



February 12, 2010

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Audit Report – Manasota Processing and Distribution Center Consolidation
(Report Number EN-AR-10-003)

This report presents the results of our audit of the consolidation of the Manasota, FL Processing and Distribution Center (P&DC) outgoing mail processing operations to the Tampa, FL P&DC (Project Number 09XG030EN000). The report responds to a congressional request. Our audit objectives were to assess operational impacts of the consolidation and compliance with established policies. This audit addresses operational risk. See [Appendix A](#) for additional information about this audit.



Manasota P&DC in Sarasota, FL

Conclusion

There was a valid business case for consolidating mail processing operations from the Manasota P&DC to the Tampa P&DC. The consolidation should increase efficiency, reduce processing costs, and improve service in support of the Postal Service's network streamlining efforts. In addition, we determined the area mail processing (AMP) proposal was generally supported and in compliance with established policies. See [Appendix B](#) for our detailed analysis of this topic.

However, our analysis revealed that implementation of the Manasota P&DC consolidation was delayed 6 months after approval of the AMP proposal, due to the consolidation of other P&DC originating operations into the Tampa P&DC. Specifically, in October 2008, management prepared the Lakeland and Manasota P&DC study proposals and both were approved in March 2009. However, management elected to implement the consolidations sequentially, due to the complexity of implementing multiple consolidations into the same facility. Implementation of the Manasota P&DC consolidation began in October 2009, after the Lakeland P&DC consolidation was completed. Therefore, the Manasota P&DC AMP proposal did not capture volume and workhour data from the Lakeland P&DC consolidation into the Tampa P&DC. The volatility of mail volume can impact projections when implementation is not immediate, increasing the risk of including outdated data in the proposal. Handbook PO-408¹ does not specify a timeframe between approval of the AMP and implementation of the consolidation.

The new automated AMP worksheets enhanced the consolidation process, but did not eliminate population and data entry errors. We found the following issues with the new automated worksheets:

- Select Express Mail® volume data did not download from the Web Management Operating Data System (WebMODS). As a result, there were missing volumes data on the Manasota AMP worksheets. Management could minimize this condition by enabling the automatic feed into WebMODS. Handbook M-32, *Management Operating Data System (MODS)*, states data collection and manual reporting will be maintained until an automatic feed using product tracking scans can be enabled into WebMODS.² According to management, the automatic feed has not been implemented due to higher priority projects.
- Express Mail volumes and workhours that were downloaded by Postal Service Headquarters from WebMODS did not automatically transfer onto the AMP worksheets. This condition occurred because of an inconsistency in the methodology for incorporating Express Mail operations onto the AMP worksheets occurring after February 2008. The Manasota P&DC AMP proposal was the first to use the new AMP worksheets. The methodology has since been updated and a review of subsequent AMP proposals confirmed this issue has been corrected.

The use of inaccurate MODS data on the AMP worksheets can affect the business case for the consolidation. In this case, missing and inaccurate data for the Manasota P&DC AMP did not have a material impact on the proposed savings. See [Appendix B](#) for detailed analysis of these topics.

¹ Handbook PO-408, *Area Mail Processing Guidelines*, March 2008, states implementation should begin at the beginning of a quarter, but it does not specify which quarter after AMP approval.

² WebMODS is a web-enabled application that provides a systematic approach to gathering, storing, and reporting data pertaining to workload, workhours, and mail processing machine use.

We recommend the vice president, Network Operations:

1. Ensure the implementation activities of processing and distribution center consolidations begin immediately after area mail processing proposal approval and require headquarters' approval when implementation is delayed more than 3 months.
2. Enable the automatic feed into the Web Management Operating Data System for Express Mail scanning operations.

Management's Comments

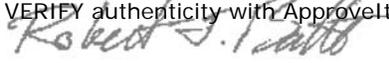
Management agrees with the findings and recommendations. Specifically, for recommendation 1, management agreed to begin implementation activities for AMP proposals immediately after the proposal is approved and to require headquarters' approval if implementation timeline takes longer than 3 months. For recommendation 2, management agreed to complete a cost benefit analysis by the end of fiscal year (FY) 2010 to determine whether they should automate the current manual system and to seek funding for implementation if results are favorable. See [Appendix C](#) 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 considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation 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 Magalski, director, Network Optimization, or me at (703) 248-2100.

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The U.S. Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in First-Class Mail[®] (FCM) volume over the past decade. Since peaking at 213 billion pieces in FY 2006, mail volume dropped by more than 9 billion pieces in FY 2008 and more than 25 billion in FY 2009, resulting in a net loss of \$3.8 billion.³ Another decline of 10-15 billion pieces is anticipated for FY 2010.

While the Postal Service reduced expenses by almost \$6.1 billion in FY 2009, this reduction has not been sufficient to fully offset the decline in mail volume and rising workers' compensation and retirement costs. In recent testimony before Congress,⁴ the U.S. Government Accountability Office (GAO) recommended that urgent action was needed to streamline the mail processing and retail networks, as the Postal Service no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. Furthermore, the GAO stated it was necessary for the Postal Service to consider whether it was cost effective to retain underused facilities and to take action to right-size its network. In 2003, the President's Commission on the Postal Service found the Postal Service had more facilities than it needed and noted the agency faced political resistance to closing or consolidating its facilities, along with restrictive statutory requirements.

In 2008, the Postal Service revised Handbook PO-408 to improve the consistency of data and the implementation process. AMP consolidations are designed to make more efficient use of Postal Service assets such as equipment, facilities, staffing, and transportation; improve operational efficiency and/or service; and eliminate excess mail processing capacity at Postal Service facilities. An AMP may involve consolidating originating operations (canceling and sorting locally generated mail), destinating operations (sorting and preparing mail received from more distant areas for local delivery), or both.

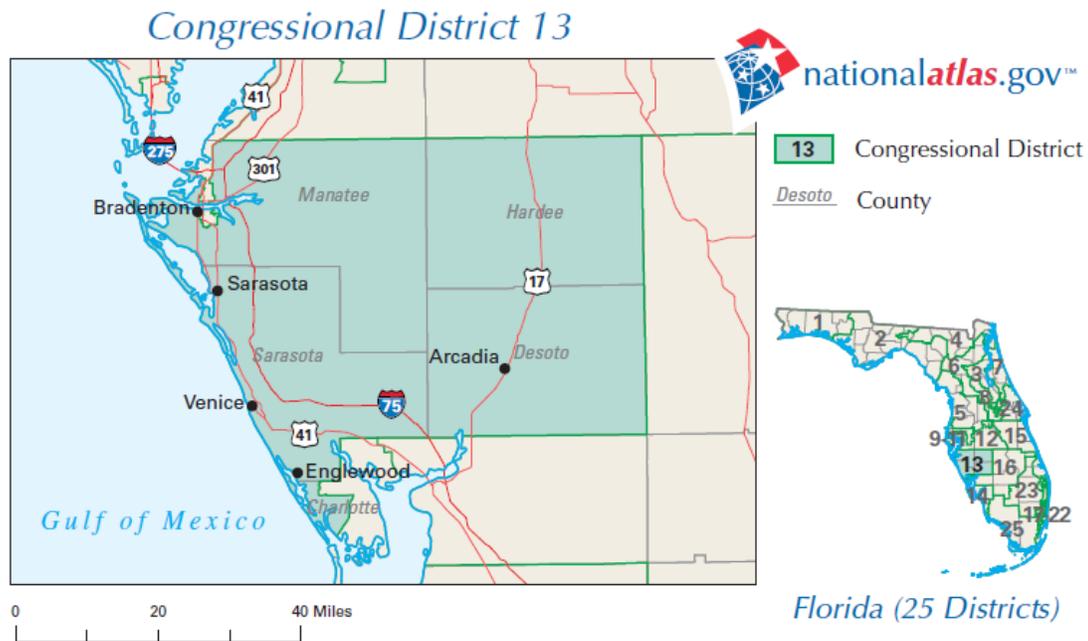
This report also responds to a request from a Congressional Representative of Florida's 13th Congressional District (see Map 1) to examine the consolidation of outgoing mail processing operations from the Manasota P&DC into the Tampa P&DC. Congressional concerns included:

- Possible loss of jobs
- Continued effectiveness of mail operations
- Continued quality of service
- Public transparency

³ Excludes \$4 billion in required payments for retiree health benefits passed into law for FY 2009.

⁴ GAO-09-475T, *Testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives*, dated March 25, 2009.

Map 1: Florida's 13th Congressional District

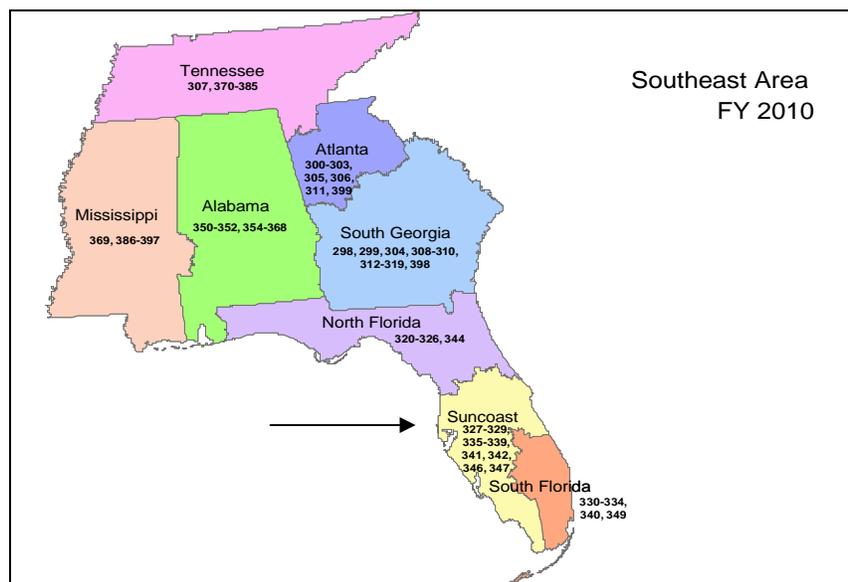


The Postal Service conducted an AMP study in November 2008 to determine if it could increase efficiency by consolidating Manasota P&DC outgoing⁵ mail processing operations into the Tampa P&DC. The Tampa P&DC was already processing Manasota P&DC outgoing mail on Saturdays. The Manasota P&DC will continue to process their incoming (destinating) mail. The consolidation is scheduled to shift approximately 382,519 pieces of average daily volume. The Manasota P&DC is approximately 51 miles from the Tampa P&DC. Both facilities are part of the Suncoast District in the Southeast Area (see Map 2).

The Suncoast District already consolidated originating mail processing from the St. Petersburg P&DC in June 2008 and from the Lakeland P&DC in October 2009 into the Tampa P&DC.

⁵ Mail originating at the Manasota P&DC from collections, window units, or business mail acceptance.

Map 2: Districts Within the Postal Service Southeast Area



OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to assess operational impacts of the consolidation and compliance with established policies. In response to the congressional request, we evaluated the efficiency gains, savings projections, service implications, and public transparency of the Manasota P&DC into the Tampa P&DC consolidation proposal.

We reviewed current and historical data for both the Manasota and Tampa P&DCs. We examined data for FY 2008 (October 1, 2007 through September 30, 2008) to confirm information on the AMP worksheets. Additionally, we conducted observations at both sites during the week of August 3, 2009, interviewed Postal Service officials and employees, and reviewed applicable guidelines, including Handbook PO-408.

We used computer-processed data from the following systems to analyze workhours, mail volumes, staffing, service, transportation, and maintenance:

- Activity-Based Costing
- Collection Point Management System
- Enterprise Data Warehouse (EDW)
- Facility Access and Shipping Tracking
- Service Standard Directory
- Web Complement Information System
- Web Enterprise Information System

We did not test the reliability of computer-generated data from these systems. Another OIG audit⁶ identified root causes of anomalous MODS data and noted changes the Postal Service implemented in 2008 to reduce these occurrences.

We conducted this performance audit from July 2009 through February 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 Southeast Area management on December 8, 2009 and with Postal Service Headquarters officials on December 17, 2009 and included their comments where appropriate.

⁶ *Follow-Up Audit of the Management Operating Data System*, Report Number CRR-AR-09-004, dated April 14, 2009.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Area Mail Processing Guidelines</i>	NO-AR-06-001	12/21/2005	The AMP process was fundamentally sound. However, management could improve the process by updating AMP guidance, processing and approving AMPs timely, conducting Post-Implementation Reviews (PIR) on all AMPs, and addressing stakeholder resistance. Management agreed with the findings and recommendations.
<i>Status Report on the Evolutionary Network Development Initiative</i>	NO-MA-06-001	03/20/2006	The Postal Service is taking an incremental approach to streamlining the mail processing networks using the Evolutionary Network Development initiative as a framework. This represents a shift from its initial focus of optimizing the performance of the entire mail processing and transportation infrastructure. The report did not include recommendations.
<i>Service Implications of Area Mail Processing Consolidations</i>	EN-AR-07-002	12/05/2006	The Postal Service could improve the way it documents service impacts in AMP proposals and PIRs. Management could improve the process if it revised AMP policy to include guidance for reporting service standards information; measuring service performance; and documenting potential changes affecting customer service, such as collection box pick-up times and access to the business mail entry unit. Management agreed with our recommendations.
<i>Management Advisory - Automated Area Mail Processing Worksheets</i>	EN-MA-08-001	10/19/2007	The Postal Service's revisions to AMP guidance have resulted in significant improvements. Management incorporated 32 prior OIG audit recommendations on AMP policy into the revisions. Additional enhancements could further improve AMP guidance with regard to such things as workhours, transportation, communication, service, performance indicators, and supervisory ratios. Management agreed with our recommendations.
<i>Area Mail Processing Communication</i>	EN-AR-09-001	02/04/2009	We concluded the Postal Service has improved communication and generally addressed prior audit recommendations. We recommended several methods of further increasing stakeholder notification, including exploring electronic methods. Management agreed with our recommendation to add employee input notifications, but disagreed with our recommendation to explore additional communication channels.

APPENDIX B: DETAILED ANALYSIS

Operational Impacts

Staff reductions seem reasonable based on proposed AMP projections.⁷ The transfer of outgoing mail processing operations from the Manasota P&DC to the Tampa P&DC will impact 59 positions at the Manasota P&DC, with an estimated net reduction of 34 positions. Management plans to accomplish this by:

- Moving 25 employees to the Tampa P&DC;
- Reducing complement through attrition and retirement; and
- Transferring employees to other local facilities.

Management is following procedures outlined in the national agreements between the Postal Service and the impacted unions, including notification of unions and employees.

In a national effort to consolidate excess capacity, the Tampa and Manasota P&DCs are in the process of reducing complement due to mail volume reductions. As of November 2009, the Manasota P&DC has reduced complement at the Manasota P&DC by 34 positions. These reductions are in addition to the complement reductions associated with the consolidation. Table 1 shows changes that have occurred based on this initiative, along with AMP projections.

Table 1: Manasota P&DC Complement Changes

	Positions On-Rolls			AMP Consolidation Positions			
	AMP Nov-08	Nov-09	Change	Proposed	Impacted	Move to Tampa	Net Reduction
Craft	366	337	(29)	315	(51)	24	(27)
Management	32	27	(5)	24	(8)	1	(7)
Total	398	364	(34)	339	(59)	25	(34)

Efficiency Gains

Processing productivity⁸ increased for the Manasota and Tampa P&DCs from FY 2008 to FY 2009. Prior to any consolidations, the Tampa P&DC had a 56.9 percent Breakthrough Productivity Initiative (BPI)⁹ performance achievement in FY 2007, which has steadily improved since then to 67.8 percent in November 2009.¹⁰ BPI performance

⁷ AMP proposal approved by headquarters on March 24, 2009.

⁸ Total pieces handled volume divided by workhours.

⁹ Initiative to help focus and structure process improvement efforts to drive productivity growth.

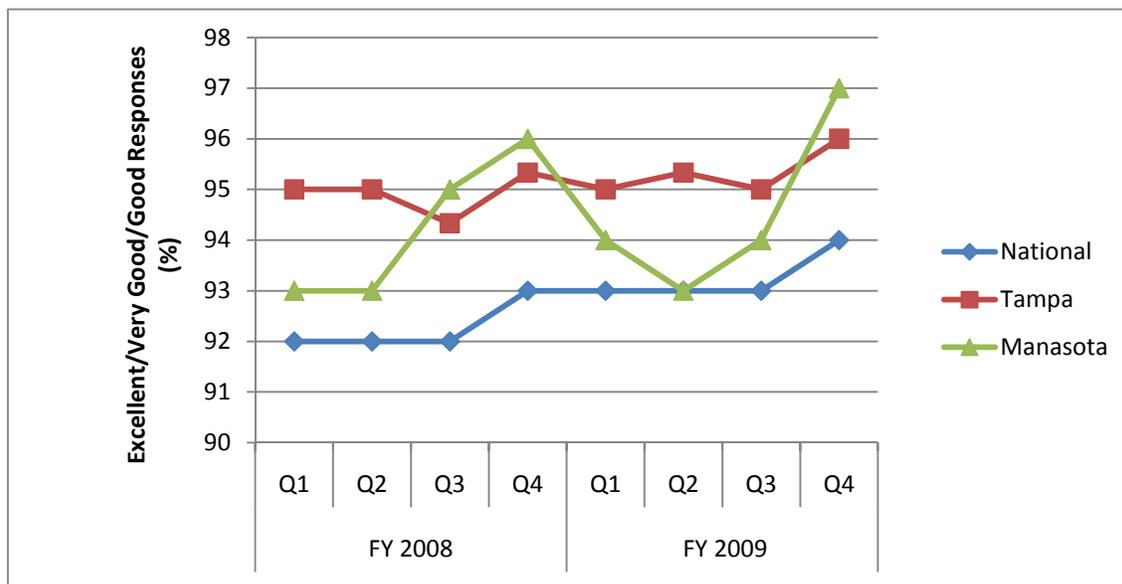
¹⁰ FY 2010 BPI scorecard generated November 23, 2009.

achievement¹¹ for the Manasota P&DC has declined from 75.4 percent in FY 2008 to 73.1 percent in November 2009.

However, the cost for standby operations¹² also increased from \$53,945 in FY 2008 to \$100,074 in FY 2009, due to declines in mail volume. Challenges remain to reduce workhours to match volume declines due to the lack of workforce flexibilities.

Customer Satisfaction Measurement¹³ scores for the Tampa and Manasota P&DCs were generally higher than the national level during FYs 2008 and 2009. See Table 2 for trends.

**Table 2: Residential Overall Performance Trend
Tampa and Manasota P&DCs
Fiscal Years 2008 and 2009**



Source: Customer Knowledge Management, Consumer Affairs

The Tampa P&DC is 51 miles from the Manasota P&DC and volumes will be moved on existing and modified transportation, with little or no additional cost to the Postal Service. Transportation supporting the Manasota P&DC is exclusively highway contract route.

¹¹ BPI performance achievement is the earned hours (hours they should have used based on the target) divided by the actual workhours. If the actual hours used is higher than the earned hours, then the BPI percent will be lower than 100 percent.

¹² Workhours of mail processing employees who are kept on the clock, but are idle as a result of lack of work or low volume periods.

¹³ Gallup survey scores that are based on customer experience.

Savings Projections

Projected savings are realistic and attainable based on current available data. Through increased productivity gained by moving the outgoing operations, transportation changes, and the reduction of 34 positions, the Suncoast District projects to save about \$3.2 million annually. The majority of the savings will come from \$3 million in reduced labor costs. The Postal Service will not know actual savings until 1 year after implementation and will assess the savings as part of the PIR process.

Service Implications

Net service standards¹⁴ will improve for all categories previously processed at the Manasota P&DC, except Standard Mail, which remains within the 3-10 day standard range. All other downgrades remain within the standard for that category. Table 3 lists the service standard impacts that will result from the consolidation.

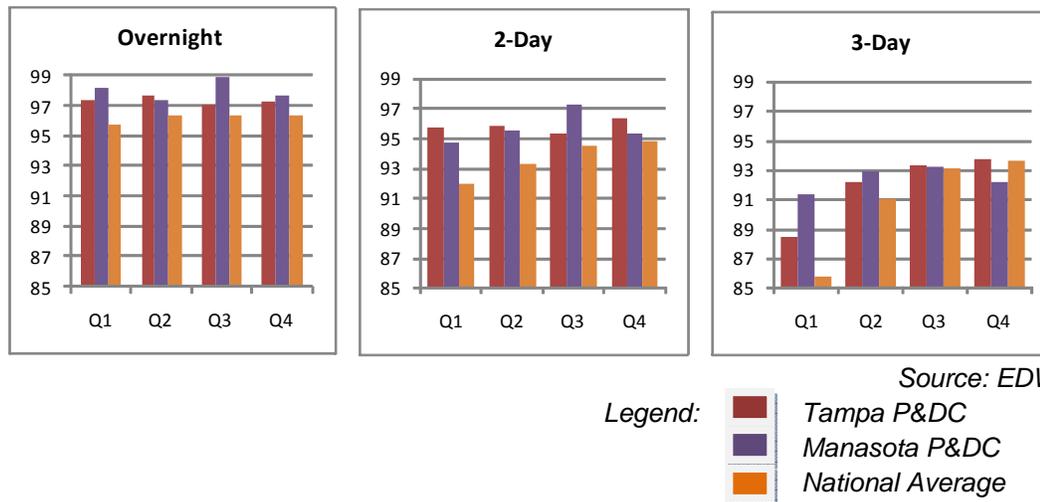
Table 3: Service Standard Impacts			
	Upgrades	Downgrades	Net Change
First-Class Mail	11	0	11
Priority	1	0	1
Periodicals	22	21	1
Standard	3	5	-2
Packages	3	1	2
Total	40	27	13

External First-Class Measurement (EXFC)¹⁵ scores for the Tampa and Manasota P&DCs generally remained above the national average for FY 2009. Postal Service officials expect this performance to continue after the consolidation. See Table 4 for comparison.

¹⁴ A service standard is an expectation of the Postal Service to deliver a mailpiece to its intended destination within a prescribed number of days following proper deposit by a customer.

¹⁵ EXFC is a test an independent contractor performs to measure the time it takes mail to go from mailbox to delivery customer.

**Table 4: Comparison of EXFC Scores
Fiscal Year 2009 – Quarterly Averages**



Due to the consolidation, one trip of Manasota originating volumes will arrive after 20:00, which will affect the 24-hour clock indicator¹⁶ “Collections by 20:00”. However, managers are cognizant of this issue and plan to make transportation accommodations to ensure timely arrival at the delivery unit.

There will be no changes to local mail collection box times or business mail entry unit operations as a result of the consolidation. In response to public input during the feasibility study process, management constructed a mail drop-slot at the Manasota P&DC for customers who prefer their mail to have a local Manasota postmark.

Public Transparency

Notice of initiation of the feasibility study, completion of the study, and approval of the consolidation was in accordance with AMP and AMP communication guidelines.

Specifically, the public input meeting was held within 45 days of completing the feasibility study, with 15 days for feedback after the meeting. In addition:

- Individual notification letters focused on the two counties that border the P&DC.
- Additional local and county officials received notice for the public meeting via the media.
- No other meetings/hearings were required or requested.

¹⁶ The 24-hour clock indicators show how key operations affect each other and may influence service. Each indicator is a key link in providing service to downstream facilities and customers. Scores are compared nationally and used locally by managers to address service performance issues.

AMP worksheets can contain commercially sensitive information, the public disclosure of which could cause competitive harm to the Postal Service. As a result, worksheets have to be reviewed and sensitive data redacted according to Postal Service guidance before public disclosure.

Although the Postal Service takes into account community impact/opposition, it is mandated to operate like a business and has the fiduciary responsibility to make good business decisions. Due to the dramatic decline in mail volume, the Postal Service must reduce its mail processing operations to eliminate excess capacity in the network.

Delayed Implementation

The Manasota P&DC consolidation was delayed 6 months after it was approved. Both the Lakeland and Manasota P&DC consolidation proposals were submitted and approved concurrently; however, they were implemented sequentially into the Tampa P&DC. Postal management chose to delay the Manasota P&DC consolidation due to the complexity of implementing both consolidations at the same time into the same facility. Below is the sequence of key events:

- Headquarters notified of both AMP studies: October 30, 2008
- District requests to defer Manasota P&DC AMP: December 30, 2008
- Headquarters approves both AMPs: March 24, 2009
- Lakeland P&DC begins implementation: August 10, 2009
- Lakeland P&DC implementation complete: October 1, 2009
- Manasota P&DC begins implementation: October 1, 2009
- Manasota P&DC implementation completion scheduled: April 1, 2010

AMP Worksheets

We found the following population and data entry errors during the review of the AMP worksheets:

- Select Express Mail volume data did not download from the Web Management Operating Data System (WebMODS). As a result, there were missing volumes data on Manasota AMP worksheets. Manasota's volume was understated by 152,909 pieces. This could have been minimized if the automatic feed had been enabled in WebMODS.
- Express Mail volumes and workhours that were downloaded by Postal Service Headquarters and used to populate the worksheets did not transfer over to the appropriate worksheets. Specifically, there were 2,335 workhours for Manasota that did not transfer and therefore, excluded from the total workhours. Additionally, Tampa's data was understated by 1,019,262 pieces of mail volume and 21,697 workhours on the gaining facility worksheets that also did not transfer. Postal

Service Headquarters has updated the AMP methodology to correctly match the current MODS operation list.

Missing and inaccurate volumes and workhours data for the Manasota AMP, while systemic, did not have a material impact on the proposed savings. Management stated adjustments would be made during the PIR to account for the errors.

APPENDIX C: MANAGEMENT'S COMMENTS

JORDAN M. SMALL
VICE PRESIDENT, NETWORK OPERATIONS



February 3, 2010

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SUBJECT: Draft Audit Report – Manasota Processing and Distribution Center
Consolidation (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:

Ensure the implementation activities of processing and distribution center consolidations begin immediately after area mail processing proposal approval and require headquarters' approval when implementation is delayed more than 3 months.

Response:

Management agrees in principle with this recommendation. Chapter 6 of Handbook PO-408, *Area Mail Processing (AMP) Guidelines* provides the timeframe for the transition and implementation of an AMP. Implementation occurs on the first day of a quarter, when the gaining facility attains all mail volumes, mail processing equipment, and staffing changes in the AMP proposal. This implementation date is used to determine dates for subsequent post-implementation reviews. It is expected that the overall implementation occur within six months which allows time for the movement of the equipment and mail and for staffing changes which includes the time that is required to comply with applicable collective bargaining agreements between the Postal Service and its employee organizations. It is important to note that the timing of the AMP may be impacted by many factors occurring in the processing environment such as the acquisition of equipment or the renovation of the workroom floor.

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The implementation activities for an AMP proposal will begin as soon as it is approved. The first implementation activity will notify the unions of the approved AMP and the potential staffing impacts. The timeline for the implementation schedule is the next activity to occur and must be received at headquarters two weeks after the approval. If the implementation timeline requires more than 3 months, headquarters' approval will be required. This is likely to occur if approval occurs in the middle or latter part of a quarter or there are other events, as described above, since the implementation date must occur on the first day of the quarter.

Recommendation 2:

Enable the automatic feed into the Web Management Operating Data System for Express Mail scanning operations.

Response:

Management agrees that there is potential opportunity to automatically feed Express Mail scan event data from the Product Tracking System for piece level accounting in Management Operating Data System. We are working with the Product Information Requirements group to develop the requirements and costs involved. A cost to benefit analysis will be performed and determine whether the current manual process should be automated. The analysis will be completed by the end of fiscal year 2010. Once the analysis is complete, if favorable, then we would need to seek funding approval, which requires this initiative be prioritized with other funding requests.

The report does not contain any information that should be exempt from disclosure under the Freedom of Information Act. If you have any questions or require additional information regarding our responses to the recommendations, please contact Frank Neri, Manager, Processing Operations at 202-268-5556.



Jordan Small

- cc: Mr. Forte
- Ms. Mehra
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