



February 24, 2010

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Dallas Processing and Distribution Center Outgoing Mail Consolidation (Report Number NO-AR-10-003)

This report presents the results of our audit of the consolidation of the Dallas, TX Processing and Distribution Center (P&DC) outgoing mail operation into the North Texas P&DC (Project Number 09XG035NO000). The report responds to a Congressional request. Our audit objective was to determine whether a business case exists to support the consolidation of the Dallas P&DC's outgoing mail operation into the North Texas P&DC. This audit addresses operational risk. See [Appendix A](#) for additional information about this audit.



Illustration 1: The Dallas P&DC

Conclusion

We concluded that a business case exists to support consolidating the Dallas P&DC's outgoing mail operation into the North Texas P&DC. Specifically, we found:

- Adequate capacity exists at the North Texas P&DC to process the increase in mail volume.
- Customer service should generally improve.
- Limited number of employees would be impacted.
- Efficiency should improve.
- Prior consolidation of the Dallas P&DC's Saturday outgoing mail into the North Texas P&DC produced favorable results.

Opportunities exist to consolidate mail processing operations where plants are in a close proximity to one another. As a result of this consolidation, the U.S. Postal Service could save more than \$11.9 million annually for a total economic impact of more than \$114 million over a 10-year period. See [Appendix B](#) for our detailed analysis of this topic. See [Appendix C](#) for our monetary impact calculation.

We recommend the vice president, Southwest Area:

1. Consolidate the Dallas Processing and Distribution Center outgoing mail operation into the North Texas P&DC by no later than fiscal year 2011. This will result in an annual savings of \$11,997,208 for a total economic impact of \$114,041,172 over 10 years.
2. Postmark outgoing letter mail cancelled at North Texas Processing and Distribution Center with a combined postmark.
3. Conduct training classes to inform employees of retirement benefits.
4. Hold meetings with employees to update them on the consolidation process as it moves forward.

Management's Comments

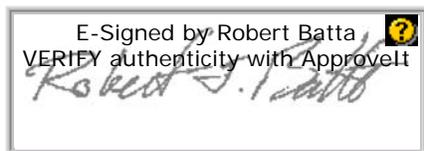
Management agreed with the recommendations and is taking steps to consolidate the Dallas P&DC outgoing mail operations into the North Texas P&DC. Management also agreed to modify the postmark, conduct training on retirement benefits, and hold meetings on the consolidation process. See [Appendix D](#) for management's comments in their entirety.

Evaluation of Management's Comments

The U.S Postal Service Office of Inspector General (OIG) considers management's comments responsive to all the recommendations and management's corrective actions should resolve the issues identified in the report.

The OIG considers recommendation 1 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 recommendation can be closed.

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



Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Steven J. Forte
Jordan M. Small
Frank Neri
William C. Rucker
Sally K. Haring

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 First-Class Mail[®] (FCM) volume over the past decade. This has resulted in a decline in mail volume of more than 25 billion pieces during 2009, resulting in a net loss of \$3.8 billion.

Although the Postal Service has reduced expenses by nearly \$6 billion in fiscal year (FY) 2009, the expense reduction was not sufficient to fully offset the decline in mail volume and rising cost of workers' compensation and retirement costs. In testimony before Congress,¹ the U.S. Government Accountability Office (GAO) recommended that urgent action was needed to streamline the mail processing and retail networks, as the Postal Service no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. Furthermore, the GAO stated it was necessary for the Postal Service to consider whether it was cost-effective to retain underutilized facilities and to take action to right size its network.

Title 39, U.S.C. Part 1, Chapter 1, § 101, 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-December 20, 2006, Title II, 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. . . .”

This audit report responds to a request from a Congressional Representative who requested an independent review of the consolidation of outgoing mail processing operations from the Dallas P&DC into North Texas P&DC. The Representative's concerns include the following:

- Employees would be unnecessarily transferred.
- Service could be disrupted.
- Requested that potential cost savings and efficiency methods be examined.
- Adequacy of public announcements, input at meetings, and public transparency.

From August through December 2009, the OIG assessed the efficiency of operations performed at the Dallas and North Texas P&DCs.

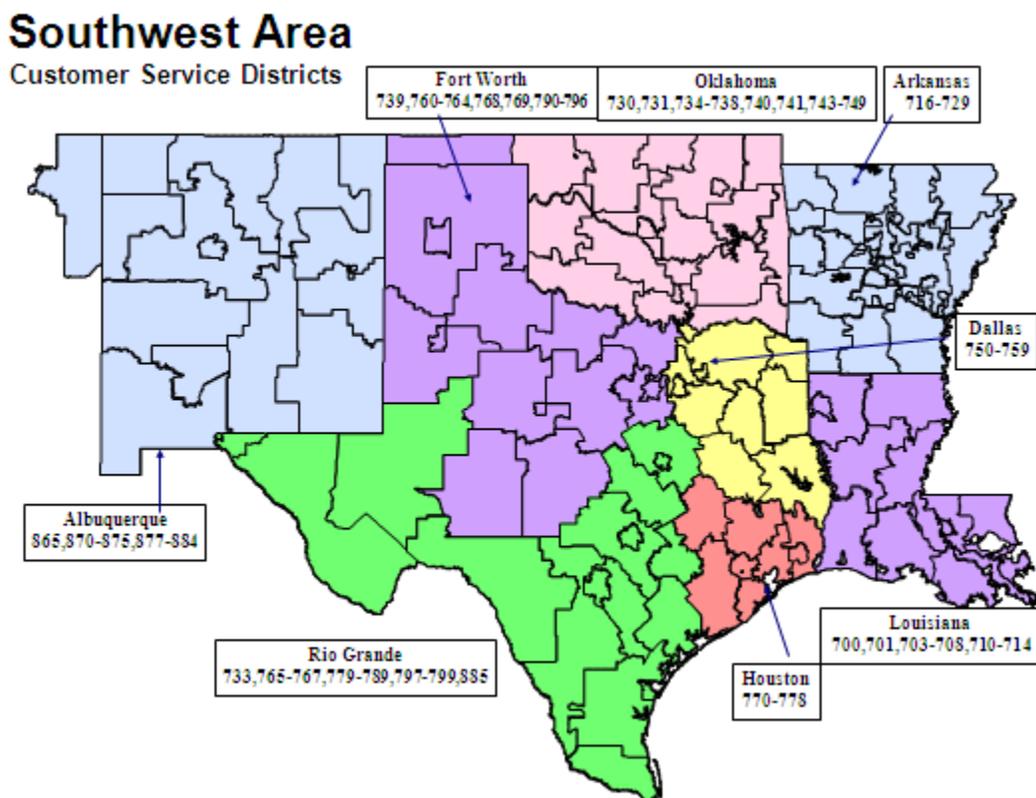
The proposed consolidation would involve Dallas zones 751, 752, and 753 outgoing (originating) mail processing moving to North Texas P&DC. The Dallas P&DC would continue to process its destinating mail. There would be a transfer of approximately 286

¹ GAO-09-475T, *Testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives*, dated March 25, 2009.

million originating mailpieces, FCM, and Priority Mail® to the North Texas P&DC to process.

The Dallas P&DC and North Texas P&DC are in the Dallas District in the Southwest Area. (See Map.)

Map: Districts within the Postal Service Southwest Area



OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether a business case exists to support the consolidation of the outgoing mail processing operation from the Dallas P&DC into the North Texas P&DC. We reviewed current and historical data for the Dallas and the North Texas P&DCs. We evaluated current and potential efficiencies at both plants as well as capacity at the North Texas P&DC. We estimated the costs and savings from this analysis. Additionally, we conducted observations at both sites during the months of October and November 2009 and interviewed Postal Service management and employees.

We used computer processed data from the following systems:

- Enterprise Data Warehouse.
- Customer Satisfaction Measurement (CSM) System.

- Web Complement Information System.
- Activity Based Costing System.

We conducted this performance audit from August 2009 through February 2010 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 on December 3, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|--|----------------------|--------------------------|------------------------|---|
| <i>Pasadena, California Processing and Distribution Center Consolidation</i> | EN-AR-06-001 | 9/26/2006 | N/A | The area Mail Processing proposal workhour cost analysis was supported, and OIG analyses provided evidence for the consolidation of outgoing mail processing operations from the Pasadena P&DC to the Santa Clarita and Industry P&DCs, but Postal Service did not always comply with processes in Handbook PO-408. Management agreed with the recommendations. |
| <i>Service Implications of Area Mail Processing Consolidations</i> | EN-AR-07-002 | 12/5/2006 | N/A | The Postal Service could improve how it documents service impacts, including service upgrades and downgrades in all classes of mail in AMP proposals and Post-Implementation Reviews. Management agreed with the recommendations. |

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|---|---------------|-------------------|-----------------|---|
| <i>Timeliness of Mail Processing at the Los Angeles, California, Processing and Distribution Center</i> | NO-AR-07-001 | 2/9/2007 | N/A | 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 due to the influx of mail volume as a result of closing the Marina P&DC; the retrofitting of flat sorting machines, which caused a temporary increase in machine downtime; and deficiencies in processing Periodicals and Standard Mail. Management agreed with the recommendations. |
| <i>Steubenville – Youngstown, Ohio, Outgoing Mail Consolidation</i> | NO-AR-07-003 | 3/30/2007 | N/A | Consolidating the Steubenville Main Post Office’s outgoing mail processing operation into the Youngstown Processing and Distribution Facility (P&DF) achieved the desired results. Management agreed with our recommendations. |
| <i>Efficiency Review of the Bridgeport Connecticut, Processing and Distribution Facility</i> | NO-AR-07-004 | 4/25/2007 | \$17 million | There was a favorable business case to support transferring Bridgeport P&DF’s incoming mail processing operation into the Stamford P&DC. This audit recommended a savings of 53,000 workhours as a result of the consolidation. Management agreed with our recommendations. |

| Report Title | Report Number | Final Report Date | Monetary Impact | Report Results |
|--|----------------------|--------------------------|------------------------|---|
| <i>Kansas City, Kansas Processing and Distribution Center Consolidation</i> | EN-AR-08-001 | 1/14/2008 | N/A | The AMP proposal, supporting documentation, and OIG analyses provided confirming evidence for the consolidation of mail processing operations from the Kansas City, KS P&DC to the Kansas City, MO P&DC. However, OIG identified discrepancies in some costs and savings calculations, as well as transferred mail volume not documented, downgrades in some classes of mail and other potential risks. Management agreed with the recommendations. |
| <i>Detroit, Michigan Processing and Distribution Center Consolidation</i> | EN-AR-08-005 | 7/17/2008 | N/A | The Detroit AMP proposal was generally accurate and supported, reduced costs, and increased operational effectiveness. However, the OIG identified significant overstatement in proposed annual savings as well as issues with a potential service downgrade, the stakeholder communication process, legislative restrictions, and potential risk factors. Management agreed with the recommendations. |
| <i>Canton Processing and Distribution Facility Outgoing Mail Consolidation</i> | NO-AR-09-011 | 9/22/2009 | N/A | Consolidating the Canton P&DF's outgoing mail processing operation into the Akron P&DC was a prudent business decision. No recommendations were necessary. |

APPENDIX B: DETAILED ANALYSIS

Capacity

Adequate capacity exists at the North Texas P&DC to process the increase in mail volume received from the Dallas P&DC. Sufficient workroom and facility space exists at the North Texas P&DC. For example:

- North Texas P&DC is almost double the size of the Dallas P&DC² and has adequate floor space to process mail from the Dallas P&DC as well as to house additional equipment. See Illustration 2.
- North Texas P&DC has a large number of dock doors.³ Additional dock doors allow for efficient loading and unloading of mail trucks by minimizing wait time in the dock area. See Illustration 3.



Illustration 2: Adequate workspace exists at North Texas P&DC.



Illustration 3: North Texas P&DC has 122 dock doors. Additional dock doors allow for more efficient dock operations and reduce congestion.

² North Texas P&DC has approximately 415,000 square feet and sits on 75 acres while the Dallas P&DC has approximately 298,000 square feet and sits on 38 acres.

³ North Texas P&DC has 122 dock doors versus only 91 dock doors at the Dallas P&DC.

A minimal amount of the Dallas P&DC mail will be transferred. Only the outgoing mail volumes will be transferred from the Dallas P&DC to the North Texas P&DC. This volume totals approximately 286 million first-handling pieces⁴ (FHP) or about 17 percent of the Dallas P&DC's 2009 volume. The Dallas P&DC will continue to process all its remaining mail, which constitutes 83 percent of its current mail volume.

The mail transferred from the Dallas P&DC will represent an 18-percent increase in volume for the North Texas P&DC. However, because they experienced an 8 percent volume decline between FYs 2008 and 2009 (or approximately 141 million FHP), the net increase in mail volume at the North Texas P&DC would be about a 9 percent volume increase or 145 million mailpieces over FY 2008 levels⁵. This additional mail volume should pose no problems for North Texas P&DC because after efficiency gains, new equipment gains and the additional staffing resulting from a consolidation, the North Texas will have sufficient capacity to process the transferred outgoing mail volume⁶.

North Texas P&DC will have sufficient machine capacity, as a result of additional equipment and existing machine idle time to process the Dallas P&DC outgoing mail volume. For example:

- Four Advanced Facer Canceller Systems (AFCSs)⁷ will be added at the North Texas P&DC. This new equipment capacity coupled with existing AFCS idle time of 34 percent provides additional capacity of approximately 250 million letter mailpieces. This is more than enough capacity to cancel the additional 153 million letters requiring cancelling through the AFCS machines⁸ that could result from the consolidation.
- The addition of two combined input/output subsystem (CIOSS) kits and two delivery barcode sorter with input/output subsystem (DIOSS) kits⁹ coupled with idle time of 27 and 32 percent, respectively, will provide additional capacity of approximately 641 million mailpieces. This is more than enough capacity to process the additional 381 million letters that would require processing through the CIOSS and DIOSS¹⁰ that could result from the consolidation.

⁴ FHP is a letter, flat, or parcel that receives its initial distribution in a Postal Service facility.

⁵ The Dallas P&DC mail volume of 286 million less the 141 million decline at the North Texas P&DC from FYs 2008 to 2009 is 145 million.

⁶ Machine capacity analyzed using Total Pieces Handled, which is the number of handlings necessary to distribute each piece of mail from the time of receipt to dispatch.

⁷ Equipment used in the first step of mail processing to face, cancel, and separate the optical character-readable mail and the pre-barcoded mail from the non-readable mail.

⁸ This is the volume of letters processed through the Dallas P&DC's AFCS machines for FY 2009.

⁹ The CIOSS and DIOSS kits are enhancements to the Delivery Barcode Sorters that provide expanded processing capability. These enhancements lift images from letters, allow more in-depth sortation and reduce secondary and manual handlings.

¹⁰ This is the volume of letters processed through the Dallas P&DC's CIOSS and DIOSS for FY 2009. There is a difference between 381 million and 153 million mailpieces, because not all mail has to be cancelled such as; metered mail or permit imprint mail.

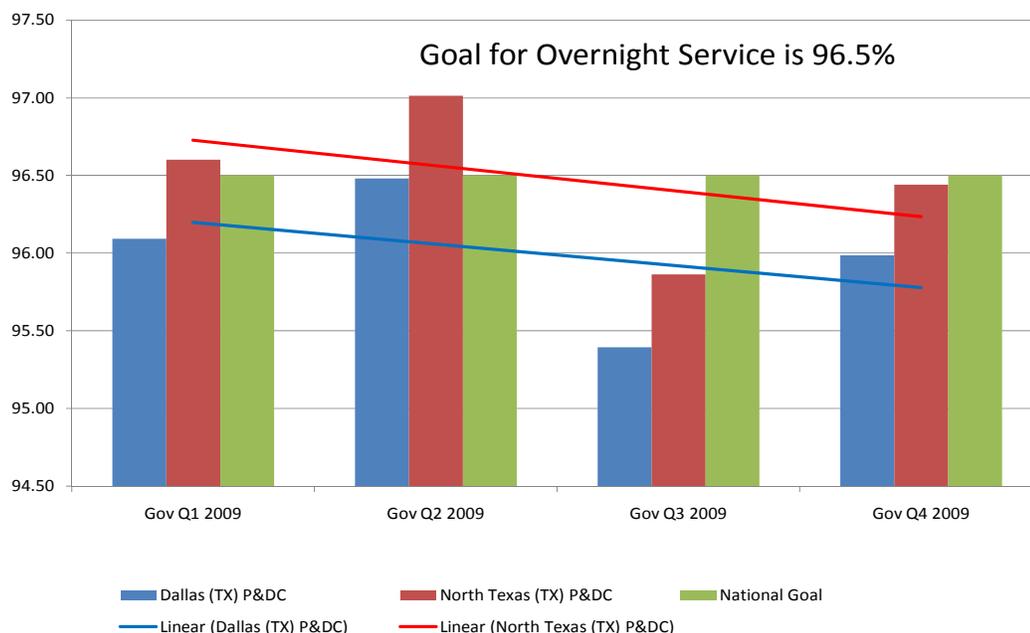
- One small parcel bundle sorter¹¹ will be added at North Texas P&DC. This new equipment capacity, combined with existing idle time of 16 percent, will provide additional capacity of approximately 19 million parcels. This is more than enough capacity to process the additional 8 million parcels that are expected to be transferred with the consolidation.

Customer Service

Customer Service should generally improve from current standards. The North Texas P&DC has generally higher and more consistent CSM and external first-class measurement (EXFC) scores than the Dallas P&DC indicating that good management processes to address customer service are in place. For example, for FY 2009:

- North Texas P&DC's average CSM score was 91.5 percent as compared with the CSM average score of 89.5 percent for the Dallas P&DC.
- North Texas P&DC has generally had higher EXFC overnight scores. See Chart 1.

Chart 1. FY 2009 Overnight Service Scores for Dallas and North Texas P&DCs



¹¹ Small Parcel Bundle Sorter is a machine that sorts bundled letters, bundled flats, and small parcels.

In addition, the North Texas P&DC is located within 3 miles of the Dallas/Fort Worth Airport as opposed to the Dallas P&DC, which is 18 miles away from the airport. Closer proximity to the airport allows for more reliability with meeting airline dispatches¹² and reduces the time necessary to transport the mail to the airport thereby increasing the operational window. This should result in improved service scores.

Service standards for FCM and Priority Mail will not be impacted. The consolidation will have offsets in service standards for Periodicals, Standard Mail, and Package Services with 27 upgrades and 27 downgrades. Table 1 shows the specific service impacts by mail class.

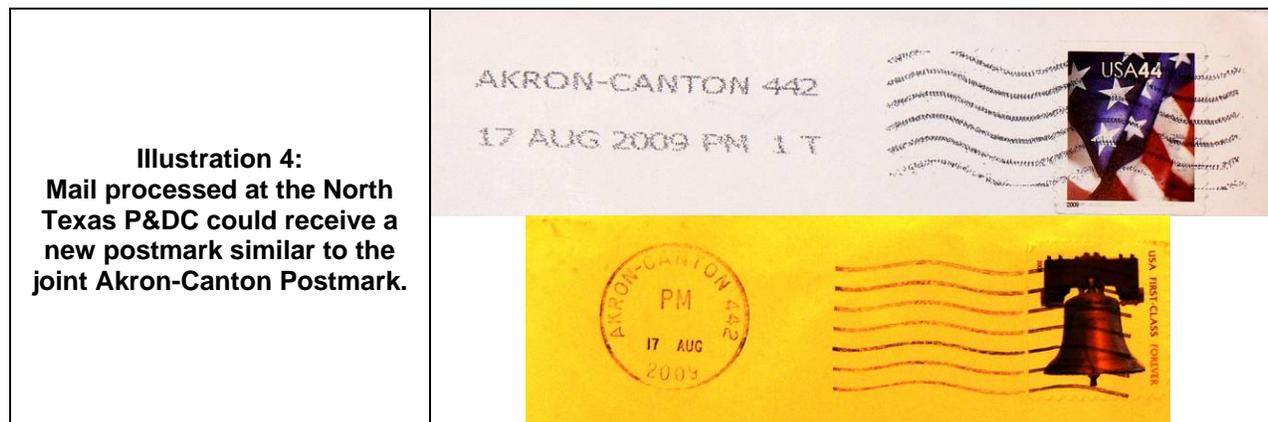
Table 1: Upgrades/Downgrades in Service Standards by Mail Class

| 3-Digit ZIP Code Pair Service Standard Impacts | Upgrades | Downgrades |
|---|----------|------------|
| FCM | 0 | 0 |
| Priority Mail | 0 | 0 |
| Periodicals | 3 | 9 |
| Standard Mail | 21 | 9 |
| Package Services | 3 | 9 |

We also concluded that service at mail acceptance units including retail window operations will not be affected. For example, the Retail and Bulk Mail Acceptance unit will remain open at their normal business hours at the Dallas P&DC. Mail box collection times also will not be affected by the consolidation.

To maintain the identity of stamped mail inducted in the Dallas ZIP Codes and enhance community support, we recommend a combined postmark showing Dallas and North Texas. The potential adverse revenue resulting from a loss of goodwill is estimated at \$674,000. (See [Appendix C](#).) Illustration 4 shows an example of a combined postmark used as a result of a previous consolidation at Akron and Canton, OH:

¹² Being within 3 miles rather than 18 miles of the airport significantly reduces the risk of transportation delays due to traffic and vehicle breakdowns thereby increasing the reliability of meeting airline dispatches.



Employee Impact

The consolidation of Dallas P&DC's outgoing mail into the North Texas P&DC will have a limited impact on employees. Specifically:

- No career employees will lose their jobs at either location.
- The net effect of the consolidation on staffing would be an approximate reduction of 10 positions with the Dallas P&DC needing to reduce 167 positions,¹³ while North Texas P&DC increasing positions by 157.

If the consolidation takes place, management needs to conduct training and hold meetings with employees to ensure a smooth transition.

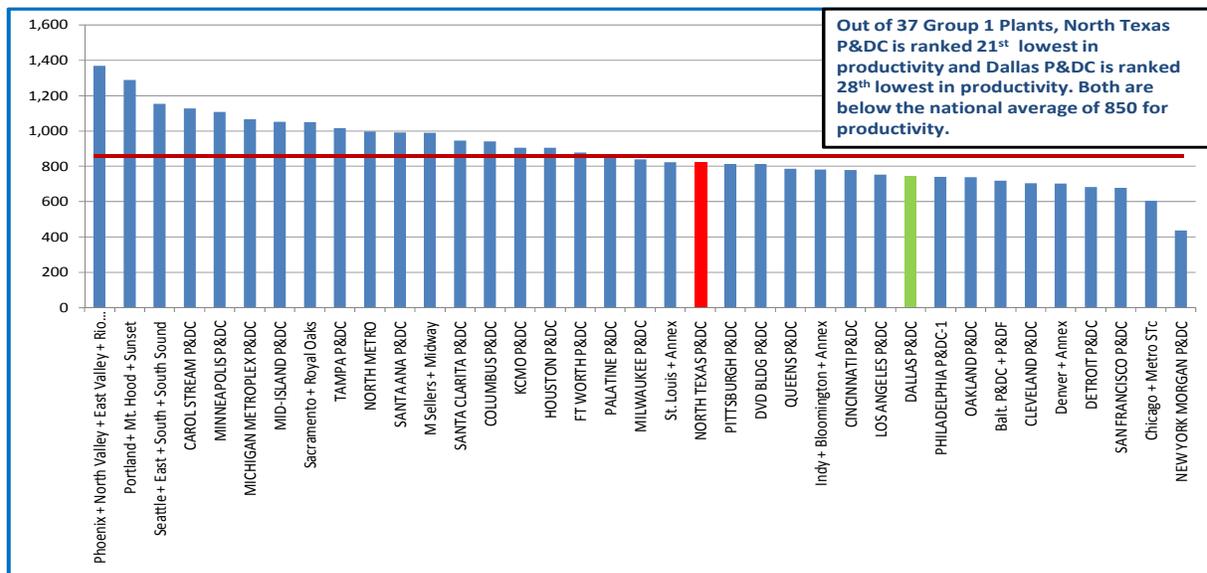
Efficiency

Efficiency should improve as a result of the consolidation. The North Texas P&DC is more efficient and processes its mail volumes at a lower cost than its Dallas counterpart. For example, in FY 2009:

- North Texas P&DC productivity was 822 pieces per workhour as compared with Dallas P&DC productivity of 745 pieces per workhour. This indicates that North Texas P&DC processes 10 percent more mailpieces per hour than its Dallas P&DC counterpart. See Chart 2.
- Processing costs at the North Texas P&DC is lower than the processing costs at the Dallas P&DC. It costs \$83.57 to process 1,000 mailpieces at North Texas P&DC as compared with \$93.90 to process the same amount of mail at the Dallas P&DC.

¹³ Reflects 150 employees at the Dallas P&DC that already took the retirement incentive.

**Chart 2. Group 1 Plants First Handling Piece Productivity
FY 2009**



In addition, the consolidation provides an opportunity to require efficiency improvements at both plants. For example, the North Texas P&DC should increase its workhours by 274,243, an increase of 14 percent, to process the increase in mail volume being transferred from Dallas of 18 percent. This hour increase would allow the North Texas P&DC to improve to the median productivity level for similar size plants.¹⁴ In addition, the Dallas P&DC's workhour reduction of 554,617 hours would allow this facility to achieve the same productivity currently being achieved by North Texas P&DC.¹⁵

Saturday Effect

On March 21, 2009, outgoing Saturday mail volume was transferred from the Dallas P&DC to the North Texas P&DC and produced favorable results. Specifically:

- Productivity at both plants improved on Saturday. For example, the Dallas P&DC's productivity improved from 960 to 1,164 mailpieces per hour, while North Texas P&DC improved from 954 to 1,099 mailpieces per hour.
- Comparing the 6-month period before the consolidation with the 6-month period after the consolidation, the North Texas P&DC reduced its workhours by 8,003,

¹⁴ Similar size sites are shown in Chart 2.

¹⁵ Requiring the Dallas P&DC to achieve the same productivity as North Texas's current productivity level of 822 rather than the median level of 850 is more attainable during the transition.

despite the volume increase of 6.7 million pieces or 7 percent. Similarly, the Dallas P&DC reduced its workhours by 30,264.

- Originating service scores for both locations improved.

Cost Savings

The cost savings from the consolidation will primarily be the result of workhour reductions. North Texas P&DC would increase its workhours by 274,243, while the Dallas P&DC would reduce its workhours by 554,617, a net of 280,374 workhours. Table 3 shows the annual cost savings of \$11,997,208 from the consolidation taking into account workhours, maintenance, transportation, and equipment costs.

Table 3: Annual Cost Savings

| | |
|--|---------------------|
| Workhour Savings (280,374 workhours) | \$13,682,251 |
| Maintenance Savings (Annual) | 299,029 |
| Total Savings | \$13,981,280 |
| | |
| Less: Transportation Cost Increase (Annual) | 29,230 |
| Equipment Cost (One time) | 1,954,842 |
| Total Cost | \$1,984,072 |
| Net Savings | \$11,997,208 |

Cost savings are based on the following:

- The consolidation would produce a net workhour savings of 280,374 workhours or \$13,682,251.
- Maintenance savings totaled \$299,029, after an adjusted cost of \$12,611 for additional labor at the North Texas P&DC and a savings of \$311,640 at the Dallas P&DC for maintenance parts, supplies, and utilities.
- Transportation routes and schedules would need to be adjusted and would require seven additional Postal Service vehicle routes at a total annual cost of \$29,230 to transport mail directly from the northern Dallas stations to the North Texas P&DC.

- One-time equipment costs will be \$1,954,842, which include high-cost tray sorter, tray de-palletizer, and equipment movement costs.

APPENDIX C: MONETARY AND NON-MONETARY IMPACTS

Monetary Impacts

| Finding | Impact Category | Amount |
|--|---------------------------------------|---------------|
| Efficiency of Mail Processing Operations | Funds Put to Better Use ¹⁶ | \$114,041,172 |
| | | |

NOTE:

We calculated cost avoidance using the net workhour savings of 280,374 multiplied by the escalated labor rate of 1.3 percent and a discount rate of 3.5 percent over a 10-year period. This calculation also includes increased transportation costs, decreased maintenance costs, and an additional one-time equipment cost. (Table 3 in the previous section shows the detailed savings and cost.)

Non-Monetary Impacts

| Finding | Impact Category | Amount |
|--|---------------------------------|-------------------------|
| Customer Service – Postmark Preservation | Goodwill/Branding ¹⁷ | N/A |
| | Revenue at Risk ¹⁸ | \$674,000 ¹⁹ |
| | | |

NOTE:

This non-monetary impact is based on the Dallas P&DC’s cancellations of over 153 million letter mailpieces for FY 2009 multiplied by the single piece FCM letter rate of 44 cents. We estimated that this amount of revenue would be at risk due to lost goodwill should the Dallas, TX, postmark be abolished.

¹⁶ Funds that could be used more efficiently by implementing recommended actions.

¹⁷ Goodwill/Branding is an actual or potential event or problem that could harm the reputation of the Postal Service.

¹⁸ Revenue at risk is the dollar value of revenue at risk and the quantity is the revenue associated with the mail class for 1 year.

¹⁹ 153,154,330 pieces of FCM letters were cancelled at the Dallas P&DC during FY 2009. One percent of the revenue from this volume is approximately \$674,000 (153,154,330 x \$0.44 x 1 percent.)

APPENDIX D: MANAGEMENT COMMENTS

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



February 12, 2010

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Dallas Processing and Distribution
Center Outgoing Mail Consolidation (Report Number NO-AR-10-DRAFT)

As requested, below is a summary of required responses to the subject audit:

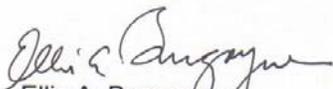
Recommendation # 1 – We agree with the recommendation and associated monetary impact. We have submitted our proposal to Headquarters and it was approved on January 25, 2010. We plan to implement effective July 1, 2010. Attached are relevant documents on the approved AMP. We would like to comment that the savings on the OIG report are \$2.6 million higher than what we calculated. Our study period was dictated by Headquarters' AMP guidelines in place at the time the study was initiated.

Recommendation # 2 – We agree. There should be some identity with "Dallas" within the new postmark. We have included that on the 2nd line of the postmark.

Recommendation # 3 – We agree. Training classes informing employees of retirement benefits will be implemented. This will be accomplished within the next 90 days.

Recommendation # 4 – We agree. Meetings to update employees on the consolidation process as it moves forward will be scheduled as required.

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act. Should you have any questions regarding this response, please contact Cliff Rucker, Area Manager Operations Support at 214-819-8600.


Ellis A. Burgoyne

PO Box 224748
DALLAS, TX 75222-4748
214-819-8650
FAX: 214-905-9227