OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Efficiency Review of the Cleveland, OH Processing and Distribution Center

Audit Report

June 5, 2012

Report Number NO-AR-12-005

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

June 5, 2012

Efficiency Review of the Cleveland, OH Processing and Distribution Center

Report Number NO-AR-12-005

IMPACT ON:

Mail processing operations at the Cleveland Processing and Distribution Center (P&DC) located in the Northern Ohio District in the Eastern Area.

WHY THE OIG DID THE AUDIT:

We identified the Cleveland P&DC as having substantial potential for savings through improved efficiency. Our objective was to assess the efficiency of the Cleveland P&DC mail processing operations. To maximize efficiency, the goal is to process mail with the least amount of resources and still achieve service time frames.

WHAT THE OIG FOUND:

While the Cleveland P&DC made significant progress in increasing productivity during the past several years, further opportunities exist for improvement. Specifically, the Cleveland P&DC did not attain the efficiency achieved by other large P&DCs or take full advantage of existing automation. Increasing operational efficiency at the Cleveland P&DC by reducing 352,388 mail processing workhours could produce a cost avoidance of over $11 million in labor savings per year.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Eastern Area Operations, reduce workhours to produce an annual cost avoidance of over $11 million , or increase mail volume by 377 million mailpieces through consolidation with another facility, or a combination of both factors. We also recommended the vice president periodically evaluate operating efficiency and staffing at the Cleveland P&DC to determine whether further workhour adjustments are necessary based on workload. Additionally, we recommended the Cleveland P&DC maximize the utilization of automated equipment, improve supervision of employees, and train employees to properly color-code Standard Mail®.

WHAT MANAGEMENT SAID:

Management agreed with the recommendations and plans to consolidate other plants into the Cleveland P&DC, increasing both efficiency and equipment utilization. In addition, management will continue to monitor efficiency and realign supervisors. Management has completed color-code training and is conducting daily reviews.

AUDITORS' COMMENTS:

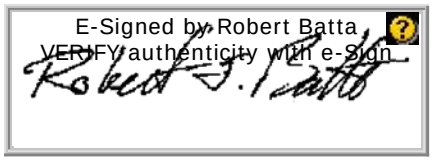
The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

Link to review the entire report

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 5, 2012

MEMORANDUM FOR: JORDAN M. SMALL
VICE PRESIDENT, EASTERN AREA OPERATIONS



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

SUBJECT: Audit Report – Efficiency Review of the Cleveland, OH Processing and Distribution Center
(Report Number NO-AR-12-005)

This report presents the results of our audit of the efficiency of the Cleveland, OH Processing and Distribution Center (Project Number 12XG007NO000).

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.

Attachments

cc: David E. Williams, Jr.
Frank Neri
Todd S. Hawkins
Rose M. Spraggins
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the efficiency of the Cleveland, OH Processing and Distribution Center (P&DC) (Project Number 12XG007NO000). The objective was to assess the efficiency of operations at the Cleveland P&DC. The self-initiated audit addresses operational risk. See Appendix A for additional information about this audit.

The Postal Service faces significant financial challenges. It concluded FY 2011 with a net loss of almost $5.1 billion, despite reducing operating expenses by $4.8 billion. In FY 2011, the loss from operations was just over $4.9 billion. The net loss would have been $10.6 billion had it not been for an extension of a provision allowing the Postal Service to defer certain benefit payments. Streamlining the processing network is key to reducing operating costs. The Cleveland P&DC is one of the largest distribution centers of the Postal Service's more than 300 facilities, processing more than 1.4 billion first handled pieces (FHP) in FY 2011, a decrease of about 3 percent from FY 2010 (see Figure 1).

We performed this audit based on the results of a review of overall plant efficiency.[1] During that review, we identified the Cleveland P&DC as having the potential for significant savings through improved efficiency. To maximize efficiency, the goal is to process mail with the least amount of resources and still achieve service time frames.

Picture 1: The Cleveland Processing and Distribution Center

Source: U.S. Postal Service OIG photograph taken August 26, 2011.

[1] *Assessment of Overall Plant Efficiency 2011*, (Report Number NO-MA-11-004, dated May 20, 2011).

Conclusion

While the Cleveland P&DC made significant progress in increasing productivity during the past several years, further opportunities exist for improvement. Specifically, the Cleveland P&DC did not attain the efficiency achieved by other P&DCs or take full advantage of existing automation.

These conditions occurred, because Cleveland P&DC management did not fully evaluate operational efficiency by benchmarking operations against other Group 1[2] P&DCs, analyze workhour trends, and supervise their employees. In addition, the Cleveland P&DC did not fully assess its potential automation options. Consequently, the Cleveland P&DC was using more workhours than necessary to process its mail volume.

To increase productivity to the median Group 1 plant of 1,069 mailpieces processed per workhour, Cleveland P&DC management needs to either:

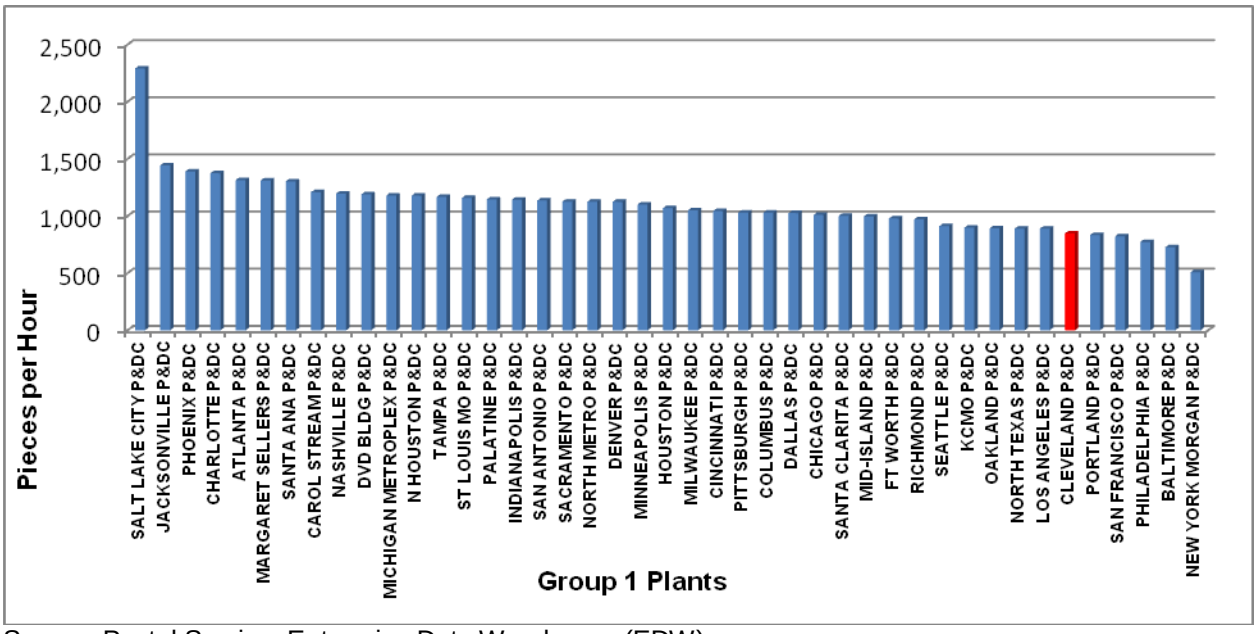
- Reduce workhours by 352,388, which would produce a cost avoidance over $11 million per year (see Appendix C for details), or;
- Increase mail volume through consolidations by 377 million pieces, or;
- Combine workhour reductions and mail volumes increases.

Comparison to Other Processing and Distribution Centers

The Cleveland P&DC FHP productivity ranks 38 of 43 similar size (Group 1) plants as shown in Chart 1. Productivity for the Cleveland P&DC and Group 1 P&DCs increased faster than the national average during the period fiscal year (FY) 2009 to FY 2011 (see Table 1). Raising Cleveland P&DC productivity to the median Group 1 plant would require the reduction of 352,388 workhours at existing FHP levels (see Table 2). Maintaining the existing workhour levels and increasing the volume of mail processed by 377 million pieces would also raise productivity to the Group 1 plant average. Consolidating mail processing operations from other plants would be one way to increase the volume at the Cleveland P&DC. This would also increase machine utilization at the Cleveland P&DC.

[2] Group 1 plants are the 43 largest P&DCs based on FHP volume. See Appendix A for additional information.

Chart 1: Group 1 FHP Productivity for FY 2011



Source: Postal Service, Enterprise Data Warehouse (EDW).

Table 1: Productivity Comparison (FHP)

Fiscal Years	National Average	Group 1 Average	Cleveland P&DC
FY 2009	789 PPH	888 PPH	704 PPH
FY 2010	849 PPH	968 PPH	783 PPH
FY 2011	894 PPH	1,036 PPH	847 PPH
Percent Increase FY 2009 - FY 2011	13%	17%	20%

Source: Postal Service, EDW. Pieces per hour (PPH).

Table 2: Productivity Savings

	Group 1 Median Plant (Houston P&DC)	Cleveland P&DC
FY 2011 FHP Volume	1,602,289,281	1,440,732,212
FY 2011 Workhours	1,499,393	1,700,598
FY 2011 Productivity*	1,069	847
FY 2011 Cleveland P&DC Workhours	1,700,598	
Cleveland P&DC Target Workhours**	1,348,210	
Potential Workhour Savings	(352,388)	

Source: EDW. *Productivity is measured in processed pieces per workhour. **Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the median Group 1 plant.

The Cleveland P&DC's handling ratio is also higher than the Group 1 plant average. The handling ratio is the number of times each mailpiece is handled. It is calculated by dividing total pieces handled by FHP. Generally, the lower the handling ratio, the more efficient the plant. Cleveland P&DC employees handle mail 2.01 times compared to the Group 1 P&DC handling ratio of 1.85 times. Decreasing the handling ratio will help improve operational efficiency.

Potential Sources of Workhour Reductions

We identified specific mail processing functions in which the Cleveland P&DC could improve efficiency. Table 3 shows a complete breakdown of potential workhour savings by labor distribution category (LDC). The potential workhour savings were calculated by raising Cleveland P&DC productivity to the average productivity of all Group 1 plants above the median productivity. For LDCs 10, 17, and 18, productivity was calculated as a percentage of total workhours as they are supervisory and ancillary functions. Whereas LDCs 11, 13, and 14 productivity was calculated as PPH, since mail volume is directly involved. Other LDCs not listed in Table 3 were as productive as or more productive than the Group 1 plants above the median productivity.

Table 3: Summary of Potential Workhour Savings

	Potential Workhour Savings
LDC 10 – Supervision	18,152
LDC 11 – Letter Automation	27,968
LDC 13 – Parcel Distribution	33,724
LDC 14 – Manual Distribution	100,584
LDC 17 – Allied Operations	125,575
LDC 18 – Miscellaneous Operations	63,046
Total	**369,049**

Source: EDW.

LDC 10 - Supervision

The Cleveland P&DC used a higher percentage of supervision workhours when compared to the average of the other above median Group 1 plants. Above median Group 1 plants on average, use 5.32 percent of total mail processing workhours, while the Cleveland P&DC uses 6.39 percent. Reducing supervisor workhours by 18,152 would enable the Cleveland P&DC to achieve the average productivity of the above median average Group 1 plants (see Table 4).

Table 4: LDC 10 Supervision Potential Workhour Savings

	Above Median Plants	Cleveland P&DC
LDC 10 Workhours	1,758,908	108,697
Total Workhours	33,035,485	1,700,598
LDC 10 Percent to Total Workhours	5.32%	6.39%
FY 2011 Cleveland P&DC LDC 10 Workhours	108,697	
Cleveland P&DC Target Workhours*	90,545	
Potential Workhour Savings	(18,152)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

Observations at the Cleveland P&DC revealed supervisors were not always fully engaged. We noted some employees leaving operations early and taking extended breaks. In addition, not all supervisors were aware of how their operation affected other operations (see Picture 2).

Picture 2: An idle employee eating on the workroom floor. The supervisor indicated that the employee was not on break or lunch. Only after our inquiry did the supervisor instruct him to get back to work. Source: OIG, January 10, 2012, 12:58 p.m.

LDC 11 - Letter Automation

Opportunities exist to increase the Cleveland P&DC's efficiency in letter automation and delivery barcode sorter (DBCS) operations. Above median Group 1 plants process on average 4,069 PPH, while the Cleveland P&DC DBCS processes 3,727 PPH. Reducing LDC 11 workhours by 27,968 would enable the Cleveland P&DC to achieve the average productivity of the above median Group 1 plants (see Table 5).

Table 5: LDC 11 Letter Automation Potential Workhour Reductions

	Above Median Plants	Cleveland P&DC
LDC 11 FHP Volume	27,390,776,635	1,240,710,852
LDC 11 Workhours	6,732,108	332,910.07
LDC 11 Productivity	4,069	3,727
FY 2011 Cleveland P&DC LDC 11 Workhours	332,910	
Cleveland P&DC Target Workhours*	304,942	
Potential Workhour Savings	(27,968)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

Several factors negatively impacted the efficiency of the Cleveland P&DC DBCSs. For example, the Cleveland P&DC FY 2011 DBCS throughput was 35,356 PPH. This ranked Cleveland P&DC at 29 of 43 Group 1 plants. The best Group 1 plant exceeded 37,000 PPH. Also, the Cleveland P&DC FY 2011 jam rate was 2.89 jams per 10,000 pieces. This ranked the Cleveland P&DC at 41 of 43 Group 1 P&DCs. The best Group 1 plant had a jam rate of less than 1.25 jams per 10,000.

Moreover, the Cleveland P&DC has the potential to increase letter mailpiece volume by reducing machine idle time. By reducing DBCS's idle time, the Cleveland P&DC could process an additional 420.3 million mailpieces annually.

Observations at the Cleveland P&DC revealed the following:

- Some employees charged time to automation while working other functions.
- Some mail processing machines were understaffed. For example, several machines operated with one employee. It is more efficient to operate fewer machines with two employees (see Picture 3).
- Some employees were frequently idle.
- Large overlaps in tours meant automation equipment was not available for all employees and increased idle times.
- Available automation was not always used (see Picture 4). In another example, the tray systems located at the DBCSs were not used (see Picture 5).

Picture 3: A DBCS staffed by only one employee when two are needed. Here, the feed belt is empty, as the machine has run out of mail. It is difficult for the operator to keep the machine fed and perform the required sweeps of the bins. Source: OIG, January 10, 2012, 4:10 p.m.	
Picture 4: An excessive number of mail processors clocked in to an automation operation and manually sorted machineable mail trays. One of six robots or the low cost tray sorter could handle this sortation more efficiently. Source: OIG, January 11, 2012, 10:43 p.m.	
Picture 5: With a few exceptions, the tray takeaway system located at each DBCS has not been used for over a year. Not using the available automation increases the use of less efficient manual handling of trays. Source: OIG, January 10, 2012, 3:57 p.m.	

LDC 13 - Parcel Distribution

The Cleveland P&DC can improve the efficiency of its parcel distribution operation. Above median Group 1 plants processed on average 228 PPH during FY 2011, while the Cleveland P&DC processed 188 PPH. Increasing the Cleveland P&DC to the average of the above median Group 1 plant could save 33,724 workhours annually (see Table 6).

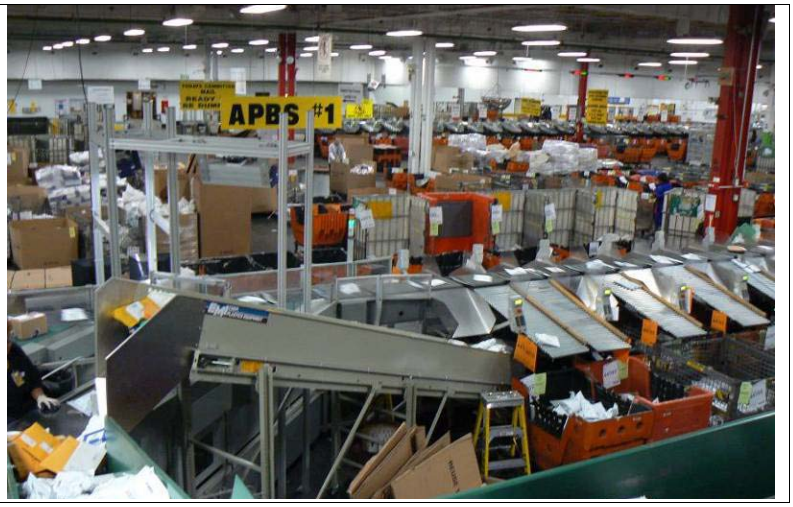
Table 6: LDC 13 Parcel Distribution Potential Workhour Savings

	Above Median Plants	Cleveland P&DC
LDC 13 Volume	849,035,897	36,368,282
LDC 13 Workhours	3,728,985.91	193,455
LDC 13 Productivity	228	188
FY 2011 Cleveland P&DC LDC13 Workhours	193,455	
Cleveland P&DC Target Workhours*	159,730	
Potential Workhour Savings	(33,724)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

The largest operation within LDC13 was the automated parcel bundle sorter (APBS). Cleveland FY 2011 P&DC productivity on the APBS was 318 PPH, while the above median Group 1 plants productivity was 613 PPH. Observations at the Cleveland P&DC revealed idle employees on the APBS (see Picture 6).

Picture 6: This is the APBS run-out belt. Every space on the belt is filled with a parcel. As a result, two (not shown) of the six keyers cannot process mail, because the first four keyers fill every available space. As a result, two keyers sit idle waiting for a space on the belt to open.
Source: OIG, January 10, 2012, 4:36 p.m.



LDC 14 - Manual Distribution

The Cleveland P&DC can improve the efficiency of its manual distribution operation. Above median Group 1 plants process on average 669 PPH, while the Cleveland P&DC

processes 318 PPH. Increasing the Cleveland P&DC to the average of the above median Group 1 plants could save 100,584 workhours annually (see Table 7). In addition, Table 8 provides information on specific manual operations.

Table 7: LDC 14 Manual Distribution

	Above Median Plants	Cleveland P&DC
LDC 14 Volume	2,085,293,449	61,124,745
LDC 14 Workhours	3,118,917	192,006
LDC 14 Productivity	669	318
FY 2011 Cleveland P&DC LDC 14 Workhours	192,006	
Cleveland P&DC Target Workhours*	91,423	
Potential Workhour Savings	(100,584)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

Table 8: Productivities for Manual Operations

Operation Number	Operation Description	Above Median	Cleveland P&DC
030	Manual Letter-Outgoing Primary	713 PPH	469 PPH
040	Manual Letter-Outgoing Secondary	1,042 PPH	337 PPH
168	Manual Letter-Incoming Box Section Distribution	994 PPH	85 PPH
169	Manual Letter Case-Box Final Distribution	224 PPH	29 PPH
170	Manual Flat-Incoming	623 PPH	229 PPH

Source: EDW.

Observations at the Cleveland P&DC revealed overstaffed operations, idle employees, and machineable mail being processed manually (see Pictures 7, 8, and 9).

Picture 7: Five employees work small parcels from one hamper in the outgoing First-Class small parcel breakdown area. Too many employees working from one hamper was very inefficient. Source: OIG, January 10, 2012, 9:49 p.m.	
Picture 8: An employee sorting machineable letters in the manual flat operation. Processing these letters on automation equipment would be more efficient. Source: OIG, January 11, 2012, 9:14 p.m.	
Picture 9: Many mail trays in the manual operations were clearly machineable. This mail was not barcoded or processed on a mail processing machine. Source: OIG, January 10, 2012, 9:37 p.m.	

LDC 17 - Allied Operations

Allied operations provide the greatest opportunity for the Cleveland P&DC to reduce workhours. LDC 17 or Allied operations include mail preparation, presort operations,

opening, pouching, and platform operations. During FY 2011, the Cleveland P&DC used more than 40 percent of its processing workhours in LDC 17, while the above median average Group 1 plants on average used just over 33 percent of their workhours in allied labor. Reducing LDC 17 workhours by 125,575 would enable the Cleveland P&DC to raise productivity to the average of the above median Group 1 plants (see Table 9). Also, Table 10 provides information on specific allied operations.

Table 9: LDC 17 Allied Operations Potential Workhour Savings

	Above Median Plants	Cleveland P&DC
LDC 17 Workhours	10,390,698	690,807
Total Workhours	31,262,182	1,700,598
LDC 17 Percentage to Total Workhours	33.24%	40.62%
FY 2011 Cleveland P&DC LDC17 Workhours	690,807	
Cleveland P&DC Target Workhours*	565,233	
Potential Workhour Savings	(125,575)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

Table 10: LDC 17 Productivities for Allied Operations

Operation Number	Operation Description	Above Median	Cleveland P&DC
004 & 015	AFCS 200 & Advanced Facer	16,521	10,205
140	Mail Preparation	1,832	1,157
210 -214	Platform	13%	19%
229	Equipment Operator – Tow	13.79%	11.96%
230	Equipment Operator - Forklift	3.61%	5.89%
231	Expediter	9.99%	14.34%

Source: EDW.

Additionally, reducing idle time on the Automated Facer Canceller System (AFCS) by 50 percent would allow the Cleveland P&DC to process an additional 80.5 million mailpieces annually. Observations at the Cleveland P&DC revealed the following:

- Congested docks prevented efficient usage of power equipment (see Picture 10).
- Idle employees waited for mail in various operations (see Picture 11).
- Employees waited at the time clock as long as 35 minutes before the end of tours (see Picture 12).

- Power equipment was not staged in a central location, thereby requiring operators to search for equipment.
- Tow operators only moved mail in one direction, returning without either more mail or empty equipment.

Picture 10: Excess equipment is staged on the dock. Once additional equipment arrives from the delivery stations, power vehicles will be forced to tow containers one at a time, rather than three at a time due to dock congestion. Source: OIG, January 10, 2012, 1:06 p.m.	
Picture 11: Ten idle mailhandlers (six shown here) were waiting 15 minutes for Priority Mail® sacks to arrive. Source: OIG, January 11, 2012, 10:03 p.m.	
Picture 12: Employees waiting to clock off at 10:15 p.m. We observed some waiting as long as 35 minutes before the end of the tour. Source: OIG, January 11, 2012, 10:15 p.m.	

LDC 18 - Miscellaneous Operations

Miscellaneous mail processing operations are recorded in LDC 18 and include:

- Stand-by time.
- Express and international mail processing.
- Registry cage.
- Empty equipment processing.
- Office work and several other activities.

The Cleveland P&DC used 9.3 percent of its mail processing workhours in LDC 18 during FY 2011, while the average of the above median Group 1 plants used 5.6 percent. Reducing workhours in miscellaneous operations by 63,046 would enable the Cleveland P&DC to achieve the average productivity of the above median average Group 1 plants (see Table 11).

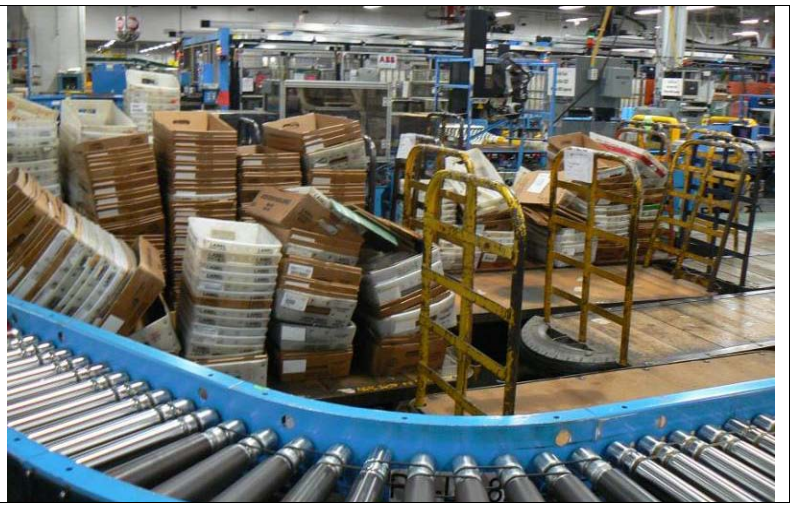
Table 11: LDC 18 - Miscellaneous Operations Potential Workhour Savings

	Above Median Plants	Cleveland P&DC
LDC 18 Workhours	1,760,752	158,240
Total Workhours	31,455,074	1,700,598
LDC 18 Percentage to Total Workhours	5.60%	9.30%
FY 2011 Cleveland P&DC LDC 18 Workhours	158,240	
Cleveland P&DC Target Workhours*	95,194	
Potential Workhour Savings	(63,046)	

Source: EDW. *Target workhours are the number of workhours necessary to raise Cleveland P&DC productivity to the average of the above median Group 1 plants.

Observations at the Cleveland P&DC revealed empty mail processing equipment frequently required re--handling (see Picture 13).

Picture 13: Excess mail transport equipment was located in every operation. Employees did not properly stack the mail trays on pallets; therefore, additional handling was required. Also, the excess clutter slowed the efficient movement of mail and forced employees to manually move the excess mail transport equipment. Source: OIG, January 10, 2012, 12:32 p.m.



Employee Complement

While the Cleveland P&DC has reduced staffing levels over the last few years, increasing productivity to the median Group 1 plant will require additional reductions. There are 955 mail processing employees at the Cleveland P&DC, of which 876 are career employees (see Table 12). To save the recommended workhours, a reduction of about 200 employees would be required. We found that 34 percent of the Cleveland P&DC career employees are eligible to retire. With a reduction of noncareer employees and the national attrition rate of 5 percent, the Cleveland P&DC could achieve the recommended workhour savings over the next 3 fiscal years (see Table 13).

Table 12: Complement Summary

WebCOINS January 26, 2012	
Clerk – Career	510
Clerk – PSE	44
CLERK – Non Traditional Full Time	15
Mailhandler – Career	303
Mailhandler – Part Time Flexible	48
Mailhandler – Casual	35
Total	955
Total Career Employees	876
Number of career employees eligible for retirement as of January 1, 2012	298
Percent of employees eligible for retirement	34.02%

Source: Postal Service, Complement Information System (WebCOINS).

Table 13: Potential Savings Through Attrition

	Employees	Annual Workhours*	Projected Workhour Savings
FY 2013 Noncareer Reduction	79	137,618	137,618
FY 2013 Anticipated Retirements	44	76,648	214,266
FY 2014 Anticipated Retirements	42	73,164	287,430
FY 2015 Anticipated Retirements	40	69,680	357,110

Source: EDW. *Annual workhours were calculated by multiplying the annual anticipated retirements by 1,742 annual workhours.

Causes and Impacts on Operations

Management at the Cleveland P&DC had addressed operational efficiency by reducing workhours in response to budgeted workhours. As a result, they reduced FY 2011 workhours by about 440,000 or 21 percent from FY 2009 levels. However, Postal Service managers had not fully evaluated operational efficiency by benchmarking operations against similar-sized plants, analyzed workhour trends, and supervised their employees.

Additionally, observations revealed management at Cleveland P&DC did not fully assess their potential automation options, and that some employees were not sufficiently supervised during tour changes and returning off breaks to duty stations. We also found some mail was not properly color-coded, prohibiting the efficient flow of mail. Appendix B provides suggestions of possible sources of workhour reductions to improve Cleveland P&DC efficiency. These best practices are not recommendations, and management may or may not implement them at their discretion.

Consequently, the Cleveland P&DC used 352,388 more workhours than necessary, which would produce a cost avoidance of $22.7 million over the next 2 years based on its mail volume. See Appendix C for details. To increase productivity to the median Group 1 plant at 1,069 mailpieces processed per workhour, Cleveland P&DC management needs to reduce workhours, or increase mail volume through consolidations by 377 million, or a combination of workhour reductions and mail volumes increases.

Cleveland Processing and Distribution Center Management Actions

During our review, the Cleveland P&DC reported actions undertaken to address many of the issues raised during the audit (see Appendix D). During our exit conference visit, we noted improvements in mail flow, floor congestion, delayed mail, and color coding.

Recommendations

To improve efficiency at the Cleveland Processing and Distribution Center, we recommend the vice president, Eastern Area Operations instruct Cleveland P&DC management to:

1 By fiscal year 2017, reduce workhours by 352,388 to produce a cost avoidance of $22.7 million over the following 2 years, or through consolidations, increase mail volume by 377 million, or a combination of workhours reductions and mail volume increases that will achieve the median productivity level of 1,069 pieces per hour.

2. Periodically evaluate operating efficiency and staffing at the Cleveland Processing and Distribution Center to determine whether further workhour adjustments are necessary based on workload.

3. Maximize the utilization of automated equipment by reducing machine idle time.

4. Improve supervision of employees to ensure all employees are fully engaged.

5. Train employees to ensure proper color-coding of Standard Mail® according to Postal Service policy.

Management's Comments

Management agreed with the recommendations and monetary impact in the report. Specifically, management stated that:

- Network optimization will allow the Cleveland P&DC to better use space and equipment and operate more efficiently through the consolidation of other facilities.

- The Eastern Area will monitor efficiency of the Cleveland P&DC.

- Supervisor assignments will be realigned to improve employee oversight.

- Employees have been retrained to properly color-code mail. Daily reviews are conducted to ensure compliance.

See Appendix E 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 the recommendations 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.

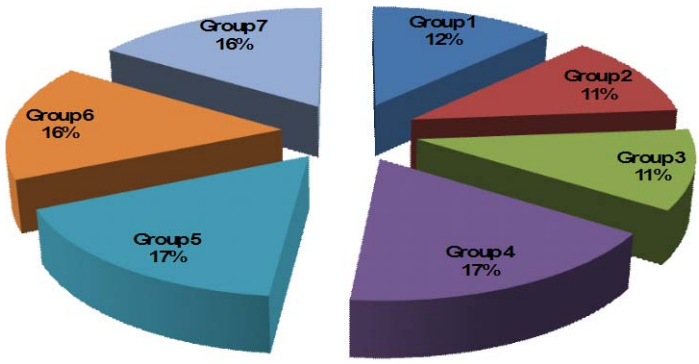
Appendix A: Additional Information

Background

Mail processing is an integrated group of activities[3] required to sort and distribute mail for dispatch and eventual delivery. Post offices, stations, and branches send outgoing (originating) mail to P&DCs and processing and distribution facilities for processing and dispatch for a designated service area. P&DCs report directly to area offices on mail processing matters. They also provide instructions on the preparation of collection mail, dispatch schedules, and sort plan requirements to associate offices and mailers. The Postal Service has more than 300 plants with mail processing operations.

We divided the plants that process mail into seven groups ranked by mail volume. Chart 1 shows the percentage of mail processing plants in each group. The Group 1 plants are the largest and the Group 7 plants, the smallest.

Chart 2: Plant Grouping Based On Volume



Source: EDW.

The Cleveland P&DC is a Group 1 plant in the Eastern Area. The Cleveland P&DC processes inbound and outbound mail for the city of Cleveland, OH, and associate offices in the surrounding area. In FY 2011, the Cleveland P&DC processed about 1.44 billion mailpieces, a decrease of about 3 percent from FY 2010. Average complement during this period decreased about 5 percent. In FY 2011, the on-roll complement was 1,020 employees compared to 1,077 employees in FY 2010.

Title 39 U.S.C. § 403 (a) states “The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services . . . .” The *U.S. Postal Service Transformation Plan* also recommends that the Postal Service improve productivity. The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20,

[3] Mail processing activities include culling, edging, stacking, facing, canceling, sorting, tying, pouching, and bundling.

2006, 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 . . ."

Objective, Scope, and Methodology

Our audit assessed the efficiency of operations performed by the Cleveland P&DC. To assess the efficiency of the Cleveland P&DC, we observed mail processing operations; analyzed mail volumes and workhours, evaluated machine utilization; interviewed Postal Service officials; and benchmarked achievement to target productivities with similar-sized plants.

We relied on Postal Service operational systems, including the National Workhour Reporting System, the Breakthrough Productivity Initiative Website, the Management Operating Data System, Web Flash Reports, the Web Enterprise Information System, and the Web End-of-Run System to analyze mail volume and workhours. We checked the accuracy of data by confirming our analysis and results with Postal Service managers and found no material differences.

We conducted this performance audit from January through June 2012 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 March 13, 2012, and included their comments where appropriate.

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

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Assessment of Overall Plant Efficiency 2012	NO-MA-12-001	4/27/2012	$664,997,872	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume because of poor economic conditions or achieved all possible efficiencies in mail processing operations. The Postal Service could improve operational efficiency by reducing more than 14.2 million workhours by the end of FY 2014. Management agreed with the recommendations.
Assessment of Overall Plant Efficiency 2011	NO-MA-11-004	5/20/2011	$647,586,823	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume because of poor economic conditions nor achieved all possible efficiencies in mail processing operations. Management agreed they could improve operational efficiency by reducing more than 14 million workhours by the end of FY 2013. This would allow the Postal Service to achieve at least median productivity levels in the network and avoid costs of more than $647.5 million based on workhour savings for 1 year.
Houston, TX Processing and Distribution Center Mail Consolidation	NO-AR-11-004	12/14/2010	$189,744,682	We found a business case exists to consolidate the Houston P&DC's mail processing operations into the North Houston P&DC provided the facility is expanded. Management agreed with the recommendations and will pursue the expansion of the North Houston P&DC and consolidate the Houston P&DC's mail processing operation. The expansion and consolidation is expected to be completed by the end of FY 2013, pending an economic analysis study and approval of capital funding by the Capital Investment Committee.

Assessment of Overall Plant Efficiency 2010	NO-MA-10-001	6/11/2010	$743,961,610	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume as a result of poor economic conditions, nor achieved all possible efficiencies in mail processing operations. Management agreed with the findings, recommendations, and monetary impact.
Dallas Processing and Distribution Center Outgoing Mail Consolidation	NO-AR-10-003	2/24/2010	$114,041,172	We concluded that a business case exists to support consolidating the Dallas P&DC's outgoing mail operation into the North Texas P&DC. Management agreed with the recommendations and is taking steps to consolidate the Dallas P&DC outgoing mail operations into the North Texas P&DC.
Assessment of Overall Plant Efficiency	NO-MA-09-002	5/8/2009	$969,495,708	We found management has not yet fully adjusted workhours in response to changes in workload nor achieved all possible efficiencies in mail processing operations provided by opportunities such as the introduction of additional automation. Management agreed with the recommendations and monetary impact.

Appendix B: Cleveland Processing and Distribution Center Suggestions for Improving Efficiency[4]

- Adjust schedules of employees to match mail-flow and workload.
- Monitor jam rates on equipment.
- Assign maintenance staff to machines frequently needing repairs.
- Finalize equipment on first handling.
- Clear docks prior to the beginning of collection operations.
- Improve scheduling of preventative maintenance.
- Clean and rope off finalized operations.
- Ensure color-code tags are complete.
- Review employee clock rings for accuracy.
- Assign employees secondary duties during down time.
- Maximize the use of automation.
- Involve the Business Service Network in improving mail quality.
- Approve overtime in small increments rather than in whole hours.
- Monitor break areas for employees not scheduled for breaks.
- Have supervisors move with employees to other operations.
- Have supervisors meet employees at the time clock when they clock in.
- Ensure employees remain busy until the end of their tour.
- Coordinate tow operator trips to move mail on all trips.
- Align dock assignments to minimize movement of mail through the plant.

[4] These items present options to management as possible sources of workhour reductions. These best practices observed at other facilities are not recommendations, and management may or may not implement them at their discretion.

Appendix C: Monetary Impact

Finding	Impact Category	Amount
Cost Savings	Funds Put to Better Use[5]	$22,747,745
Total		

Notes

- The cost savings calculation was based on the reduction of 352,388 workhours phased in over a 3-year period multiplied by the escalated labor rate discounted over a 2-year period.
- The net present value was calculated using the discount rate of 2.6 percent over a 2-year period.
- Labor rates were based on the Cleveland P&DC Labor Utilization Reporting System for total function one.
- The yearly escalation factor is 1.8 percent, based on the Postal Service's Decision Analysis Factors effective November 2011.

[5] Funds Put to Better Use - Funds that could be used more efficiently by implementing recommended actions.

Appendix D: Management's Actions

- The Manager In-Plant Support, Managers Distribution Operations, and Manager of Maintenance[6] walk the workroom floor daily to ensure compliance with mail transportation equipment standard operating procedures.
- Locked time card racks have been relocated from a centralized location to individual operations. In addition, supervisors meet employees at the rack at begin tour to hand out badges and then lock them back up.
- Color-code tag expectations communicated on all tours. Color-code tags time stamped and handwritten with the date and time.
- Surface visibility and key ring scanners are accountable items monitored by a supervisor.
- Signage depicting goals and targets were hung on the workroom floor and the information is posted on bulletin boards.
- AFSM - Hourly throughputs are posted every hour on grease boards.
- Automation quality heat map trend reports are posted and communicated daily.
- Holiday staffing and scheduling training was provided to all supervisory employees.
- Daily attendance control reports are provided to senior management highlighting employee availability by tour by day.
- Lanes were clearly marked in the robot staging area to prevent comingling empty equipment and incoming mail.
- The computerized forwarding room was cleaned out and is vacant, awaiting network optimization floor layout changes.
- All Standard Mail is processed 2 days in advance to avoid delayed mail.
- Periodical Mail is processed by 10:30 a.m. and sent to the Flat Sequence System site to avoid delayed mail.
- Employee-on-clock report is pulled on the hour to validate employees on the clock.
- Retrained all postal support employees in automation to improve quality and efficiency.

[6] The Cleveland P&DC management reported these actions taken and planned. During our exit conference visit, we noted improvements in mail flow, floor congestion, delayed mail, and color coding.

- Trained all APBS employees to enforce improvements with throughputs and productivity.
- Reduced the overtime to less than 2.5 percent.
- Improved cancellations by 20:00.
- Improved outgoing primary and outgoing secondary performance.
- Established a 2-day hot case completed 30 minutes after Managed Mail Program mail is finalized by 8 p.m.
- Working on preparing plant for network optimization.

Work In Progress:

- Reducing dock operation workhours.
- After the AFCS operation is finalized, send all flexible employees home.
- Tour 3 and Tour 1 Turnover - Review events when all employees are on the clock during the first 2 hours.
- LDC 14 – use the Low Cost Reject Encoding Machine (LCREM) to reduce manual and automation working volume. Maximize the use of the LCREM.
- 896 Breakdown - close operation on time; do not leave open all day and night.
- Constant supervision of tow motor and fork lift operators.
- Focus on workhours and Breakthrough Productivity Initiative improvements.

Appendix E: Management's Comments

JORDAN M. SMALL
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA

UNITED STATES POSTAL SERVICE

May 24, 2012

MEMORANDUM FOR LUCINE WILLIS, DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Efficiency Review of the Cleveland, OH Processing and Distribution Center (Report Number: NO-AR-12-DRAFT)

We have reviewed the audit performed by the Office of Inspector General on the Efficiency of the Cleveland P&DC. We are in agreement with the recommendations identified during the audit and have provided feedback on each.

The Eastern Area realizes the inefficiencies of the larger processing and distribution facilities. Several years of volume loss with the space and equipment capabilities of these facilities has resulted in inefficient operations. Network Optimization will allow us to utilize the space and equipment capability in the Cleveland P&DC to consolidate operations from the Akron, Canton, and Mansfield and Youngstown facilities to increase utilization and operate at an improved efficiency.

The Network Optimization studies have identified significant savings in mail processing work hours, maintenance costs and transportation costs. The Eastern Area is working closely with the Cleveland P&DC to fully and successfully implement these changes to capture savings.

The following are the responses to the recommendations.

5315 CAMPBELLS RUN RD
PITTSBURGH PA 15277-7010
PHONE: 412-494-2510
FAX: 412-494-2582

Recommendation 1:

Eastern Area Operation Vice President reduce workhours to produce a cost avoidance $22.7 million, or increase mail volume by 377 million pieces through consolidation with another facility, or a combination of both factors.

Management Response/Action Plan: Management agrees with this recommendation. The Northern Ohio District will consolidate operations from the Akron, Canton, Mansfield and Youngstown plants over the next 2 years. Network Optimization studies have been completed and approved for implementation.

Target Implementation Date: Start in August 2012 and complete by 2014

Responsible Official: Rose Spraggins, A/Senior Plant Manager, NOH

Recommendation 2:

Eastern Area Operation Vice President Staff can/will periodically evaluate operating efficiency and staffing at the Cleveland P&DC to determine whether further workhour adjustments are based on workload.

Management Response/Action Plan: Management agrees with this recommendation. BPI efficiencies are monitored by the EA IPS function, threshold targets given to each facility based on opportunity.

Target Implementation Date: June 16, 2012

Responsible Officials: Joyce M. Shepherd, In Plant Support Manager, Cleveland P&DC; Patricia Dawson, Senior Manager Distribution Operations, Cleveland P&DC

Recommendation 3:

Cleveland P&DC should maximize the utilization of automated equipment:

Management Response/Action Plan: Management agrees with this recommendation.

Service standard changes will require a realignment of the staffing at the Cleveland P&DC this coupled with the Network Optimization consolidation plan will result in maximizing all automated equipment at the Cleveland P&DC.

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Phone: 412-494-2510
Fax: 412-494-2582

Target Implementation Date: June 16, 2012

Responsible Officials: Joyce M. Shepherd, In Plant Support Manager, Cleveland P&DC; Patricia Dawson, Senior Manager Distribution Operations, Cleveland P&DC

Recommendation 4:

Cleveland P&DC should improve supervision of employees.

Management Response/Action Plan: Management agrees with this recommendation. A realignment of the SDO and MDO areas of responsibility will be implemented to align management oversight with the craft.

Target Implementation Date: June 16, 2012

Responsible Officials: P&DC; Patricia Dawson, Senior Manager Distribution, Cleveland P&DC

Recommendation 5:

Cleveland P&DC should train employees to properly color-code Standard Mail.

Management Response/Action Plan: Management agrees with this recommendation. All employees have been retrained to properly color-code mail. The color coding tags are timed and dated. Daily reviews of all tags are completed on each tour.

Target Implementation Date: January 17, 2012.

Responsible Officials: Joyce M. Shepherd, In Plant Support Manager, Cleveland P&DC; Patricia Dawson, Senior Manager Distribution Operations, Cleveland P&DC

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This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

Jordan Small
Eastern Area Vice President

cc: David E. Williams, Jr.
Frank Neri
Todd S. Hawkins
Rose M. Spraggins
Josh Colin
Corporate Audit and Response Management

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