



March 31, 2011

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SUBJECT: Audit Report – Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation (Report Number EN-AR-11-004)

This report presents the results of our audit of the Implementation of Lima, OH to Toledo, OH Area Mail Processing (AMP) Consolidation (Project Number 11XG011EN000). The report responds to congressional inquiries on delayed mail, service, and safety concerns. Our objective was to assess the operational impacts of the consolidation after implementation. This audit addresses operational and financial risk. See [Appendix A](#) for additional information about this audit.

AMP consolidations<sup>1</sup> are a critical element of the Postal Service's network plan. As mail volume has declined, excess capacity for processing mail has increased and opportunities exist to consolidate operations to reduce costs. AMP consolidations present the U.S. Postal Service with many challenges in planning, developing, and implementing changes to mail processing operations.

In January 2010, the Postal Service completed an AMP feasibility study proposing the consolidation of the Lima Processing and Distribution Facility (P&DF) into the Toledo Processing and Distribution Center (P&DC). In May 2010, the senior vice president approved the transfer of all operations and volumes from the Lima P&DF to the Toledo P&DC based, in part, on projected annual savings of \$2.3 million and improving and/or maintaining customer and service commitments. The Toledo P&DC completed originating<sup>2</sup> and destinating<sup>3</sup> mail consolidations on June 30, 2010 and December 31, 2010, respectively.

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<sup>1</sup> 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.

<sup>2</sup> Originating operations are those associated with the acceptance and initial processing of mail that, for example, is either tendered at postal 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.

<sup>3</sup> 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.

## Conclusion

While there was a valid business case for the consolidation of the Lima P&DF into the Toledo P&DC,<sup>4</sup> management did not ensure on-time performance and customer service were improved or maintained during the implementation of the consolidation. As a result, customers in Lima Zip Code 458 were negatively impacted. We found that significant degradations in service occurred after the Postal Service transferred all operations and volumes from the Lima P&DF to the Toledo P&DC (see Table 1) and management did not project these degradations in the AMP proposal.<sup>5</sup> While management actively addressed delayed mail issues, these service degradations continued when we completed our audit work in March 2011.

**Table 1. Delayed Mail and Missed Service Commitments**

|   | October through December |              | Increase     |            |
|---|--------------------------|--------------|--------------|------------|
|   | 2009                     | 2010         | Pieces       | Percentage |
| Delayed Mail at the Toledo P&DC   | 19.7 million             | 46.5 Million | 26.8 million | 136%       |
| Delayed Mail at the Lima P&DF <sup>6</sup>  | 457,100                  | 508,640      | 51,540       | 11%        |
| Mail Volume That Did Not Meet Service Commitment <sup>7</sup> for Lima Zip Code 458 | 18,352                   | 43,400       | 25,048       | 136%       |

Source: Enterprise Data Warehouse (EDW)

In addition, we noted the Occupational Safety and Health Administration (OSHA) conducted an on-site inspection at the Toledo P&DC on November 4, 2010 in response to employee complaints. On January 10, 2011, OSHA stated that the Postal Service is working with their office to settle four OSHA-cited recordkeeping items. Based on our site visits, we did not identify or receive any complaints on safety issues. Therefore, we are not making a recommendation.

## Operational Impacts of the Consolidation after Implementation

On-time performance and customer service declined in the first 3 months after the consolidation and this condition continued when we completed our audit work in March 2011. Following the Lima P&DF to the Toledo P&DC consolidation, customers in the Lima area reported delayed and lost mail concerns to the Postal Service, members of Congress and news publications. Service concerns described instances of delayed and

<sup>4</sup>The Office of Inspector General (OIG) previously reported that a business case existed to support the AMP consolidation, *Consolidation of Lima Processing and Distribution Facility Mail Operations into the Toledo Processing and Distribution Center*, NO-AR-10-007, July 2, 2010.

<sup>5</sup> According to the AMP proposal, operational clearance times and effectiveness will be improved and/or maintained with the shift of all operations and volumes to the Toledo P&DC.

<sup>6</sup> The 2010 Lima P&DF delayed mail data was limited to the month of October because all operations and volumes were transferred from the Lima P&DF to the Toledo P&DC on October 16, 2010.

<sup>7</sup> Pieces that did not meet the service commitment for Express Mail, First-Class Mail® (FCM), Package Services, Priority Mail, or Standard Mail.

non-receipt of medications and bill payments, advertising mail delivered after the in-home date, and late delivery to homes and businesses. In addition, the OIG received 410 public comments during a 35-day period from November 24 through December 29, 2010. Seventy-two percent, or 296 responses were delayed mail and late delivery complaints.

Several factors contributed to service degradations, specifically:

- The AMP proposal<sup>8</sup> understated daily first-handled piece (FHP)<sup>9</sup> volume by approximately 7 percent. The AMP proposal projected the Lima P&DF will add a daily FHP volume of 632,630 pieces to Toledo P&DC's average daily FHP volume of 1,693,879 pieces. However, our analysis indicated that 47,000 daily FHPs were not included in the AMP proposal. The Cincinnati Network Distribution Center (NDC) and the Dayton P&DC processed the 47,000 pieces daily for the Lima P&DF prior to the consolidation. The omission was the result of not obtaining input from management at both the losing and gaining facilities as outlined in Postal Service policies.<sup>10</sup>
- The Toledo P&DC did not adequately staff operations. According to the AMP proposal, management planned to transfer 41 employees to the Toledo P&DC; however, only 31 of the 41 employees reported. The other employees were no-shows, retreated to other positions, retired, or were on extended leave. Management did not create a contingency plan that would have minimized the risks of understaffing.
- Morning dispatches to Lima hub facilities were consistently departing the Toledo P&DC late. During the week of December 13, 2010, we observed mail arriving on the dock platform well after the trucks' scheduled departure time. In addition, mail was not prepared in proper mail transport equipment (MTE) and Highway Contract Route (HCR)<sup>11</sup> drivers had to perform mail-sorting duties on the dock for three Lima area hub facilities. Management attributed this to lack of supervision, dispatch discipline, floor space, and MTE. Consequently, the Postal Service spent about \$29,000 on mail sorting and dispatch late fees from October through December 2010.
- Postal Service policies did not require a formal AMP implementation team to ensure the AMP was implemented as approved. During our site visit, we observed delayed mail, extensive use of manual operations to sort parcels, proper signage not in place to indicate dispatch or critical entry time, and letter

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<sup>8</sup> Although sufficient machine capacity existed at the Toledo P&DC as discussed in our July 2010 audit report, local management did not adequately plan for this additional workload.

<sup>9</sup> A letter, flat or parcel that receives its initial distribution at a Postal Service facility.

<sup>10</sup> Handbook PO-408, *Area Mail Processing Guidelines*, March 2008.

<sup>11</sup> Highway Contract Routes are contracted with private contractors. Individual Postal Service areas control the HCRs, and Postal Service transportation managers at the area and local levels are responsible for continually reviewing these routes to balance on time service standards with costs. The Postal Service spends about \$3.1 billion annually on HCR contracts.

mail processed to carrier routes rather than Delivery Point Sequencing (DPS)<sup>12</sup> due to inefficient sort plans.

- Management elected to transfer all operations and volume during the peak mailing season without adjusting mail flow and sort plans timely to meet operational changes. While the transition period was limited to six months (July through December 2010), management did not complete final planning for the consolidation until September 2010, almost four months after the AMP proposal was approved.

Although there are many challenges associated with implementing an AMP consolidation, it is critical to continually monitor and facilitate resolutions timely so that operational changes do not impede customer and service commitments. Failure to implement an AMP consolidation seamlessly increases the risk of losing public confidence and loyalty to the Postal Service. In addition, the Postal Service could realize cost savings of over \$105,000 annually if contract trucks depart on schedule and mail is sorted in proper MTE during processing. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for monetary impact.

Postal Service Actions – Following the consolidation, management took several actions to improve customer service including:

- Submitted a proposal to add Small Parcel Bundle Sorter (SPBS) operations on Tour 2.
- Updated SPBS sort plans.
- Implemented a new DPS sort plan to increase efficiency.
- Initiated action to assign excessed employees from the Detroit NDC to the Toledo P&DC.
- Implemented two additional Lima hub facilities.
- Implemented changes in floor layout.

We recommend the vice president, Eastern Area Operations, direct area and district management, with input from Toledo Processing and Distribution Center management, to:

1. Promptly assess the current mail volume and swiftly adjust workhours, sort plans, transportation, and any other operational requirements to ensure the Toledo Processing and Distribution Center meets customer and service commitments.
2. Expedite filling vacant positions and assess any additional staffing requirements at all levels.
3. Assess and take appropriate corrective action related to mail processing space and transport equipment requirements, dispatch discipline, contract drivers performing mail sortation, and late truck departures.

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<sup>12</sup> DPS mail reduces cased letters volume and time spent by the carriers in the office.

We recommend the vice president, Network Operations Management:

4. Establish and deploy formal Area Mail Processing implementation teams to the gaining facilities for plant consolidations that result in a facility closure to ensure consolidations are implemented as approved and to identify and facilitate corrective actions timely.

### Management's Comments

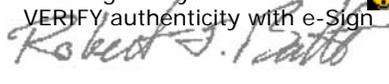
Management agreed with the findings, recommendations, and monetary impact. Specifically, for recommendations 1 and 2, management will continually monitor and assess workload and capabilities at the Toledo P&DC and make the necessary adjustments. Additionally, for recommendation 3, management deployed a team on March 7, 2011, to assess and improve mail flow, MTE processing and staging, and overall site layout at the Toledo P&DC. By the beginning of Quarter 4, FY 2011 management plans to implement all improvements made by the team. Lastly, for recommendation 4, management will establish and deploy a formal AMP implementation team to the gaining facility for facility closures effective Quarter 3, FY 2011. See [Appendix D](#) for management's comments in their entirety

### Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions taken and planned should resolve the issues identified in the report.

The OIG considers all recommendations 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 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.

E-Signed by Robert Batta   
VERIFY authenticity with e-Sign  


Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

Attachments

cc: Patrick R. Donahoe  
Megan J. Brennan  
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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in FCM volume<sup>13</sup> over the past decade. The Postal Service's financial condition continued to decline over the past fiscal year (FY) and its financial outlook is poor for FY 2011 and the foreseeable future. FY 2010 included a record loss of about \$8.5 billion for the Postal Service, which has released its budget for FY 2011 and projects a \$6.4 billion loss - one of the largest in the Postal Service's history.

The Postal Service's revenue drop in FY 2010 was driven by mail volume decline, totaling about 6 billion pieces from FY 2009. This volume was about 20 percent below the peak of 213 billion pieces delivered during FY 2006. Most of the volume decline was in profitable FCM, which was particularly significant because the average piece of FCM generates about three times the profitability of the average piece of Standard Mail. The Postal Service projects mail volume to increase by about 2 billion pieces in FY 2011; however, FCM is expected to decrease by 3 billion pieces with an increase in other classes of mail.

In recent testimony before Congress,<sup>14</sup> 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. 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..."

The Postal Service has made limited progress in implementing AMP consolidations in the P&DC network. At the end of FY 2010, there were 260 P&DCs nationwide and, since FY 2005, the Postal Service has implemented 37 AMP consolidations. Only six consolidations have resulted in full facility closures.<sup>15</sup>

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<sup>13</sup> According to the Postal Service's FY 2010 Comprehensive Statement, "First-Class Mail revenue was \$34 billion, or 51 percent of the total Postal Service revenue of \$67.1 billion."

<sup>14</sup> 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).

<sup>15</sup> The Lima, OH P&DF, Charlottesville, VA P&DF, Wilkes-Barre, PA P&DC, and Marysville, CA P&DF closed in 2010. The Kansas City, KS P&DC closed in 2009 and the Marina, CA P&DC closed in 2005.

## OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the operational impacts of the Lima consolidation after implementation. We conducted this review in response to congressional inquiries on delayed mail, service, and safety complaints. This audit addresses operational and financial risks.

We reviewed current and historical data and performed an independent analysis of mail volume, mail class, service standards, workhours, and employee complement prior to and following the consolidation. In November and December 2010, we observed and photographed operations at the Toledo P&DC. In addition, we observed HCR transportations to and from Toledo P&DC and Lima hub facilities. We 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 volume, staffing, service, and transportation:

- EDW;
- Customer Satisfaction Measurement System;
- Web Complement Information System;
- Transportation Contract Support System; and
- Transportation Information Management System.

We conducted this performance audit from November 2010 through March 2011 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on February 14, 2011 and included their comments where appropriate.

To conduct this review, we relied on computer-processed data maintained by Postal Service operational systems. We did not test the validity of controls over these systems. However, we verified the accuracy of the data by confirming our analysis and results with Postal Service managers and other data sources.

**PRIOR AUDIT COVERAGE**

| <b>Report Title</b>  | <b>Report Number</b> | <b>Final Report Date</b> | <b>Report Results</b>  |
|--|----------------------|--------------------------|--|
| <i>Marysville, CA Processing and Distribution Facility Consolidation</i>   | NO-AR-11-002         | 11/23/2010               | A valid business case existed for consolidating mail processing operations from the Marysville P&DF to the Sacramento P&DC.  |
| <i>Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>   | NO-AR-11-001         | 11/4/2010                | A valid business case existed for the consolidation. There was capacity as well as the potential to improve customer service and efficiency. No career employees were laid off as a result of the consolidation and the Postal Service could save \$5.2 million annually.  |
| <i>Charlottesville Processing and Distribution Facility Consolidation</i>  | NO-AR-10-008         | 8/3/2010                 | A valid business case existed for the consolidation. There was sufficient capacity as well as the potential to improve customer service and efficiency. No career employees were laid off as a result of the consolidation and the Postal Service could save \$6.5 million annually.   |
| <i>Consolidation of Lima Processing and Distribution Facility Mail Operations into the Toledo Processing and Distribution Center</i> | NO-AR-10-007         | 7/2/2010                 | A business case existed to support consolidating the Lima P&DF's mail operations into the Toledo P&DC. Management agreed to monitor service scores, continue to hold employee briefings, and ensure facility security.   |
| <i>Kansas City, Kansas Processing and Distribution Center Consolidation</i>  | EN-AR-08-001         | 1/14/2008                | The AMP proposal, supporting documentation, and OIG analyses provided confirming evidence for consolidating mail processing operations from the Kansas City, KS P&DC to the Kansas City, MO P&DC. However, the OIG identified discrepancies in some costs and savings calculations, as well as transferred mail volume not documented and downgrades in some classes of mail and other potential risks.            |
| <i>Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation</i>               | EN-AR-07-004         | 8/14/2007                | Our audit disclosed the support and accuracy of the Marina post-implementation reviews could be improved. However, the economy and efficiencies associated with the consolidation resulted in considerable savings. Our analyses provided confirming evidence for reduced workhours, considerable cost savings (including about \$75 million from the sale of the Marina P&DC facility) and improved productivity. |
| <i>Timeliness of Mail Processing at the Los Angeles, California Processing and Distribution Center</i>                               | NO-AR-07-001         | 2/9/2007                 | The audit confirmed that during the period July 2005 through May 2006, the Los Angeles P&DC had difficulty with the timely processing of mail, resulting in mail delays and service declines. The excessive amount of delayed mail was partially due to the influx of mail volume as a result of closing the Marina Del Rey P&DC.  |

## APPENDIX B: DETAILED ANALYSIS

### Operational Impacts of the Consolidation After Implementation

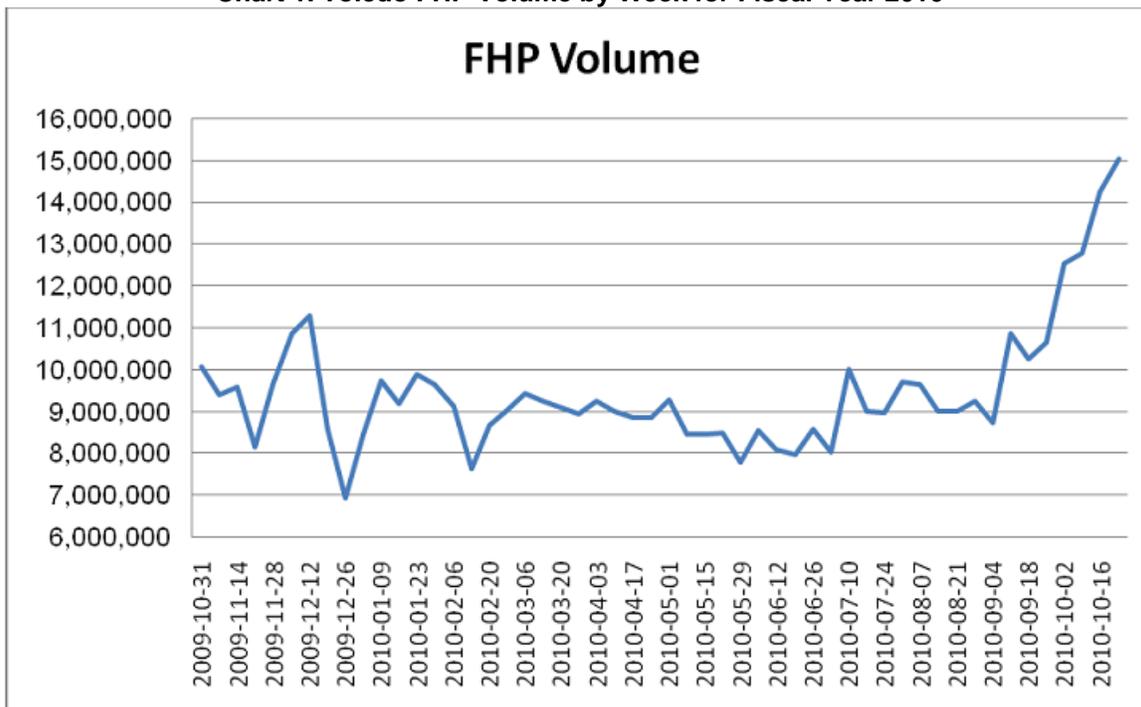
In December 2010, the Postal Service completed the Lima, OH to Toledo, OH AMP consolidation. We found significant degradations in service occurred after the Postal Service transferred all operations and volumes from the Lima P&DF to the Toledo P&DC and management did not project these degradations in the AMP proposal. We identified four major factors that adversely affected customer and service commitments and the Toledo P&DC's ability to process mail timely:

- Mail volume was more than anticipated;
- Operations were not adequately staffed;
- Mail dispatches were consistently late; and
- An AMP implementation team was not required by policy or used.

#### Mail Volume

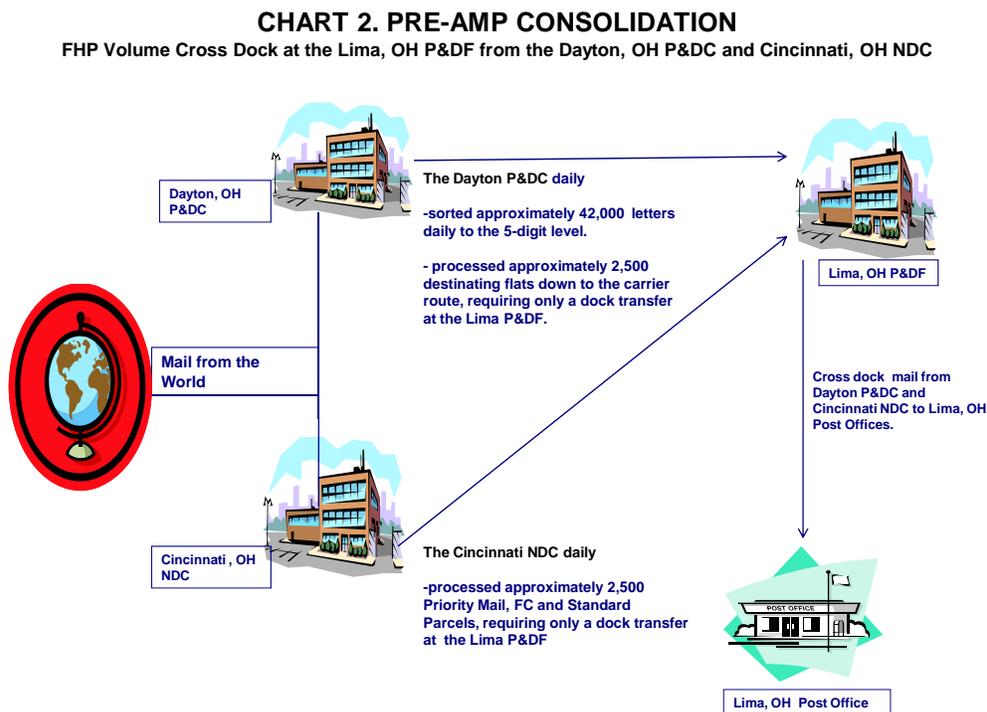
The Toledo P&DC received more mail to process than anticipated. The AMP proposal projected that a daily FHP volume of 632,630 pieces from the Lima P&DF would be added to the Toledo P&DC's average daily FHP volume of 1,693,879 pieces, for a total of 2,326,509 daily pieces. However, during the 4 weeks following the consolidation, the average daily volume was 2,537,265; a daily increase of 210,756 pieces or 9 percent (see Chart 1).

**Chart 1. Toledo FHP Volume by Week for Fiscal Year 2010**



Source: EDW

The AMP proposal understated daily FHP volume by approximately 7 percent. The Headquarters Network Alignment Implementation official stated the AMP proposal was approved based on volume processed by the Lima P&DF. Our analysis indicated that the Cincinnati NDC and the Dayton P&DC processed approximately 47,000 FHP daily for the Lima P&DF and the Postal Service did not include these volumes in the AMP proposal. Prior to the consolidation, both the Dayton P&DC and the Cincinnati NDC processed mail to the 5-digit Zip Code level for the Lima P&DF to perform dock transfers (see Chart 2). The omission was the result of not obtaining input from management at both the losing and gaining facilities as outline in Postal Service polices.



The Cincinnati NDC processed approximately 2,500 Priority, First-Class, and Standard Parcels to the 5-digit Zip Code daily for Lima Post Offices, requiring only dock transfers at the Lima P&DC. Additionally, the Dayton P&DC processed and sorted all Lima letters to the 5-digit Zip Code level. During January through September 2010, this volume was approximately 42,000 FHP per day for FC and standard letters. The Dayton P&DC also processed and sorted all Lima destinating flats to carrier route, a volume of approximately 2,500 pieces per day. On October 4, 2010, the Postal Service updated the national distribution labeling list. Consequently, all Lima Zip Code 458 volumes are mixed with Toledo Zip Codes 434-436 and sent to the Toledo P&DC for processing.

Processing the additional volume affected several Toledo P&DC operations. For example, all classes of parcels, which required dock transfers only at the Lima P&DF, are now mixed with other parcels destined for the Toledo service area. Lima area

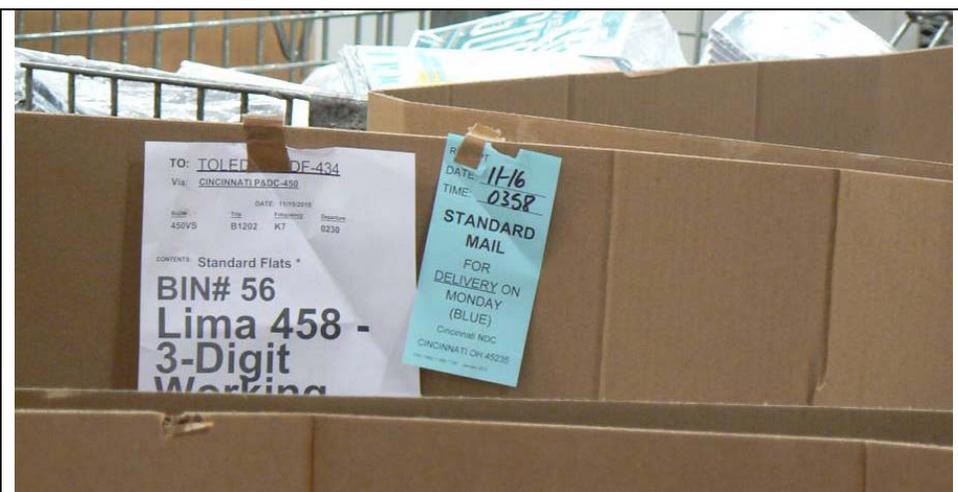
parcels must be separated from Toledo area parcels before they can be sorted to individual Lima area offices. The Toledo P&DC did not have sufficient holdout bins on the SPBS<sup>16</sup> to separate the parcels to all Toledo and Lima area offices in one run.

Consequently, on-time performance and customer service continued to decline in the first 3 months after the consolidation<sup>17</sup> and these conditions continued when we completed our audit work in March 2011 (see Illustrations 1 and 2). As shown in Chart 3, delayed mail volume increased significantly from October through December 2010 compared to the same period last year. Also, percentages of scanned mailpieces that met service commitments for Lima Zip Code 458 decreased compared to the same period last year (see Chart 4).

**Illustration 1. Six cardboard containers of Priority Parcels received from the Detroit NDC on December 15, 2010 were processed on December 17, 2010 and delivered on December 18, 2010.**



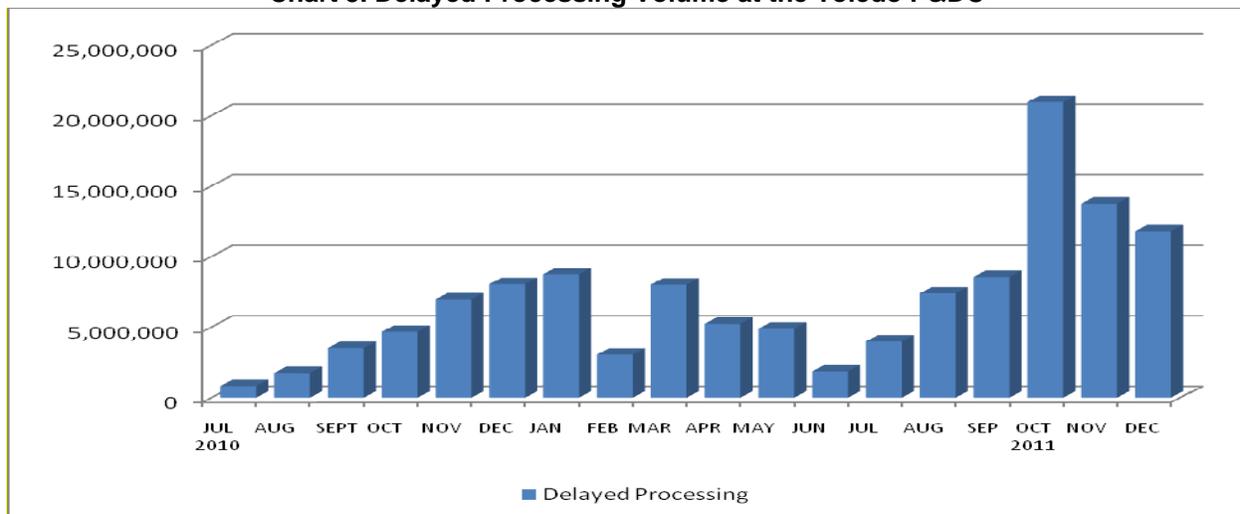
**Illustration 2. Standard Mail dated November 16, 2010 scheduled for delivery on Monday November 22, 2010 was still waiting for processing during our site visit on November 22, 2010.**



<sup>16</sup> Equipment that mechanizes the sorting of small parcels and bundles by receiving and sorting them into a maximum of 132 separate output bins. The mechanical capacity of the SPBS is approximately 11,000 pieces sorted per hour.

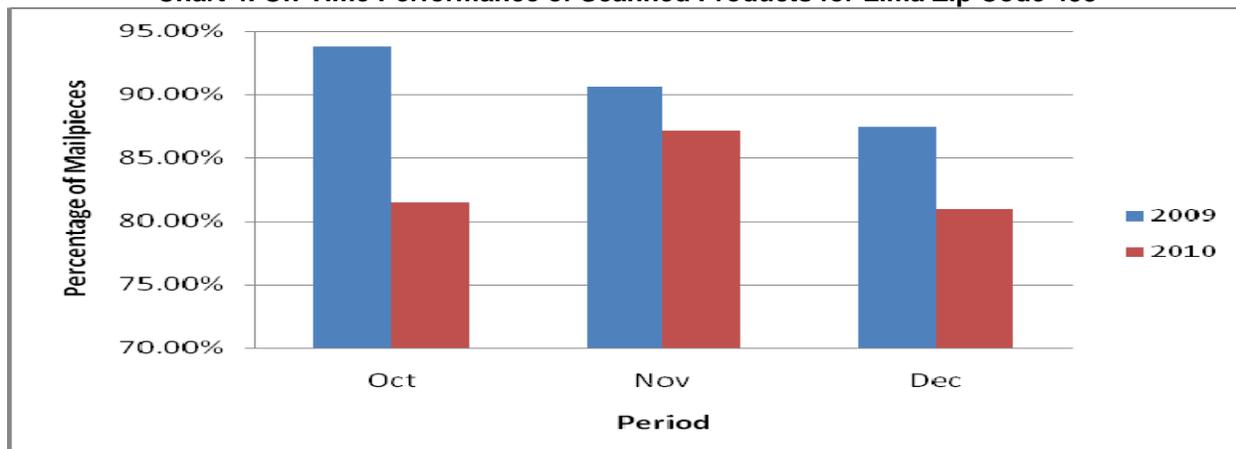
<sup>17</sup> In our July 2010 audit report, we reported that in Quarter 1, FY 2010, both overnight and 3-day service scores declined for the Lima P&DF and Toledo P&DC. Based on these service performances, management must ensure adequate controls are in place to maintain service during implementation of this consolidation.

**Chart 3. Delayed Processing Volume at the Toledo P&DC**



Source: EDW

**Chart 4. On-Time Performance of Scanned Products for Lima Zip Code 458**



Source: EDW

Staffing

The staffing analysis included in the AMP proposal called for an increase of 41 craft positions and no change in the supervisory staffing at the Toledo P&DC. The 41 employees represent an increase of 12 percent in staffing to process a proposed increase in volume of 37 percent. Additionally, the staffing analysis called for an increase in the craft employee to supervisor ratio, effectively eliminating six supervisor positions during the consolidation.

When the Postal Service completed full consolidation on October 16, 2010, 31 employees reported to the Toledo P&DC. The other employees were no-shows, retreated to other positions, retired, or were on extended leave. Toledo P&DC management did not create a contingent plan that would have minimized the risks of understaffing. The understaffing during implementation had a substantial impact on Toledo P&DC mail processing operations.

As a temporary remedy for the holiday mailing season, area management negotiated a verbal agreement with the local union representative to increase the number of casual employees. In addition, area management initiated action to assign excessed employees from the Detroit NDC to the Toledo P&DC. At the time of our report, eight former Detroit employees reported to the Toledo P&DC.

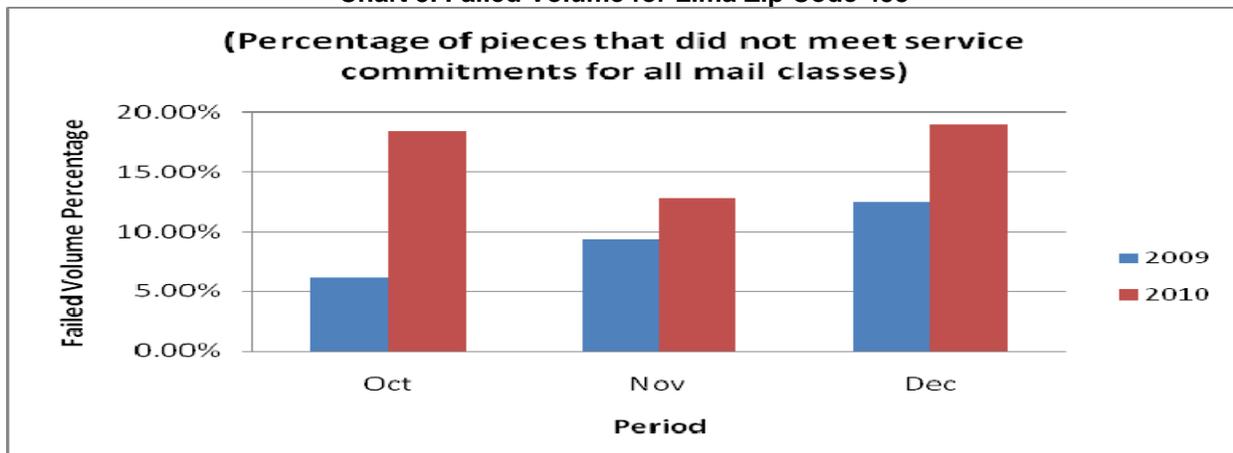
### Mail Dispatch

During our site visits, we observed that morning dispatches to Lima hub facilities were consistently departing the Toledo P&DC late. In addition, we noted the mail was not prepared in proper MTE and HRC drivers had to perform mail sorting duties on the dock (see Illustration 3). In one instance, we found containers of parcels in the plant ready for dispatch, but having missed the scheduled dispatch time. The manager stated he would arrange for an extra HCR trip the same day to deliver the parcels to Lima. The continuing late dispatches have a negative impact on customer service and Lima Area Post Office operations (see Chart 5).

**Illustration 3. A driver receiving mail in wire containers and all purpose containers must sort the mail into hampers for the Lima area offices. This picture was taken on December 14, 2010. The driver was scheduled to leave at 5:00 AM, but left at 6:15 AM.**



**Chart 5. Failed Volume for Lima Zip Code 458**



Source: EDW

Management attributed the late and extra trips to lack of supervision, dispatch discipline, MTE and floor space. Management stated that they relied on the mail handlers to move the mail because the Toledo P&DC does not have a position for a dedicated dock supervisor or expeditor. In addition, management stated there was no available hamper equipment in the entire Cincinnati District. Management added that they do not have sufficient floor space to accommodate hamper equipment. We observed that not all space in the Toledo P&DC is available for mail processing. About a year ago, carrier units moved into 4,500 square feet of space that the plant was using to process priority mail. Management made the decision to move the carrier units into the plant prior to the AMP proposal approval.

Toledo P&DC management, in coordination with area management, modified HCR contracts to include mail-sorting duties for three of the Lima area hub facilities. The cost for this service is about \$20,000 annually. The Postal Service is required to pay highway contractors for extra service and late fees when they require extra service or cause the late departures. In addition, Toledo P&DC management stated transportation costs have significantly increased due to unscheduled extra trips to Lima. However, management did not complete PS Forms 5429<sup>18</sup> to substantiate the assertion (see our discussion below). We estimated the Postal Service could realize cost savings of over \$105,000 if HCR trucks depart on schedule and mail is sorted in proper MTE during processing (see [Appendix C](#) for our monetary impact calculation).

The Toledo P&DC did not follow prescribed Postal Service procedures for completing PS Form 5429 in a timely manner. The Toledo P&DC had not processed these forms from September through December 2010 due to other priorities. The Postal Service is required to pay highway contractors for extra service and late fees when they cause the late departures. Facilities are required to complete and submit a PS Form 5429 for payment in a timely manner, which is no later than the first day of the month following the month in which the service was performed. Not processing these forms in a timely manner prevents contractor payments and can result in improper accounting,

<sup>18</sup> Certification of Exceptional Contract Service.

budgeting, and fraud potential. On January 19, 2011, Toledo P&DC management stated they have added resources to expedite the completion and submission of PS Forms 5429. We are not making a recommendation on this finding because management took action during the audit to complete PS Form 5429.

### AMP Implementation Team

While there is guidance for an AMP consolidation, a formal AMP consolidation implementation team is not required for complex consolidations that result in a facility closure. Using the approach similar to the NDC Activation Team's would mitigate some of the challenges that adversely affected the Toledo P&DC's ability to process mail timely and meet customer and service commitments.

For example:

- There were large volumes of delayed parcels and management used manual operations to sort parcels. Toledo P&DC management stated that Tour 3 SPBS operations were not sufficient to meet volume. On November 27, 2010, management developed a new sort plan to increase SPBS efficiency and, in December 2010, developed a proposal to add SPBS operations on Tour 2.
- The Toledo P&DC was not able to finalize mail in time to meet Lima dispatch schedules. In some cases, the Toledo P&DC processed mail to carrier routes rather than to DPS. Carrier route mail requires manual casing at delivery units, further affecting downstream Post Office operations. On November 27, 2010, management initiated new sort plans to increase Delivery Barcode Sorter<sup>19</sup> efficiency.
- An operational space layout for the Toledo P&DC had not been completed (see Illustration 4). Proper signage was not in place in the various operations to indicate dispatch or critical entry times. Mail flow throughout the facility was often cramped and congested.

Toledo P&DC management elected to transfer all operations and volume during peak mailing season, but did not adjust mail flow and sort plans timely to meet operational changes. While the transition period was limited to six months (July through December 2010), management did not complete final planning for the consolidation until September 2010, almost four months after the AMP proposal was approved. We believe a formal implementation team will provide oversight and assist with resolving problems during the implementation period.

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<sup>19</sup> Equipment that sorts letter-size mail by using a barcode reader to interpret an imprinted barcode. It consists of a mail feed and transport unit, barcode reader, stacker module, and associated electronic equipment that can sort into a large number of separations.



**Public Input**

As shown in Chart 6, we asked for and received 410 public comments, using an external blog on the OIG website, on how the Lima OH AMP consolidation affected them. Separately, the Cincinnati District Consumer Affairs Office received 610 complaints related to the AMP consolidation during the period October through December 2010 as shown in Chart 7.

**Chart 6. Number and Type of Comments Received on the OIG’s web site from November 24 to December 29, 2010**

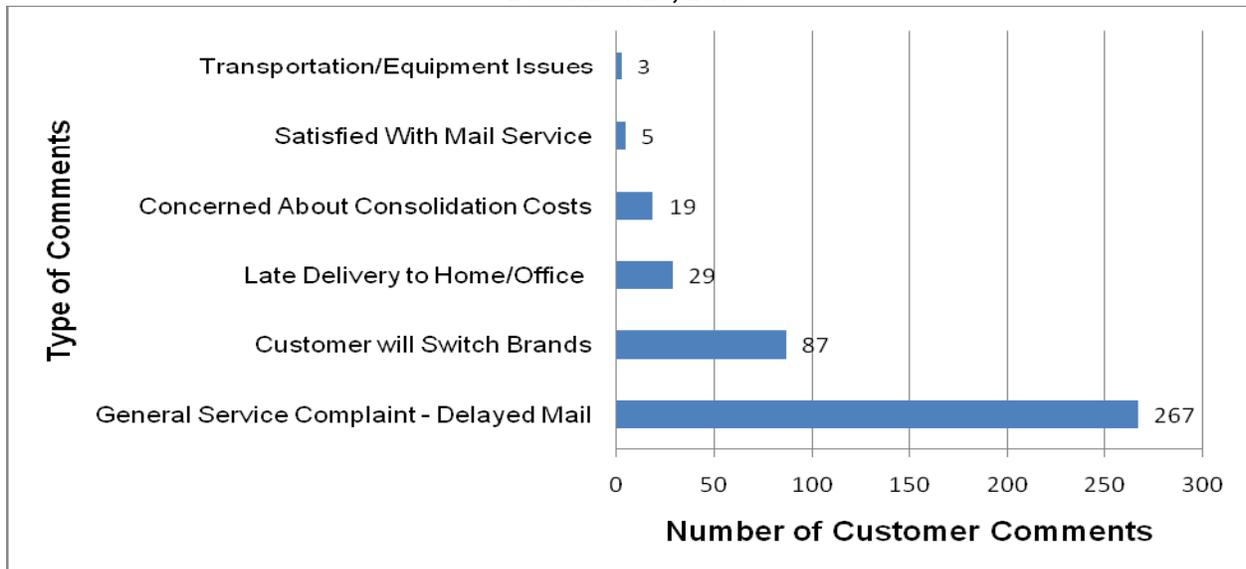
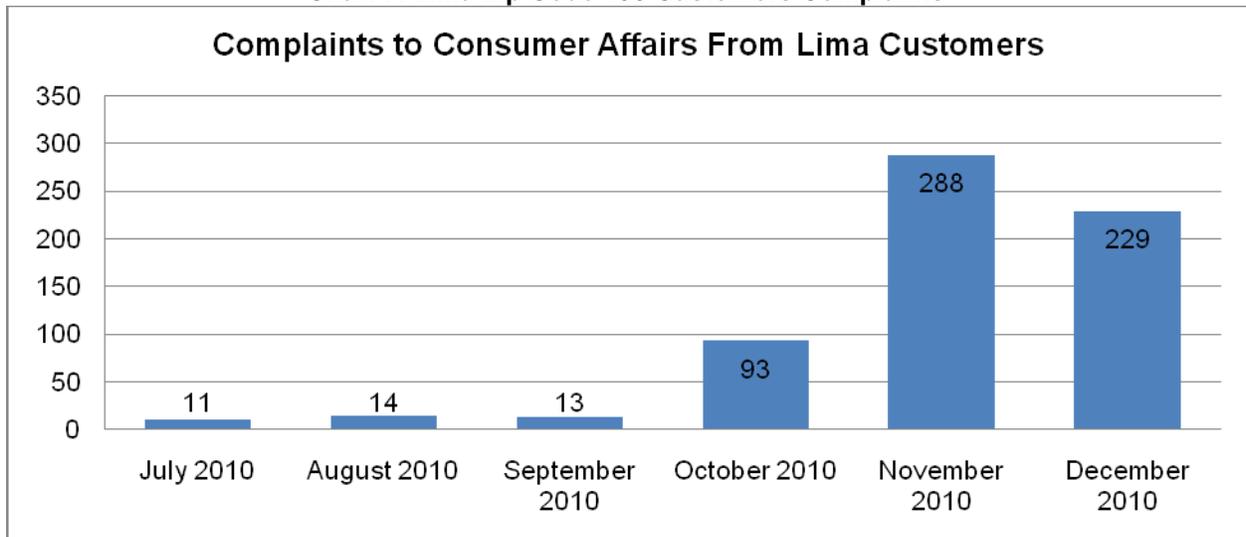


Chart 7. Lima Zip Code 458 Customers Complaints



**APPENDIX C: MONETARY IMPACT**

| HCR Service Fees                                  | 3 Months' Cost Savings (October through December 2010) | Estimated Annual Cost Savings |
|---|--|-------------------------------|
| HCR Driver Performing Mail Sort Function          | \$5,000  | \$20,000                      |
| HCR Late Trips                                    | 23,782   | 95,128                        |
| <b>Total Funds Put To Better Use<sup>20</sup></b> |  | <b>\$105,125</b>              |

HCR Drivers Performing Sorting Functions – due to a lack of MTE and sorting space in the Toledo P&DC, HCR drivers had to sort mail prior to dispatch. In order to compensate drivers for their time, the Postal Service negotiated contract increases of approximately \$5,000 from October through December 2010.

Late Trips by HCR Contractors – the Postal Service compensated HCR drivers \$23,781.65 in late fees from October through December 2010. These payments were the result of the Postal Service keeping HCR trucks from departing on schedule to Lima hub offices.

<sup>20</sup> Funds that could be used more efficiently by implementing recommended actions.

## APPENDIX D: MANAGEMENT'S COMMENTS

JORDAN M. SMALL  
VICE PRESIDENT, AREA OPERATIONS  
EASTERN AREA



March 28, 2011

LUCINE M. WILLIS, DIRECTOR  
AUDIT OPERATIONS @ [audittracking@uspsolg.gov](mailto:audittracking@uspsolg.gov)

SUBJECT: Lima OH to Toledo OH Area Mail Processing Consolidation  
Report Number EN-AR-11- DRAFT

We have reviewed the findings and recommendations provided in the subject audit report and are in agreement with the recommendations made to the Vice President, Eastern Area Operations. We are also in agreement with the monetary impact of funds put to better use stated in this report. The Eastern Area response to the recommendations is as follows:

### Recommendation 1:

Promptly assess the current mail volume and swiftly adjust work hours, sort plans, transportation, and any other operational requirements to ensure the Toledo P&DC meets customer and service commitments.

### Management Response/Action Plan:

Eastern Area Operations Support along with the District are continually reviewing and assessing workload versus Toledo capacities. A joint decision between Eastern Area and Great Lakes Area was reached to process all outgoing Priority volumes from Toledo P&DC in Detroit. This alleviates strain on the SPBS operation in Toledo and allows the USPS to maximize network capacities at the Detroit NDC campus.

### Target Implementation Date:

March 7, 2011

### Responsible Official:

Eastern Area Manager of Operations Support

### Recommendation 2:

Expedite filling vacant positions, and assess any additional staffing requirements at all levels.

### Management Response/Action Plan:

The Eastern Area will continue to coordinate filling Toledo residual vacancies pursuant to Article 12 of the national agreements. eReassign opportunities are continually monitored for transfer opportunities. Lastly, casual complement will be leveraged to the full extent allowed under

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EASTERN AREA

current national agreements. Additionally, Eastern Area Operations Support and the District will continually monitor Toledo staffing requirements against the changing workload and make necessary adjustments.

**Target Implementation Date:**

July 4, 2011, PQ 4, with ongoing monitoring of the process

**Responsible Official:**

Eastern Area Managers of Human Resources and In-Plant Support

**Recommendation 3:**

Assess and take appropriate corrective action related to mail processing space and transport equipment, dispatch discipline, contract drivers performing mail sortation, and late truck departures.

**Management Response/Action Plan:**

Eastern Area office has deployed a team led by Operational Industrial Engineers to assess and improve the mail flow, MTE processing and staging and overall site layout for the Toledo P&DC. As part of this team's objectives, service, conditions and dispatched trends are reviewed weekly by the Area Vice President and staff with the Toledo team to ensure improvements and success.

**Target Implementation Date:**

Team was activated on site March 7, 2011. Team will be completed with implementation of all improvements by the beginning of PQ 4, FY11.

**Responsible Official:**

Eastern Area Manager of In-Plant Support

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.



Jordan M. Small

cc: Kristin A. Seaver, Manager, Operations Support  
Troy R. Seanor, Manager, In-Plant Support  
Karen Borowski, Manager, Human Resources  
Eric Faber, Manager, Finance

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DAVID E. WILLIAMS  
VICE PRESIDENT, NETWORK OPERATIONS



March 24, 2011

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Lima, Ohio to Toledo, Ohio Area Mail Processing  
Consolidation (Report Number EN-AR-11-DRAFT)

We have reviewed the findings and recommendations provided in the subject audit report and are in agreement with the following recommendation made to the Vice President, Network Operations.

Recommendation 4:

Establish and deploy formal Area Mail Processing implementation teams to the gaining facilities for plant consolidations that result in a facility closure to ensure consolidations are implemented as approved and to identify and facilitate corrective actions timely.

Management Response/Action Plan:

We agree to establish and deploy formal Area Mail Processing implementation teams to the gaining facilities for plant consolidations that result in a facility closure to ensure consolidations are implemented as approved and to identify and facilitate corrective actions timely.

Target Implementation Date:

Formal Area Mail Processing implementation teams will be established and deployed starting with facility closures effective Postal Quarter III fiscal year 2011.

Responsible Official:

Manager, Processing Operations

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act (FOIA).

A handwritten signature in blue ink, appearing to read "David E. Williams", with a long horizontal flourish extending to the right.

David E. Williams

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cc: Ms. Brennan  
Mr. Small  
Ms. Seaver  
Mr. Star  
Mr. Neri  
Mr. Manz  
Mr. Seanor  
Mr. Truss  
Corporate Audit and Response Management