



March 31, 2011

ROBERT A. CAVINDER
DISTRICT MANAGER, APPALACHIAN DISTRICT

SUBJECT: Audit Report – Huntington, WV Processing and Distribution Facility
Consolidation (Report Number EN-AR-11-003)

This report presents the results of our audit of the Huntington, WV Processing and Distribution Facility's (P&DF) proposed consolidation of mail processing operations into the Charleston, WV Processing and Distribution Center (P&DC) (Project Number 11XG002EN000). The report responds to a congressional request. Our objectives were to assess the business case and operational impacts of the proposed consolidation. This audit addresses financial and operational risks. See [Appendix A](#) for additional information about this audit.

Illustration 1: The Huntington, WV P&DF and Post Office



2010 was a difficult year for both the U.S. economy and the Postal Service. As the economy weakened, mail volume and revenue continued to decline. The Postal Service attempted to address these challenges with focused cost reductions and increased efficiency. One initiative to reduce costs is area mail processing (AMP) consolidations, which consolidate mail volume from two (or more) Postal Service processing facilities into one to improve operational efficiency and/or service.

Conclusion

A valid business case exists to consolidate mail processing operations from the Huntington P&DF into the Charleston P&DC to achieve cost savings of approximately \$3.5 million annually. Based on our analysis—

- Customer service scores should be maintained or improved, but there is potential for some temporary service degradations during implementation.
- Adequate capacity exists to process originating and destinating mail volume at the Charleston P&DC.
- Efficiency at the Charleston P&DC should improve with additional mail volume from the Huntington P&DF.
- There are minimal security risks to the mail. Biohazard protection equipment is available at the Charleston P&DC and contingency plans are in place for processing the mail.
- No career employee should lose their job, although there might be some reassignments.
- The consolidation will have minimal impacts on bulk mail discounts.
- A local postmark will remain available.
- Charleston P&DC electrical systems will be upgraded to accommodate mail processing equipment transferred from the Huntington plant.

We identified additional savings of \$105,166 in annual maintenance costs and an increase in transportation costs of \$13,361 during fieldwork. Management corrected both discrepancies during our review and this should not impact the consolidation. We believe an on-site implementation team would assist with the consolidation, but are not making a recommendation since we addressed this issue in a prior audit report.¹ We will report the additional savings in maintenance costs as predicted savings shortfall. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our other impact calculations.

Because there were no recommendations in this report, management did not provide comments.

¹ *Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation*, EN-AR-11-004, March 31, 2011.

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 e-Sign
Robert J. Batta

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachment

cc: Patrick R. Donahoe
Megan J. Brennan
David E. Williams
John L. Prokity
Damon M. Manz
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history and incurred a net loss of \$8.5 billion² in fiscal year (FY) 2010. A significant portion of this loss is attributed to the continual decline in First-Class Mail[®] (FCM). The Postal Service experienced a 20-percent loss of mail volume over the past 4 years, resulting in a decline of more than 6 billion pieces during 2010. Although the Postal Service has reduced expenses by \$11 billion over the past 3 years, it has not sufficiently offset the decline in mail volume and related revenue.

In testimony before Congress in June 2010,³ the U.S. Government Accountability Office (GAO) found that deteriorating financial conditions and declining mail volume have reinforced the Postal Service's need to increase operational efficiency and reduce expenses in its mail processing network. GAO states that one of the initiatives, AMP proposals, are intended to reduce costs and increase efficiency by making better use of excess capacity or underused resources, primarily at Postal Service P&DCs. The Postal Service AMPs 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.

Title 39 U.S.C., § 101, Part 1, Chapter 1, states that the Postal Service "...shall provide prompt, reliable, and efficient services to patrons in all areas..." Further, the September 2005 Postal Service *Strategic Transformation Plan* states, "The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates." The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20, 2006 highlights "... the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services. . . ."

This report responds to a congressional request from Congressman Nick Rahall of West Virginia's 3rd Congressional District (see Map 1) to examine the consolidation of mail processing operations from the Huntington P&DF into the Charleston P&DC.

Congressional concerns included—

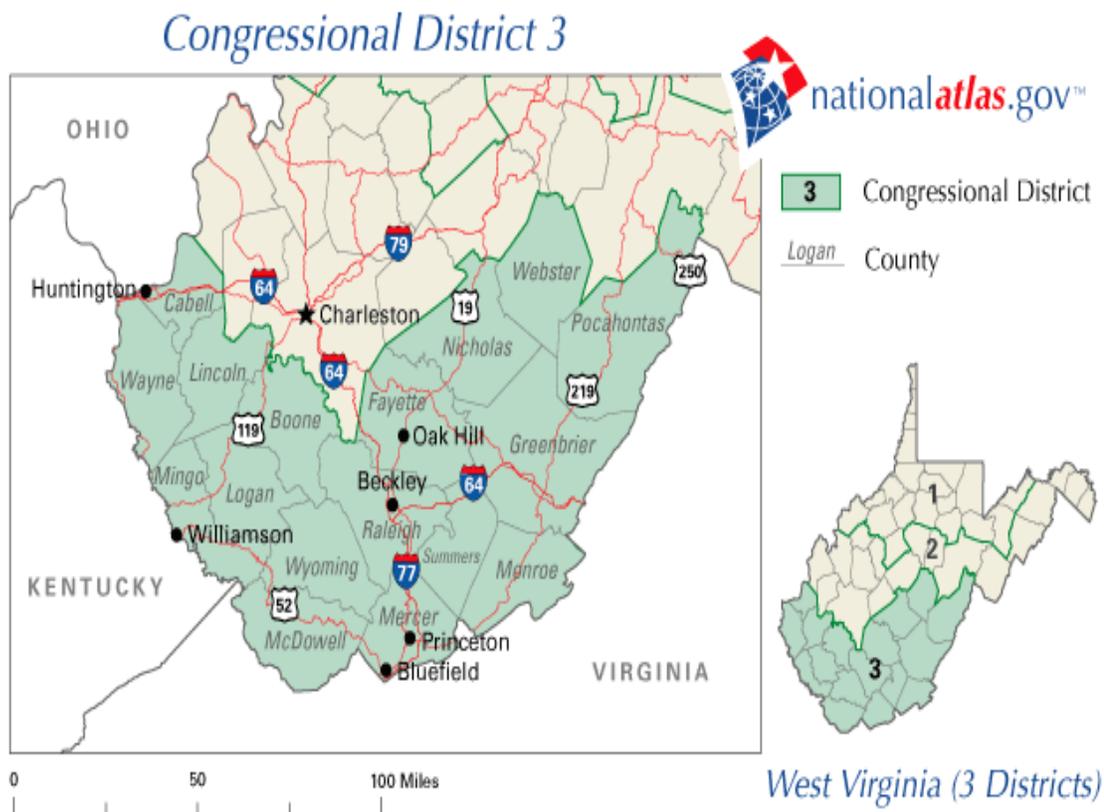
- Efficiency of mail operations.
- Quality of service performance.
- Transportation routes and costs.
- Impact on security and contingency plans for the mail.
- Possible loss of jobs and staffing relocations.

² Of this amount, \$5.5 billion occurred because of an annual legislative mandated obligation to prefund retiree health benefits.

³ Testimony to the Congressional Committees: *Mail Processing Network Initiatives Progressing and Guidance for Consolidating Area Mail Processing Operations Being Followed*, (GAO-10-731, dated June 2010).

- Impacts to bulk mail discounts, the local postmark, the local economy, and electrical power capacity at the Charleston P&DC.

Map 1: West Virginia's 3rd Congressional District



The AMP feasibility study included originating⁴ and destinating⁵ mail processing operations and was based on operational data from April 1, 2009, through March 31, 2010. The consolidation is scheduled to be implemented by March 31, 2011.

The Huntington and Charleston mail processing facilities are approximately 54 miles apart in the Appalachian District of the Postal Service's Eastern Area. Map 2 shows the location of the two facilities.

⁴ Originating operations are those associated with the acceptance and initial processing of mail that, for example, is either tendered at a Postal Service retail windows or bulk entry units, or is deposited in collection boxes. Originating processing marks the beginning stages of its journey in the mail stream.

⁵ Destinating operations are those associated with the final processing of mail that, for example, is either drop-shipped at various facilities or received from the network. Destinating processing marks the end stages of its journey in the mail stream.

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 March 24, 2011, and included their comments where appropriate.

We assessed the reliability of workhour, staffing, transportation, and service data by comparing our results with that reported in the AMP feasibility study and through discussions with Postal Service managers. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date
<i>Kansas City, Kansas Processing and Distribution Center Consolidation</i>	EN-AR-08-001	1/14/2008
<i>Marysville Processing and Distribution Facility Consolidation</i>	EN-AR-08-003	4/16/2008
<i>Detroit, Michigan Processing and Distribution Center Consolidation</i>	EN-AR-08-005	7/17/2008
<i>Mojave Post Office Consolidation</i>	EN-AR-08-006	9/17/2008
<i>Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-09-011	9/22/2009
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	2/1/2010
<i>Manasota Processing and Distribution Center Consolidation</i>	EN-AR-10-003	2/12/2010
<i>Lakeland Processing and Distribution Center Consolidation</i>	EN-AR-10-004	2/12/2010
<i>Southeast Area Processing and Distribution Center Consolidations</i>	EN-AR-10-006	9/17/2010
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010
<i>Consolidation of the Lima P&DF Mail Operations Into the Toledo P&DC</i>	NO-AR-10-007	7/2/2010
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010
<i>Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010

APPENDIX B: DETAILED ANALYSIS

Business Case

A valid business case exists to consolidate mail processing operations from the Huntington P&DF into the Charleston P&DC to achieve projected cost savings. In addition, our independent modeling of consolidation opportunities determined the Huntington consolidation had merit. Our model ranked consolidation of the Huntington P&DF into the Charleston P&DC in the top third (210 of 685) of potential consolidation scenarios.⁶

We determined management planned to implement the Huntington P&DF AMP proposal concurrently with the Beckley P&DF AMP proposal. There is an increased risk for mail delays and service interruptions when multiple facilities are consolidated into the same gaining facility at the same time. A team of functional experts onsite during implementation could help reduce risks for potential mail delays and service interruptions. Since we made a recommendation addressing implementation teams in a prior audit report, we are not making a similar recommendation.⁷

Projected savings appear realistic and attainable based on our analyses of available data. The Appalachian District projects to save approximately \$3.5 million annually through increased productivity gains from moving mail processing operations, transportation changes, and the reduction of 37 positions. The majority of the savings will come from reduced labor costs. One year after implementation the Postal Service will assess the savings as part of the post-implementation review process.

Service

The consolidation should have little overall impact on customer service. There is, however, a potential for some temporary degradation of service during the implementation process. Having an implementation team of functional area specialists onsite during the consolidation should help with potential service issues.

We reviewed three measures of customer service; the External First-Class measurement system (EXFC),⁸ the 24-hour clock performance indicators,⁹ and the projected service standard changes.

⁶ The model identifies full AMP consolidation opportunities using eight consistent, objective key indicators grouped into the following five categories: location, service, capacity utilized, facility type, and efficiency.

⁷ *Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation*, EN-AR-11-004, March 31, 2011.

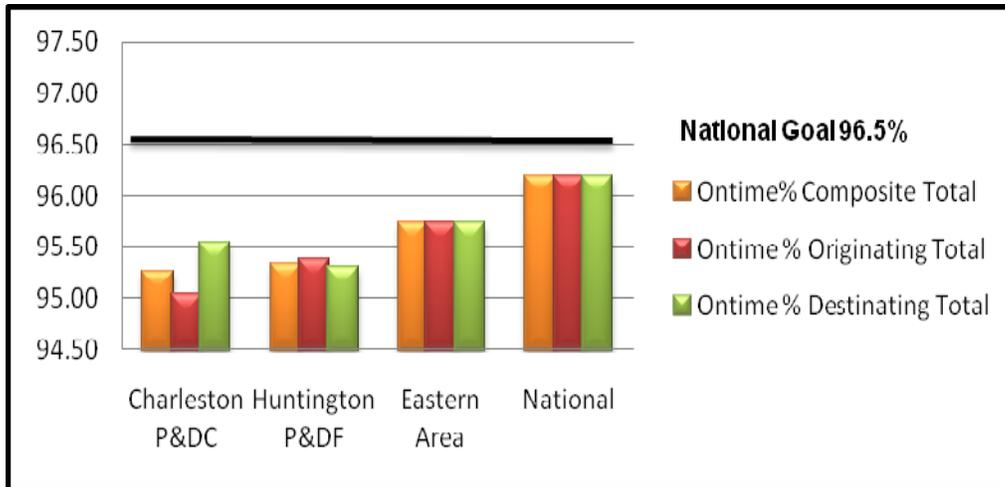
⁸ EXFC is a test an independent contractor performs to measure service performance for FCM (letters, flats, and postcards) from mailbox to delivery customer.

⁹ 24-Hour clock indicators measure key indicators of operating performance at mail processing plants, which may influence service.

EXFC Scores

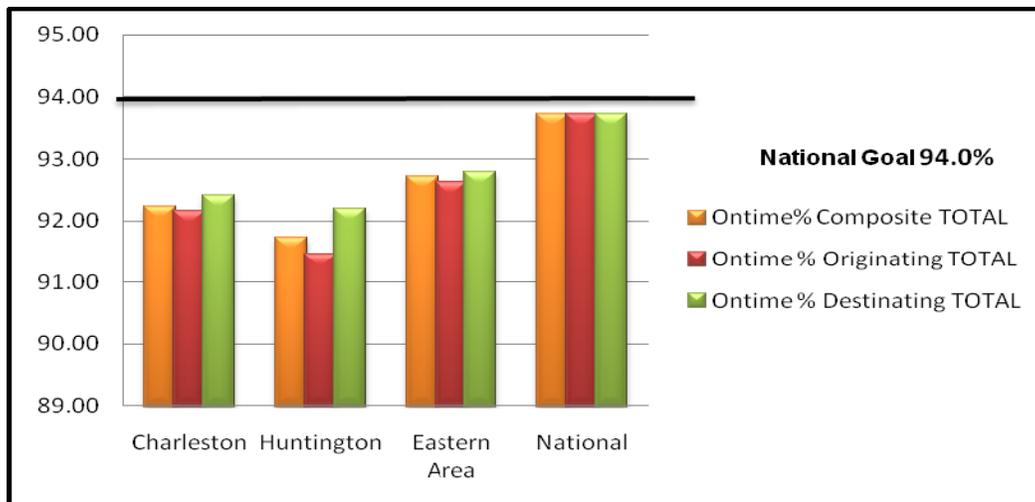
During the period April 1, 2009, through March 31, 2010, the Huntington P&DF had slightly higher EXFC overnight scores than the Charleston P&DC (see Chart 1).

**Chart 1: Charleston P&DC vs. Huntington P&DF Overnight EXFC Service Scores
April 1, 2009, through March 31, 2010**

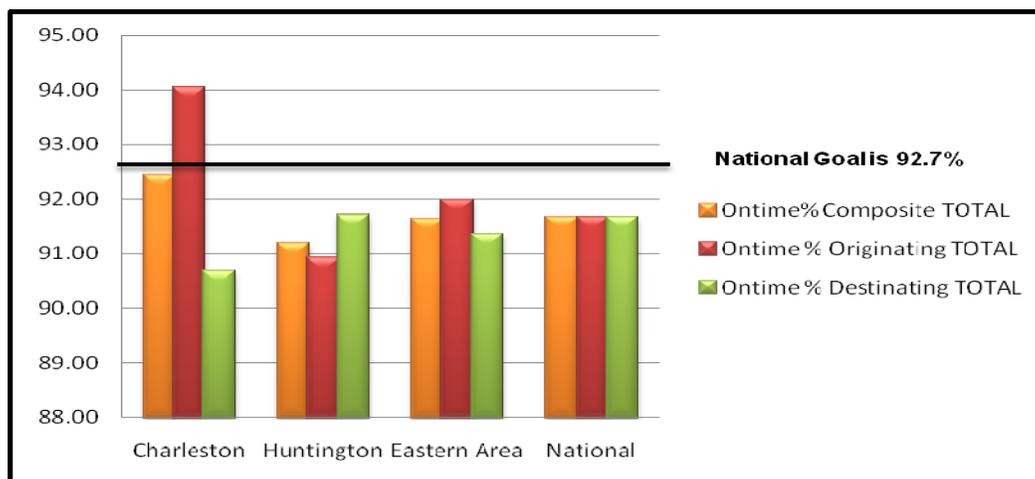


For 2-day and 3-day service performance, the Charleston P&DC's scores were generally higher than Huntington P&DF's scores. See Charts 2 and 3.

**Chart 2: Charleston P&DC vs. Huntington P&DF 2-Day EXFC Service Scores
April 1, 2009, through March 31, 2010**



**Chart 3: Charleston P&DC vs. Huntington P&DF 3-Day EXFC Service Scores
April 1, 2009, through March 31, 2010**



24-Hour Clock Indicators

The Charleston P&DC met or exceeded most of the 24-hour clock performance indicators; however, cancellation of mail by 8 p.m. was below the established goal. Management indicated several factors contributed to the lower score, including staffing shortages and late arriving raw collection mail. Management stated that mail handler staffing at the Charleston P&DC will be increased to authorized levels to improve the 8 p.m. cancellation percentage.

We found the AMP feasibility study used data from the Charleston, SC P&DF instead of the Charleston, WV P&DC for comparison purposes in assessing potential impacts to service performance. We determined that this error did not have a material impact on the AMP feasibility study results. See Table 1 for 24-hour clock indicator performance scores.

Table 1: Charleston P&DC vs. Huntington 24-hour Clock Indicator Performance Scores April 1, 2009, through March 31, 2010

Indicator	Charleston P&DC	Huntington P&DF
Cancel 80% of collection mail by 2000	63.7%	79.8%
Clear Outgoing Primary mail by 2300	97.8%	99.9%
Clear Outgoing Secondary mail by 2400	95.1%	100.0%
Clear Managed Mail Program mail by 2400 - zero MMP	96.1%	87.5%
Assign mail to commercial/FedEx outgoing mail by 0230	94.3%	100.0%
Clear Delivery Point Sequence 2nd Pass by 0700	98.8%	92.1%
Trips On Time between 0400 - 0900 to delivery units	79.0%	87.5%

Service Standards

We determined that the overall impact on service standards¹⁰ for all mail classes will be a net upgrade. There will be 3,774 upgrades and 126 downgrades to service standards. See Table 2 for a summary of service standard changes.

Table 2: Service Standard Changes

Mail Class	Upgrades	Downgrades	Net Change
First-Class	42	24	18
Priority Mail	42	24	18
Periodicals	891	42	849
Standard Mail	2,769	18	2,751
Package Services	30	18	12
All Classes	3,774	126	3,648

Capacity

Adequate capacity exists to process additional originating and destinating mail volume at the Charleston P&DC. Based on March FY 2010 mail volumes, the Huntington P&DF would transfer approximately 142 million first handling pieces¹¹ to the Charleston P&DC. This represents a 6.7-percent increase in volume for the Charleston P&DC. To address this increased volume, four delivery barcode sorter machines will be transferred to the Charleston P&DC. We determined that existing excess capacity at the Charleston P&DC with the additional mail processing equipment should provide sufficient capacity for the Charleston P&DC to process mail from the Huntington P&DF. In addition, the added mail processing equipment will help the Charleston P&DC increase use of excess floor space within the plant.

We noted that an upgrade to the electrical power system will be required at the Charleston P&DC to accommodate the additional mail processing equipment from the Huntington P&DF. The improvements will include wiring to the additional mail processing equipment and upgrades to a transformer and electrical panel. The AMP proposal includes an estimate to upgrade the electrical system for a one-time cost of \$31,920, which was deducted from the projected AMP savings.

¹⁰ Service standards are defined as a stated goal for service achievement for each mail class. Service standards represent the level of service the Postal Service strives to provide to customers and are considered one of the primary operational goals against which service performance is measured. An upgrade or downgrade means that service between two ZIP Codes is either faster or slower than it was before a change.

¹¹ FHP is a letter, flat, or parcel that receives its initial distribution in a Postal Service facility.

Efficiency

Although the Huntington P&DF is slightly more efficient than the Charleston P&DC, efficiency at the Charleston plant has been and should continue to improve as a result of the consolidation. Many factors including the mail mix, type of sortations, and size of the plant impact Breakthrough Productivity Initiative (BPI)¹² scores. BPI scores show the performance of plants compared to established performance expectations, with higher scores representing better performance. Table 3 shows productivity scores for the Huntington and Charleston plants since FY 2008.

Table 3: BPI Scorecards

Facility	FY 2008	FY2009	FY 2010	FY 2011
Huntington P&DF	64.3%	67.3%	67.4%	65.7%
Charleston P&DC	54.6%	56.2%	57.8%	59.9%

Source: EDW.

Transportation

Transportation costs of \$376,800 associated with travel between the Huntington and Charleston plants should ensure the mail meets operational clearance times at the Charleston P&DC; however, a minor discrepancy existed between the AMP worksheets and supporting data. The AMP worksheets, dated November 15, 2010, did not report an increase of \$13,361 in transportation costs resulting from transportation routes changes. According to management, the number of routes listed in the transportation worksheets were revised by the area and headquarters officials without sharing the changes with Charleston P&DC management. During our review, management provided updated information to support the route changes.

Maintenance

Projected maintenance savings were understated by \$105,166, because the AMP worksheets did not accurately estimate workhours needed to operate and maintain the new equipment coming from the Huntington P&DF. During fieldwork, management corrected the maintenance costs to reflect these workhours associated with mail processing equipment, building equipment, and custodial services at the Charleston P&DC.

Workhours

Approximately \$1.4 million or 39 percent of projected cost savings will result from workhour reductions. During our review, we identified 8,383 workhours (\$381,014) associated with processing mail at the Huntington P&DF and the Charleston P&DC that were incorrectly reported in the AMP worksheets as craft employee workhours instead of Executive and Administrative Schedule (EAS) workhours. Postal Service managers

¹² BPI is a comprehensive and integrated method for comparing and improving productivity in mail processing operations.

attributed this issue to the way that data was pulled from EDW. During our review, management adjusted the standard operating procedures for pulling data from EDW to populate the worksheets to ensure proper calculations. The inaccurate workhour data did not impact the proposed savings.

Employees

Consolidation of the Huntington P&DF's mail into the Charleston P&DC will impact staffing, although no career employee should lose their job and some might be reassigned.¹³ Staff reductions seem reasonable based on proposed AMP projections. The transfer of mail processing operations from the Huntington P&DF to the Charleston P&DC may impact 42 craft and two EAS positions at the Huntington P&DF. These employees will be offered positions at the Charleston P&DC. The remaining 37 employees (33 craft and four EAS) will have opportunities to fill other vacancies in the Appalachian District.¹⁴ Attrition and retirement could reduce the number of employees that would have to be accommodated.

Other Concerns

We did not identify any additional customer service-related issues that would be impacted by the consolidation. Operations at the business mail entry unit and retail operations will remain at the Huntington Post Office.

According to Handbook PO-408, each Post Office is required to make a local postmark available. The Huntington Post Office can provide a local postmark on stamped mail at a retail counter.

Potential Risks

We determined that identifying key risks can assist management when making decisions and taking actions.

¹³ In accordance with labor/management agreements.

¹⁴ Some employees might be entitled to relocation benefits.

Key Risks

Risk Category	Risk Factor	Probability	Impact	Risk
Strategic	Stakeholder relations	High	High	Changes to network encounter resistance and can delay/terminate consolidations.
Financial	Labor costs	High	High	Duplication of craft positions and workhours at losing and gaining facilities may increase costs temporarily. There is also a lack of flexibility in adjusting workhours to workload.
Operational	Emergency Preparedness/ Security Plan	Low	High	Ability to build and maintain a comprehensive security plan to effectively protect facilities and assets, people, and the process.
Operational	Service	Medium	Medium	Use of an onsite implementation and integration team to assist in planning and monitoring workload during execution.
Operational	Real estate/space management	Medium	Medium	Efficient and cost-effective use and disposition of excess space.

APPENDIX C: OTHER IMPACTS

Finding	Impact Category	Amount
Maintenance Costs	Predicted Savings Shortfall	\$105,166

We identified a predicted savings shortfall¹⁵ of \$105,166 in maintenance savings. While we were onsite at the Charleston P&DC, management corrected the AMP worksheets to reflect the correct maintenance savings of \$1,521,350. The adjustments were made based on workhours for mail processing equipment, building equipment, and custodial services at the Charleston P&DC.

¹⁵ The difference between the savings predicted by the Postal Service for a project and the actual savings realized or the OIG estimate of savings that will be realized.