



August 3, 2010

TIMOTHY C. HANEY
VICE PRESIDENT, CAPITAL METRO OPERATIONS

SUBJECT: Audit Report – Charlottesville Processing and Distribution Facility
Consolidation (Report Number NO-AR-10-008)

This report presents the results of our audit of the consolidation of Charlottesville, VA Processing and Distribution Facility (P&DF) mail processing operations into the Richmond, VA Processing and Distribution Center (P&DC) (Project Number 10XG036NO000). The report responds to a Congressional request received March 10, 2010. Our objectives were to assess the operational impacts of the proposed consolidation and determine whether the Postal Service followed established Area Mail Processing (AMP) policies and guidelines. The audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

An AMP is the consolidation of all originating and/or destinating mail from one or more facilities into other processing facilities to improve operational efficiency and/or service. On June 1, 2010, during our audit, management implemented the Charlottesville AMP and closed the building.

Illustration 1: The former Charlottesville Processing and Distribution Facility



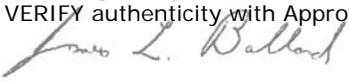
Conclusion

There was a valid business case for consolidating mail processing operations from the Charlottesville P&DF into the Richmond P&DC. The Postal Service could save approximately \$6.5 million annually as a result of this consolidation. Further, the Postal Service followed established AMP policies and guidelines. Our analysis showed:

- The consolidation should increase efficiency.
- The Richmond P&DC has sufficient capacity to process all of the Charlottesville P&DF mail volume.
- No full-time employee will lose their job.
- Service standards will improve.
- Estimates used for the AMP worksheets were reasonable.

Because our findings support the consolidation, we are not making any recommendations. Management agreed with the report but chose not to comment because there were no recommendations. See [Appendix B](#) for our detailed analysis of this topic.

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.

E-Signed by James Ballard 
VERIFY authenticity with ApproveIt


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

Attachments

cc: Patrick R. Donahoe
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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. Mail volume declined by more than 25 billion pieces during 2009, resulting in a net loss of \$3.8 billion. In the first half of fiscal year (FY) 2010, the volume declined by approximately 6 billion pieces, leading to a net loss of \$1.9 billion.

Although the Postal Service reduced expenses by nearly \$6 billion in FY 2009 and by almost \$1.4 billion during the first half of FY 2010, it has not been sufficient to fully offset the decline in mail volume revenue and the rising cost of workers' compensation and retirement costs. In testimony before Congress,¹ the U.S. Government Accountability Office (GAO) recommended that the Postal Service take urgent action to streamline the mail processing and retail networks, as it no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. The GAO also 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.

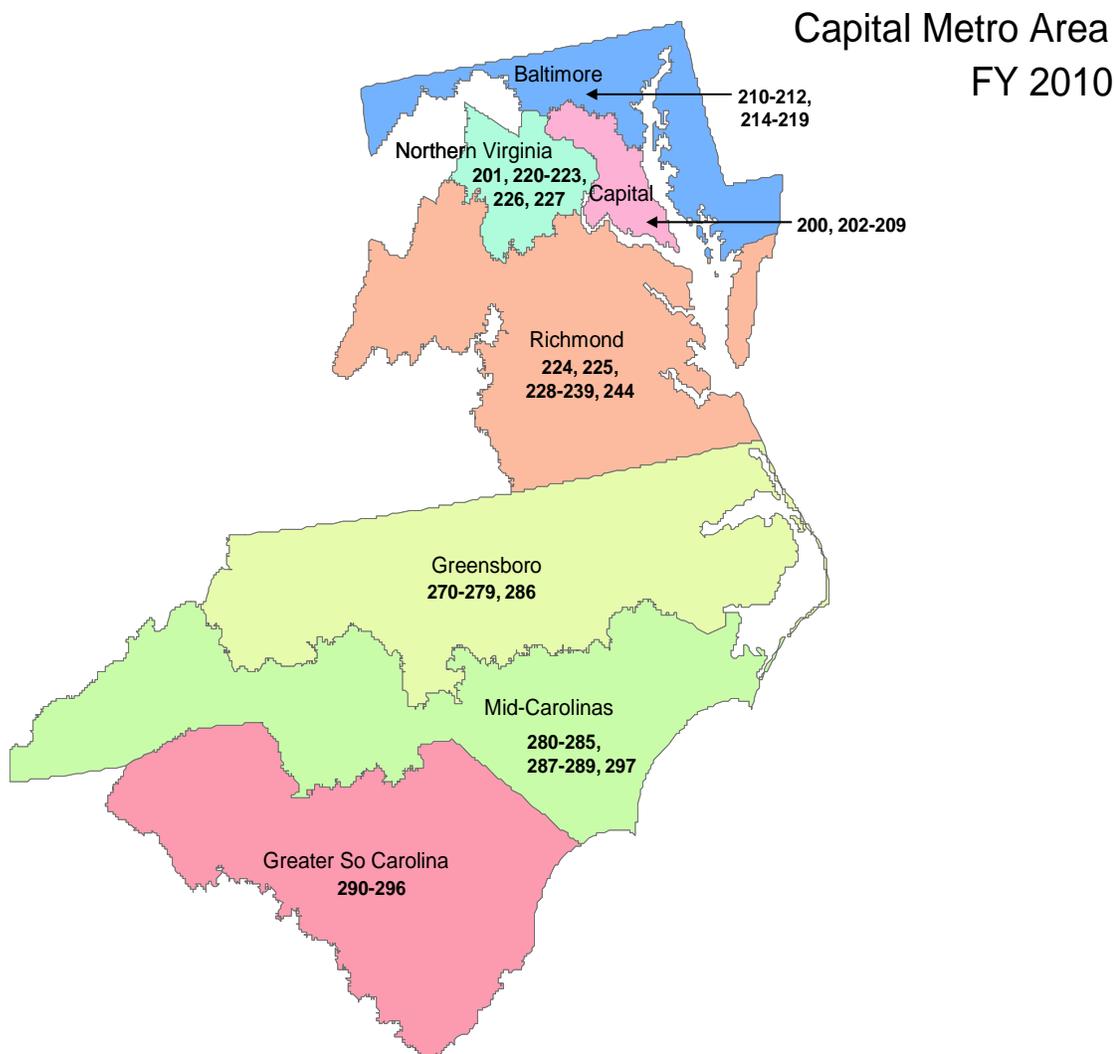
Title 39, U.S.C. Part 1, Chapter 1, §101, states that the Postal Service “. . . shall provide prompt, reliable, and efficient services to patrons in all areas” Further, the September 2005 *Postal Service Strategic Transformation Plan* states “The Postal Service will continue to provide timely, reliable 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 report responds to a request from a Congressional Representative of Virginia's 5th District to examine consolidation of the Charlottesville P&DF into the Richmond P&DC. Congressional concerns included whether or not the proposal will yield substantial savings and continued quality of service.

The Charlottesville P&DF AMP (ZIP Codes 228, 229, 244) proposal involves consolidating both originating and destinating mail processing operations into the Richmond P&DC (ZIP Codes 224, 225, 230-232, 238-239). The Richmond P&DC is a new state-of-the-art facility equipped with the latest mail sorting technology and was activated on October 1, 2009. Both facilities are in the Capital Metro Area (see Map 1 below) and are approximately 92 miles from each other. The average daily volume for the Charlottesville P&DF was 1,070,696 pieces.

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.

Map 1: Districts with ZIPs in the Capital Metro Area



OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess operational impacts of the proposed consolidation and determine whether the Postal Service followed established AMP policies and guidelines. We evaluated efficiency gains, capacity, impact on employees, customer service, transportation, cost savings, and the AMP process.

We reviewed historical data for the Charlottesville P&DF and the Richmond P&DC. We examined data for FYs 2008 and 2009 (July 1, 2008 through June 30, 2009) to confirm information on the AMP worksheets. Additionally, we visited both facilities to conduct

observations during the week of June 14, 2010. The Charlottesville P&DF AMP had been implemented on June 1, 2010 and all mail processing operations were being conducted at the Richmond P&DC. We interviewed Postal Service officials and employees and reviewed applicable guidelines, including Handbook PO-408.

We used computer-processed data from the following systems to analyze workhours, mail volume, staffing, service, transportation, and maintenance:

- Activity-Based Costing
- Enterprise Data Warehouse
- Service Standard Directory
- Web Complement Information System

We assessed the reliability of computer-generated data by interviewing agency officials knowledgeable about it and determined the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from April through August 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 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 officials on June 23, 2010 and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Area Mail Processing Communication</i>	EN-AR-09-001	02/04/2009	The Postal Service improved communication and management has generally addressed prior audit recommendations. We recommended several methods of further increasing stakeholder notification, including exploring electronic methods. Management agreed with our recommendation to add employee input notifications, but disagreed with our recommendation to explore additional communication channels.
<i>Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-09-11	09/22/2009	It was a prudent decision to consolidate the Canton P&DF's outgoing mail processing operation into the Akron P&DC. We made no recommendations.
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	02/01/2010	It was a prudent decision to consolidate the New Castle P&DF outgoing mail processing operations into the Pittsburgh P&DC. The Postal Service could save more than \$1.8 million annually. We made no recommendations.
<i>Lakeland Processing and Distribution Center Consolidation</i>	EN-AR-10-004	02-12-2010	There was a valid business case for the consolidation. It will increase efficiency, reduce processing costs, and improve service. We made no recommendations.
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	02/24/2010	A business case existed to support the consolidation. There was capacity, the potential to improve customer service and efficiency, impact a limited number of employees, and the Postal Service could save \$114 million over a 10-year period. Management agreed with all of our recommendations.

APPENDIX B: DETAILED ANALYSIS

Efficiency Gains

Efficiency should improve as a result of the proposed consolidation. Specifically:

- Since the Richmond P&DC's new building activation, which occurred October 1, 2009, the Richmond District has improved their productivity performance. For the first three quarters of FY 2010, First-Handled Piece (FHP) productivity² increased from 846 to 878 pieces per hour, compared to the same period the previous year. This increase in productivity represented an improvement of 4 percent.
- The increase in mail volume at the Richmond P&DC due to the consolidation should result in a productivity gain of 14 percent, increasing the Richmond P&DC's FHP productivity to 970 pieces per hour.³
- Breakthrough Productivity Initiative (BPI) performance at the Richmond P&DC is also projected to continue to improve. The Richmond P&DC has increased its overall BPI by close to 6 percent from FY 2008 to FY 2009.

Capacity

Adequate capacity exists at the Richmond P&DC to process the additional mail volume proposed in the Charlottesville P&DF AMP. The increase in mail volume at the Richmond P&DC would be 25 percent, or approximately 332 million FHP.⁴ Our analysis showed that the Richmond P&DC has the capacity to process 480 million additional pieces on its existing machinery, which is more than sufficient to handle the increased volume. In addition, the Richmond P&DC has acquired the following machinery due to the consolidation:

- Two additional Advanced Facer Cancellor Systems (AFCS) to process Charlottesville's daily collection volume.
- Six additional Delivery Barcode Sorters (DBCS) to process Charlottesville's incoming volumes.
- One Delivery Input Output Subsystem (DIOSS) to process Charlottesville's outgoing volume.

² First-Handled Piece volume divided by number of workhours.

³ We based this calculation on the transfer of 89 Function 1 employees and moving mail volumes from the Charlottesville P&DF to the Richmond P&DC.

⁴ A letter, flat or parcel that receives its initial distribution at a Postal Service facility.

We also found adequate floor space is available to accommodate additional machinery at the Richmond P&DC.

Employee Impacts

The consolidation of Charlottesville P&DF mail processing operations into the Richmond P&DC will require management to reassign all 156 craft positions and 16 management positions from the Charlottesville P&DF. Specifically:

- 99 craft positions and five management positions are scheduled to be reassigned to the Richmond P&DC
- 57 craft positions and 11 management positions are scheduled to be transferred to local facilities within the Capital Metro Area
- No full-time employee will lose their job.
- Some employees will be entitled to relocation benefits. It is estimated that it will cost approximately \$890,922 for employee relocation.

Table 1 below shows each facility's staffing before and after the AMP.

Table 1: Complement Changes

Charlottesville P&DF Complement			
	Before AMP	After AMP	Difference
Clerks	84	0	(84)
Mailhandlers	33	0	(33)
Maintenance	35	0	(35)
EAS	16	0	(16)
Other	4	0	(4)
Totals	172	0	(172)
Richmond Complement			
	Before AMP	After AMP	Difference
Clerks	477	535	58
Mailhandlers	379	410	31
Maintenance	192	202	10
EAS	64	69	5
Other	20	20	0
Totals	1,132	1,236	104

Management followed procedures outlined in the national agreements between the Postal Service and the impacted unions, including notifying unions and employees.

Customer Service

External First-Class Measurement (EXFC)⁵ scores for Charlottesville and Richmond have been comparable to national performance. EXFC began measuring the Charlottesville P&DF at the beginning of FY 2009. For the last three quarters covered by the AMP package, the Richmond P&DC has shown improvement in all three categories of EXFC testing. Generally, the Richmond P&DC has performed above national averages and higher than the Charlottesville P&DF. See Table 2 for comparison.

Table 2: Service Scores

Overnight				
	FY2008 QTR 4	FY 2009 QTR 1	FY 2009 QTR 2	FY 2009 QTR 3
Charlottesville	0.00	95.71	97.64	97.43
Richmond	97.56	96.33	96.42	96.66
National	96.67	95.76	96.31	96.37
Two Day				
	FY2008 QTR 4	FY 2009 QTR 1	FY 2009 QTR 2	FY 2009 QTR 3
Charlottesville	0.00	87.80	86.09	91.66
Richmond	93.22	91.51	93.01	94.78
National	94.19	92.03	93.31	94.59
Three Day				
	FY2008 QTR 4	FY 2009 QTR 1	FY 2009 QTR 2	FY 2009 QTR 3
Charlottesville	0.00	84.87	85.30	91.01
Richmond	92.83	89.21	91.81	93.61
National	92.93	85.75	91.07	93.16

The number of net service delivery standards⁶ will improve for all categories of mail which would effectively increase service. Specifically, there are a total of 212 upgrades and eight downgrades associated with Priority Mail and First Class Mail delivery. Table 3 shows the number of service standard changes by class of mail.

⁵ A test an independent contractor performs to measure the time it takes mail to go from mailbox to delivery.

⁶ An expectation of the Postal Service to deliver a mailpiece to its destination within a prescribed number of days following proper deposit by a customer.

Table 3: Service Standard Impacts

	Upgrades	Downgrades	Net Change
Priority	136	(7)	129
FCM	76	(1)	75
Periodicals	1,075	(56)	1,019
Standard	2,775	(9)	2,766
Packages	39	(0)	39
Totals	4,101	(73)	4,028

Additionally, there will be no changes to local mail box collection times or business mail entry unit operations as a result of the consolidation. Although most mail will now receive the Richmond postmark, the Charlottesville postmark will remain available at retail units in Charlottesville Post Offices upon request.

Transportation

Management will modify existing transportation schedules, which will have no negative impact on operations. Although the Richmond P&DC is approximately 92 miles from the Charlottesville P&DF, highway contract routes (HCR) will be used to support the consolidation. The HCR schedules will allow the Charlottesville P&DF's mail to arrive at the Richmond P&DC and return with no changes in the number of collection points, times or the location of retail offices in Charlottesville. The modified transportation costs associated with the consolidation are projected to result in an annual increase in costs of \$613,359.

Cost Savings

The Capital Metro District projects a net savings of \$6.46 million⁷ annually, including a reduction of \$3.9 million in processing costs and \$2.16 million in maintenance costs as a result of closing the Charlottesville P&DF. The cost savings from the consolidation will primarily result from a reduction in workhours, offset by costs associated with the closure of the Charlottesville P&DF. In the Charlottesville P&DF AMP proposal, the Postal Service calculated cost savings using standard AMP worksheets. We reviewed the Postal Service's AMP worksheets for accuracy and completeness and generally agreed with their calculations.

The workhour reduction of 57 craft and 11 management employees will result in a savings of \$7,068,750 annually. In order to move all volume from the Charlottesville P&DF to the Richmond P&DC, the Postal Service will sustain a transportation cost increase of \$613,359 annually. There are three additional one-time costs that the Postal Service will incur during the first year of the consolidation:

⁷ The \$6.46 million net savings will occur after the first year and does not include the sale of the Charlottesville P&DF.

- Employee Relocation – The cost to relocate employees that meet eligibility requirements as outlined by the union contract, to new job assignments.
- Equipment Relocation – The cost of relocating additional mail processing equipment to the Richmond P&DC to support the consolidation.
- Facility Cost – The cost associated with preparing the Charlottesville P&DF for sale.

Specific details of the costs and savings can be found in Table 4 below:

Table 4: Cost Savings Breakdown

	First-Year Savings	Annual Savings
Mail Processing Craft Workhours	\$3,914,559	\$3,914,559
Non-Mail Processing Craft Workhours	\$342,641	\$342,641
PCES/EAS ⁸ Savings	\$656,243	\$656,243
Transportation	(\$613,359)	(\$613,359)
Maintenance	\$2,155,307	\$2,155,307
Employee Relocation *	(\$890,922)	
Equipment Relocation *	(\$325,423)	
Facility Costs *	(\$432,469)	
Total Cost Savings	\$4,806,577	\$6,455,391

*One-Time Costs

Our analysis determined that these estimates were reasonable; however actual savings will not be known until 1 year after implementation and should be assessed as part of the AMP Post-Implementation Review phase.

AMP Process

Notice of initiation of the feasibility study involving Charlottesville P&DF, completion of the study, and approval of the consolidation was generally performed in accordance with AMP guidelines and the AMP Communications Plan. Specifically:

- Upon deciding to undertake the feasibility study the Postal Service notified employees (through *Newsbreaks* and service talks), local union officials, National Unions and Management Associations, local state congressional offices, and local media. This was the first step in soliciting public comments.
- Upon completing the feasibility study and submitting it to the area vice president for consideration, a public meeting was held to explain the consolidation proposal and its findings and address public and employee concerns.
- Concerns and comments were included with the transmittal of information to the area vice president for consideration. As Table 5 shows, the timeline of events

⁸ Postal Career and Executive Service (PCES) and Executive and Administrative Schedules (EAS) are management employees.

supports that the process was inclusive and provided stakeholders a forum to voice concerns for consideration by the Postal Service.

Table 5: Timeline of Events

Timeline for Public Transparency	In Compliance with Handbook PO-408 and the Communication Plan
Notified AVP of intent to conduct a feasibility study.	Yes
Notified stakeholders of the intent to proceed with study.	Yes
Completed feasibility study within 2 months of the notification of intent to conduct the study.	No ⁹
Area and Headquarters reviewed the feasibility during the 2-month period.	Yes
District manager completed feasibility study and submitted it to area vice president.	Yes
District held public meeting within 45 days after AVP informed Headquarters SVP Operations of study.	Yes
Gave the public 15 additional days to provide written comments.	Yes
Consumer Affairs summarized information from oral and written comments.	Yes
Public comments were provided to senior vice president, Operations, for final review.	Yes
Notified stakeholders of final decision.	Yes

⁹ The actual feasibility study was completed in 86 days rather than 2 months due to the Richmond P&DC activation and Christmas holiday volume planning. This was not a significant issue in the overall timeframe of the consolidation.