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UNITED STATES POSTAL SERVICE

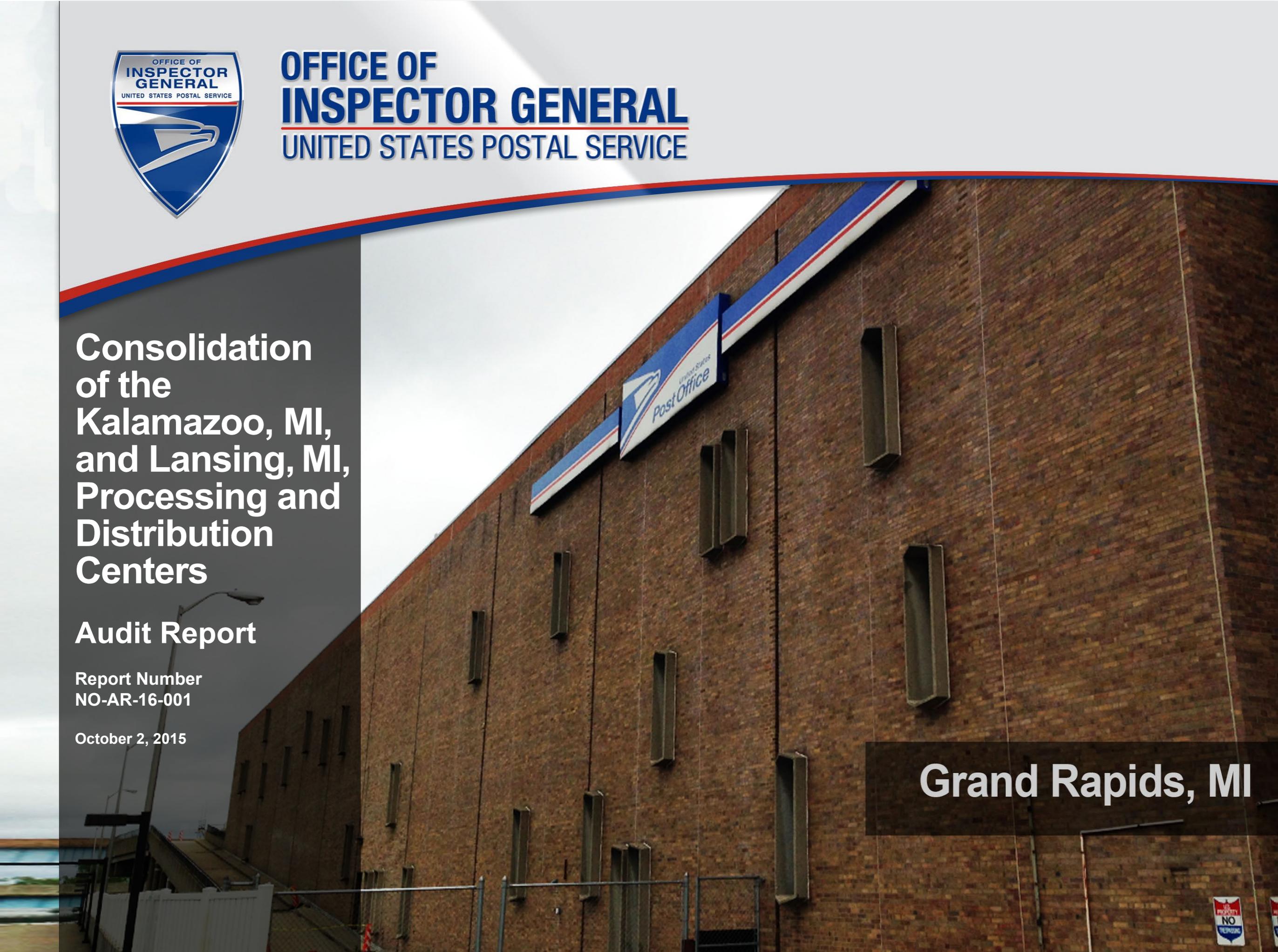
Consolidation of the Kalamazoo, MI, and Lansing, MI, Processing and Distribution Centers

Audit Report

Report Number
NO-AR-16-001

October 2, 2015

Grand Rapids, MI





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Our objectives were to determine whether business cases existed to consolidate Kalamazoo and Lansing P&DCs mail processing operations and to assess compliance with established AMP guidelines.

Background

The U.S. Postal Service uses Area Mail Processing (AMP) guidelines to consolidate mail processing functions and increase productivity through more efficient use of equipment, facilities, staffing, and transportation. These consolidations are intended to reduce costs and maintain quality service.

The Kalamazoo, MI, Processing and Distribution Center's (P&DC's) destinating mail moved to the Grand Rapids, MI, P&DC and Processing and Distribution Facility (P&DF) on April 18, 2015; and the delivery point sequence mail moved on April 25, 2015. Lansing, MI, P&DC destinating and delivery point sequence mail was to be moved on July 25, 2015; however, the Postal Service announced on May 27, 2015, that it was deferring all planned consolidations until 2016.

This report responds to a request from U.S. Senator Debbie Stabenow to review mail processing consolidations in Michigan. In a separate audit, we reviewed the Iron Mountain, MI, P&DF consolidation.

Our objectives were to determine whether business cases existed to consolidate Kalamazoo P&DC and Lansing P&DC mail processing operations and assess compliance with established AMP guidelines.

What The OIG Found

A business case exists to support consolidating the Kalamazoo and Lansing P&DCs. Following the Kalamazoo P&DC

consolidation, productivity increased at the Grand Rapids facilities. Also, although delayed mail increased and service scores declined from the previous year, they were better than the national average in quarter 3, 2015. Further, there was no significant impact on carriers returning from the street after 5 p.m.

We also found the Grand Rapids facilities have capacity to process the additional mail and the Postal Service does not plan to lay off any career employees. In addition, the consolidations should not substantially impact the community and the AMP guidelines were generally followed.

However, we found the Postal Service overstated annual cost savings by about \$791,000 for the Kalamazoo P&DC and about \$1 million for the Lansing P&DC. Specifically, it misstated transportation and management workhour savings. We estimated the Kalamazoo P&DC and Lansing P&DC consolidations will save about \$7 million and \$9.9 million per year, respectively.

What The OIG Recommended

We recommended the vice president, Network Operations, re-evaluate transportation and management workhour savings contained in the Kalamazoo and Lansing AMP feasibility studies and make adjustments during the first post-implementation review. We also recommended the vice president, Network Operations, adjust transportation and other operational requirements to ensure the Grand Rapids P&DC and P&DF meet service commitments.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 2, 2015

MEMORANDUM FOR: LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS

E-Signed by Robert Batta
VERIFY authenticity with e-Sign
Robert J. Batta

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

SUBJECT: Audit Report – Consolidation of the Kalamazoo, MI, and
Lansing, MI, Processing and Distribution Centers
(Report Number NO-AR-16-001)

This report presents the results of our audit of Consolidation of the Kalamazoo, MI, and Lansing, MI, Processing and Distribution Centers (Project Number 15XG022NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Margaret B. McDavid, director, Network Processing and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

A business case exists to support consolidating the Kalamazoo and Lansing P&DCs.

Introduction

This report presents the results of our audit of the Consolidation of the Kalamazoo, MI, and Lansing, MI, Processing and Distribution Centers (Project Number 15XG022NO000). This report responds to a request from U.S. Senator Debbie Stabenow of Michigan to review mail processing consolidations in the state. Our objectives were to determine whether a business case existed for consolidating mail operations from the Kalamazoo, MI, Processing and Distribution Center (P&DC), and the Lansing, MI, P&DC, into the Grand Rapids, MI, P&DC and Processing and Distribution Facility (P&DF) and to assess compliance with established Area Mail Processing (AMP) guidelines. In a separate audit originating from the same congressional request, we reviewed the Iron Mountain, MI, P&DF consolidation. See [Appendix A](#) for additional information about this audit.

The Kalamazoo, MI, P&DC's destinating mail¹ operations moved to the Grand Rapids P&DC and P&DF on April 18, 2015, and delivery point sequence (DPS)² mail moved on April 25, 2015. Lansing P&DC destinating and DPS mail was to be moved on July 25, 2015; however, on May 27, 2015, the U.S. Postal Service announced it was delaying planned consolidations based on operational considerations to ensure it would continue providing prompt, reliable, and predictable service consistent with its published service standards. The Postal Service plans to resume consolidations in 2016.

The Postal Service developed a formal process for reviewing and implementing AMP feasibility studies, which is defined in Handbook PO-408.³ The Postal Service uses the AMP process to determine whether to consolidate two or more postal facilities to:

- Increase operational efficiency and improve productivity through more efficient use of assets, such as equipment, facilities, staffing, and transportation.
- Provide affected career employees with opportunities for job reassignments.
- Maintain the quality of service to Postal Service customers.
- Ensure overall cost reductions.

Summary

Business cases exist to support consolidating mail operations from the Kalamazoo, MI, and Lansing, MI, P&DCs into the Grand Rapids, MI, P&DC and P&DF. Following the Kalamazoo P&DC consolidation, productivity increased at the Grand Rapids facilities. In addition, although delayed mail increased and service scores declined from the previous year, they were better than the national average in quarter 3, 2015. Further, there was no significant impact on carriers returning from the street after 5 p.m. We also found the Grand Rapids facilities have adequate machine capacity to process mail from Kalamazoo and Lansing P&DCs and the Postal Service does not plan to lay off any career employees as a result of the consolidations. In addition, the consolidations should not substantially impact the community and the Postal Service generally complied with established AMP guidelines.

1 Incoming mail arriving for its point of final delivery (destination) through a processing facility.

2 Automated process of sorting mail by carrier routes into delivery order, eliminating the need for carriers to sort the mail manually in the delivery unit prior to their departure to the routes.

3 Handbook PO-408, *Area Mail Processing Guidelines*, March 2008. An AMP feasibility study determines whether there is a business case for relocating processing and distribution operations from one location to another.

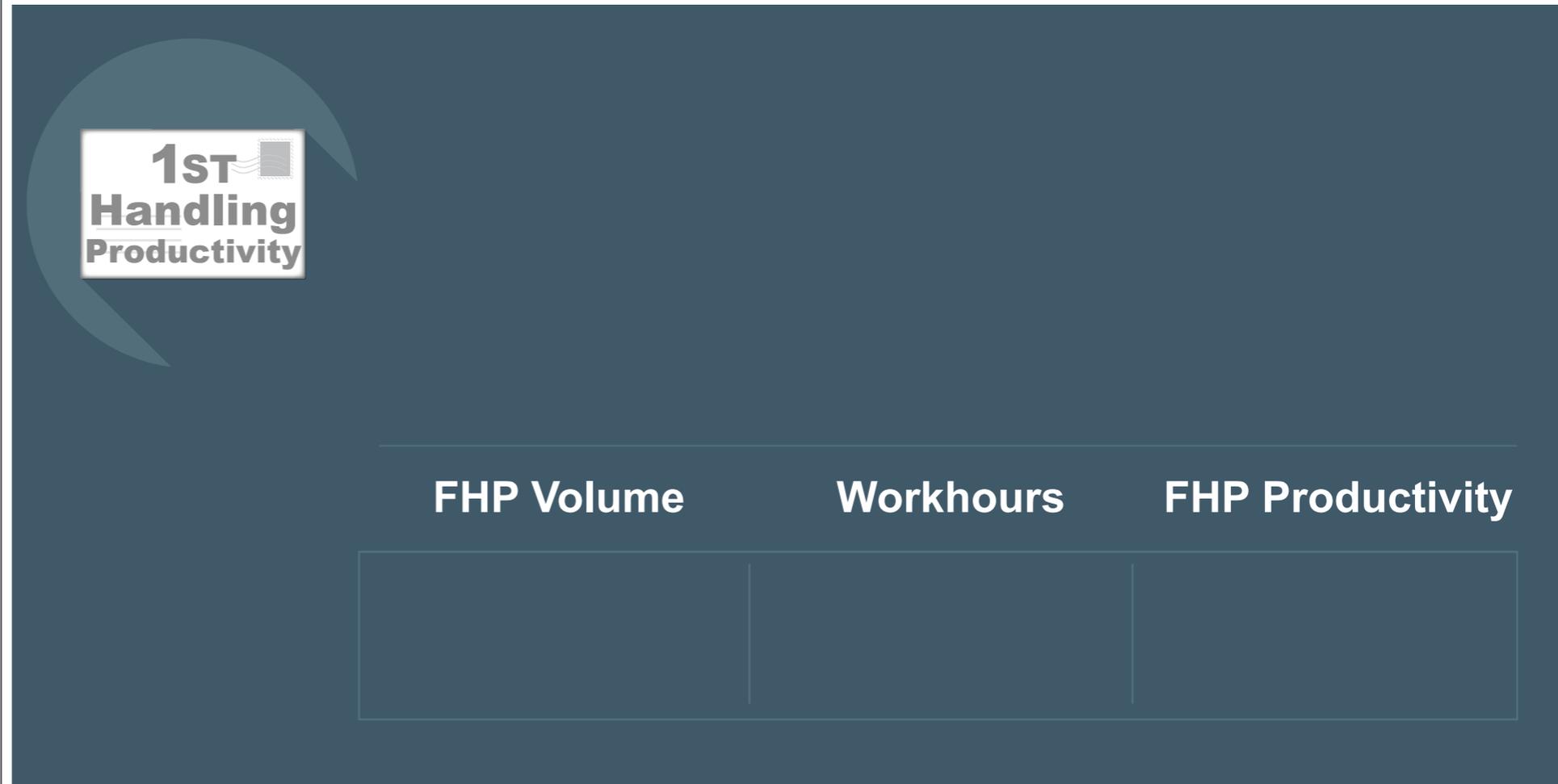
We found the Postal Service overstated annual cost savings by about \$791,000 for the Kalamazoo P&DC consolidation and by about \$1 million for the Lansing P&DC consolidation.

However, we found the Postal Service overstated annual cost savings by about \$791,000 for the Kalamazoo P&DC consolidation and by about \$1 million for the Lansing P&DC consolidation. Specifically, the Postal Service misstated transportation and management workhour savings. We estimated the Kalamazoo and Lansing consolidations should produce annual cost savings of about \$7 million and \$9.9 million, respectively.

Productivity

First-handling pieces (FHP)⁴ productivity at the Grand Rapids P&DC and P&DF increased following the consolidation of Kalamazoo P&DC destinating mail operations. FHP productivity at the Grand Rapids facilities, initially was 926 mailpieces per hour, increased to 976 mailpieces per hour following the consolidation. This is a productivity increase of 5.49 percent (see Figure 1).

Figure 1. Grand Rapids P&DC and P&DF Productivity Impact



Source: Enterprise Data Warehouse (EDW) and U.S. Postal Service Office of Inspector General (OIG) calculations.

⁴ Mail volume recorded in the operation where the mail receives its first distribution handling at a postal facility.

Following consolidation of Kalamazoo P&DC destinating mail operations into the Grand Rapids P&DC and P&DF, delayed mail increased slightly.

Delayed Mail

Following consolidation of Kalamazoo P&DC destinating mail operations into the Grand Rapids P&DC and P&DF, delayed mail increased slightly. Specifically, delayed mail at the Grand Rapids P&DC and P&DF increased from 0.28 to 0.37 percent of FHP volume. Although delayed mail increased, the amount of delayed mail was lower than the nationwide average of 0.70 percent during the same time period (see Table 1).

Table 1. Grand Rapids P&DC and P&DF Delayed Mail as a Percentage of FHP Volume

Time Period	Delayed Mail (Pieces)	FHP Volume	Delayed Mail as a Percentage of FHP Volume
May and June 2014	410,909	145,543,190	0.28%
May and June 2015	738,374	200,859,705	0.37%
Nationwide May and June 2015	196,899,460	28,073,655,763	0.70%

Source: EDW, Mail Condition Reporting System (MCRS)⁵ and OIG calculations.

⁵ A system of reports that identifies and monitors problems in mail processing at a postal facility.

Customer Service

Customer Service performance as measured by the External First-Class Measurement System (EXFC)⁶ declined after the Postal Service consolidated Kalamazoo P&DC destinating mail operations. We found that all 12 indicators in 2- and 3-day service declined compared to the same period last year (see Table 2). However, Grand Rapids and Kalamazoo service scores were higher than the national average in quarter 3, 2015.⁷

Customer Service performance as measured by the EXFC declined after the Postal Service consolidated Kalamazoo P&DC destinating mail operations. However, Grand Rapids and Kalamazoo service scores were higher than the national average in quarter 3, 2015.

Table 2. On-Time Composite EXFC Scores

Standard	City	FY 2014			FY 2015		
		Q1 2014	Q2 2014	Q3 2014	Q1 2015	Q2 2015	Q3 2015
2-Day	Grand Rapids	94.88	93.05	95.97	92.98	91.54	95.08
	Kalamazoo	94.88	92.39	96.27	92.04	88.62	95.03
	National	94.30	93.88	95.94	94.54	90.47	94.22
3-Day	Grand Rapids	84.35	84.10	91.06	83.80	67.15	81.19
	Kalamazoo	86.01	84.09	91.48	80.11	68.05	83.10
	National	85.20	84.20	90.09	83.78	63.07	77.14

Source: EDW. Q denotes Quarter

Also, moving the Kalamazoo P&DC destinating mail operations improved service standards, and moving Lansing P&DC destinating mail operations was projected to do the same.⁸ Specifically, there were 2,258 net upgrades⁹ for all classes of mail at the Kalamazoo P&DC and a projected 1,030 net upgrades at the Lansing P&DC (see Table 4 and Table 5). Service standard upgrades improve customer service by requiring mail to arrive at the destinating facility for delivery sooner.

⁶ Test an independent contractor performs to measure service performance for First-Class Mail (letters, flats, and postcards) from mail collection to final delivery.

⁷ The OIG will continue to monitor service scores for improvement through its risk models.

⁸ Service standards are a stated goal for service achievement for each class of mail.

⁹ An upgrade is a reduction in the number of scheduled days for delivery of a piece of mail, while a downgrade is an increase in the number of scheduled days for delivery of a piece of mail.

Table 3. Service Standard Impacts

Mail Class	Kalamazoo P&DC Service Standard Changes 3-Digit ZIP Code Pairs ¹⁰		
	Upgrade	Downgrade	Net Change
First-Class Mail	4	318	(314)
Priority Mail	786	2	784
Periodicals	606	560	46
Standard Mail	1,788	24	1,764
Package Services	18	40	(22)
All Classes Net	3,202	944	2,258

Source: Kalamazoo P&DC AMP feasibility study.

Table 4. Projected Lansing Service Standard Impacts

Mail Class	Lansing P&DC Service Standard Changes 3-Digit ZIP Code Pairs		
	Upgrade	Downgrade	Net Change
First-Class Mail	32	785	(753)
Priority Mail	222	238	(16)
Periodicals	702	1,137	(435)
Standard Mail	2,388	102	2,286
Package Services	34	86	(52)
All Classes Net	3,378	2,348	1,030

Source: Lansing P&DC AMP feasibility study.

Carrier Impact

Following the move of destinating mail processing operations, the percentage of carriers in Grand Rapids on the street after 5 p.m. increased slightly and in Kalamazoo the percentage decreased slightly compared to the same period last year (see [Table 5](#)).

The national goal is 95 percent of carriers returning before 5 p.m.

¹⁰ A service standard pair is the service standard between one 3-digit origin ZIP Code and one 3-digit destination ZIP Code.

Adequate machine capacity exists at the Grand Rapids P&DC and P&DF to process mail from the Kalamazoo and Lansing P&DCs.

Table 5. Percentage of Carriers Returning After 5 p.m.

City	May–June 2014	May–June 2015
Grand Rapids	5%	7%
Kalamazoo	6%	3%

Source: EDW and OIG calculations.

Machine Capacity

Adequate machine capacity exists at the Grand Rapids P&DC and P&DF to process mail from the Kalamazoo and Lansing P&DCs.¹¹ Specifically, the Grand Rapids P&DC and P&DF had overall annualized excess capacity of 49 percent (2.8 billion mailpieces) after they started processing mail from the Kalamazoo P&DC. In addition, the Grand Rapids facilities have adequate floor space to accommodate the additional equipment needed to process Kalamazoo and Lansing P&DC mail volume (see [Table 6](#)).

¹¹ Mail volume for the Lansing P&DC was 614,364,293 mailpieces from October 1, 2013, to September 30, 2014.

No career employees were laid off as a result of consolidating the Kalamazoo P&DC into the Grand Rapids P&DC and P&DF.

Table 6. Grand Rapids P&DC and P&DF Equipment Excess Capacity

Equipment	Number of Machines*	Mailpieces			Excess Capacity
		Maximum Capacity**	Mail Volume***		
Automated Facer Cancellor System	7	444,763,200	188,270,906	256,492,294	58%
Automated Flats Sorting Machine	4	251,100,000	132,118,281	118,981,719	47%
Small Parcel and Bundle Sorter	2	47,894,814	15,493,858	32,400,956	68%
Automated Package Processing System	1	45,864,810	32,710,498	13,154,312	29%
Delivery Bar Code Sorter	29	4,101,462,750	2,299,433,417	1,802,029,333	44%
Delivery Bar Code Sorter Input/Output Subsystem	7	902,286,000	309,063,694	593,222,306	66%
Total	50	5,793,371,574	2,977,090,654	2,816,280,920	49%****

Source: EDW,¹² Web End-of-Run (WebEOR),¹³ and OIG calculations.

*We based the number of machines on current counts and pending equipment transfers either to or from the Grand Rapids, MI, P&DC and P&DF [or the P-1 and P-3 Annexes] from either of the two losing consolidation sites or other locations as stated to the OIG audit team.

**Machine capacity is based on the type and class of mail processed during the operating window that would allow the Postal Service to meet service standards.

***We calculated mail volume using data from the most recently completed fiscal year, October 1, 2013–September 30, 2014. Volume is total pieces fed¹⁴ combined from the Grand Rapids, MI, P&DC and P&DF, the Kalamazoo, MI P&DC, and the Lansing, MI P&DC.

****This reflects the average of excess capacity.

Employee Impact

No career employees were laid off as a result of consolidating the Kalamazoo P&DC into the Grand Rapids P&DC and P&DF. Since the Postal Service completed the Kalamazoo P&DC AMP feasibility study, the number of craft employees has declined by 202, going from 236 to 34. This represents elimination of 12 more craft employee positions than proposed (see [Table 7](#)). In addition, the AMP feasibility study proposed eliminating 14 management positions. So far, nine have been eliminated.

¹² The repository intended for all data and the central source for information on retail, financial, and operational performance.

¹³ Application that allows users to retrieve, view, and store various end of run statistics from automated mail processing equipment.

¹⁴ The number of pieces inducted into automation equipment. This count includes rejects, reworks, and refeeds.

Table 7. Kalamazoo P&DC Employee Positions Impact

	AMP Feasibility Study			July 2015	
	Actual	Proposed	Difference	Actual	Difference From Study
Craft	236	46	(190)	34	(12)
Management	15	1	(14)	6	5

Source: Kalamazoo P&DC AMP feasibility study, webCOINS,¹⁵ and OIG calculations.

The Lansing P&DC AMP feasibility study proposed eliminating 352 craft employee positions at the Lansing P&DC. As of July 6, 2015, craft staffing has been reduced to 213. Because the Postal Service suspended the Lansing P&DC AMP implementation until 2016, the 213 employees remain at the Lansing P&DC to process mail and maintain the building and equipment. When the rest of the Lansing P&DC AMP is implemented in 2016, it will impact an additional 170 craft employees. Also, the Lansing P&DC AMP feasibility study proposed eliminating 23 manager positions. As of July 6, 2015, the Postal Service had eliminated 15 management positions, leaving an additional eight managers to be impacted in 2016 when the Lansing P&DC AMP is fully implemented (see Table 8).

Table 8. Lansing P&DC Employee Impact

	AMP Feasibility Study			July 2015	
	Actual	Proposed	Difference	Actual	Difference From Study
Craft	395	43	(352)	213	170
Management	24	1	(23)	9	8

Source: Lansing P&DC AMP feasibility study, webCOINS, and OIG calculations.

The Lansing P&DC AMP feasibility study proposed adding 164 craft employees at the two Grand Rapids facilities. As of July 6, 2015, craft staffing had increased by 92 employees, from 689 at the time the AMP feasibility study was prepared to 781. In addition, the AMP feasibility study proposed to add nine managers. As of July 6, 2015, there are actually two fewer managers (see Table 9).

¹⁵ Web interface that displays and stores information about employee complement details down to the office or unit level.

The Postal Service misstated transportation and management workhour savings. We estimated the Kalamazoo P&DC consolidation would save about \$7 million annually and the Lansing P&DC consolidation would save \$9.9 million annually

Table 9. Grand Rapids P&DC and P&DF Employee Impact

	AMP Feasibility Study			July 2015	
	Actual	Proposed	Difference	Actual	Difference from Study
Craft	689	853	164	781	(72)
Management	49	58	9	47	(11)

Source: Lansing P&DC AMP feasibility study, webCOINS, and OIG calculations.

Community Impact

Consolidation of the Kalamazoo and Lansing P&DCs into the Grand Rapids P&DC and P&DF should not substantially impact the community. The Postal Service does not plan to make any changes to the local mailbox collection times or retail window service as a result of the consolidation and the business mail entry unit (BMEU)¹⁶ will remain.

According to Handbook PO-408, each Post Office is required to make a local postmark available after the consolidation. A local postmark is available upon customer request at the Kalamazoo P&DC and the Lansing P&DC plans to continue providing it as well.

Area Mail Processing Guidelines

The Postal Service complied with stakeholder communication policies when conducting the consolidation and generally followed AMP guidelines. However, the Postal Service did not include the service standard impacts worksheet in the approved AMP feasibility studies because it could not do so until the revised service standards were implemented in January 2015.

In the OIG's *Lack of Service Standard Change Information in Area Mail Processing Feasibility Studies* management alert (Report Number NO-MA-15-001, dated October 6, 2014), the OIG recommended the Postal Service complete the service standard impacts worksheet in all of the AMP feasibility studies. The Postal Service completed the Kalamazoo and Lansing P&DC service standard impacts worksheet on January 14, 2015.

Cost Savings

The Postal Service estimated the Kalamazoo P&DC consolidation would save \$7.7 million annually and the Lansing P&DC consolidation would save \$10.9 million annually. However, the Postal Service misstated transportation and management workhour savings. We estimated the Kalamazoo P&DC consolidation would save about \$7 million annually and the Lansing P&DC consolidation would save \$9.9 million annually (see [Table 10](#)).

¹⁶ The area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance.

Table 10. Total Annual Savings

Facility	Postal Service- Projected Savings	OIG-Identified Overstatements	OIG-Calculated Annual Savings
Kalamazoo P&DC	\$7,747,820	(\$791,169)	\$6,956,651
Lansing P&DC	\$10,930,485*	(\$1,015,800)	\$9,914,685

Source: Kalamazoo and Lansing AMP feasibility studies and OIG calculations.

*The Postal Service projected first year savings to be \$6,109,489 for the Kalamazoo P&DC and \$9,292,154 for the Lansing P&DC (which included combined one-time costs of \$3,276,662).

The Postal Service and OIG estimates differed because:

- Postal Service personnel underestimated transportation savings in the Kalamazoo P&DC AMP feasibility study and overestimated transportation savings in the Lansing P&DCs' AMP feasibility study because they made errors in calculating costs for certain routes and did not include all current costs associated with changes in fuel prices, wages, and mileage.
- Postal Service personnel overestimated management workhour savings in the feasibility studies for the Kalamazoo and Lansing P&DCs because they did not correlate workhours to the number of positions lost in the current and proposed management workhours worksheets.

These misstatements totaled about \$791,000 for the Kalamazoo P&DC and about \$1 million for the Lansing P&DC (see Table 11 and [Table 12](#)).

Table 11. Kalamazoo P&DC AMP Feasibility Study Misstated Savings

Category	Postal Service- Projected Savings	OIG- Calculated Savings	Difference
Transportation Savings	\$884,180	\$926,865	\$42,685
Executive and Administrative Service (EAS) Workhour Savings	\$1,305,356	\$471,502	(\$833,854)
Total	\$2,189,536	\$1,398,367	(\$791,169)

Source: Kalamazoo P&DC AMP feasibility study and OIG calculations.

Table 12. Lansing P&DC AMP Feasibility Study Overestimated Savings

Category	Postal Service - Projected Savings	OIG - Calculated Savings	
Transportation Savings	\$1,001,475	\$466,855	(\$534,620)
EAS Workhour Savings	\$1,563,649	\$1,082,469	(\$481,180)
Total	\$2,565,124	\$1,549,324	(\$1,015,800)

Source: Lansing P&DC AMP feasibility study and OIG calculations.

Accurate and complete AMP feasibility study data are important for supporting management decisions, ensuring management accountability, and strengthening stakeholder confidence in the consolidation process. At the same time, inaccurate data in AMP feasibility study worksheets can affect the business case for the consolidation. In this case, inaccurate data for the Kalamazoo P&DC and Lansing P&DC AMP feasibility studies did not significantly impact the proposed savings and, therefore, would not have altered the business cases. However, the Postal Service should correct these errors during the post-implementation reviews (PIR).¹⁷

Other Issues

This report responds to a request from Senator Debbie Stabenow to review consolidation of the Kalamazoo and Lansing P&DCs into the Grand Rapids P&DC and P&DF. We addressed issues from the congressional inquiry related to the objectives of this audit and also determined mail volume and overtime and standby time hours for both sites for the period July 1, 2014, to June 30, 2015 (see Table 13).

Table 13. Other Issues

Facility	Mailpieces		Hours	
	FHP Volume	DPS TPH¹⁸ Volume	Overtime	Standby Time
Kalamazoo P&DC	256,970,841	213,296,067	12,635.97	413.89
Lansing P&DC	343,055,754	240,664,796	23,904.49	237.48
Grand Rapids P&DC and P&DF	1,050,854,481	483,396,108	179,241.25	120.53

Source: EDW.

¹⁷ A process to evaluate the effectiveness of consolidating mail processing operations.

¹⁸ Total pieces fed minus any reworks or rejects.

Recommendations

We recommend management re-evaluate transportation and management workhour savings contained in the Kalamazoo and Lansing AMP feasibility studies and make adjustments during the first post-implementation review; and, adjust transportation and other operational requirements to ensure the Grand Rapids PD&C and P&DF meet service commitments.

We recommend the vice president, Network Operations:

1. Re-evaluate transportation and management workhour savings contained in the Kalamazoo and Lansing Area Mail Processing feasibility studies and make adjustments during the first post-implementation review.
2. Adjust transportation and other operational requirements to ensure the Grand Rapids Processing and Distribution Center and Processing and Distribution Facility meet service commitments.

Management's Comments

Management agreed with the general findings that a business case exists in each instance to support the planned consolidations. Management partially agreed with recommendation 1 and agreed with recommendation 2. Also, management disagreed with a portion of the savings shortfall.

Regarding recommendation 1, management stated the PIR is used to assess whether planned savings, workhours and levels of service are achieved. In the PIR process, any variances from the AMP study will be identified and documented. Management also stated the first PIR for the Kalamazoo P&DC consolidation is planned for Postal Quarter 2 of FY 2016 and the first PIR for the Lansing P&DC consolidation will occur as required in the PO-408, following its completion. The target implementation date for completion of the Kalamazoo P&DC PIR is February 29, 2016.

Regarding recommendation 2, management stated operations at the Grand Rapids facilities will be reviewed and appropriate steps taken to ensure service responsive transportation is in place. Management plans to complete corrective action by October 17, 2015.

Regarding the savings shortfall, management stated savings identified in each of the consolidations is based upon workhour usage and not upon complement. The management complement is reported as both actual and authorized counts to provide transparency. Management also stated that, in many facilities, management duties are performed by employees detailed from other offices, EAS employees working additional straight time hours, or by craft employees working on higher-level assignments. The reduction of these workhours is associated with the shift in workload and is not directly correlated to changes in management complement. Therefore, management disagreed with \$1,315,034 (\$833,854 for the Kalamazoo P&DC AMP and \$481,180 for the Lansing P&DC AMP) of the OIG-identified overstatements.

See [Appendix B](#) for management's comments, in their entirety.

Evaluation of Management's Comments

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

Regarding management's disagreement with a portion of the savings shortfall, the proposed management positions as part of the complement to be reduced through the consolidation are included in the Executive Summary for each AMP and should agree with the proposed management workhours savings in the feasibility study. For the Kalamazoo P&DC AMP feasibility study, the Executive Summary shows a proposed reduction of five management positions. However, the management workhours savings were based on a proposed reduction of 14 management positions. This resulted in an overstatement of \$833,854 in proposed

workhour savings. Likewise, for the Lansing P&DC AMP feasibility study, the Executive Summary shows a proposed reduction of 12 management positions. However, the management workhour savings were based on a proposed reduction of 17 management positions. This resulted in an overstatement of \$481,180 in proposed workhour savings.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendices

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Appendix A: Additional Information

Background

The Postal Service ended FY 2014 with a net loss of \$5.5 billion, marking the eighth consecutive year in which the Postal Service incurred a net loss. The requirement to prefund its retiree health benefit obligations and the continuous drop in First-Class Mail® volume have been major contributors to these losses.

The Postal Service uses AMP guidelines¹⁹ to consolidate mail processing functions and eliminate excess capacity, increase efficiency, and better use its resources. Consolidations provide opportunities for the Postal Service to reduce costs, improve service, and operate as a leaner, more efficient organization.

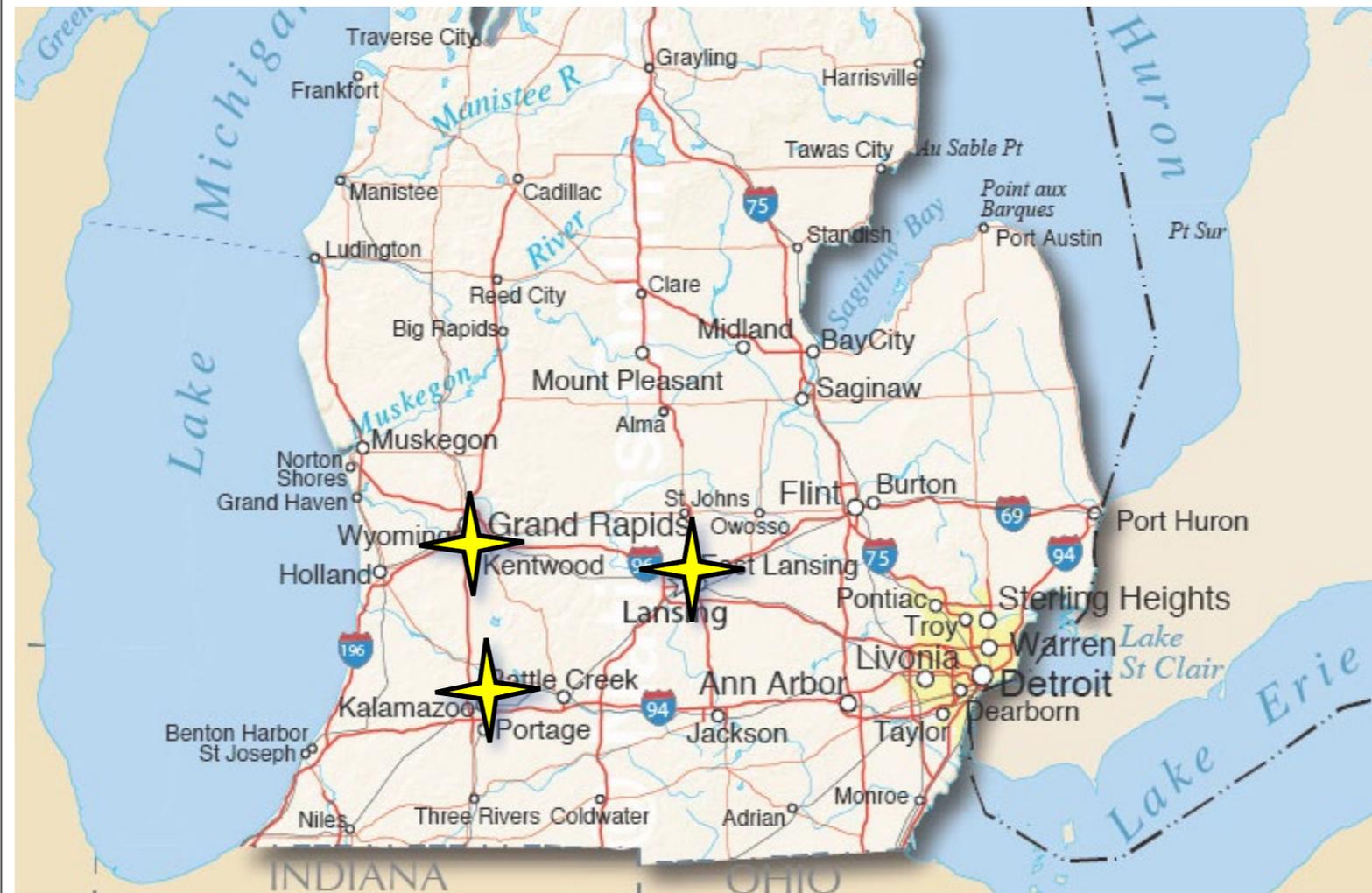
Title 39, U.S.C. Part 1, Chapter 1, §101, states that the Postal Service “. . . shall provide prompt, reliable, and efficient services to patrons in all areas” Further, the September 2005 *Postal Service Strategic Transformation Plan* states, “The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates.” The Postal and Accountability Enhancement Act of 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”

This audit responds to a request from Senator Debbie Stabenow to review the consolidation of mail processing operations from the Kalamazoo and Lansing P&DCs into the Grand Rapids P&DC and P&DF. The senator’s concerns include mail volume processed, DPS mail volume processed, delayed mail, the amount of overtime and standby time, customer service, one-time and additional costs, the possibility of any new facilities being leased or built, and the closure of any BMEUs.

The Kalamazoo P&DC is about 52 miles from the Grand Rapids P&DC and P&DF. It also houses a retail operation, a Post Office box section, and a BMEU that will remain (see [Figure 2](#)).

¹⁹ Handbook PO-408, March 2008.

Figure 2. Location of Kalamazoo, Lansing, and Grand Rapids Facilities



The Postal Service implemented the Kalamazoo P&DC originating AMP feasibility study in October 2010, transferring an average daily volume of 340,000 FHP to the Grand Rapids P&DC and P&DF.

The Kalamazoo P&DC destinating AMP feasibility study transferred ZIP Codes 490–491 destinating mail volume to the Grand Rapids P&DC and P&DF, which currently process the 493–495 ZIP Codes. The destinating AMP feasibility study proposed transferring an average daily volume of 1,142,259 FHP to the Grand Rapids P&DC and P&DF. Destinating mail operations moved to the Grand Rapids P&DC and P&DF on April 18, 2015, and DPS mail moved on April 25, 2015.

The Lansing P&DC is about 72 miles from the Grand Rapids P&DC and P&DF. It also houses a retail operation, a Post Office box section, and a BMEU. There is a vehicle maintenance facility in a separate area on the premises. These will all remain. The current proposal is to use the Lansing P&DC as the transportation and dispatch hub.

Management implemented the Lansing P&DC originating AMP feasibility study in February 2013, transferring an average daily volume of 1,451,461 FHP to the Grand Rapids P&DC and P&DF.

The Lansing P&DC destinating AMP feasibility study will transfer ZIP Codes 488–489 destinating mail volume to the

Grand Rapids P&DC and P&DF, which currently process ZIP Codes 493–495. Management planned to move destinating mail on July 25, 2015; however, on May 27, 2015, the Postal Service announced it would defer most plant consolidations that were to take place this summer. The Postal Service decided to defer implementing the Lansing P&DC AMP to ensure it could continue providing prompt, reliable, and predictable service consistent with its published service standards. Deferred consolidation activities will resume in 2016.

Objectives, Scope, and Methodology

Our objectives were to determine whether a business case existed for consolidating mail processing operations and assess compliance with established AMP guidelines. To accomplish our objectives, we reviewed and analyzed data from July 2010 to June 2015, including workhour/cost savings; changes in workload (mail volume, capacity); and impact on productivity, service, equipment, transportation, and employee issues. In addition, we conducted observations at the Kalamazoo and Lansing P&DCs and the Grand Rapids P&DC and P&DF; interviewed the senior plant manager, plant manager, Human Resources manager, and in-plant support manager; and reviewed documentation to determine compliance with established AMP guidelines. We used computer-processed data from EDW, webCOINS, MCRS, and WebEOR.

We conducted this performance audit from March through October 2015, 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 on September 2, 2015, 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 (in millions)
<i>Area Mail Processing Consolidations</i>	NO-AR-15-007	6/5/2015	None
<p>Report Results: The report determined that AMP guidelines provided sufficient instruction for justifying consolidations, and required analysis and disclosure of the impact on delivery service standards. We also analyzed 60 Phase 2 consolidations approved in 2012 and 2013 and determined they were cost justified and all yielded cost savings. However, the process should be more transparent. Management did not state whether they agreed or disagreed with the findings; however, they disagreed with the recommendations to update the AMP guidelines to include determining a timeframe for implementing an AMP consolidation once a feasibility study is approved and define the term “substantive change.” Management agreed with the recommendation to require weekly updates of the public notification website.</p>			
<i>Lack of Service Standard Change Information in Area Mail Processing Feasibility Studies</i>	NO-MA-15-001	10/6/2014	None
<p>Report Results: The report determined that the Postal Service has not analyzed the impact of planned service standard changes or informed stakeholders of the changes related to Phase 2 consolidations. Specifically, management did not complete the service standard impacts worksheet for 91 of the 95 AMP feasibility studies. We recommended the Postal Service complete the service standard impacts worksheet in all of the AMP feasibility studies for Phase 2 Network Rationalization Initiatives scheduled to begin January 5, 2015, and evaluate the impacts that revised standards will have on each affected community before implementing the consolidations. Management partially agreed with the recommendation and, regarding the finding, stated that service standard impacts information is ordinarily included in individual AMP final decision packages.</p>			
<i>Toledo, OH, Processing and Distribution Center Mail Consolidation</i>	NO-AR-14-009	8/28/2014	None
<p>Report Results: The report determined that a business case existed to support mail consolidation from the Toledo P&DC into the Columbus and Michigan Metroplex P&DCs. The overall cost savings was \$9.3 million annually, which was about \$100,000 more than the Postal Service estimated. Management agreed with the findings and recommendations.</p>			
<i>Southeastern Pennsylvania Processing and Distribution Center Consolidation</i>	NO-AR-14-006	5/16/2014	None
<p>Report Results: The report determined that a business case existed to support the consolidation, which should save about \$3.8 million in the first year and \$9.4 million annually in subsequent years. The OIG found the AMP proposal overstated annual savings by \$4.6 million because it did not include additional workhour and transportation costs associated with the consolidation. Management agreed with the findings and recommendations.</p>			
<i>Consolidation of the Huntsville, AL, Processing and Distribution Facility</i>	NO-AR-14-005	5/5/2014	None
<p>Report Results: The report determined that a business case existed to support the consolidation. Management agreed with recommendations to continue processing Huntsville’s DPS mail at the Huntsville P&DF and to re-evaluate staffing and resources at the Huntsville P&DF to ensure timely processing of DPS mail so fewer carriers return after 5 p.m.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Altoona, PA, Originating and Destinating Mail Consolidation</i>	NO-AR-13-010	9/30/2013	None
Report Results: The report determined that a business case existed to support the consolidation. Management agreed with the recommendation to re-evaluate maintenance savings and make adjustments to the AMP proposal in the first PIR.			
<i>New Castle and Greensburg, PA, Consolidation</i>	NO-AR-13-004	8/16/2013	\$978,954
Report Results: The report determined that a business case existed to support the consolidation. Management agreed with the recommendations to coordinate with the Facility Service Office when rental space is vacated to ensure appropriate lease termination actions are taken; take action to sublease, buy out, or terminate lease agreements for vacated facilities; and ensure Voyager eFleet cards are stored in a secure manner.			
<i>Management Alert – Modified Altoona, PA, Originating and Destinating Area Mail Processing Package</i>	NO-AR-13-006	8/7/2013	None
Report Results: The report determined that the Altoona P&DF would not have a sufficient number of mail processing employees to process the remaining destinating mail volume. The shortfall would amount to over 19 employees, or about 32,000 workhours. This error also resulted in a \$1.3 million overstatement of cost savings associated with this revised AMP. At the same time, the revised AMP would have created overstaffing at the Johnstown P&DF by about 16 employees. Management agreed with the recommendations but did not agree with the conclusion that the Altoona P&DF would not have enough employees to process the remaining workload.			
<i>Lessons Learned from Mail Processing Network Rationalization Initiatives</i>	NO-MA-13-004	3/27/2013	None
Report Results: The report determined that the Postal Service improved its mail processing network optimization efforts as a result of lessons learned from current and past initiatives; however, further refinements are warranted. The Postal Service could improve communications with stakeholders to enhance transparency. Management agreed with the finding and recommendation.			
<i>Post-Implementation Review Process</i>	CI-AR-12-007	9/28/2012	None
Report Results: The report determined that the PIR process used to evaluate whether AMP consolidations achieve projected savings can be improved. We recommended management improve PIR guidelines to separate savings and costs associated with concurrent initiatives, implement the use of automated data calculations for PIR worksheets, establish a process to allocate savings and costs when multiple losing facilities are consolidated into the same gaining facility, and assess whether current PIR milestones to complete PIRs should be adjusted. Management agreed with the recommendations.			
<i>Frederick, MD to Baltimore, MD Area Mail Processing Consolidation</i>	NO-AR-12-006	07/03/2012	\$558,021
Report Results: The report determined that consolidation of destinating mail processing operations initially resulted in significant delayed mail, declines in service and customer experience scores, and increased transportation costs. Management acknowledged there were challenges with the consolidation, but had addressed many of the problems experienced during the consolidation and operating conditions had improved. Management agreed with the recommendations.			

Appendix B: Management's Comments

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



September 23, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Consolidation of the Kalamazoo, MI and
Lansing, MI Processing and Distribution Centers (Report Number
NO-AR-15-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. Management concurs with the general findings in the report that a business case exists in each instance to support the planned consolidations.

Management disagrees with the financial impacts identified in the audit. Specifically, the management savings identified in each of the consolidations is based upon work hour usage and not upon complement. The management complement is reported as both actual and authorized counts to provide transparency.

In many facilities, management duties are performed by employees detailed from other offices, EAS employees working additional straight time hours, or by craft employees working on higher-level assignments. The reduction of these work hours is associated with the shift of workload and is not directly correlated to changes in management complement. This was discussed with the auditors at great length and has been the standard practice used in all consolidation packages. As a result, management disputes \$1,315,034 (\$833,854 in Kalamazoo and \$481,180 in Lansing) of the cited savings shortfall.

The recommendations in this draft report are addressed below.

Recommendation 1:

Re-evaluate transportation and management work hour savings contained in the Kalamazoo and Lansing Area Mail Processing feasibility studies and make adjustments during the first post-implementation review.

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Management Response/Action Plan:

Management agrees in part with this recommendation. The Post-Implementation Review (PIR) is used to assess whether planned savings, work hours and levels of service are achieved. In the PIR process, any variances from the Area Mail Processing (AMP) study will be identified and documented. The first PIR for Kalamazoo is planned for Postal Quarter II of Fiscal Year 2016. The first PIR for Lansing will occur as required in the PO-408, following completion of the consolidation.

Target Implementation Date:

February 2016 (Kalamazoo)

Responsible Official:

Manager, Processing Operations

Recommendation 2:

Adjust transportation and other operational requirements to ensure the Grand Rapids Processing and Distribution Center and Processing and Distribution Facility meet service commitments.

Management Response/Action Plan:

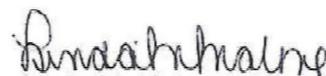
Management agrees with this recommendation. Operations at the Grand Rapids facilities will be reviewed and appropriate steps taken to ensure service responsive transportation in place.

Target Implementation Date:

October 17, 2015

Responsible Official:

Manager, Processing Operations


Linda M. Malone

cc: David E. Williams
Jakki Krage Strako
Corporate Audit and Response Management



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