



March 20, 2007

JAMES A. NEMEC
PLANT MANAGER, JACKSONVILLE, FLORIDA
PROCESSING AND DISTRIBUTION CENTER

SUBJECT: Audit Report – Jacksonville Processing and Distribution Center Flat Processing Operations (Report Number NO-AR-07-002)

This report presents the results of our audit of flat¹ processing operations at the Jacksonville, Florida, Processing and Distribution Center (Jacksonville P&DC) (Project Number 06XG027NO000). In April 2006, while the U.S. Postal Service Office of Inspector General (OIG) was addressing a Board of Governors request to review the External First-Class (EXFC) Measurement System at the Jacksonville P&DC,² we noted potential inefficiencies in flat mail processing operations. So we conducted this audit with the objective of assessing the efficiency of off-site flat mail processing operations, and in partnership with the Plant Manager, Jacksonville P&DC.

The audit confirmed that the Postal Service may have experienced processing delays and incurred unnecessary operational cost by processing flats at the Tradeport Annex (Annex). However, during our audit, the Postal Service consolidated flat and letter mail operations at the Jacksonville P&DC. As a result, the Postal Service could realize a net cost avoidance of approximately \$3.1 million in facility and transportation cost by closing the Annex.

Management agreed with our finding, recommendation, and cost avoidance and has taken action to address the issues in this report.

Background

The U.S. Postal Service has over 269 mail processing facilities. A P&DC is a central mail facility that processes and dispatches part or all of incoming³ and outgoing⁴ mail for

¹ Flat-size mail refers to mailpieces that exceed the dimensions for letter-size mail (11 1/2 inches long, 6 1/8 inches high, and 1/4 of an inch thick).

² The EXFC issue was addressed in a June 28, 2006, memorandum to the Secretary to the Board of Governors.

³ Incoming mail is mail received by a postal facility, most commonly for distribution and delivery within the delivery area of the receiving facility.

⁴ Outgoing mail is mail sorted within a mail processing facility that is dispatched to another facility for additional processing and delivery.

a designated service area. The Jacksonville P&DC, in the North Florida performance cluster, primarily processes letter mail. The Jacksonville P&DC also operates an off-site Annex, which handles all flat mail processing for the P&DC. The Postal Service has leased the Annex since 1995.⁵ Annual lease costs for the Annex total \$471,178 plus \$249,828 in utilities.

Objective, Scope, and Methodology

Our objective was to assess the efficiency of off-site flat mail processing operations at the Jacksonville P&DC. We observed processing operations, interviewed Postal Service officials and employees, reviewed prior Postal Service work in the facility, identified costs of the operations, reviewed floor plans and equipment layouts, and identified the impacts of the potential consolidation. We relied on data and documentation provided by the Postal Service, and verified results with Postal Service managers. Nothing came to our attention to suggest the data was unreliable.

We conducted this audit from April 2006 through March 2007 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

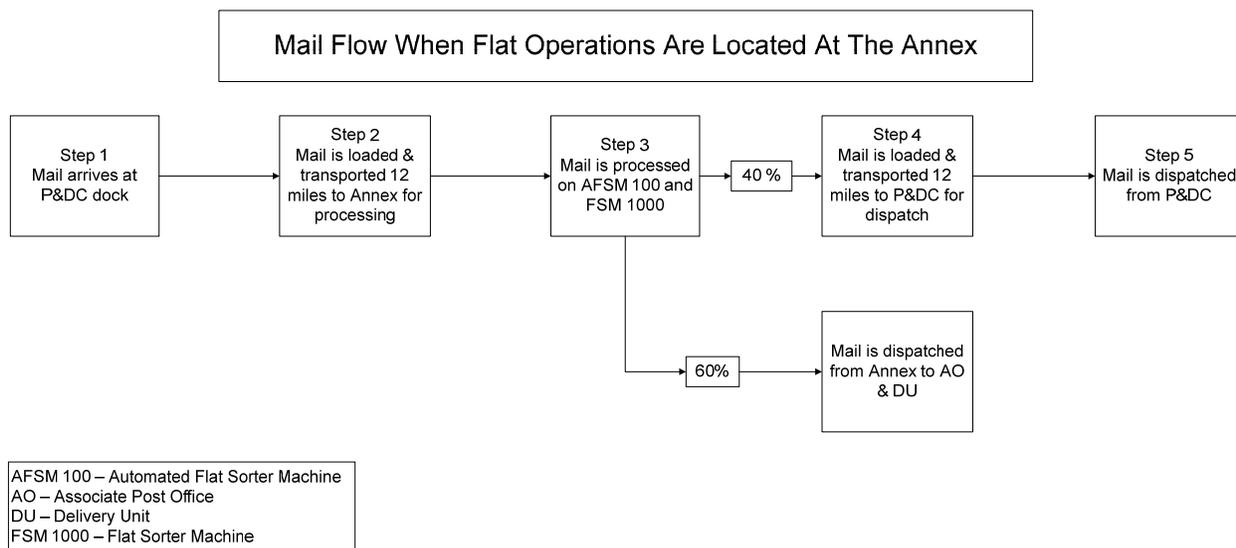
We did not identify any prior audits or reviews related to the objective of this audit. The Postal Service conducted a comprehensive service review of processing facilities associated with the Jacksonville P&DC in January 2006. Their report identified specific mail processing deficiencies and suggested actions to improve existing processes.

Results

The split between the Jacksonville P&DC and the Annex created inefficiencies in processing the mail. The chart below shows the five steps needed to move and process mail between the two facilities.

⁵ The current lease for the Annex expires on July 31, 2010.

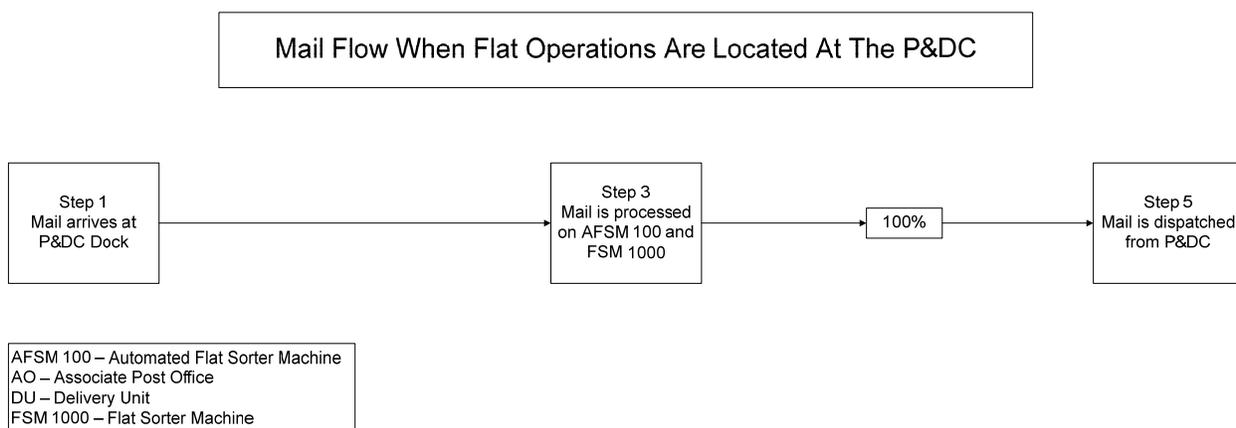
Chart 1



Processing flats at the Annex increased the handling and transportation requirements, as shown in steps 2 and 4 above. For example, on April 5, 2006, we observed that mail was transported eight times on Tour 3 from the Jacksonville P&DC to the Annex. As a result of these trips, the Postal Service used an additional 4 hours to load and transport mail between the two facilities.

Processing mail at the Jacksonville P&DC would be more efficient. The chart below shows the process without steps 2 and 4, resulting in a reduction in overall processing time.

Chart 2



Title 39, U.S.C., Part 1, Chapter 4, § 403(b)(1) states, “It shall be the responsibility of the Postal Service to maintain an efficient system of collecting, sorting and delivery of

the mail nationwide...” Also, the Report of the President’s Commission on the U.S. Postal Service states, “Toward that end, the Commission envisions a comprehensive postal network realignment . . . for consolidating and closing unnecessary processing and other back-end postal facilities...”

Historically, the Annex was used because the Jacksonville P&DC did not have adequate floor space for flat mail processing equipment. However, recent Postal Service actions have opened up additional space at the P&DC.

- The Jacksonville P&DC removed the sack sorter because sack volumes throughout the mail processing network had decreased.
- During the audit, the Postal Service moved five Delivery Barcode Sorters to the Air Transfer Office at the Jacksonville airport.

These moves created sufficient space to house the flat mail processing equipment at the P&DC.

As a result of processing flats at the Annex, the Postal Service may have experienced processing delays and incurred unnecessary operational costs. Because of the additional processing time, the Postal Service increased the potential that mail would be delayed or scheduled trips between facilities would be missed. Moving flat mail processing operations to the Jacksonville P&DC would correct these issues and would also expand the operational window for processing flats.

During our audit, the Postal Service took a proactive approach to this issue and began consolidating flat and letter mail operations at the Jacksonville P&DC. The newly appointed plant manager worked cooperatively with the OIG and was instrumental in the Postal Service’s efforts to consolidate operations. During the review, the Postal Service completed this consolidation, but continued to use the Annex through the holiday mailing season for additional equipment storage.

Since the Postal Service moved the flat mail processing operation to the Jacksonville P&DC in October 2006 we are not making a recommendation on this issue. However, the Postal Service could also realize a net cost avoidance of approximately \$3.1 million in facility and transportation costs by closing the Annex. Appendix A shows the estimated cost avoidance from moving flat processing operations to the Jacksonville P&DC and closing the Annex. This represents \$3,112,457 in funds put to better use and will be reported as such in our *Semiannual Report to Congress*.

Recommendation

We recommend the Plant Manager, Jacksonville, Florida, Processing and Distribution Center:

1. Close the Tradeport Annex following the holiday mailing season. This action will result in a cost avoidance of approximately \$3.1 million in facility and transportation costs over 4 years.

Management's Comments

Management agreed with our finding, recommendation, and monetary impact as funds put to better use by cost avoidance. Management stated they have not used the Annex for processing since the first week in January 2007. Management indicated that since the Annex's lease does not expire until 2010, they plan to use it for Christmas processing. Management's comments, in their entirety, are included in Appendix B.

Evaluation of Management's Comments

Management's comments are responsive to our recommendation, and their actions should correct the issues identified in the finding.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Robert J. Batta, Director, Network Processing, or me at (703) 248-2100.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!


Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Anthony M. Pajunas
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Harold L. Swinton
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APPENDIX A

**COST AVOIDANCE AT THE JACKSONVILLE PROCESSING AND
 DISTRIBUTION CENTER**

	Fiscal Year			
	0	1	2	3
	2007	2008	2009	2010
Utility savings, Tradeport Annex	\$249,828	\$254,325	\$258,903	\$263,563
Offset to utility savings, partial first year	(\$104,095)			
Increase in utilities, Air Transfer Office	(\$36,000)	(\$36,648)	(\$37,308)	(\$37,979)
Net transportation savings	\$898,548	\$912,026	\$925,707	\$939,592
Cost of moving four AFSM 100s	(\$426,000)			
Cost of modifying building interior	(\$378,242)			
Maintenance costs to move equipment	(\$200,000)			
Total cost savings	\$4,039	\$1,129,703	\$1,147,302	\$1,165,176
Discounted at 5.25 percent annually	\$4,039	\$1,073,352	\$1,035,699	\$999,367
Total discounted cost savings	\$3,112,457			

APPENDIX B. MANAGEMENT'S COMMENTS

Lead Plant Manager, Processing and Distribution
North Florida District



February 26, 2007

Kim H. Stroud
Director, Audit Reporting
Office of the Inspector General
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SUBJECT: Draft Audit Report – Jacksonville P&DC Flat Processing Operations

REPORT NUMBER: NO-AR-07-DRAFT

I have reviewed the above named report on the flat processing operations for the Jacksonville Processing and Distribution Center (P&DC), and I am in agreement with the findings and recommendation. Flat operations have been removed from the Tradeport Annex and performed exclusively at the P&DC since October, 2006. The Tradeport Annex was utilized as a Christmas Processing Annex for destinating Priority volumes during the month of December. Jacksonville had leased additional space for Christmas operations in previous years. The use of the Tradeport Annex this holiday season eliminated the need for spending additional funds for the additional leased space. There have been no processing operations at the facility since the first week in January. With the present lease in effect until 2010, the Southeast Area had tentative plans to utilize the Annex for further operational consolidation as part of the Path to Progress network realignment initiative. With that project presently on hold, the future plans for the Annex are yet to be determined. From an operational standpoint, the Annex as it presently sits is closed to processing operations. As a result, the cost avoidance of \$3.1 million is presently being realized. Transportation schedules have been modified, reducing and realigning PVS trips to realize the transportation savings. With no one working at the Annex, utility consumption is minimal resulting in realization of the utility cost savings. Absent any further plans, the Jacksonville P&DC plans to utilize the Annex in the coming years as a Christmas processing Annex, saving the annual cost of renting additional space, further increasing the cost avoidance for the project.

Please contact me if you have any questions or need any additional information.

Thank you,

A handwritten signature in black ink, appearing to read "J. Nemecek".

James A. Nemecek

CC: Chris R. Oronzio
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Harold L. Swinton

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