



July 10, 2008

DAVID E. WILLIAMS, JR.  
MANAGER, PROCESSING OPERATIONS

SUBJECT: Audit Report – Activation of the Philadelphia Processing and Distribution Center (Report Number NO-AR-08-004)

This report presents the results of our audit on the adequacy of the activation of the new Philadelphia Processing and Distribution Center (P&DC) (Project Number 08XG017NO000). Our objective was to determine if the U.S. Postal Service was in compliance with activation requirements at the Philadelphia P&DC related to mail processing. The audit was conducted in cooperation with the Manager, Processing Operations. Click [here](#) to go to Appendix A for additional information about this audit.



## Conclusion

While the Postal Service was generally in compliance with activation requirements, some key activation steps were not fully implemented. As a result, the Postal Service experienced significant delayed mail, causing service degradation.

## Compliance with Activation Requirements

The Postal Service met the majority of the activation requirements as outlined in the *Facility Activation – Master Plan*, dated July 21, 2003. Of 11 mail processing activation steps, the Postal Service completed six – activation coordinator/committee, staffing and equipment requirements, employee orientation, acceptance of business mail at the facility, and Decision Analysis Report (DAR) tracking. Further, almost 800 employees<sup>1</sup> were successfully placed in new positions in the organization, and mail processing operations from the former Philadelphia facility were successfully integrated into a new facility to serve the community. Postal Service management also stated that they are on target to achieve the return on investment required by the DAR.

However, Postal Service management did not complete five of the mail processing activation steps – updating the operating plan, implementing the contingency plan, creating a Supervisor’s Guide for Operations, and training employees in maintenance and new skills. Click [here](#) to go to Appendix B for our detailed analysis of this issue.

## Effects

As a result, the Philadelphia P&DC experienced delayed mail which negatively impacted service. For example, during fiscal year (FY) 2005, total delayed volume was about 29 million pieces — approximately 1 percent of the total volume. However, during FY 2006, when the activation took place, more than 216 million pieces of mail (almost 11 percent) were delayed. Similarly, overnight service scores for First-Class Mail® had reached a high of 96 percent on-time in the year before the activation. During the activation, the overnight service score dropped below 88 percent. As of May 2008, both delayed mail and service scores had improved. Click [here](#) to go to Appendix C for a detailed analysis of delayed volume and service performance.

## Causes

Management did not complete all activation requirements primarily because of:

- Inadequate training and oversight – Local management did not receive adequate training on requirements for activating the new P&DC. Prior to April 1996, a headquarters activation team provided site-specific training. However, the activation team was eliminated because of the Postal Service’s strategic plan to reduce its infrastructure and build fewer facilities. In addition, headquarters management did not provide sufficient oversight during the transition to ensure that all activation steps were completed.

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<sup>1</sup> The baseline impact for the clerks of the Philadelphia Bid Installation was 789 employees. This included 133 clerks from the post offices and 656 from the former Philadelphia P&DC who were determined to be excess.

- Management turnover – During the activation, the Philadelphia P&DC had numerous changes in plant management. For example, three [REDACTED], seven [REDACTED], and the [REDACTED] were on extended leave. In addition, all managers and supervisors had to reapply for their positions. As a result, supervisors who had not received training were in charge of unfamiliar operations, which caused lapses in completing the activation requirements.

To improve future site activations, we recommend the Manager, Processing Operations:

1. Ensure that headquarters provides adequate training and oversight during transitions.

### Management's Comments

Management partially agreed with our recommendation. Headquarters intends to continue to provide activation training. Headquarters will also provide a representative to the activation team, who will be a headquarters-level contact for activation issues. However, oversight for future plant activations will be the responsibility of districts and areas. Management also agreed to review and modify the *Facility Activation – Master Plan* by the end of FY 2008 to ensure that activation responsibilities are clearly documented.<sup>2</sup>

### Evaluation of Management's Comments

Management's comments are responsive to the recommendation. Management's actions should correct the issues identified in this report.

To improve future site activations, we recommend the Manager, Processing Operations:

2. Emphasize the importance of local management continuity during transitions.

### Management's Comments

Management agreed with this recommendation. Management will add emphasis to the project plan as appropriate to highlight the importance of management continuity for successful facility activation. This action will be completed by modifying the *Facility Activation – Master Plan* by the end of FY 2008.

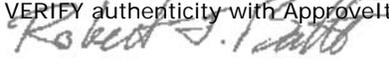
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<sup>2</sup> After receiving management's written response, we contacted headquarters officials for clarification on the future plant activation responsibilities.

## Evaluation of Management's Comments

Management's comments are responsive to the recommendation. Their actions should correct the issue identified in the report. Management's comments, in their entirety, are included in Appendix D.

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

E-Signed by Robert Batta   
VERIFY authenticity with ApproveIt  


**for**  
Colleen A. McAntee  
Deputy Assistant Inspector General  
for Mission Operations

### Attachments

cc: Patrick R. Donahoe  
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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The U.S. Postal Service Office of Inspector General (OIG) has developed an operations risk model that uses 11 performance indicators to rank all districts by overall performance. The Philadelphia District was identified as an at-risk district based on these indicators, which included overall low service scores for FY 2007. Additional research showed that the problems originated when the new Philadelphia P&DC opened. The Postal Service's Manager, Processing Operations, agreed with our assessment.



The former Philadelphia P&DC was originally located at 2970 Market Street adjacent to the 30th Street train station. It consisted of four Postal Service-owned facilities: the former Philadelphia P&DC (a five-story building), the truck terminal annex, the vehicle maintenance facility, and the railway express annex. For over 30 years, deck-loaded volumes and labor-intensive processes supporting rail transportation proved effective.

However, with the growth of automated processing, containerization, palletization, and airline and highway network systems, the facility could no longer meet operational needs. Therefore, the Board of Governors approved a new facility in August 2003. The new \$272 million building has 910,059 square feet of space on two levels. The Philadelphia P&DC was activated in June 2006 and processes 6 million pieces of mail daily for ZIP Code areas 190 and 191.

With the new facility, the Postal Service eliminated constraints that resulted from operating out of two buildings on seven levels in a downtown metropolitan location. Management stated that the new facility would improve operational efficiencies, provide better service to customers, and reduce labor-intensive activities.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to determine if the Postal Service was in compliance with activation requirements at the Philadelphia P&DC related to mail processing. To achieve this objective, we analyzed mail volume, service scores, trends in delayed mail, training records, and automation schedules, and we interviewed Postal Service officials and employees. We used computer-processed data from the following systems:

- Web Enterprise Information System
- Enterprise Data Warehouse

We did not test controls over these systems. However, we checked the reasonableness of results by confirming our analyses and results with Postal Service managers and multiple data sources.

We conducted this performance audit from January through July 2008 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 April 9, 2008, and included their comments where appropriate.

## **PRIOR AUDIT COVERAGE**

The OIG has not completed any prior audits on the activation of a new facility.

## APPENDIX B: ACTIVATION COMPLIANCE

Generally, the Postal Service met the key activation requirements outlined in the *Facility Activation – Master Plan*, dated July 21, 2003. The Postal Service completed six of 11 mail processing activation steps – activation coordinator/committee, staffing and equipment requirements, employee orientation, acceptance of business mail at the facility, and DAR tracking. Further, almost 800 employees<sup>3</sup> were successfully placed in new positions in the organization, and mail processing operations from the former Philadelphia facility were successfully integrated into a new facility to serve the community. Postal Service management also stated that they are on target to achieve the return on investment required by the DAR.

However, Postal Service management did not complete five of the mail processing activation steps – updating the operating plan, implementing the contingency plan, creating a Supervisor’s Guide for Operations, and training employees in maintenance and new skills.

- Operating plan – The unit operating plan, dated May 2005, did not include a mail arrival profile. Without this profile, operations in the new facility could not be properly staffed.
- Contingency planning – A contingency plan was not successfully implemented to sort mail at the stations and branches in the event that the Philadelphia P&DC could not process mail in a timely manner. In fact, during the transition, the Philadelphia P&DC could not process all of its mail promptly enough to meet service standards. Consequently, some mail was diverted to the stations and branches for processing, according to the contingency plan. However, the stations and branches did not have sufficient staff to process this mail. Because of this shortage of staff at the stations and branches, the Philadelphia P&DC had to use overtime hours to process the mail.
- Supervisor’s Guide – The unit did not create a Supervisor’s Guide for Operations to provide supervisors with goals, objectives, operating plans, standard operating procedures, mail flow charts, emergency and contingency plans, floor layouts, color coding processes, service standards, and information on equipment usage and operations.
- Training in maintenance and new skills – Although the former Philadelphia P&DC had some new technology, the new Philadelphia P&DC contained considerable automation and mechanization equipment that was new to supervisors, craft employees, and maintenance staff, all of whom needed training. However, most employees were not trained until after the new facility was activated. Only 51 of

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<sup>3</sup> The baseline impact for the clerks of the Philadelphia Bid Installation was 789 employees. This included 133 clerks from the post offices and 656 from the former Philadelphia P&DC who were determined to be excess.

the approximately 2,300 employees received automation<sup>4</sup> training before the activation. An additional 338 employees were trained after they transferred to the new Philadelphia P&DC. The remaining employees received no documented automation training.

The table below summarizes the activation steps and implementation status.

**Implementation Status of Mail Processing Activation Steps for the Philadelphia P&DC Site Activation**

<b>Mail Processing Activation Steps*</b>	<b>Implemented</b>
Activation coordinator/committee	Yes
Forecast required equipment	Yes
Staffing requirements	Yes
Employee orientation	Yes
Business mail entry unit**	Yes
DAR tracking^	Yes
Contingency planning	No
Supervisor's Guide for Operations	No
Maintenance training (in advance)	No
Update operating plan	No
Train staff in new skills	No

**Notes**

\*Steps listed in the *Facility Activation – Master Plan*, dated July 21, 2003.

\*\*The business mail entry unit is an acceptance unit for bulk mailers.

^The sponsor, or requesting organization, prepares a DAR recommending an investment and providing the approving authority with adequate information to make a prudent business decision. The DAR explains the background and purpose of the program and fully documents costs and benefits estimates. Costs must be supported with documentation showing the calculations and the basis for all assumptions. Revenue projections or volume changes should be supported by a market analysis that outlines the justification with supporting volume changes, price increases, and impact on the total market.

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<sup>4</sup> Automation training includes training on Delivery Bar Code Sorter, Advanced Facer Cancellor System-Optical Character Reader, Automated Flats Sorting Machine, Automated Package Processing System, and Automated Tray Handling System for the Automated Flats Sorting Machine 100.

### APPENDIX C: DELAYED MAIL VOLUME AND SERVICE PERFORMANCE

Because the Philadelphia P&DC did not fully comply with the activation requirements, mail was delayed and service was negatively impacted. For example:

- Prior to the activation in May 2006, overnight service scores at the former Philadelphia P&DC reached a quarterly high of 96.05 percent<sup>5</sup> on-time, compared to the Postal Service's goal of 95 percent on-time.
- During the activation, the overnight service score at the new Philadelphia P&DC dropped to 87.04 percent. Delayed First-Class Mail reached 10.76 percent, and 9 percent of all mail was delayed.
- As of March 2008, overall delays had decreased to less than 2 percent, with no delays in First-Class Mail volume. Also, the Philadelphia P&DC overnight service score had improved to pre-activation levels of almost 96 percent on-time and was consistent with national averages. The tables below show trends in delayed mail and service scores for quarter 1, FY 2005 through quarter 2, FY 2008.

#### PHILADELPHIA P&DC DELAYED MAIL TRENDS – QUARTER 1, FY 2005 THROUGH QUARTER 2, FY 2008

Quarter				Delayed Mail for All Classes	First Handling Pieces	Percentage of All Mail Delayed
QTR 1, FY 05				9,823,750	602,210,477	1.63
QTR 2, FY 05				24,207,773	583,723,004	4.15
QTR 3, FY 05				2,821,971	575,670,772	0.49
QTR 4, FY 05				1,208,255	559,184,459	0.22
QTR 1, FY 06				651,960	588,743,718	0.11
QTR 2, FY 06				17,510,221	543,843,656	3.22
QTR 3, FY 06		x		43,778,593	484,638,460	9.03
QTR 4, FY 06				11,021,188	433,217,757	2.54
QTR 1, FY 07				144,179,399	537,598,495	26.82
QTR 2, FY 07				21,916,602	533,353,590	4.11
QTR 3, FY 07				3,309,854	502,190,473	2.65
QTR 4, FY 07				4,325,069	509,081,902	0.85
QTR 1, FY 08				10,888,873	547,187,741	1.99
QTR 2, FY 08				9,859,035	516,757,880	1.91

The shaded area shows delayed mail during the activation.

<sup>5</sup> Quarter (QTR) 1, FY 2005.

**PHILADELPHIA P&DC SERVICE SCORE TRENDS –  
QUARTER 1, FY 2005 THROUGH QUARTER 2, FY 2008**

<b>Quarter</b>	<b>Overnight Mail (percentage)</b>	<b>2-Day Mail (percentage)</b>	<b>3-Day Mail (percentage)</b>
QTR 1, FY 2005	96.05	90.67	86.46
QTR 2, FY 2005	94.53	88.66	84.43
QTR 3, FY 2005	95.19	92.82	91.53
QTR 4, FY 2005	96.02	91.31	90.97
QTR 1, FY 2006	95.24	89.64	82.89
QTR 2, FY 2006	94.18	89.28	84.66
QTR 3, FY 2006	87.04	78.27	78.17
QTR 4, FY 2006	92.21	87.33	84.24
QTR 1, FY 2007	92.83	87.52	84.59
QTR 2, FY 2007	93.67	86.36	81.99
QTR 3, FY 2007	94.34	91.36	88.63
QTR 4, FY 2007	95.27	91.62	89.51
QTR 1, FY 2008	95.61	91.20	85.81
QTR 2, FY 2008	95.88	92.59	88.66

Source: Enterprise Data Warehouse

The shaded area shows service scores during the activation. For FY 2008, the planned service goals are 96 percent for overnight; 92.75 percent for 2-day mail; and 90.75 for 3-day.

## APPENDIX D. MANAGEMENT'S COMMENTS

PROCESSING OPERATIONS



June 16, 2008

Ms. Colleen A. McAntee  
Deputy Assistant Inspector General for Mission Operations  
Office of the U.S. Postal Service Inspector General  
1735 N. Lynn Street  
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Review of the Activation of the Philadelphia Processing and Distribution Center (Report Number NO-AR-08-DRAFT)

This is in response to the Inspector General's draft audit report on the activation of the Philadelphia Processing and Distribution Center. The audit report makes two recommendations to the Postal Service to improve future new facility activations.

**Recommendation 1:** Ensure that headquarters provides adequate training and oversight in future plant activations.

**Response:** We agree with this recommendation in part. Adequate training and management oversight is key to successful new facility activations. District management, with area level oversight, is responsible for new facility activations. Headquarters' Processing Operations assigns a staff representative to the activation team to coordinate identification of mail processing equipment and systems from the national inventory for temporary use during the facility activation period when area management is unable to secure float equipment from their own area plants. This representative also serves as a headquarters level contact to the activation project manager for any other activation issues requiring resolution at the national level.

As outlined in Appendix B of the audit report, the activation management team did not completely follow the *Facility Activation – Master Plan*. This resulted in insufficient training and operations planning, and in a temporary degradation of service performance with a high volume of delayed mail. Recovery to the pre-activation service and mail condition levels was due in part to addressing the training and planning issues by an on-site management team following the activation. The members of this multi-functional team were comprised from various national, area, and district level functions.

We will complete a review of the *Facility Activation – Master Plan* and associated task notes and modify the project plan as necessary to ensure activation responsibilities are documented to the appropriate management level organizations. We expect to complete this review by the end of fiscal year (FY) 2008.

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**Recommendation 2:** Emphasize the importance of local management continuity during transitions.

**Response:** We agree with this recommendation. Minimizing changes within the local management organization and members of the facility activation team provides for continuity of focus.

We will complete a review of the *Facility Activation – Master Plan* and associated task notes adding emphasis to the project plan as appropriate to highlight the importance of management continuity to successful facility activation. We expect to complete this review by the end of FY08.

If you have any questions or require additional information regarding this response, please contact Bob Field, Manager, Network Alignment Implementation, at (202) 268-4334.



David E. Williams  
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cc: Mr. Galligan  
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Mr. Field  
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