



**OFFICE OF
INSPECTOR GENERAL**
UNITED STATES POSTAL SERVICE

**Iron Mountain,
MI, Processing
and Distribution
Facility
Consolidation**

Audit Report

Report Number
NO-AR-16-003

October 19, 2015



UPPER PENINSULA MAIL PROCESSING CENTER
KINGSFORD, MI 49802





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

A business case exists to support consolidating mail processing operations from the Iron Mountain P&DF into the Green Bay P&DC.

We estimated the consolidation should save about \$4.5 million annually.

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.

Consolidating mail processing operations from the Iron Mountain, MI, Processing and Distribution Facility (P&DF) into the Green Bay, WI, Processing and Distribution Center (P&DC) was scheduled for 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 originating from the same congressional request, we reviewed consolidation of the Kalamazoo, MI, and Lansing, MI, P&DCs.

Our objectives were to determine whether a business case existed for consolidating Iron Mountain, MI, P&DF mail processing operations into the Green Bay, WI, P&DC and to assess compliance with established AMP guidelines.

What the OIG Found

A business case exists to support consolidating mail processing operations from the Iron Mountain P&DF into the Green Bay P&DC. We estimated the consolidation should save about \$4.5 million annually, and we found the Green Bay P&DC has machine capacity to process the additional mail volume from the Iron Mountain P&DF.

The Postal Service reported 2,410 net downgrades in customer mail service associated with the Iron Mountain P&DF consolidation and the national service standard revisions implemented on January 5, 2015. The national service standard revisions significantly relaxed the service standards nationwide. The majority of the downgrades were not attributed to the consolidation. In fact, the consolidation should result in a net of 2,756 service standard upgrades. The consolidation should not substantially impact the community and the Postal Service does not plan to lay off career employees.

Finally, the Postal Service generally complied with established AMP guidelines. However, we found the Postal Service overstated annual cost savings by about \$837,000. Specifically, it overstated transportation savings as well as management and mail processing craft workhour savings.



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What the OIG Recommended

We recommended the vice president, Network Operations, re-evaluate transportation and workhour savings in the Iron Mountain AMP feasibility study and make adjustments during the first post-implementation review.

Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 19, 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 – Iron Mountain, MI, Processing and
Distribution Facility Consolidation
(Report Number NO-AR-16-003)

This report presents the results of our audit of the Iron Mountain, MI, Processing and Distribution Facility Consolidation (Project Number 15XG024NO000).

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

On May 27, 2015, the Postal Service announced it was delaying consolidations based on operational considerations to ensure it would continue to provide prompt, reliable, and predictable service consistent with its published service standards. The Postal Service plans to resume consolidations in 2016.

Introduction

This report presents the results of our audit of the Iron Mountain, MI, Processing and Distribution Facility (P&DF) Consolidation (Project Number 15XG024NO000). 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 there is a business case for consolidating mail processing operations and assess compliance with established Area Mail Processing (AMP) guidelines. In a separate audit originating from the same congressional request, we reviewed consolidation of the Kalamazoo, MI, and Lansing, MI, Processing and Distribution Centers (P&DCs). See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service began the Iron Mountain P&DF AMP feasibility study on September 15, 2011, and finalized and approved it on February 18, 2012. Consolidation of mail processing operations into the Green Bay P&DC was scheduled for July 25, 2015. However, on May 27, 2015, the Postal Service announced it was delaying consolidations based on operational considerations to ensure it would continue to provide 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 studies¹ and uses this process to determine whether to consolidate two or more postal facilities. The purpose of consolidations is 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

A business case exists to support consolidating mail processing operations from the Iron Mountain P&DF into the Green Bay P&DC. We estimated the consolidation should save about \$4.5 million annually and we found the Green Bay P&DC has machine capacity to process additional mail volume from the Iron Mountain P&DF.

The Postal Service reported 2,410 net downgrades in customer mail service associated with the Iron Mountain P&DF consolidation and national service standard revisions implemented on January 5, 2015. The national service standard revisions significantly relaxed the service standards nationwide. The majority of the downgrades were not attributed to the consolidation. In fact, the consolidation should result in a net of 2,756 service standard upgrades.

The consolidation should not substantially impact the community and the Postal Service does not plan to lay off career employees. Finally, the Postal Service generally complied with established AMP guidelines; however, we found the Postal Service overstated annual cost savings by about \$837,000. Specifically, it overstated transportation savings as well as management and mail processing craft workhour savings.

¹ 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.

The Green Bay P&DC has machine capacity to process additional mail volume from the Iron Mountain P&DF.

We determined the Green Bay P&DC has overall excess machine capacity of 51 percent, or 1.1 billion mailpieces.

Machine Capacity

The Green Bay P&DC has machine capacity to process additional mail volume from the Iron Mountain P&DF.² We determined the Green Bay P&DC has overall excess machine capacity of 51 percent, or 1.1 billion mailpieces (see Table 1). In addition, based on our observations, the Green Bay P&DC has adequate floor and dock space to accommodate mail volume from the Iron Mountain P&D].

Table 1. Green Bay P&DC Excess Machine Capacity

Equipment	Number of Machines	Mailpieces		
		Maximum Capacity*	Mail Volume**	Excess Capacity
Automated Facer Cancellor System	1	63,537,600	24,033,185	39,504,415
Automated Facer Cancellor System 200	3	190,612,800	79,257,668	111,355,132
Automated Flats Sorting Machine 100	2	142,290,000	39,216,060	103,073,940
Delivery Bar Code Sorter	11	1,555,727,250	684,269,556	864,162,310
Delivery Input Output Sub-System	2	257,796,000	265,091,384	48%
Total	19	2,209,963,650	1,091,867,853	51%

Source: Web End-of-Run (WebEOR).³

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

** We calculated mail volume for the Iron Mountain P&DF and Green Bay P&DC from October 1, 2013, to September 30, 2014 (the most recent full fiscal year).

Customer Service

The Postal Service reported 2,410 net ZIP Code pair downgrades in customer service associated with the Iron Mountain P&DF consolidation and the national service standard revisions the Postal Service implemented on January 5, 2015 (see Table 2). The majority of the downgrades were not attributed to the consolidation. The service standard revisions eliminated overnight mail and increased the number of days for delivering First-Class Mail and Periodicals. In addition, service standards changed for specific 3-digit ZIP Code pairs based on reconfiguration of the network for Priority Mail, Standard Mail, and Package Services.

² Mail volume for the Iron Mountain P&DF was 226,141,285 mailpieces from October 1, 2013, to September 30, 2014.

³ WebEOR allows users to retrieve, view, and store various end-of-run statistics from automated mail processing equipment.

Consolidating mail processing operations from the Iron Mountain P&DF into the Green Bay P&DC should result in net service standard ZIP Code pair upgrades of 2,756.

Table 2. Service Standard Impacts

Mail Class	Service Standard Changes 3-Digit ZIP Code Pairs ⁴		
	Upgrade ⁵	Downgrade ⁶	Net Change
First-Class Mail	32	612	(580)
Priority Mail	206	1,904	(1,698)
Periodicals	232	894	(662)
Standard Mail	708	128	580
Package Services	62	112	(50)
Total	1,240	3,650	(2,410)

Source: Iron Mountain P&DF AMP feasibility study.

Consolidating mail processing operations from the Iron Mountain P&DF into the Green Bay P&DC should result in net service standard ZIP Code pair upgrades of 2,756 (see Table 3). The reason for the change from net downgrades in Table 2 to net upgrades in Table 3 was because the Postal Service significantly relaxed the service standards, including eliminating overnight mail.

Table 3. Service Standard Impacts not Including the Service Standard Revisions Implemented January 5, 2015

Mail Class	Service Standard Changes 3-Digit ZIP Code Pairs		
	Upgrade	Downgrade	Net Change
First-Class Mail	953	10	943
Priority Mail	34	0	34
Periodicals	623	600	23
Standard Mail	1,745	2	1,743
Package Services	15	2	13
Total	3,370	614	2,756

Source: Postal Service AMP report for service standard impacts.

⁴ A service standard pair is the service standard between one 3-digit origin ZIP Code and one 3-digit destination ZIP Code.

⁵ An upgrade is a reduction in the number of days scheduled for delivery of a piece of mail.

⁶ A downgrade is an increase in the number of days scheduled for delivery of a piece of mail.

Consolidation of the Iron Mountain P&DF into the Green Bay P&DC will impact staffing in that some employees may be reassigned; however, the Postal Service does not plan to lay off any career employees.

Community Impact

Consolidation of the Iron Mountain P&DF into the Green Bay P&DC is not expected to substantially impact the community. Specifically, the Postal Service is not planning changes to local mailbox collection times or retail window hours as a result of the consolidation and plans to keep a business mail entry unit (BMEU)⁷ open at the Iron Mountain P&DF. Additionally, the facility will continue to process Express Mail.

According to Handbook PO-408, each Post Office is required to make a local postmark available after a consolidation. The Iron Mountain P&DF plans to continue providing a local postmark on stamped mail at a retail counter.

Employee Impact

Consolidation of the Iron Mountain P&DF into the Green Bay P&DC will impact staffing in that some employees may be reassigned; however, the Postal Service does not plan to lay off any career employees. The AMP feasibility study proposed a loss of 70 full-time craft employees at the Iron Mountain P&DF and a gain of 21 full-time craft employees at the Green Bay P&DC. The net change to all craft staffing is a reduction of 49 full-time craft employee positions (see Figure 1).

Figure 1. AMP Feasibility Study Craft Staffing Impacts

Click on a location to reveal the Craft Staffing Impact for that location.

However, since the Postal Service conducted the AMP feasibility study, the Iron Mountain P&DF has lost 23 full-time craft employees. Based on staffing as of July 6, 2015, consolidating mail processing operations from the Iron Mountain P&DF may impact 47 full-time craft employees rather than the initially projected 70 employees. In addition, the AMP feasibility study proposed reducing three management positions. This reduction has not yet occurred so three managers will be impacted in the future (see Table 4). However, these employees will have opportunities to fill other vacancies. Attrition and retirement could also reduce the number of employees who will have to be accommodated.

Table 4. Iron Mountain P&DF Staffing Impacts

Position	AMP Feasibility Study			Current	
	Actual	Proposed	Difference	Actual	Difference From Study
Craft	85	15	(70)	62	47
Management	3	0	(3)	3	3

Source: Iron Mountain P&DF AMP feasibility study and Web Complement Information System (webCOINS).⁸

⁷ The area of a postal facility where mailers present bulk, presorted, and permit mail for acceptance.

⁸ Web interface that displays and stores information about employee complement details down to the office or unit level.

The Postal Service complied with stakeholder communication policies during the consolidation and generally followed AMP guidelines. However, the Postal Service did not include the service standard impacts worksheet in the approved AMP feasibility study.

AMP Guidelines

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

In the U.S. Postal Service Office of Inspector General's (OIG) *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 AMP feasibility studies. The Postal Service completed the Iron Mountain P&DF service standard impacts worksheet on January 14, 2015, after revising the service standards nationwide.

Cost Savings

The Postal Service estimated the consolidation would save about \$5.3 million annually. However, it overstated transportation savings and management and mail processing craft workhour savings. We estimated the consolidation will produce annual cost savings of about \$4.5 million (see Table 5).

Table 5. Total Annual Savings

Category	Postal Service Projected Savings	OIG-Identified Overstatements	OIG-Calculated Annual Savings
Total Annual Savings	\$5,291,129	(\$837,746)	\$4,453,383

Source: AMP feasibility study and OIG calculations.
Note: There were no one-time costs.

The Postal Service and OIG estimates differed for several reasons:

- Postal Service personnel overestimated transportation savings in the AMP feasibility study because Route Number 488L1 was included in both the Iron Mountain P&DF and the Lansing P&DC AMP feasibility studies, but should only have been included in the Lansing P&DC AMP feasibility study. In addition, adjustments to certain routes affecting mileage and fluctuations in fuel rates impacted transportation savings.
- Postal Service personnel overestimated management workhour savings because there was a reduction of three Postal Career Executive Service/Executive & Administrative Schedule (PCES/EAS) supervisory positions at the Iron Mountain P&DF but an addition of four PCES/EAS positions at the Green Bay P&DC, for a net addition of one PCES/EAS position.
- Postal Service personnel overestimated craft workhour savings in the AMP feasibility study because a manual adjustment of 46,525 workhours was made to the Iron Mountain P&DF but should have been made to the Green Bay P&DC.

These overestimates totaled \$837,746 (see Table 6).

Table 6. Overestimated Savings

Category	Postal Service Projected Savings	OIG-Calculated Savings/(Cost)	Difference
Transportation	\$201,854	(\$238,646)	(\$440,500)
Management Workhours	298,783	(92,996)	(391,779)
Mail Processing Craft Workhours	3,043,681	3,038,214	(5,467)
Total	\$3,544,318	\$2,706,572	(\$837,746)

Source: Iron Mountain P&DF 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 Iron Mountain P&DF AMP feasibility study did not significantly impact the proposed savings and, therefore, would not have altered the business case. However, the Postal Service should correct these errors during the post-implementation review (PIR).⁹

Other Issues

This report responds to a request from Senator Debbie Stabenow to review consolidation of the Iron Mountain P&DF into the Green Bay P&DC. We addressed the issues in the request related to the objectives of this audit. In response to the inquiry, we also determined the volume of mail and delayed mail as well as overtime and standby time¹⁰ hours for both sites for the period July 1, 2014, to June 30, 2015 (see Table 7). We also reviewed customer service performance for both sites for the period July 1, 2014, to June 30, 2015 (see Table 8).

Table 7. Other Issues - Mailpieces and Hours

Facility	Mailpieces		Hours		
	First Handling Pieces (FHP) ¹¹ Volume	Delivery Point Sequence (DPS) ¹² Total Piece Handling (TPH) ¹³ Volume	Delayed Mail*	Overtime	Standby Time
Iron Mountain P&DF	116,416,727	70,517,466	316,545	11,355	0
Green Bay P&DC	472,930,339	232,806,008	1,110,986	8,144	175

Source: Enterprise Data Warehouse (EDW)¹⁴ and Mail Condition Reporting System (MCRS).¹⁵

* Delayed mail includes First-Class Mail, Priority Mail, Standard Mail, Periodicals, and Package Services.

⁹ A process to evaluate the effectiveness of consolidating mail processing operations.

¹⁰ We pulled standby time for mail processing operations.

¹¹ Mail volume recorded in the operation where it receives its first distribution handling at a postal facility.

¹² DPS provides the Postal Service with a more cost efficient way of preparing the carrier's mail into delivery sequence through the use of automated processing equipment.

¹³ The total volume of FHP and subsequent handling pieces for manual operations. For machine operations, TPH is total pieces fed minus any reworks or rejects. We pulled the DPS volume by second pass TPH.

¹⁴ The repository intended for all data and the central source for information on retail, financial, and operational performance.

¹⁵ A system of reports that identifies and monitors problems in mail processing in a postal facility.

Table 8. Other Issues – External First-Class (EXFC)¹⁶ Measurement Scores

EXFC Standard	Facility	EXFC Score
2-Day	Iron Mountain P&DF	94.19
	Green Bay P&DC	95.73
3-Day	Iron Mountain P&DF	78.02
	Green Bay P&DC	79.40

Source: EDW.

¹⁶ Test an independent contractor performs to measure service performance for First-Class Mail (letters, flats, and postcards) from mail collection to final delivery.

Recommendation

We recommend management re-evaluate transportation and workhour savings in the Iron Mountain Area Mail Processing feasibility study and make adjustments during the first post-implementation review.

We recommend the vice president, Network Operations:

1. Re-evaluate transportation and workhour savings in the Iron Mountain Area Mail Processing feasibility study and make adjustments during the first post-implementation review.

Management's Comments

Management agreed with the general findings that a business case exists to support the planned consolidation, partially agreed with the recommendation, and disagreed with a portion of the savings shortfall.

Regarding recommendation 1, management stated that they use the PIR to assess whether the Postal Service is achieving planned savings, workhours, and levels of service. The PIR process allows the identification and documentation of any variances from the AMP study. Management also stated the first PIR for the Iron Mountain P&DF consolidation will occur as required in Handbook PO-408 following its completion. Management stated there is no target implementation date for completing the Iron Mountain P&DF PIR because the consolidation is being deferred at this time.

Regarding transportation impacts, management disagreed with \$92,796 of the impacted savings caused by adjusting certain routes. Management stated there was no specificity in the audit surrounding the adjustments, therefore, they could not agree with the impacts.

Regarding management workhour impacts, management stated that they base savings identified in each of the consolidations on workhour usage and not complement. The management complement is reported as both actual and authorized counts to provide transparency. Management also stated that, at many facilities, employees detailed from other offices, EAS employees working additional straight time hours, or craft employees working on higher-level assignments perform management's duties. 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 \$391,779 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 recommendation and corrective actions should resolve the issues identified in the report.

Regarding management's disagreement with transportation impacts, adjustments to mileage and fluctuations in fuel rates for route numbers 497L3 and 53015 impacted the transportation savings. The annual costs in the AMP feasibility study were \$143,045 for route number 497L3 and \$1,160,008 for route number 53015; however, we calculated annual costs to be \$136,131 for route number 497L3 and \$1,074,126 for route number 53015 using updated highway contract route data for mileage and fuel rates. Therefore, we concluded the transportation savings were overstated by \$92,796. We discussed these calculations with Postal Service personnel during our site visits to the Iron Mountain P&DF and the Green Bay P&DC and they were in agreement.

Regarding management's disagreement with the management workhours impact, the management positions proposed as part of the reduced complement resulting from the consolidation are included in the Executive Summary for each AMP feasibility study and should agree with the proposed management workhours savings in the feasibility study. For the Iron Mountain P&DF AMP feasibility study, the Executive Summary shows a proposed addition of one management position; however, we based the management workhours savings on a proposed reduction of three management positions. This resulted in an overstatement of \$391,779 in proposed management workhour savings.

The OIG considers the recommendation 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.

Appendices

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Appendix A: Additional Information

The report responds to a request from Senator Debbie Stabenow of Michigan to review consolidation of the Iron Mountain, MI, P&DF into the Green Bay, WI, P&DC.

Background

The Postal Service ended FY 2014 with a net loss of \$5.5 billion, marking the 8th consecutive year in which the Postal Service incurred a net loss. The requirements to prefund its retiree health benefit obligations plus the continuous drop in First-Class Mail volume have been major contributors to these losses.

The Postal Service uses AMP guidelines to consolidate mail processing functions, eliminate excess capacity, increase efficiency, and better use resources. Consolidations provide opportunities for the Postal Service to 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..."

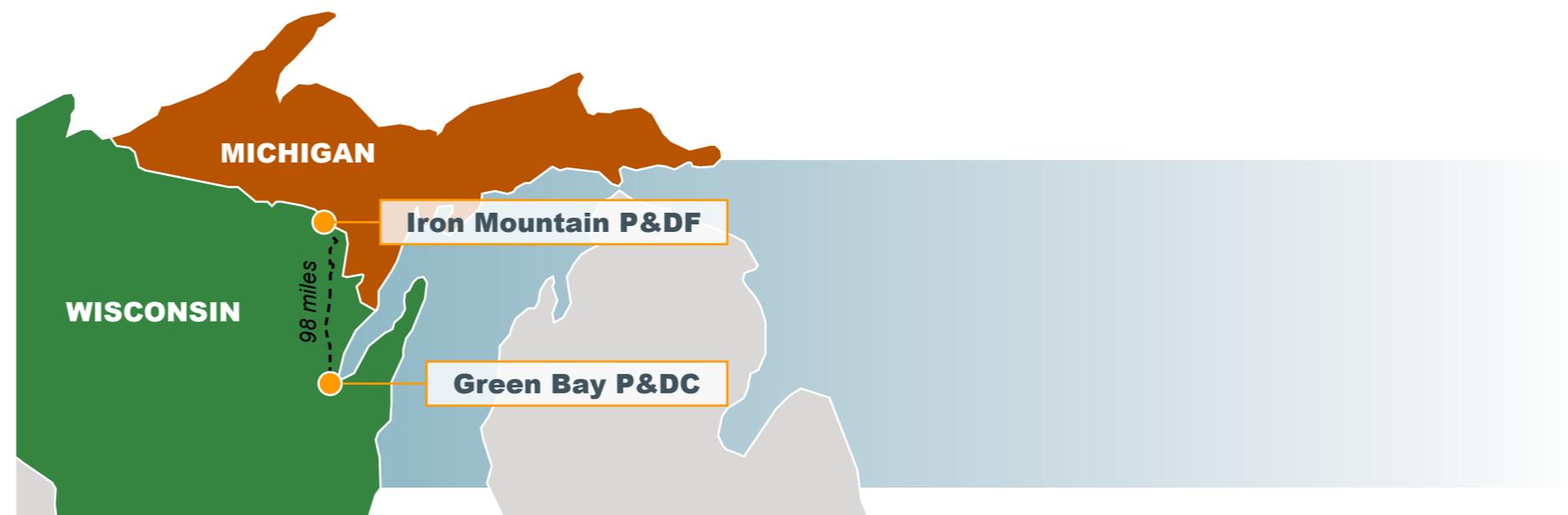
Further, the September 2005 Postal Service Strategic Transformation Plan states that "The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates."

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..."

The report responds to a request from Senator Debbie Stabenow of Michigan to review consolidation of the Iron Mountain, MI, P&DF into the Green Bay, WI, P&DC. The senator's concerns include mail volume processed, DPS mail volume processed, delayed mail volume, the amount of overtime and standby time, customer service, one-time and additional costs, whether any new facilities will be leased or built, and whether any BMEUs will be closed. In a separate audit, we reviewed consolidation of the Kalamazoo, MI, and Lansing, MI, P&DCs.

The Iron Mountain P&DF is about 98 miles from the Green Bay P&DC (see Figure 2).

Figure 2. Location of Iron Mountain P&DF



Source: Iron Mountain P&DF AMP feasibility study.

Our objectives were to determine if a business case existed for consolidating mail processing operations and assess compliance with established AMP guidelines.

The AMP feasibility study proposed transferring Iron Mountain P&DF ZIP Codes 498 and 499 originating and destinating mail volume to the Green Bay P&DC, which currently processes ZIP Codes 541 to 543.

The Postal Service began the Iron Mountain P&DF AMP feasibility study on September 15, 2011, and management finalized and approved it on February 18, 2012. The AMP feasibility study proposed transferring an average daily volume of 407,634 FHP to the Green Bay P&DC.

The Postal Service will move originating and destinating letter mail, flat mail, Priority Mail, and registry mail processing and distribution operations to the Green Bay P&DC. The Iron Mountain P&DF houses a retail operation, box section, and delivery unit. The Postal Service also plans to keep a BMEU open at the Iron Mountain P&DF.

Objectives, Scope, and Methodology

Our objectives were to determine if 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, capacities); impact on productivity, service, equipment, transportation; and employee issues. In addition, we conducted observations at the Iron Mountain P&DF and the Green Bay and Oshkosh, WI, P&DCs; interviewed senior plant managers, plant managers, and in-plant support managers; and reviewed documentation to determine compliance with established AMP guidelines. We used computer-processed data from the 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. We discussed our observations and conclusions with management on September 1, 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
<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 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>Management Alert – 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 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. It should save about \$3.8 million in the first year, and about \$9.4 million annually in subsequent years. We found the AMP proposal overstated annual savings by \$4.6 million because it did not include additional workhour and transportation costs from the consolidation. Management agreed with the findings and recommendations.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Consolidation of the Huntsville, AL, Processing and Distribution Facility</i>	NO-AR-14-005	5/5/2014	None
Report Results: The report determined that a business case existed to support the consolidation. Management agreed with the recommendations to continue processing Huntsville's DPS mail at the Huntsville P&DF and 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.			
<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-MA-13-006	8/7/2013	None
Report Results: The report determined 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 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 the Postal Service has 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 recommendation to improve communications with stakeholders by ensuring they share accurate and consistent information on consolidation impacts.			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Post-Implementation Review Process</i>	CI-AR-12-007	9/28/2012	None
<p>Report Results: The report determined the Postal Service could improve the PIR process used to evaluate whether AMP consolidations achieve projected savings. Thirty-four of 35 final PIRs (97 percent) reported greater than projected savings based on the methodology used; however, impacts from concurrent initiatives were included and not identified separately in the PIR. We recommended management improve the 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.</p>			
<i>Frederick, MD to Baltimore, MD Area Mail Processing Consolidation</i>	NO-AR-12-006	7/3/2012	\$558,021
<p>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 agreed with the recommendations to avoid implementing consolidations during the fall and holiday peak mailing seasons, as appropriate, and to ensure customer service commitments are met, but noted operations for sectional center facility 217 have now stabilized and service levels above national targets are being achieved.</p>			

Appendix B: Management's Comments

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



October 7, 2015

LORI LAU DILLARD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Audit Report – Iron Mountain, MI, Processing and Distribution
Facility Consolidation (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 to support the planned consolidation.

Management disagrees with the transportation and management work hour financial impacts identified in the audit. The transportation impacts notes that adjustments to certain routes impacted savings by \$92,796. There is no specificity in the audit surrounding these adjustments. Management cannot agree to impacts that lack specifics

The management savings identified in the consolidation 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 the \$391,779 cited in the audit.

In total, management does not agree with \$484,575 of the financial impact cited in the audit.

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Recommendation 1:

Re-evaluate transportation and workhour savings in the Iron Mountain Area Mail Processing feasibility study and make adjustments during the first post-implementation review.

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 Lansing will occur, as required in the PO-408, following completion of the consolidation.

Target Implementation Date:

Consolidation currently deferred at this time.

Responsible Official:

Manager, Processing Operations


Linda M. Malone

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

LINDA M. MALONE
VICE PRESIDENT, NETWORK OPERATIONS



FREEDOM OF INFORMATION ACT (FOIA)
U.S. Postal Service

October 7, 2015

To: Lori Lau Dillard
Director, Audit Operations
U.S. Postal Service Office of the Inspector General

SUBJECT: NO-AR-15-DRAFT
Iron Mountain, MI, Processing and Distribution Facility Consolidation

USPS Network Operations submits the following response re: Freedom of Information Act (FOIA) issues on the above subject audit.

This report and management's response do not contain any information that is exempt from disclosure under FOIA.

This report and management's response contain information which, in management's opinion, constitutes proprietary or commercially sensitive business information, or other sensitive information, that may be exempt from disclosure under FOIA.

A handwritten signature in blue ink that reads "Linda M. Malone".

Linda M. Malone
Vice President, Network Operations

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