



June 26, 2007

ANTHONY M. PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Management Advisory - Area Mail Processing Initiation Process
(Report Number EN-MA-07-001)

This report presents the results of our self-initiated review of the Area Mail Processing (AMP) Initiation Process (Project Number 07XG014EN000). Our objective was to determine whether the Postal Service has an effective process to consistently identify consolidation opportunities that promote efficiencies within the mail processing network.

Background

The Postal Service has recognized the need to redesign its processing infrastructure in response to declining First-Class Mail® volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demographics. The goal of the evolving optimization effort is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service.

AMP is the consolidation of all originating and/or destinating distribution operations from one or more postal facilities into other automated facilities to improve operational efficiency and service. The changes described above have created excess infrastructure capacity in the network, increasing the opportunities for mail processing operation consolidations.

Postal Service management previously stated that AMP was a tool they were using to incrementally implement the Evolutionary Network Development (END) initiative.¹ END used a top-down approach to develop network solutions based on optimization and simulation models and has national implications. AMP mainly uses a bottom-up approach to identify consolidation opportunities. Management believes the two processes complement the overall network design.

¹ Various names have been used for the END initiative including Network Integration and Alignment, Network Rationalization, Network Realignment, and Network Optimization.

Handbook PO-408,² which documents the bottom-up approach for area, district, and local management, provides guidance for initiating an AMP study. The handbook does not address the top-down approach for initiating AMP studies.

Objective, Scope, and Methodology

The objective of this review was to determine whether the Postal Service has an effective process to consistently identify consolidation opportunities that promote efficiencies within the mail processing network. To accomplish our objective, we reviewed Postal Regulatory Commission³ (PRC) filings, guidance related to identifying AMP consolidation opportunities, and laws and regulations significant to our audit objectives. In addition, we reviewed the 2003 President's Commission on the Postal Service, evaluated prior audit reports pertaining to the AMP process, and reviewed the Postal Service's Independent Verification and Validation draft report on the END models and other relevant Postal Service policies and procedures.

The review covered program operations at Postal Service Headquarters and all area offices. We reviewed current and prior AMP guidance and AMP proposals submitted to Postal Service Headquarters from 1996 through April 2007. During our work, we interviewed Postal Service Headquarters and area managers in Network Development and Support, Processing Operations, Network Alignment Implementation, and In-Plant Support, as well as AMP coordinators.

We conducted this review from January through June 2007 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on March 29, 2007, and included their comments where appropriate. We did not rely on computer-generated data for this review.

Prior Audit Coverage

The U.S. Postal Service Office of Inspector General (OIG) has issued eight reports on AMP and network realignment. In addition, the Government Accountability Office (GAO) reviewed the Postal Service's mail processing infrastructure. For details of prior audit coverage, see Appendix A.

² *Area Mail Processing (AMP) Guidelines*, dated April 1995, provides a framework for consolidating operations in the mail processing network. It states that changes should support the Postal Service's strategic objectives, make optimum use of available resources, and establish management's accountability for making decisions.

³ The Postal Accountability and Enhancement Act, Public Law 109-435, dated December 20, 2006, redesignated the Postal Rate Commission as the Postal Regulatory Commission.

Results

The Postal Service could improve its process for identifying AMP consolidation opportunities by integrating the benefits of a strategic approach (top-down) with the existing tactical approach (bottom-up). We determined both approaches add value to the process of identifying consolidation opportunities and help ensure consistent use. Table 1 identifies the advantages and disadvantages of each approach.

Table 1. Analysis of Top-Down and Bottom-Up Approaches

	Advantages	Disadvantages
Top-Down	Potentially more objective and equitable approach, easier to defend to stakeholders.	Global applications may be riskier without validated methodology.
	Ability to "see" the larger picture and rank opportunities based on cost-savings.	Local data may not be visible to Postal Service Headquarters, needs local management to validate.
	More consistent data analyses.	Resistance at local level.
	Can test results without implementing.	Relies on one size fits all approach.
	Increased flexibility, can revise assumptions and parameters.	May not identify opportunities for smaller facilities due to data gaps.
	Advantages	Disadvantages
Bottom-Up	Expertise of local management about site-specific data.	Site-specific focus may miss opportunities that require consolidations across district and area boundaries.
	Limited risk.	Difficulty in summarizing global data, including service implications.
	Ownership of consolidation.	Objectivity of process, local management may not pursue some consolidations.

Bottom-Up Consolidation Opportunities

The identification of bottom-up AMP consolidation opportunities has been inconsistent. Area management stated they use the AMP guidelines and associated worksheets, but have also developed additional criteria for identifying consolidation opportunities. Following are some of the inconsistencies we noted:

- **Service degradation.** Some areas allow no First-Class Mail service degradation, some allow no major degradation in service, and others allow a percentage of service degradation when considering consolidation opportunities.

- Minimum savings thresholds. Some areas are only addressing the easier or smaller scope opportunities, while others focus on larger dollar saving opportunities. Three of the nine areas have established minimum savings thresholds greater than \$1 million.
- Distance between facilities. Some areas will only consider an opportunity if the distance between facilities is short. Others do not consider distance in their analyses.

The President's Commission on the Postal Service noted the Postal Service had excess capacity and more facilities than needed. The Commission recommended optimizing the facility network by closing and consolidating unneeded processing centers. In addition, the Postal Accountability and Enhancement Act encouraged the Postal Service to move forward with its streamlining efforts. The AMP guidelines facilitate these recommendations within the Postal Service, stating the AMP proposal process may be initiated whenever management at a district office or a processing and distribution center (P&DC) deems it necessary.

The inconsistencies we noted arise because area operations are autonomous and standardized criteria for identifying consolidation opportunities do not exist. As a result, the Postal Service may not consider some consolidation opportunities and stakeholders may question the objectivity of the entire process.

Top-Down Consolidation Opportunities

Identification of top-down consolidation opportunities needs improvement. The Postal Service provided the PRC with a list of 139 consolidation opportunities for the network realignment strategy. Local management (bottom-up) provided some of these opportunities, while others were the product of END modeling (top-down). Table 2 shows consolidation opportunities by area.

Table 2. Analysis of Consolidation Opportunities

Area	Opportunities Through Top-Down	Opportunities Through Bottom-Up	Total Opportunities	Percentage From Top-Down
Capital Metro	1	5	6	16.7
Eastern	7	5	12	58.3
Great Lakes	9	6	15	60.0
Northeast	6	4	10	60.0
New York Metro	1	1	2	50.0
Pacific	4	1	5	80.0
Southeast	11	3	14	78.6
Southwest	10	19	29	34.5
Western	7	39	46	15.2
Total	56	83	139	40.3

The Postal Service based top-down opportunities on the previous distribution strategy which included a network of Regional Distribution Centers (RDCs). This network would have transferred most processing of parcels and bundles to the RDCs, leaving letters and flats processing at the P&DCs. The Postal Service could then consolidate some operations at P&DCs to eliminate excess capacity, increase efficiency, and reduce costs.

The majority of current consolidation opportunities the Postal Service is examining were generated by the top-down approach. In addition, management advised us they were continuing to process AMPs for originating mail as they were still valid, given changes to the network distribution strategy.

The PRC stated the END models “will substantially drive future consolidations” when the outputs of the END model are compared to the current network. Any current facilities the Postal Service has not earmarked for the future network could be a consolidation opportunity.

The strategy of an RDC network may no longer be valid, but the consolidation opportunities have not been adjusted accordingly. In addition, the Postal Service plans to introduce new technology, specifically the Flat Sequencing System (FSS), which will impact floor space in processing facilities. These machines require 25,000 square feet of workroom space. The PRC advised the Postal Service to consider deployment of the FSS when making changes to the network so it can avoid unnecessary expenses.

As a result of changes in the network realignment strategy, some top-down consolidation opportunities may no longer be consistent with the future network design. In addition, these consolidation opportunities may not be feasible because of new technology on the horizon.

Postal Service Actions

During our review, management was revising Handbook PO-408 and expects to complete the revision by the end of fiscal year (FY) 2007. As part of the revision, they plan to establish a more objective methodology to determine workhours required to process mail volume transferred between facilities as part of a consolidation. They also plan to centrally manage consolidation opportunities.

Recommendations

We recommend the Vice President, Network Operations:

1. Validate current consolidation opportunities with changes in the network realignment strategy, including future equipment space needs.
2. Revise Handbook PO-408, *Area Mail Processing Guidelines*, to integrate the “bottom-up” and “top-down” approaches to identifying consolidation opportunities.

Management’s Comments



Management agreed with recommendations 1 and 2, and stated they will continue to evaluate consolidation opportunities, taking equipment deployment as well as other factors into consideration. Management also stated they have included information on the “bottom-up” and “top-down” approaches to identifying consolidation opportunities in revisions to Handbook PO-408, *Area Mail Processing Guidelines*, which is scheduled for update by the end of FY 2007. Management’s comments, in their entirety, are included in Appendix B.

Evaluation of Management’s Comments

Management’s comments are responsive to recommendations 1 and 2. The actions taken or planned should correct the issues identified in the findings.

The OIG considers recommendations 1 and 2 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the 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 Colleen McAntee 
[VERIFY authenticity with Approve]


Colleen McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
William P. Galligan
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APPENDIX A

PRIOR AUDIT COVERAGE

The OIG report titled *Network Integration and Alignment Models – Independent Verification and Validation* (Report Number NO-AR-04-005, dated February 24, 2004) determined the Postal Service conducted limited verification and validation on the network integration and alignment models, but they were not independent or fully documented. Not having independent verification and validation (IV&V) could increase public and congressional concerns about the objectivity of this initiative, which has significant strategic implications. We made two recommendations and management concurred with them.

The OIG report titled *Office of Inspector General Assistance to Evolutionary Network Development Independent Verification and Validation Team* (Report Number NO-MA-05-001, dated March 29, 2005) documented that the OIG assisted the Postal Service with the IV&V of the END models by serving on the IV&V team in an advisory capacity, identifying best practices through benchmarking efforts, identifying subject matter experts and facilitating meetings with the experts, and attending IV&V working group conferences and training events to gain knowledge of the IV&V process.

The GAO report titled *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (GAO-05-261, dated April 8, 2005) found that declining First-Class Mail volumes, increasing competition, and shifting population demographics meant the Postal Service needed to increase efficiency and reduce capacity. The GAO recommended the Postal Service establish criteria for evaluating realignment decisions. The GAO also recommended the Postal Service develop a process for implementing those decisions that included evaluating and measuring the results, as well as the actual costs and savings resulting from the decisions. The Postal Service responded they are making great strides in both service improvement and cost control. AMP is one of the tools they are using to implement the goals of END.

The OIG report titled *Area Mail Processing Guidelines* (Report Number NO-AR-06-001, dated December 21, 2005) found the AMP process was fundamentally sound, appeared credible, and provided a Post Implementation Review (PIR) process to assess results from mail processing consolidations. However, management of the AMP process and guidance could be improved. AMPs were not processed or approved in a timely manner, PIRs were not always conducted, and stakeholders' resistance affected the approval process. The report recommended the Postal Service update AMP guidance, comply with policy, and address stakeholder resistance. Management agreed with the findings and recommendations.

The OIG report titled *Status Report on the Evolutionary Network Development Initiative* (Report Number NO-MA-06-001, dated March 20, 2006) documented the progress of

network changes and identified some key challenges. Challenges (including opposition to proposed network consolidations) affected the approval and implementation of infrastructure changes; project management may need to be elevated to a formal END steering committee; and there was no clear guidance regarding integration of AMP with END. Without a short-term plan for achieving network changes, there is no assurance management will properly sequence and integrate the various incremental network changes. Although this report contained no recommendations, management generally agreed with the issues discussed.

The OIG report titled *Pasadena, California, Processing and Distribution Center Consolidation* (Report Number EN-AR-06-001, dated September 26, 2006) found the workhour cost analysis included in the AMP proposal was supported and additional OIG analyses provided confirming evidence for the consolidation. However, in the development, approval, and implementation of the Pasadena AMP proposal, management did not always comply with the processes outlined in policy and some AMP proposal data was inaccurate, incomplete, or unsupported. The OIG made three recommendations. Management generally agreed with our recommendations.

The OIG report titled *Bridgeport, Connecticut Processing and Distribution Facility Outgoing Mail Consolidation* (Report Number NO-AR-06-010, dated September 30, 2006) concluded the Postal Service was justified in moving outgoing mail processing operations from the Bridgeport, Connecticut P&DF to the Stamford, Connecticut P&DC. Since the Postal Service implemented this consolidation during our audit, we did not make recommendations pertaining to the consolidation itself. However, we identified some weaknesses in management controls over the processing and approval of the AMP proposal and recommended the Postal Service maintain supporting documentation and use current data for future AMP proposals. Management agreed with our recommendations.

The OIG report titled *Sioux City, Iowa, Processing and Distribution Facility Consolidation* (Report Number EN-AR-07-001, dated November 9, 2006) determined the Postal Service provided adequate support for its analysis of workhours, transportation and facility costs in the AMP proposal and our additional analysis provided confirming evidence. Management generally complied with AMP guidance and maintained supporting documentation. However, we identified some inconsistencies in AMP proposal data and management may have shared inaccurate information with stakeholders. We made four recommendations in this report. Management agreed with our recommendations.

The OIG report titled *Service Implications of Area Mail Processing Consolidations* (Report Number EN-AR-07-002, dated December 5, 2006) determined the Postal Service could improve the way it documents service impacts in AMP proposals and PIRs. During reviews of AMPs, the OIG found discrepancies with the service standards section of the AMP proposals. We made four recommendations in this report. Management agreed with our recommendations.

APPENDIX B. MANAGEMENT'S COMMENTS

TONY PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS



June 11, 2007

Ms. Colleen A. McAntee
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SUBJECT: Draft Management Advisory – Area Mail Processing Initiation
Process (Report Number EN-MA-07-DRAFT)

Dear Ms. McAntee:

This is in response to your self-initiated review of the Area Mail Processing (AMP) Initiation Process (Project Number 07XG014EN000). Your objective was to determine whether the Postal Service has an effective process to consistently identify consolidation opportunities that promote efficiencies within the mail processing network.

Recommendation #1:

Validate current consolidation opportunities with changes in the network realignment strategy, including future equipment space needs.

Response:

We agree with this recommendation. We will continue to evaluate consolidation opportunities by taking into consideration volume changes, equipment deployment and other factors impacting our network realignment strategy.

Recommendation #2:

Revise Handbook PO-408, *Area Mail Processing Guidelines*, to integrate the "bottom-up" and "top-down" approaches to identifying consolidation opportunities.

Response:

We agree with this recommendation. Information about the "bottom-up" and "top-down" approaches has been added to Chapter 1, Introduction, in the revised Handbook PO-408, *Area Mail Processing Guidelines*.

If you have any questions or require additional information regarding our responses to the first three recommendations, please contact David Williams, Manager, Processing Operations, at (202) 268-4305.

A handwritten signature in black ink, appearing to read "Tony Pajunas".

Tony Pajunas

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