



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Flint, MI Processing and Distribution Center Consolidation

Audit Report

October 6, 2011

Report Number EN-AR-12-001



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

October 6, 2011

Flint, MI Processing and Distribution Center Consolidation

Report Number EN-AR-12-001

IMPACT ON:

Mail processing operations in the Detroit District of the Great Lakes Area.

WHY THE OIG DID THE AUDIT:

Our objectives were to assess the business case and operational impacts of the consolidation. We performed this review as a result of a congressional request on the consolidation of mail processing operations from the Flint Processing & Distribution Center (P&DC) into the Michigan Metroplex P&DC.

WHAT THE OIG FOUND:

A valid business case exists to consolidate destinating mail processing operations. Our analysis indicated that (1) adequate capacity exists to process additional mail volumes at the gaining facility, (2) customer service will be minimally impacted with service scores being maintained or improved, (3) efficiency at the Michigan Metroplex P&DC should continue to improve with the addition of mail volume from the Flint P&DC, (4) no career employee will lose their job with the postal service; however, some reassignments might occur, and (5) equipment relocation costs were overstated but had no material impact on the business case.

WHAT THE OIG RECOMMENDED:

We are not making recommendations in this report because our findings support the consolidation.

WHAT MANAGEMENT SAID:

Management elected not to provide written comments because there were no recommendations.

[Link to review the entire report](#)



October 6, 2011

MEMORANDUM FOR: CHARLES E. HOWE
DISTRICT MANAGER, DETROIT DISTRICT

igned by Office of Inspector G
VERIFY authenticity with e-Sign

for

FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Audit Report – Flint, MI Processing and Distribution
Center Consolidation (Report Number EN-AR-12-001)

This report presents the results of our audit of the Flint, MI Processing and Distribution Center consolidation (Project Number 11XG033EN000).

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.

Attachments

cc: Megan J. Brennan
Jo Ann Feindt
David E. Williams
Jagmohan S. Bedi
Nancy D. Schoenbeck
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction	1
Conclusion	1
Capacity	2
Customer Service	2
EXFC Scores	3
24-Hour Clock Indicators	4
Service Standards	5
Efficiency	6
Employee Impact.....	7
Cost Savings.....	7
One-Time Costs	9
Potential Risks	10
Recommendations	10
Appendix A: Additional Information.....	11
Background	11
Objectives, Scope, and Methodology	13
Prior Audit Coverage	15

Introduction

This report presents the results of our audit of the Flint, MI Processing and Distribution Center (P&DC) consolidation into the Michigan Metroplex P&DC (Project Number 11XG033EN000). The report responds to a congressional request. Our objectives were to assess the business case and operational impacts of the proposed consolidation. The audit addresses strategic, financial, and operational risks. See [Appendix A](#) for additional information about this audit.

Illustration 1: Flint, MI Post Office® and P&DC



Source: U.S. Postal Service Office of Inspector General (OIG) photograph taken May 25, 2011.

Conclusion

A valid business case exists to consolidate mail processing operations from the Flint P&DC into the Michigan Metroplex P&DC to achieve cost savings of approximately \$6 million annually.

Our independent modeling of consolidation opportunities determined this consolidation has merit. Our model ranked the consolidation of the Flint P&DC into the Michigan

Metroplex P&DC in the top 20 percent of potential consolidation scenarios.¹ Our analyses also indicated that:

- Adequate capacity exists to process additional mail volume at the Michigan Metroplex P&DC.
- Customer service will be minimally impacted with service performance being maintained or improved.
- Efficiency at the Michigan Metroplex P&DC should continue to improve with additional mail volume from the Flint P&DC.
- No career employee will lose their job with the U.S. Postal Service; however, some reassignments might occur.
- Equipment relocation costs were overstated because Area Mail Processing (AMP) cost data guidelines were not followed. The cost overstatement did not have a significant impact on the business case.

Capacity

Adequate capacity exists at the gaining facility to process the increased mail volume as a result of the proposed consolidation. Specifically, the increase in total pieces handled (TPH)² volume at the Michigan Metroplex P&DC will be about 16 percent, which represents a small increase to Michigan Metroplex P&DC current mail processing operations. In addition, six Delivery Barcode Sorter (DBCS) machines and one Automated Flat Sorting Machine (AFSM) will be transferred to the Michigan Metroplex P&DC from the Flint P&DC as part of the consolidation. During onsite observations with management at the Michigan Metroplex, we identified excess space that could accommodate equipment from the Flint P&DC.

Customer Service

The consolidation should have minimal impact on customer service.³ Based on fiscal years (FY) 2010 and 2011 through June 2011 service performance, the Michigan Metroplex P&DC generally met or exceeded service results of the Flint P&DC. However, the Michigan Metroplex P&DC had difficulty cancelling 80 percent of collection mail by 8:00 p.m. and meeting the Trips on Time to Delivery Units 24-hour clock indicators.⁴

¹ The model identifies full AMP consolidation opportunities using eight consistent, objective key indicators grouped into the following five categories: location, service, capacity used, facility type, and efficiency.

² The number of handlings necessary to distribute each mailpiece from the time of receipt to dispatch.

³ We reviewed three measures of customer service: the External First-Class (EXFC) Measurement system, the 24-hour clock indicators, and the projected service standard upgrades and downgrades.

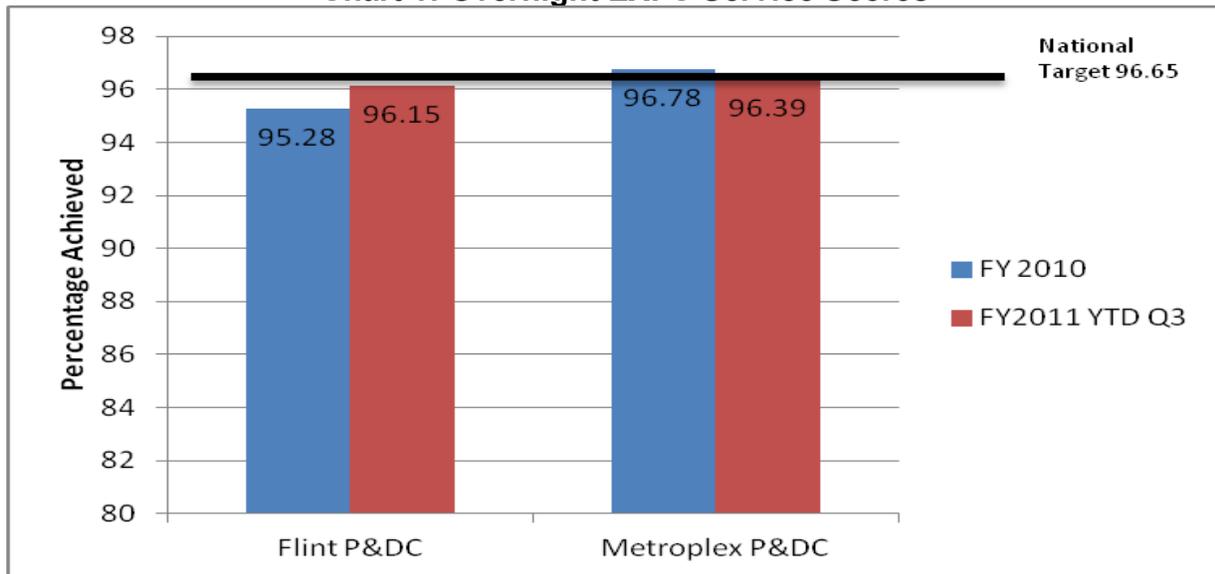
⁴ 24-hour clock indicators measure key indicators of operating performance at mail processing plants, which may influence service.

While these indicators were below established goals, they had minimal impact on the Michigan Metroplex’s EXFC⁵ service scores.

EXFC Scores

During FY 2010 and through Q3, FY 2011, the Michigan Metroplex P&DC had higher EXFC scores than the Flint P&DC in two categories – overnight and 3-day service; however, 2-day service scores were lower. In addition, the Michigan Metroplex P&DC exceeded the national goal for overnight EXFC Service Scores in FY 2010 (see charts 1, 2, and 3).

Chart 1: Overnight EXFC Service Scores



⁵ EXFC is a measurement system the Postal Service uses to measure First-Class Mail® (FCM) service performance.

Chart 2: 2-Day EXFC Service Scores

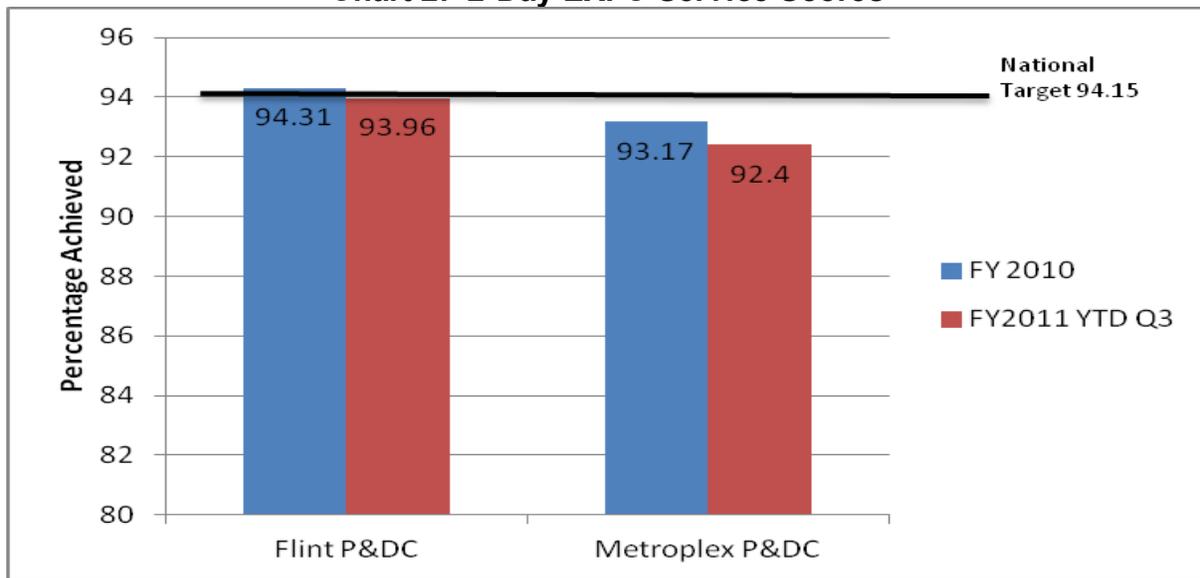
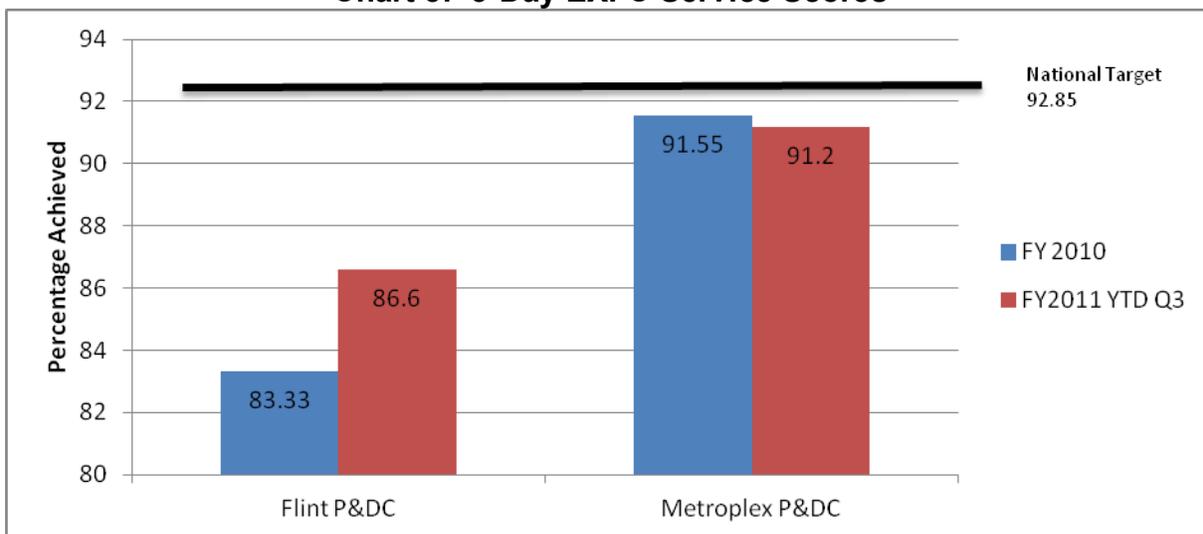


Chart 3: 3-Day EXFC Service Scores



[24-Hour Clock Indicators](#)

The Michigan Metroplex P&DC met most of its 24-hour clock indicators while the Flint P&DC met applicable indicators during FY 2010 and through Q3, FY 2011. The most significant challenge at the Michigan Metroplex P&DC involved cancelling collection mail. Some of this mail was moved to the Michigan Metroplex P&DC in September 2009. In July 2011, management initiated a local Lean Six Sigma project to simplify and clarify mail separations and instructions for collection mail. Consequently, this indicator should not negatively impact EXFC service scores for the Michigan Metroplex P&DC (see Table 1).

Table 1: 24-hour Clock Indicators (FY 2010 and FY 2011, Quarters 1-3)

Indicators	Flint FY10 (Data in Percentage)	Metroplex FY10 (Data in Percentage)	Flint Q3, FY 2011 (Data in Percentage)	Metroplex Q3, FY 2011 (Data in Percentage)
Cancel Collection Mail by 8:00 p.m. (National Goal is 80 percent)	0	70.1	No Data ⁶	68.2
Clear Outgoing Primary by 11:00 p.m. (National Goal is 100 percent)	0	95.5	100	95.0
Clear Outgoing Secondary by 12:00 a.m. (National Goal is 100 percent)	0	95.0	100	88.1
Clear Managed Mail Program by 12:00 a.m. (National Goal is 100 percent)	92.8	77.9	No Data	85.4
Assign Mail to Commercial/FedEx by 2:30 a.m. (National Goal is 100 percent)	100	99.8	100	99.4
Clear Delivery Point Sequence 2nd Pass by 7:00 a.m. (National Goal is 100 percent)	100	99.9	99.9	99.9
Trips on Time between 4:00 a.m.-9:00 a.m. (National Goal is 86.9 percent)	96.2	75.4	96.2	83.4

Color Code Legend:

Green (80-100%)	Yellow (75-79%)	Red (0-74%)
-----------------	-----------------	-------------

[Service Standards](#)

Service standards will be minimally impacted by the consolidation with standards being maintained or improved. The Postal Service indicated in the AMP study that the consolidation would be service neutral with zero upgrades or downgrades to FCM, Priority Mail[®], or any other mail class. However, the supporting AMP service standards worksheet showed eight upgrades for Periodicals, 12 upgrades for Standard Mail, and 12 upgrades for Package Services (see Table 2). Local managers indicated they took a conservative approach and reported the service standards with exceptions⁷ for FCM

⁶ System data not available.

⁷ Postal Service management reviews and discusses preliminary service standard changes with managers at the consolidated facilities. If local management believes they are not able to meet preliminary Service Standard Directory (SSD) results, they will report standards based on what they believe are achievable.

and priority mail, resulting in a service neutral position with no changes to the service standards. Table 2 shows the upgrades reported in the AMP study worksheets dated May 27, 2011.

Table 2: Postal Service Analysis of Service Standard Impacts

Mail Class	Upgrades	Downgrades	Net Change
First-Class	0	0	0
Priority	0	0	0
Periodicals	8	0	8
Standard	12	0	12
Package Services	12	0	12
Total	32	0	32

For our analysis, we used the SSD⁸ and identified upgrades in service standards⁹ for all mail classes. Table 3 shows our analysis of service standard impacts.

Table 3: OIG Analysis of Service Standard Impacts

Mail Class	Upgrades	Downgrades	Net Change
First-Class	10	0	10
Priority	10	0	10
Periodicals	18	0	18
Standard	12	0	12
Package Services	12	0	12
Total	62	0	62

The consolidation will have no impact on the Flint Post Office's¹⁰ retail window, delivery unit, and business mail entry unit. Additionally, the collection boxes on site at the Flint P&DC will remain.

Efficiency

The Michigan Metroplex P&DC has improved efficiency since the initial consolidation in FY 2010. Productivity at the facility has increased by 5 percent year-to-date (YTD) in FY 2011. Many factors — including the mail mix, type of sortation, and size of the plant — impact breakthrough productivity initiative (BPI) scores. BPI scores show the performance of plants compared to established performance expectations, with higher

⁸ A web-based system that provides mail class service standards information to customers via the Postal Service's intranet.

⁹ 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.

¹⁰ The Flint Post Office services mail with 3-digit ZIP Codes 484 and 485.

scores representing better performance. Table 4 shows productivity scores for the Michigan Metroplex P&DC for FYs 2010 and 2011, YTD. The productivity scores should continue to improve with the addition of the Flint, MI mail.

Table 4: Michigan Metroplex BPI Scores

Facility	FY 2010	FY 2011 YTD¹¹
MI Metroplex	68.6 percent	71.9 percent

Employee Impact

Consolidation of the Flint P&DC into the Michigan Metroplex P&DC will have a significant impact on employees. A reduction of 105 full-time equivalent (FTE) craft positions and eight Executive and Administrative Schedule (EAS) positions will occur at the Flint P&DC. However, management may offer employees positions at the Michigan Metroplex P&DC and opportunities to fill other vacancies in the Detroit District.

We performed a 3-year attrition trend analysis of the Flint and Michigan Metroplex facilities for FYs 2008, 2009, and 2010 to determine projected employee reductions. The 3-year average attrition rate for the Flint P&DC was 18 employees and the rate for the Michigan Metroplex P&DC was 47 employees. Based on this information, management could place the number of employees to be excessed because of the consolidation (105 craft and eight EAS positions) in less than 2 years. As of June 23, 2011, three employees at the Flint P&DC and 27 employees at the Michigan Metroplex left employment during FY 2011. Attrition will reduce the number of employees impacted by the consolidation.

Cost Savings

The \$6 million total annual savings projections were validated and will result primarily from mail processing workhour reductions. The Postal Service estimated the total first year savings to be \$5,866,395 from the consolidation. However, the OIG estimated a slightly higher first-year savings of \$5,897,370 (see Chart 4). We based our cost analyses on the June 16, 2011 version of the study.

¹¹ FY 2011 ,YTD includes Quarters 1 through 3.

Chart 4: Cost Savings Comparison

Savings/Cost	AMP Study (June 16, 2011 Version)	OIG Analysis Based on June 16, 2011 Version
Mail Processing Craft Workhour Savings	\$3,850,767	\$3,850,767
Non-Mail Processing/Management + Shared Labor Distribution Codes Workhour Savings (less maintenance and transportation)	\$579,258	\$579,258
Management ¹² Workhour Savings	\$837,684	\$837,684
Transportation Savings	(\$326,355)	(\$326,355)
Maintenance Savings	\$1,105,659	\$1,105,659
Space Savings	\$0	\$0
Total Annual Savings	\$6,047,012	\$6,047,012
Total One-Time Costs	(\$180,617)	(\$149,642)
Total First-Year Savings	\$5,866,395	\$5,897,370

¹² EAS (Executive Administrative Schedule).

One-Time Costs

We identified an additional proposed savings of \$30,975 in one-time costs. Management overstated equipment relocation costs by using the wrong guidelines for the calculation.

The Flint AMP identified six DBCS machines and one AFSM 100 machine for transfer to the Michigan Metroplex P&DC. According to Postal Service-approved protocols, relocation cost estimates are based on the type of equipment and the distance. The cost to move equipment from one location to another is divided into two cost estimate categories; greater than 45 miles and equal to or less than 45 miles. The distance between the Flint, MI P&DC (losing facility) and the Michigan Metroplex P&DC (gaining facility) is approximately 35.8 miles. We found that management used the correct cost estimate for the six DBCS machines. However, they inadvertently used the “greater than 45 miles” cost estimate category for the AFSM 100 machine, resulting in an estimated cost of \$139,667 instead of \$108,692. As a result, we reduced the total one-time costs from \$180,617 to \$149,642 increasing the first-year cost savings.

Illustration 2: A DBCS Machine at the Flint P&DC slated for transfer to the Michigan Metroplex P&DC



Source: OIG photograph taken on May 25, 2011.

Potential Risks

Identifying key risks could assist management when making decisions and taking action. As a result, we concluded the Flint P&DC consolidation has strategic, financial, and operational risks that need to be managed during this transition. We have recommended in the past that the Postal Service use a transition team from headquarters to assist in full consolidations to ensure they are performed effectively. Also, the timing of the consolidation is important, as we have seen more success with consolidations that are implemented outside the large volume seasons, such as the fall mailing season. The Flint P&DC consolidation is scheduled for implementation on December 31, 2011.

Key Risks

Risk Category	Risk Factor	Probability	Impact	Risk
Strategic	Stakeholder Relations	High	Medium	Changes to network encounter resistance and can delay/terminate consolidations.
Financial	Labor Costs	High	High	There is a lack of flexibility in adjusting workhours to workload associated with consolidations and employee moves.
Operational	Service	Medium	High	Customer service could be impacted during implementation due to increased mail volumes from the fall mailing season.
Operational	Real Estate/Space Management/ Equipment	High	Medium	Lack of efficient and cost effective use and disposition of excess space and equipment after the consolidation.

Recommendations

We are not making recommendations in this report because our findings support the consolidation.

Appendix A: Additional Information

Background

In testimony before Congress in June 2010,¹³ 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. The GAO states that one of the initiatives, AMP proposals, is 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, 2006¹⁴ 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. . . ."

On September 22, 2009, the Postal Service completed the transfer of Flint's P&DC originating mail operations to the Michigan Metroplex P&DC. The final post implementation review was completed and signed on May 23, 2011 showing a total annual saving of \$2,292,466. The majority of the savings were due to workhour reductions.

On November 16, 2010, the Postal Service initiated a feasibility study for the AMP consolidation of the Flint P&DC destinating mail operation to the Michigan Metroplex P&DC. The study was approved on September 2, 2011 and implementation is scheduled for December 31, 2011. The two mail processing facilities are approximately 38.5 miles apart, in the Detroit District (previously Southeast Michigan District) of the Postal Service's Great Lakes Area. The AMP feasibility study was based on operational data from October 1, 2009, to September 30, 2010. As required by policy,¹⁵ Postal Service officials solicited public input shortly thereafter. Stakeholder responses resulted in congressional opposition from Representative Dale E. Kildee of Michigan's 5th Congressional District and a request for review of the feasibility study.

Our model ranked the consolidation of the Flint P&DC into the Michigan Metroplex P&DC in the top 20 percent of potential consolidation scenarios. The model identifies

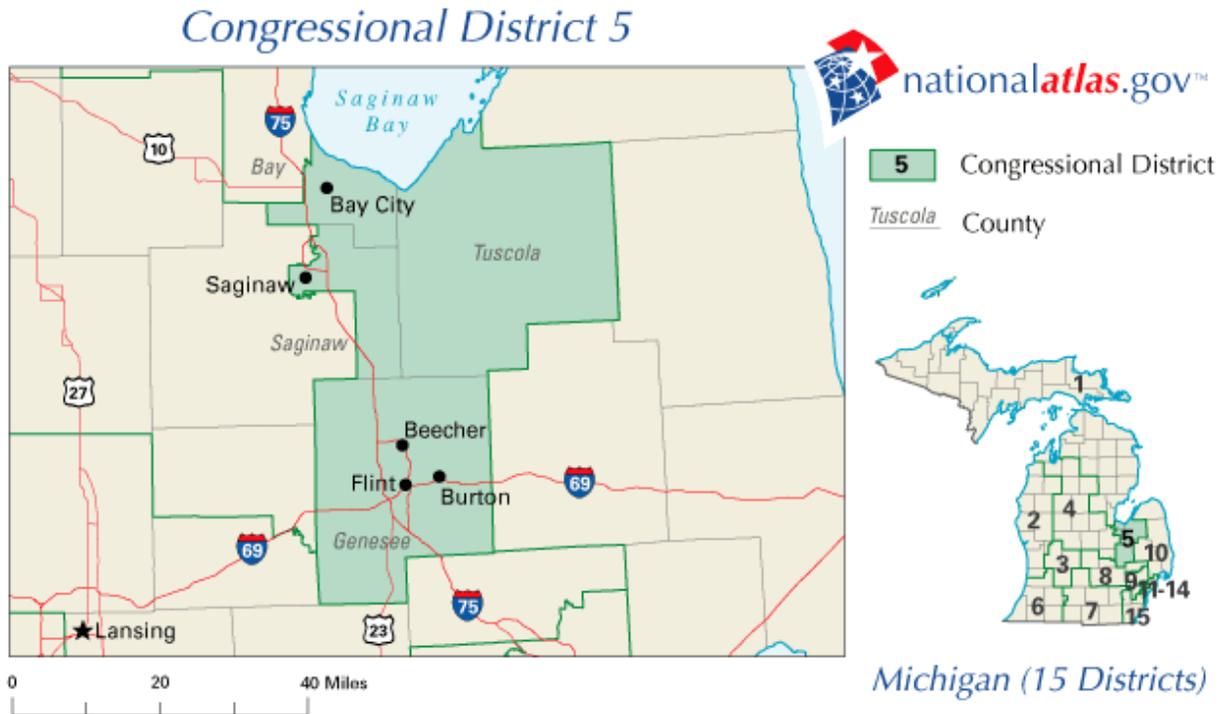
¹³ Testimony to the Congressional Committees: *Mail Processing Network Initiatives Progressing and Guidance for Consolidating Area Mail Processing Operations Being Followed* (GAO-10-731, dated June 2010).

¹⁴ Public Law 109-435, 120 Stat. 3189, December 20, 2006.

¹⁵ Handbook PO-408, *Area Mail Processing Guidelines*.

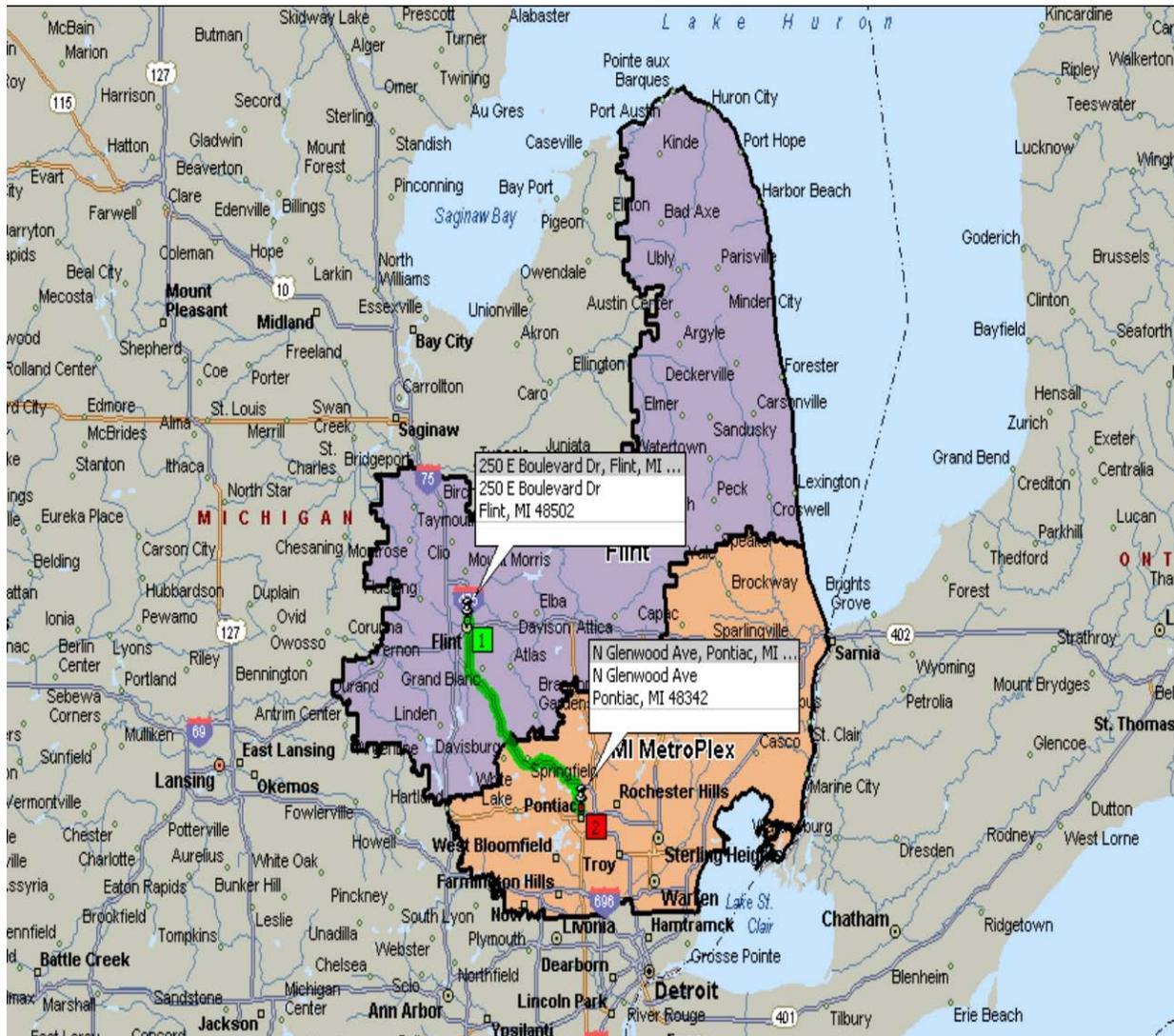
full AMP consolidation opportunities using eight consistent, objective key indicators grouped into the following five categories: location, service, capacity used, facility type, and efficiency.

Map 1: Michigan's 5th Congressional District¹⁶



¹⁶ Source: The National Atlas website (www.nationalatlas.gov).

Map 2: Flint P&DC (1) and Metroplex P&DC (2)



Source: USPS

Objectives, Scope, and Methodology

The objectives of this audit were to assess the business case and operational impacts of the proposed consolidation. In response to the congressional request, we evaluated the workforce and operational impacts, service implications, efficiency gains, and savings projections of the Flint P&DC into the Metroplex P&DC consolidation proposal.

We reviewed current and historical data for the Flint, MI and Michigan Metroplex facilities, including data from the period covered by the AMP feasibility study worksheets. We conducted on-site observations during the week of May 22, 2011, interviewed Postal Service officials and employees, and reviewed applicable Postal Service guidelines. We used the AMP consolidation proposal, dated May 27, 2011, as the basis for our review. However, management revised the AMP proposal on

June 16, 2011, to reflect changes in transportation costs only. We recognized the revision and adjusted our validations accordingly. We generated reports and prepared analyses using Postal Service databases to confirm information related to capacity, workhours, staffing, transportation, and service standards regarding the proposed consolidation. These databases included:

- Activity-Based Costing
- Enterprise Data Warehouse
- Service Standard Directory
- Transit Time Measurement System
- Transportation Contract Support System
- Web Complement Information System

We conducted this performance audit from April through October 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 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 September 20, 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>Detroit, Michigan Processing and Distribution Center Consolidation</i>	EN-AR-08-005	7/17/2008
<i>Mojave Post Office Facility Consolidation</i>	EN-AR-08-006	9/17/2008
<i>Canton Processing and Distribution Facility Outgoing Mail Consolidation</i>	NO-AR-09-011	9/22/2009
<i>New Castle Processing and Distribution Facility Outgoing Mail 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>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010
<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
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010
<i>Southeast Area Processing and Distribution Center Consolidations</i>	EN-AR-10-006	9/17/2010
<i>Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010
<i>Houston, TX Processing and Distribution Center Mail Consolidation</i>	NO-AR-11-004	12/14/2010
<i>Huntington, WV Processing and Distribution Facility Consolidation</i>	EN-AR-11-003	3/31/2011
<i>Beckley, WV Post Office Facility Consolidation</i>	EN-AR-11-005	4/21/2011
<i>Oshkosh, WI Processing and Distribution Facility Consolidation</i>	NO-AR-11-006	7/29/2011