in spite of challenges.

Area Mail Processing (AMP) Consolidations

The Postal Service has made limited progress in implementing AMP consolidations[4] in the P&DC network. There are 268 P&DCs nationwide and, since FY 2005, the Postal Service has implemented 13 AMP consolidations. Only two consolidations have resulted in full facility closures.[5] Stakeholder opposition and resistance to consolidations with FCM service downgrades were the primary factors that delayed or resulted in the disapproval of AMPs. Another contributing factor is the lack of specific criteria for identifying consolidation opportunities the Postal Service can consistently apply nationwide. Additionally, the Postal Service has cancelled some AMPs without providing their rationale. If management does not consistently apply established criteria to identify consolidation opportunities, stakeholders may question the credibility of the process. Development of objective criteria and implementation of a top-down approach would provide a more consistent and defensible approach to AMP consolidations that

[2] 39 U.S.C. 101(a) states, "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."
[3] Suggestions to increase workforce flexibility were included in the OIG report titled *Benchmarking Postal Service Parcel Productivity* (Report Number EN-MA-09-002, dated March 31, 2009).
[4] AMP is the consolidation of all originating and/or destinating distribution operations from one or more Postal Service facilities into other automated processing facilities for the purpose of improving operational efficiency and/or service.
[5] The Marina, CA P&DC closed in 2005 and the Kansas City, KS P&DC closed in 2009.

may reduce stakeholder resistance, accelerate the AMP consolidation process, and reduce excess capacity in the P&DC network. See Appendix B for a detailed analysis of this topic.

We recommend the vice president, Network Operations:

1. Develop and document specific criteria to identify consolidation opportunities in the plant network.

2. Develop a periodic (annual) review process using a top-down methodology to ensure consistency in identifying consolidation opportunities.

3. Aggressively pursue processing and distribution center and other plant facility closures to eliminate excess plant capacity.

Management's Comments

Management agreed with the findings and recommendations 1 and 2. Management stated they would have a process in place to review additional consolidation opportunities and commit to an annual review of potential consolidations prior to the end of this fiscal year. In addition, management subsequently agreed in separate correspondence to reevaluate and document the criteria used to identify consolidation opportunities annually.

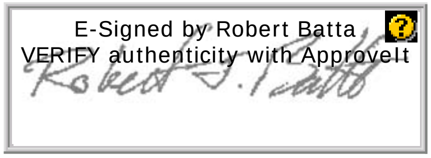
Management generally agreed with recommendation 3 and stated they will continue to assess opportunities for consolidating destinating operations and facility closures, which are difficult. See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report. The OIG will assess the annual review process to identify potential consolidation opportunities to ensure these changes meet the intent of our recommendations. Management's corrective action should resolve the issues identified in the report.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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



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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

In 2003, the President's Commission on the Postal Service (the Commission) found that the Postal Service had more facilities than it needed and did not use many of them efficiently. The Commission said inefficient operations and an antiquated network cost the Postal Service billions of dollars in unnecessary expenses. The Commission also noted that the Postal Service faced political resistance to closing or consolidating its facilities, along with restrictive statutory requirements.

As part of their *Strategic Transformation Plan, 2006-2010*, the Postal Service articulated an END initiative to improve its processing and transportation network. The charter of the initiative was to create a flexible logistics network to reduce Postal Service and customer costs, increase operational effectiveness, and improve consistency of service.[6]

On December 20, 2006, President Bush signed the Postal Accountability and Enhancement Act (Postal Act of 2006)[7] into law, encouraging the Postal Service to continue to streamline its networks. In June 2008, the Postal Service submitted its network plan to congress, as required by the Postal Act of 2006, for rationalizing its mail processing and transportation networks. Network rationalization is one of the major strategies described in the plan and consists of three integrated core elements:

- Completion of the transportation strategy through outsourcing and closure of AMC operations.
- Elimination of excess mail processing capacity at Postal Service plants/facilities through the consolidation of operations using newly revised AMP guidelines.
- Possible creation of a time-definite surface network (TDSN) that will move the distribution and transportation of Standard Mail®, Periodicals, and package mail to a supplier network. The Postal Service is currently analyzing the feasibility of pursing this option.[8]

Unprecedented declines in mail volume,[9] increased competition with traditional mail products from the private sector, increased automation and mail processing by mailers, and shifts in population demographics have resulted in excess capacity in the Postal Service mail processing infrastructure. These factors — coupled with an aging

[6] The END initiative was discontinued. Subsequently the Network Rationalization strategy was introduced in June 2008 as part of the Postal Service Network Plan.
[7] Public Law 109-435, 120 Stat. 3189, December 20, 2006.
[8] The TDSN initiative was cancelled in February 2009. Subsequently, the Network Distribution Center (NDC) concept emerged and Phase I implementation began in May 2009. The Postal Service projects it will fully implement the NDC concept in early FY 2010.
[9] The Postal Service's mail volume declined by over 25 billion pieces in FY 2009.

processing infrastructure and network redundancies — make operating efficiently difficult. Management has recognized the need for a comprehensive redesign of its distribution and transportation network.

The Postal Service has experienced significant productivity improvement in mail processing as a result of automating processing operations via letter mail automation, flat mail technology, package processing, and material handling. The Postal Service plans to continue these improvements as they consolidate operations and facilities, compress tours, and ensure the network operates efficiently and is aligned with the changing workload and environment. Management is also identifying opportunities to eliminate Sunday and holiday transportation and unnecessary highway contracts and postal vehicle service routes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to evaluate the Postal Service's progress in streamlining the network since FY 2005 and identify key challenges in the planning, development, and implementation process. To accomplish our objectives we:

- Interviewed management to determine the status of network streamlining initiatives and cost-saving efforts for AMC, AMP, NDC and REC networks.
- Reviewed published Postal Service reports from FYs 2005 through 2009 to obtain information on network rationalization initiatives.
- Reviewed Postal Service databases to determine the status of facilities.
- Compared updated cost-saving reports to recommendations from past OIG reviews.

We obtained the number of facilities from the Postal Service's *Annual Reports*; however, we did not perform analytical procedures to determine the reliability of the data for the following facility types: Customer Service Facilities, Logistics and Distribution Centers, Annexes, Surface Transfer Centers, and International Service Centers.

We conducted this performance audit from January through January 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that 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 October 28, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
Status Report on the Evolutionary Network Development Initiative	NO-MA-06-001	03/20/2006	The Postal Service took an incremental approach to streamlining the mail processing networks using END as a framework. Although this report contained no recommendations, management provided comments and generally agreed with the issues discussed.
Assessment of the Remote Encoding Center Network Consolidation Process	EN-AR-08-007	09/23/2008	The Postal Service realigned the REC network by reducing the number of centers from 55 in FY 1999 to eight by the end of FY 2007. The savings reported for FY 2007 were overstated by more than $300,000. During our review, we verified the reported savings for FY 2007 were revised as management agreed in the report.
Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation	GAO-07-717	06/21/2007	The Postal Service developed four initiatives to achieve its overall goal of reducing costs while maintaining service - AMP consolidations, regional distribution centers (RDC), the flats sequencing system, and surface transportation centers. However, it is not apparent if these initiatives will meet the Postal Service's network realignment goals. Management agreed with the findings and recommendations.
Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services	GAO-08-41	12/10/2007	The Facilities Database (FDB) data we assessed are unreliable and the FDB is not used as a centralized source for facility data as planned. The FDB does not conform to the Postal Service's goals; specifically, it does not include data needed to measure performance on managing facilities or have the capacity to track such data over time. Management agreed with two recommendations; disagreed with three recommendations; and agreed in principle to one recommendation.

Report Title	Report Number	Final Report Date	Report Results
USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication	GAO-08-1022T	07/24/2008	The Postal Service has taken steps to address prior recommendations to strengthen planning and accountability for its network realignment efforts. The Postal Service has developed a network plan that discusses its overall vision and goals and the major strategies or initiatives for meeting its goals. Management action was not required.
Progress Made Toward Implementing GAO's Recommendations to Strengthen Network Realignment Planning and Accountability and Improve Communication	GAO-O8-1134R	09/25/2008	The network plan contains limited specific information on costs and savings attributable to the Postal Service's various realignment initiatives. Management action was not required.
Escalating Financial Problems Require Major Cost Reductions to Limit Losses	GAO-09-475T	03/25/2009	The FY 2009 financial condition continues to deteriorate and projections suggest record declines in mail volume by 22.7 billion pieces, a net loss of $6.4 billion, and an unprecedented cash shortfall of $1.5 billion. The Postal Service's most immediate challenge is to dramatically reduce costs fast enough to meet its financial obligations. Management generally agreed with the accuracy of the statements in the report.
Network Rightsizing Needed to Help Keep USPS Financially Viable	GAO-09-674T	05/20/2009	The Postal Service's $5.9 billion cost-cutting target for FY 2009 is unusually ambitious. However, even if it achieves its cost-cutting target for FY 2009, the Postal Service projects cash shortfalls, because it does not expect its cost-cutting efforts and rate increases will fully offset the impact of mail volume declines and other factors that increase costs. Management generally agreed with the accuracy of the statements in the report.

APPENDIX B: DETAILED ANALYSIS

Status of Network Rationalization Initiatives

The Postal Service made progress in its effort to streamline its mail processing and transportation infrastructure; however, management has been unable to adjust resources to offset mail volume declines, resulting in a deteriorating financial condition.

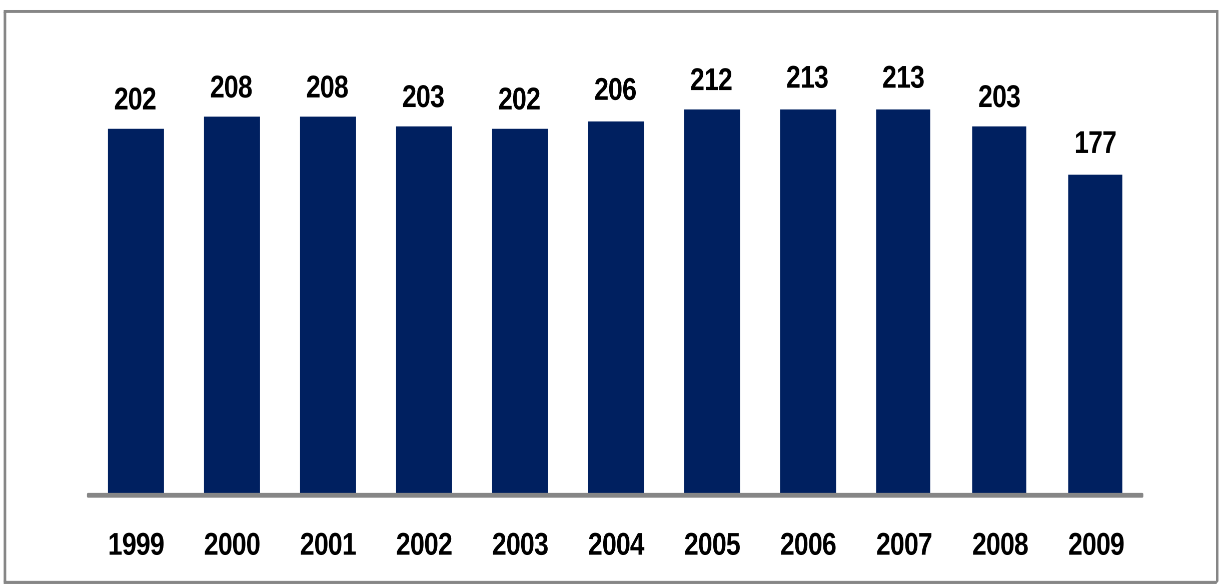
Mail Volume

Mail volume declined by approximately 35 billion pieces between FYs 2005 and 2009. All categories of mailing and shipping services experienced volume declines. FY 2009 experienced the largest year-over-year decline of total mail volume since the Postal Reorganization Act of 1971,[10] with total mail volume falling by more than 12 percent.

Figure 1 shows mail volume for a 10-year period. Specifically:

- Mail volume peaked in FY 2006 with 213 billion pieces.
- Mail volume declined by over 9 billion pieces in FY 2008.
- FY 2009 mail volume declined by over 25 billion pieces — its lowest point from the last 10 years — to 177 billion pieces.[11]

Figure 1: Mail Volume in Billions for FYs 1999 through 2009



[10] In July 2009, the Government Accountability Office (GAO) added the financial condition of the Postal Service to its High-Risk List of federal areas in need of transformation. The GAO stated the volume of mail being sent is dropping substantially, leading to a sizeable decline in revenue.
[11] The difference in Figure 1 from FYs 2008 and 2009 is due to rounding.

Workhour Trends

The Postal Service decreased total workhours by 205.2 million between FYs 2005 and 2009, with the largest reductions taking place in FY 2009. Mail processing had the largest decrease with an 85 million-workhour reduction.

Figure 2: Workhours from FYs 2005 through 2009

Workhours by Function (thousands)	2005	2006	2007	2008	2009	Difference Between FYs 2005 and 2009
City Delivery	471,071	468,918	462,040	452,288	424,683	(46,388)
Mail Processing	336,210	332,269	315,825	293,108	251,200	(85,010)
Customer Services and Retail	247,512	246,538	233,791	217,236	190,749	(56,763)
Rural Delivery	179,549	186,164	189,709	189,950	181,090	1,541
Other - Plant, Operational Support, and Administrative	228,911	224,840	221,636	220,772	210,303	(18,608)
TOTAL:	**1,463,253**	**1,458,729**	**1,423,001**	**1,373,354**	**1,258,025**	**(205,228)**

Transportation

Management decreased HCR mileage by 36.7 million miles between FYs 2005 and 2008; however, overall transportation expenses increased by $1.5 billion during the same period primarily due to increased fuel prices. In FY 2009, management reported a year-to-date decrease of $935 million (13.4 percent) in transportation costs. The lower highway expenses in FY 2009 resulted from decreases in fuel prices. Air transportation decreased by $421 million (13.8 percent) compared with the same period last year. The decrease resulted from lower fuel costs and volumes.

Facilities

The Postal Service decreased the number of mail processing facilities by 78 between FYs 2005 and 2009. The majority of reductions were from 68 AMC closures. We found discrepancies in Postal Service databases while confirming the number of facilities listed and adjusted the number based on discussions with management. Table 1 shows the status of facilities.

Table 1: Status of Facilities[12]

Processing Facilities	2005	2006	2007	2008	2009	Difference between FYs 05 and 09
AMC	80	77	29	20	12	(68)
REC	15	12	10	6	3	(12)
BMC	21	21	21	21	21	0
P&DC	270	269	269	269	268	(2)
Customer Service Centers	195	195	195	195	195	0
Logistics and Distribution Centers	11	11	14	14	14	3
Annexes	66	66	66	64	61	(5)
Surface Transfer Centers	14	17	14	20	20	6
International Service Centers	5	5	5	5	5	0
Total	**677**	**673**	**623**	**614**	**599**	**(78)**

Airport Mail Centers

The Postal Service reduced the number of AMCs from 80 in FY 2005 to 12 at the end of FY 2009. Management was successful in reducing the AMC network because stakeholder resistance was minimal. According to the network plan,[13] the Postal Service projects total program savings to be $117 million from eliminating workhours and facility lease expenses. The U.S. Postal Service OIG plans to validate actual cost savings in a future review. Table 2 shows the reductions and projected savings reported from the AMC network consolidations.

Table 2: Reductions Resulting From AMC Network Consolidations

	2006	2007	2008	2009	Total
AMC Reductions	3	45*	12*	8	68
Reported /Projected Savings		$39 million	$57 million	$21 million	$117 million

*The numbers in Table 1 are from *the Annual Report* and may differ in Table 2 due to financial accounting timing differences.

Remote Encoding Centers[14]

Since 1999, the Postal Service has closed 52 RECs. Management successfully reduced the REC network because approximately 70 percent of the employees were

[12] We did not perform analytical procedures to validate the number of customer service facilities, logistics and distribution centers, annexes, surface transfer centers, and international service centers.
[13] *Postal Accountability and Enhancement Act,* Section 302, Network Plan, dated June 2008.
[14] The Postal Service established RECs to apply address barcodes on letters the automated equipment in mail processing plants could not read.

temporary, the physical location of the sites was insignificant, the RECs were planned as temporary facilities, and there was minimal stakeholder resistance. In April 2009, the Postal Service announced the closing of one additional center by 2010. Table 3 shows the existing number of REC facilities.

Table 3: Number of Existing RECs

	1999	2007	2009
RECs	55	8*	3
Scheduled Closings			1
Savings from Closure	$6.8 million**		$3.5 million***
Total Savings	**$ 10.3 million**		

* The numbers in Table 1 are from *the Annual Report* and may differ in Table 3 due to financial accounting timing differences.
** Savings realized for FYs 2006 to 2007 REC closures.
*** Savings available as of August 13, 2009, for two of the three FY 2009 REC closures.

Network Distribution Center formerly Bulk Mail Center (BMC)[15]

The Postal Service proposed several initiatives between FYs 2005 and 2008 to transform the BMC network; however, no initiative progressed to the implementation phase. As a result, 21 facilities remain in the plant network although management made changes in their operations. In FY 2009, management began an initiative to streamline transportation associated with the NDCs. We will assess the effectiveness of the initiative in a series of NDC activation reviews. BMC costs[16] were more than $9 billion from FYs 2005 through 2009; however, annual costs have declined more than $150 million from FYs 2006 through 2009. Table 4 shows the annual cost of the BMC network from FYs 2005 through 2009.

Table 4: Annual Cost of BMC Network

2005	2006	2007	2008	2009	2005 – 2009 Total Cost
$1,785,261,485	$1,871,054,359	$1,857,254,472	$1,830,980,220	$1,721,009,914	$9,065,560,450
	2006-2009 Cost Decline				$150,044,445

Although there were several proposals to streamline the BMC network between FYs 2005 and 2008, it was not until FY 2009 that a BMC streamlining initiative progressed beyond planning to implementation. The following provides a description of the three BMC initiatives pursued:

[15] Effective August 1, 2009, BMCs were renamed NDCs. By using three tiers of consolidation, these centers consolidate the processing of originating mail into fewer sites to achieve greater operational efficiency and reduce transportation costs while expanding the surface transportation reach for more products.
[16] Total costs from activity-based costing.

- **<u>Regional Distribution Center (RDC)</u>**

  In February 2006, the Postal Service developed the RDC concept that would involve renaming and reconfiguring various regional processing hubs into RDCs, replacing BMCs, and integrating them with other transportation hubs. Management projected the creation of 28 to 100 RDCs nationwide. However, management suspended further work on the RDC concept because of concerns the initiative would not generate the benefits originally anticipated. Instead, the Postal Service initiated other studies to examine the feasibility of contracting out parts of the BMC network. The TDSN initiative replaced the RDC plan.

- **<u>Time-Definite Surface Network (TDSN)</u>**

  In February 2007, management developed a proposal to outsource BMC operations. Management issued a draft request for proposal in July 2008. Because of the large drop in BMC network product volume, the Postal Service could not project volumes for the statement of work. Thus, in February 2009, management decided to terminate this initiative and re-engineer product flows through the BMC network.

- **<u>Network Distribution Center (NDC)</u>**

  In March 2009, the Postal Service announced plans to undertake a significant transformation of the entire BMC network. Under the NDC concept, the Postal Service transformed the current BMCs into NDCs under three tier groups and with some different equipment, functions, and mail flows than the former BMC network. Management began phase I site activation in the northeast region and plans to complete activation nationwide by April 2010.

Area Mail Processing Initiative

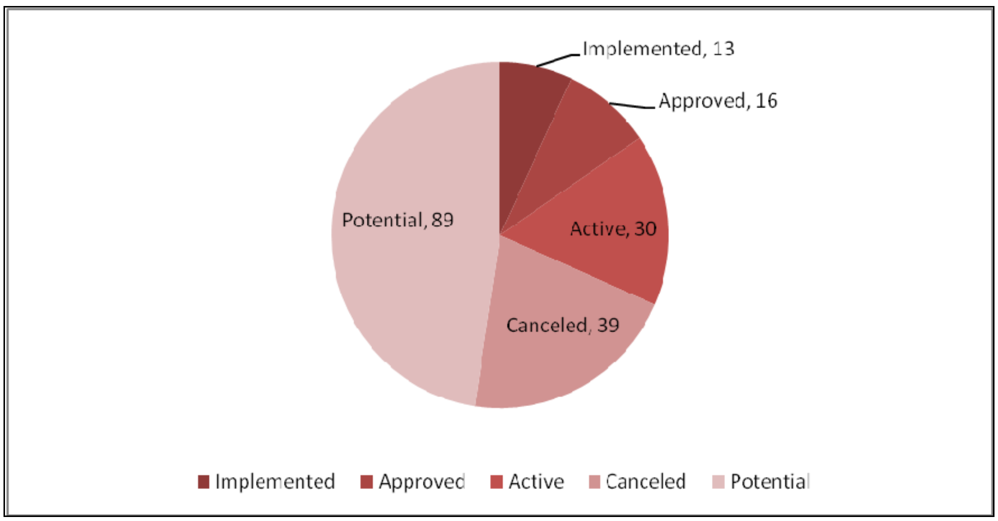
The Postal Service has made limited progress in implementing AMP consolidations in the P&DC network. Management uses both a bottom-up and top-down approach for identifying AMP consolidation candidates. However, most of the AMP proposals are generated using the bottom-up approach and result in partial consolidations of originating mail that do not result in facility closures. Developing objective criteria and implementing an annual top-down approach would provide a more consistent and defensible approach to AMP consolidations, which may reduce stakeholder resistance and accelerate the AMP consolidation process. Table 5 shows the AMP status as of September 30, 2009.

Table 5: Current AMP Status as of September 30, 2009

Number of Locations	AMP Consolidation Status	Annual Projected/Potential/Lost Potential Savings[17]
13	Implemented	$31,157,068 Projected Savings
16	Approved – Implementation not complete	$44,536,799 Projected Savings
30	Active in review process	$36,790,454 Potential Savings
39	Canceled	$17,986,974 Lost Potential Savings

The Postal Service uses AMPs to eliminate excess capacity, increase efficiency, and better use resources in the P&DC network. There are 268 P&DCs nationwide and since FY 2005, the Postal Service has initiated 98 AMP studies. However, it has implemented 13 and only two consolidations have resulted in a full facility closure.[18] Management is constantly reviewing and revising AMPs because of changing workloads, integration with other initiatives, and other factors. Currently, management plans to consider 89 additional initiatives. Figure 3 shows the status of AMPs as of September 30, 2009.

Figure 3: Status of AMP Initiatives



Consolidations are among the most controversial facility changes and can generate enormous stakeholder resistance. Stakeholder resistance led to congressional opposition to six AMP consolidations in the Consolidated Appropriations Act for FY 2008. The resistance resulted in potential lost savings of approximately $14 million annually.[19] Other factors that may have contributed to limited consolidations include a

[17] Savings were unavailable for 11 of the 30 proposals in the Active in Review Process stage and 23 of the 39 canceled proposals.
[18] The Marina, CA P&DC closed July 8, 2005, and the Kansas City, KS P&DF closed July 1, 2009.
[19] The Postal Service halted consolidations in Sioux City, IA; Detroit/Flint, MI; Bronx, NY; Aberdeen, SD; and Canton, OH; and later cancelled the Sioux City, Aberdeen, and Bronx consolidations.

$1 million minimum savings threshold and reluctance to implement consolidations that cross state lines. See Appendix C for detailed status analysis of AMP initiatives.

Challenges

Streamlining the network presents the Postal Service with many challenges. The most immediate challenge is to dramatically reduce costs and eliminate inefficiencies fast enough to meet its financial obligations, while complying with its Universal Service Obligation. As mail volume declines, excess capacity grows in various components of the plant network. The Postal Service has initiated various initiatives to reduce excess capacity, however, additional opportunities remain. Consolidating mail processing operations and closing unneeded plants is controversial, but necessary because of declining mail volume and growing deficits. The following are challenges associated with optimizing the infrastructure and workforce and managing the streamlining process.

- Stakeholder opposition to infrastructure changes continues to impact the network streamlining process. Increased transparency may facilitate the process.

- Resistance to implementing consolidations that result in FCM service downgrades. Cost-reduction strategies that result in limited FCM service downgrades should be reviewed.

- Facilities with long-term leases (some without termination clauses) are another challenge in the network streamlining process. Of the 268 P&DCs, 10 are leased properties that will not expire for more than 2 years.

- Workforce flexibility in the Postal Service, defined by the collective-bargaining agreements with its unions, is limited. The agreements were negotiated while our economy was growing, while Postal Service productivity was increasing, and while finances were strong. Contracts with the two unions[20] that represent almost 75 percent of career employees expire in late 2010 and late 2011 and could provide opportunities to optimize the workforce.

- Facility information in the facility database is inconsistent with facility information reported in the *United States Postal Service Annual Report 2008*. The Postal Service should increase controls to improve the reliability of the facility database.

- The network plan contains limited specific information on the cost and savings attributable to the Postal Service's various realignment initiatives. The Postal Service should ensure there is an adequate process for capturing and retaining support for project savings.

[20] The American Postal Workers Union and the National Association of Letter Carriers.

APPENDIX C: AMP INITIATIVES (October 1, 2005–September 30, 2009)[21]

	Area	Losing Facility	State	Gaining Facility	State	Implemented	Approved	Active	Canceled
1	WE	Aberdeen CSMPC	SD	Dakotas Central P&DC	SD				X
2	SW	Alamogordo PO	NM	El Paso P&DC	TX				X
3	SE	Athens CSPMC	GA	North Metro P&DC	GA		X		
4	SW	Batesville PO	AR	Little Rock P&DC	AR				X
5	SW	Beaumont P&DF	TX	Houston P&DC	TX				X
6	NE	Binghamton P&DF	NY	Syracuse P&DC	NY		X		
7	GL	Bloomington P&DC	IN	Indianapolis P&DC	IN			X	
8	EA	Bowling Green P&DF	KY	Nashville P&DC	TN			X	
9	NE	Bridgeport P&DF	CT	Stamford P&DC	CT	X			
10	EA	Bristol P&DF	VA	Johnson City P&DF	TN			X	
11	NY	Bronx P&DF	NY	Morgan P&DC	NY				X
12	SW	Bryan PO	TX	North Houston P&DC	TX				X
13	NE	Burlington P&DF	VT	White River Junction P&DC	VT				X
14	EA	Canton P&DC	OH	Akron P&DC	OH	X			
15	NE	Cape Cod P&DF	MA	Brockton P&DC	MA		X		
16	GL	Carbondale PO	IL	St. Louis P&DC	MO				X
17	WE	Carroll CSMPC	IA	Des Moines P&DC	IA				X
18	GL	Centralia PO	IL	Saint Louis P&DC	MO				X
19	CM	Charlottesville P&DF	VA	Richmond P&DC	VA			X	
20	CM	Cumberland Main PO	MD	Frederick P&DF	MD				X
21	SW	Dallas P&DC	TX	North Texas P&DC	TX			X	
22	SE	Daytona Beach P&DF	FL	Mid-Florida P&DC	FL				X
23	GL	Detroit P&DC	MI	Michigan Metroplex P&DC	MI		X		
24	CM	Dulles P&DC	VA	Northern Virginia P&DC	VA			X	
25	GL	Flint P&DC	MI	Michigan Metroplex P&DC	MI		X		
26	GL	Fox Valley P&DC	IL	South Suburban P&DC	IL				X
27	CM	Frederick P&DC	MD	Suburban P&DC	MD			X	
28	GL	Gaylord Main PO	MI	Traverse City P&DC	MI				X
29	WE	Glenwood Springs CSMPC	CO	Grand Junction CSMPC	CO				X
30	GL	Green Bay P&DC	WI	Oshkosh P&DC	WI			X	
31	EA	Greensburg PO	PA	Pittsburgh P&DC	PA	X			
32	SE	Hattiesburg CSMPC	MS	Gulfport P&DC	MS				X
33	WE	Helena CSMPC	MT	Great Falls CSMPC	MT				X
34	CM	Hickory P&DF	NC	Greensboro P&DC	NC			X	
35	WE	Hutchinson CSMPC	KS	Wichita P&DC	KS				X
36	PA	Industry P&DC	CA	Santa Clarita P&DC & Santa Ana P&DC	CA				X
37	PA	Industry P&DC	CA	Santa Ana P&DC	CA			X	
38	SE	Jackson CSMPC	TN	Memphis P&DC	TN				X
39	GL	Kalamazoo P&DC	MI	Grand Rapids P&DC	MI			X	
40	WE	Kansas City P&DC	KS	Kansas City P&DC	MO	X			
41	NY	Kilmer P&DC	NJ	Dominick V Daniels P&DC & Trenton P&DCs	NJ			X	

[21] Active column indicates the AMP has not been approved.

	Area	Losing Facility	State	Gaining Facility	State	Implemented	Approved	Active	Canceled
42	EA	Kinston P&DF	NC	Fayetteville P&DC	NC			X	
43	WE	La Crosse CSMPC	WI	Rochester P&DF	MN				X
44	SE	Lakeland P&DC	FL	Tampa P&DC	FL		X		
45	SW	Las Cruces PO	NM	El Paso P&DC	TX				X
46	EA	Lima P&DF	OH	Toledo P&DC	OH			X	
47	EA	London P&DF	KY	Lexington P&DC	KY			X	
48	PA	Long Beach P&DC	CA	Santa Ana P&DC & Los Angeles P&DC	CA		X		
49	SE	Manasota P&DC	FL	Tampa P&DC	FL		X		
50	EA	Mansfield Main PO	OH	Akron P&DC	OH				X
51	PA	Marysville P&DF *	CA	Sacramento P&DC	CA	X			
52	PA	Marysville P&DF	CA	Sacramento P&DC	CA			X	
53	SW	McAllen PO	TX	Corpus Christi P&DF	TX				X
54	WE	McCook CSMPC	NE	North Platte CSMPC	NE				X
55	NE	Middlesex-Essex P&DC	MA	Boston P&DC	MA			X	
56	PA	Mojave PO	CA	Bakersfield P&DC	CA	X			
57	PA	Mojave PO	CA	Santa Clarita and/or Bakersfield P&DCs	CA			X	
58	NY	Monmouth P&DC	NJ	Trenton & Kilmer P&DCs	NJ	X			
59	NY	Newark P&DC	NJ	DVD P&DC & Northern Metro P&DC	NJ	X			
60	EA	New Castle P&DF	PA	Pittsburgh P&DC	PA			X	
61	NY	Newark PO	NJ	DVD P&DC	NJ			X	
62	PA	North Bay P&DC	CA	San Francisco P&DC	CA			X	
63	NE	Northwest Boston P&DC	MA	Boston P&DC	MA	X			
64	WE	Olympia P&DF	WA	Tacoma P&DC	WA	X			
65	GL	Oshkosh P&DF	WI	Green Bay P&DC	WI				X
66	PA	Oxnard P&DF	CA	Santa Clarita P&DC	CA			X	
67	GL	Palatine P&DC	IL	Carol Stream P&DC	IL			X	
68	PA	Pasadena P&DC	CA	Santa Clarita & Industry P&DCs	CA	X			
69	NE	Plattsburgh PO	NY	Burlington P&DC	VT				X
70	NE	Portsmouth P&DF	NH	Manchester P&DC	NH		X		
71	NY	Queens P&DC	NY	Brooklyn P&DC	NY		X		
72	GL	Quincy P&DF	IL	Springfield P&DC	IL				X
73	GL	Rockford P&DC	IL	Palatine P&DC	IL				X
74	CM	Rocky Mount P&DF	NC	Raleigh P&DC	NC			X	
75	GL	Saginaw P&DC	MI	Lansing P&DC	MI			X	
76	PA	Salinas P&DF	CA	San Jose P&DC	CA			X	
77	WE	Sheridan CSMPC	WY	Casper P&DF	WY				X
78	WE	Sioux City P&DF	IA	Sioux Falls P&DC	SD				X
79	SE	South Florida P&DC	FL	Fort Lauderdale & Miami P&DCs	FL		X		
80	EA	Southeastern P&DC	PA	Philadelphia P&DC	PA			X	
81	NE	Springfield P&DC	MA	Hartford P&DC	CT				X
82	SE	St. Petersburg P&DC	FL	Tampa P&DC	FL	X			
83	NY	Staten Island P&DF	NY	Brooklyn P&DC	NY		X		
84	PA	Stockton P&DC	CA	Sacramento P&DC	CA			X	

	Area	Losing Facility	State	Gaining Facility	State	Implemented	Approved	Active	Canceled
85	WE	Twin Falls CSMPC	ID	Boise P&DC	ID				X
86	NE	Utica P&DF	NY	Syracuse P&DC	NY				X
87	SW	Waco P&DF	TX	Fort Worth & Austin P&DCs	TX				X
88	CM	Waldorf DDC	MD	Southern P&DC	MD				X
89	NE	Waterbury P&DF	CT	Southern Connecticut P&DC	CT	X			
90	NE	Watertown PO	NY	Syracuse P&DC	NY		X		
91	NY	Western Nassau P&DC	NY	Mid-Island P&DC	NY		X		
92	NY	West Jersey P&DC	NJ	Northern NJ & Kilmer P&DCs	NJ			X	
93	WE	Wheatland CSMPC	WY	Cheyenne P&DC	WY				X
94	EA	Wheeling P&DF	WV	Pittsburgh P&DC	PA			X	
95	EA	Wilkes-Barre P&DF	PA	Scranton & LeHigh Valley P&DCs	PA		X		
96	CM	Winchester PO	VA	Dulles P&DC	VA		X		
97	WE	Yakima PO	WA	Pasco P&DF	WA				X
98	EA	Zanesville P&DC	OH	Columbus P&DC	OH				X
		TOTAL				**13**	**16**	**30**	**39**
		* AMP reversed November 19, 2007							

Table 5 Abbreviations

Area
CM – Capital Metro
EA – Eastern
GL – Great Lakes
NE – Northeast
NY – New York
PA – Pacific
SE – Southeast
WE – Western

Facility
CSMPC – Customer Service Mail Processing Center
DDC – Delivery and Distribution Center
MPO – Main Post Office
PO – Post Office
P&DC – Processing and Distribution Center
P&DF – Processing and Distribution Facility

APPENDIX D: MANAGEMENT'S COMMENTS

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS

UNITED STATES POSTAL SERVICE

December 22, 2009

Lucine Willis
Director, Audit Operations
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Status Report on the Postal Service's Network Rationalization Initiatives (Report Number EN-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Each recommendation in this draft report is addressed below.

Recommendation 1:
Develop and document specific criteria to identify consolidation opportunities in the plant network.

Response
Management agrees with this recommendation. Our basic criteria for identifying opportunities are distance, processing capacity, and physical space. Each opportunity that we pursue is based upon many factors including our ability to capture savings and maintain service. Although the data to analyze and evaluate a consolidation is standardized, the decisions to move forward are unique and are evaluated based upon specific circumstances including our ability to capture savings, maintain service, and minimize the impact on our internal and external stakeholders and the overall organization.

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Recommendation 2:
Develop a periodic (annual) review process using a top-down methodology to ensure consistency in identifying consolidation opportunities.

Response
Management agrees with this recommendation. We currently share opportunities with the area offices and provide guidance and instruction on an ongoing basis. The area offices have aggressive targets for pursuing consolidation opportunities that are presently exceeding their resources for completing them. Prior to the close of this fiscal year we will have a process in place to review additional opportunities and commit to an annual review of the potential consolidations.

Recommendation 3:
Aggressively pursue processing and distribution center and other plant facility closures to eliminate excess plant capacity.

Response
Management agrees in part with this recommendation. The elimination of excess mail processing capacity in our processing and distribution facilities is an established goal of our Network Plan that was submitted to Congress. Throughout fiscal year (FY) 2009, we have focused our resources on consolidating originating operations using the Area Mail Processing (AMP) guidelines. There were 18 AMPs approved in FY2009 and five AMPs approved FY2010 to date. Four of the 23 AMPs removed all originating and destinating operations; however, only one building is a planned closure. The other facilities remain open because the processing facility is co-located with a post office and/or carrier operations. There are currently 31 additional potential consolidations in various stages of the AMP process. As we move forward, we will continue to access the opportunities for consolidating destinating operations and facility closures. The consolidation of destinating operations requires additional processing capacity as well as physical space which makes this type of consolidation more difficult. In addition, as the processing network and technology evolves, the amount of excess space within the network changes. One example of this is the additional space required by the deployment of the Flats Sequencing System which will utilize excess space that has been identified in the past for a new productive purpose.

The report contains no information that should be exempt from disclosure under the Freedom of Information Act.

Jordan M. Small