



February 12, 2010

LINDA J. WELCH
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Lakeland Processing and Distribution Center Consolidation
(Report Number EN-AR-10-004)

This report presents the results of our audit of the consolidation of the Lakeland, FL Processing and Distribution Center (P&DC) outgoing mail operations to the Tampa, FL P&DC (Project Number 09XG031EN000). The report responds to a congressional request. Our 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.

Conclusion

There was a valid business case for consolidating mail processing operations from the Lakeland 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. Because our findings support the consolidation, we are not making any recommendations. See [Appendix B](#) for our detailed analysis of this topic.

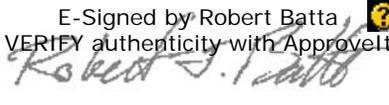
Management's Comments

Management agreed with our conclusions and the report did not have any recommendations. Management reiterated in their comments that accommodations were made so First-Class Mail (FCM) and Priority mail originating in Lakeland and returning to Lakeland will remain overnight service. See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

Although the report does not contain any recommendations, the U.S. Postal Service Office of Inspector General considers management's comments responsive.

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.

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Jordan M. Small
Frank Neri
Tiffany Hagaman
Mary J. Mahnke
David M. Patterson
Sally K. Haring

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 FCM volume over the past decade. Since peaking at 213 billion pieces in fiscal year (FY) 2006, mail volume dropped 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.¹ Another decline of 10-15 billion pieces is anticipated for FY 2010.

Although 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,² 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 indicated it was necessary for the Postal Service to consider whether it was cost effective to retain underutilized 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.

The Postal Service revised Handbook PO-408, *Area Mail Processing Guidelines*, in 2008 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 plants/facilities. AMP may involve the consolidation of originating operations (canceling and sorting locally generated mail), destinating operations (sorting and preparing mail received from more distant areas for local delivery), or both.

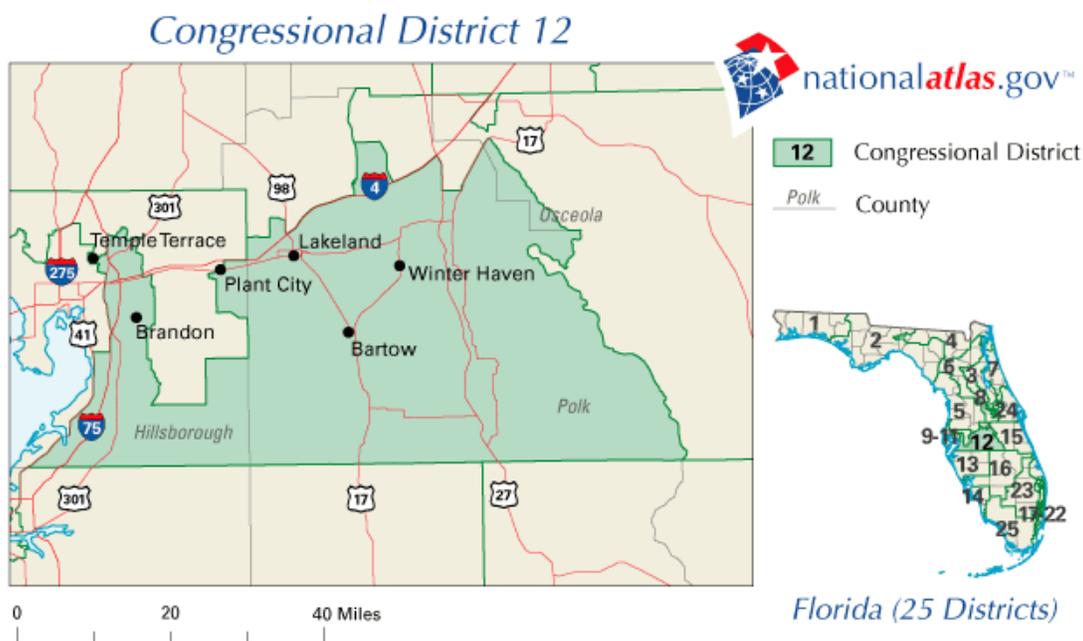
This report also responds to a request from a Congressional Representative of Florida's 12th Congressional District (see map 1) to examine the consolidation of outgoing mail processing operations from the Lakeland P&DC into the Tampa P&DC. Congressional concerns included:

¹ Excludes \$4 billion in required payments for retiree health benefits passed into law for FY 2009.

² 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.

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

Map 1: Florida's 12th Congressional District



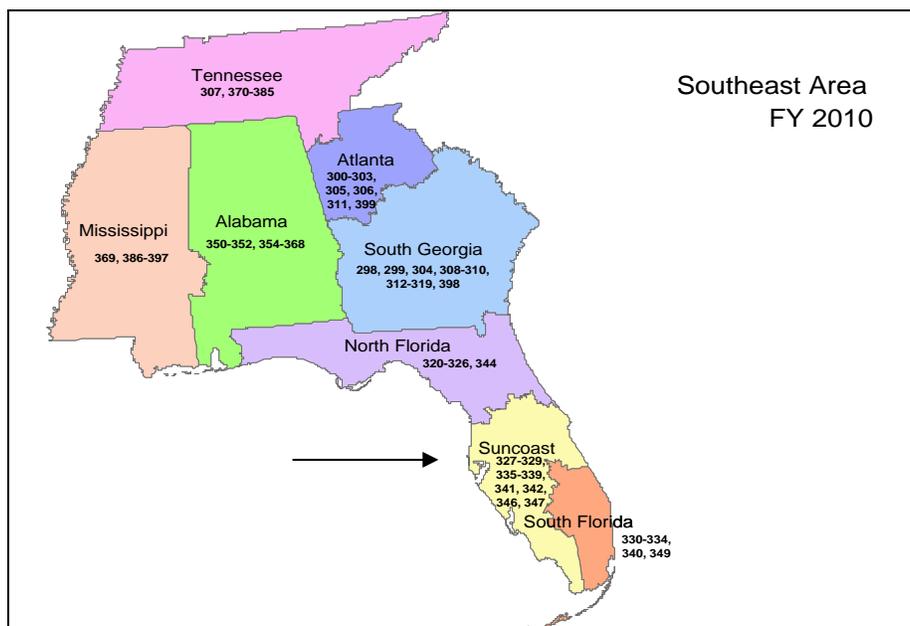
The Postal Service conducted an AMP study in November 2008 to determine whether it would increase efficiency by consolidating Lakeland P&DC outgoing³ mail processing operations into the Tampa P&DC. The Tampa P&DC was already processing Lakeland P&DC outgoing mail on Saturdays. In October 2009, Lakeland's originating daily volume of approximately 237,689 pieces was consolidated into the Tampa P&DC. The Lakeland P&DC continues to process its incoming (destinating) mail.

The Lakeland P&DC is approximately 39 miles from the Tampa P&DC. Both facilities are part of the Suncoast District in the Southeast Area (see map 2).

The Suncoast District consolidated originating mail processing from the St. Petersburg P&DC into the Tampa P&DC in June 2008. The Manasota P&DC consolidation into the Tampa P&DC is scheduled for completion by April 2010.

³ Mail originating at the Lakeland 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 operational impacts, efficiency gains, cost savings, and service implications of the Lakeland P&DC into the Tampa P&DC consolidation proposal.

We reviewed current and historical data for the Lakeland and the 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. However, we checked the accuracy and reasonableness of the data by confirming our analysis and results with management.

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 management on December 8, 2009, and included their comments where appropriate.

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 the proposed AMP projections.⁴ The transfer of outgoing mail processing operations from the Lakeland P&DC to the Tampa P&DC will impact 39 positions at the Lakeland P&DC, with an estimated net reduction of 31 positions. Management plans to accomplish this by:

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

Management followed 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 Lakeland P&DCs are reducing complement due to mail volume reductions. As of November 2009, the Lakeland P&DC has reduced complement by 43 positions. These reductions are in addition to the complement reductions associated with the consolidation. Table 1 illustrates changes that have occurred based on this initiative, along with the AMP projections.

Table 1: Lakeland P&DC Complement Changes

	Positions On-Rolls			AMP Consolidation Positions			
	AMP Nov-08	Nov-09	Change	Proposed	Impacted	Moved to Tampa	Net Reduced
Craft	211	174	(37)	177	(34)	7	(27)
Management	21	15	(6)	16	(5)	1	(4)
Total	232	189	(43)	193	(39)	8	(31)

Efficiency Gains

Processing productivity⁵ increased for the Tampa P&DC from FY 2008 to FY 2009. Prior to any consolidations, the Tampa P&DC had a 56.9 percent Breakthrough Productivity Initiative (BPI)⁶ performance achievement in FY 2007, which has steadily improved since then to 67.8 percent in November 2009.⁷ At the same time, BPI performance achievement for the Lakeland P&DC has remained relatively steady with numbers ranging from 69.7 percent in FY 2008 to 69.8 percent, as of November 2009.

⁴ AMP proposal approved by headquarters on March 24, 2009.

⁵ Total Pieces Handled volume divided by workhours.

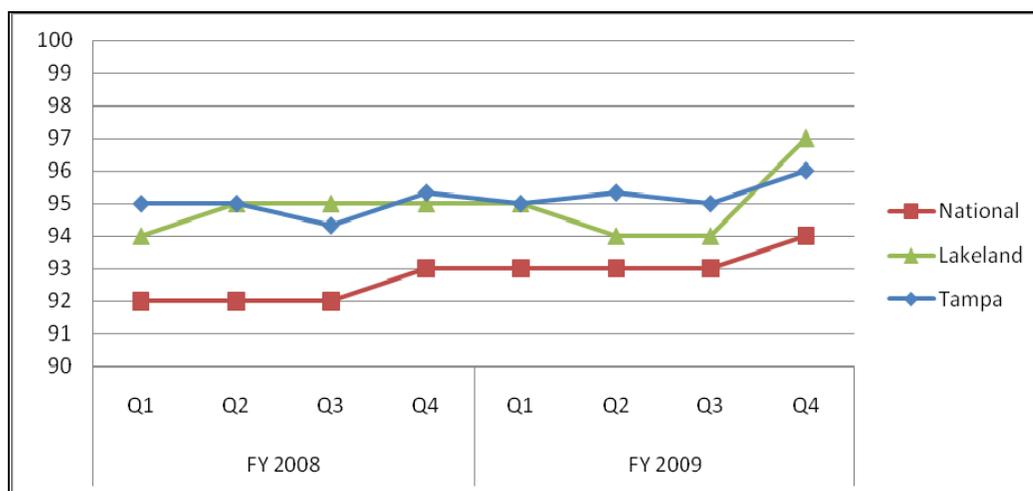
⁶ Initiative to help focus and structure process improvement efforts to drive productivity growth.

⁷ FY 2010 BPI scorecard generated November 23, 2009.

However, the cost for standby operations⁸ also increased from \$2,302 in FY 2008 to \$69,466 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 Measurement⁹ scores for the Tampa and Lakeland P&DCs were higher than the national level for each quarter in FY 2008 and FY 2009. See table 2 for trend chart.

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



Source: Customer Knowledge Management, Consumer Affairs

The Tampa P&DC is approximately 39 miles from the Lakeland P&DC, and volumes are being moved on existing and modified transportation, with little or no additional cost to the Postal Service. Transportation supporting the Lakeland P&DC is exclusively highway contract route.

Cost Savings

Projected annual 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 31 positions, the Suncoast District projects to save about \$1.5 million annually. The majority of the savings will come from almost \$1.4 million in reduced labor costs. Actual savings will not be known until 1 year after implementation and will be assessed as part of the PIR process.

⁸ 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.

⁹ Gallup survey scores that are based on customer experience.

Service Implications

Net service standards¹⁰ improved for all categories of mail previously processed at the Lakeland P&DC. Our analysis of the Service Standard Directory (SSD) data showed two additional service downgrades that were not reported on the AMP proposal. These downgrades were in FCM and Priority Mail originating in Lakeland, being transported to the Tampa P&DC for processing and then returning to Lakeland for delivery. During our discussions with management about this issue, they stated that accommodations will be made so FCM and Priority mail originating in Lakeland and returning to Lakeland will remain overnight. Table 3 shows impacts to the service standards based on the AMP proposal.

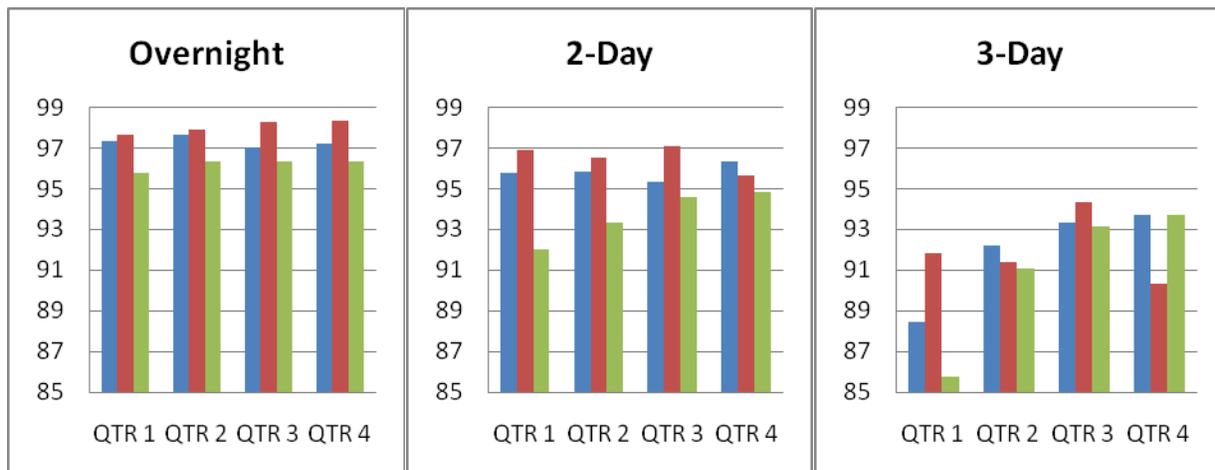
Table 3: Service Standard Impacts			
	Upgrades	Downgrades	Net Change
FCM	5	1*	4
Priority	5	1*	4
Periodicals	10	1	9
Standard	3	1	2
Packages	3	1	2
Total	26	5	21
(*) Indicate downgrades not reflected in the AMP proposal			

External First-Class Measurement (EXFC)¹¹ scores for the Tampa and Lakeland P&DCs generally remained above the national average for FY 2009. Postal Service officials expect that performance to continue with the consolidation. See table 4 for comparison.

¹⁰ 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 postal customer.

¹¹ 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**



Source: EDW

Legend:



Because of the consolidation, Lakeland P&DC originating volumes will arrive after 20:00, which will affect the 24-Hour Clock indicator¹² “Collections by 20:00.” However, managers are cognizant of this issue and have made transportation accommodations to ensure timely arrival at the delivery unit.

There were no changes to local mail collection box times or business mail entry unit operations as a result of the consolidation. A Lakeland postmark remains available at the retail unit and wall drop at the Lakeland P&DC.

Public Transparency

Notice of initiation of the feasibility study, completion of the study, and approval of the consolidation was done in accordance with AMP and AMP communication guidelines. Specifically, the public input meeting was held within 45 days of completion of the feasibility study and 15 days were provided for feedback after the meeting.

Both draft and final 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.

¹² 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.

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. Because of the dramatic decline in mail volume, the Postal Service must reduce its mail processing operations to eliminate excess capacity in the network.

APPENDIX C: MANAGEMENT'S COMMENTS

Linda J. Welch
VICE PRESIDENT, AREA OPERATIONS (A)
SOUTHEAST AREA



February 2, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

Subject: Draft Audit Report – Lakeland Processing and Distribution Center Consolidation
(Report Number EN-AR-10-DRAFT)

This is our revised response to the subject draft letter.

We agree with the OIG conclusions concerning increased efficiencies, reduced cost, and improved service performance that will result from the implementation of the AMP. Because the OIG findings supported the consolidation, no recommendations were made.

We would like to reiterate a statement made on page 9 of the report concerning service downgrades. "During our discussions with management about this issue, they stated that accommodations will be made so FCM and Priority mail originating and returning to Lakeland will remain overnight." These accommodations have been made. Transportation is in place to provide all Lakeland originating mail to Tampa in time for processing along with Tampa's originating overnight mail and also to return the "turnaround" mail to Lakeland in time to maintain overnight service.

We do not feel any portion of this report is exempt from disclosure under the FOIA.

A handwritten signature in black ink that reads "Linda J. Welch".

Linda J. Welch

cc: Victoria Walker, OIG
David M. Patterson, Suncoast District Manager
Gwen Green, Southeast Area Finance Manager

225 N HUMPHREYS BLVD
MEMPHIS TN 38106-0100
901/747-7333
FAX: 901/747-7444