



March 1, 2011

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DISTRICT MANAGER, PHILADELPHIA METROPOLITAN CUSTOMER SERVICE
DISTRICT

SUBJECT: Management Advisory – Processing of Collection Box Flats in the
Philadelphia Metropolitan Customer Service District
(Report Number NO-MA-11-002)

This report presents the results of our audit of the handling of collection box flat¹ mail in the Philadelphia Metropolitan Customer Service District (Philadelphia District) (Project Number 11XG009NO001). This audit was conducted as a result of a hotline complaint. Our objective was to assess the processing of collection box flat mailpieces in the Philadelphia District. See [Appendix A](#) for additional information about this audit.

Collection box flat volume in the Philadelphia District is processed at the Philadelphia and Southeastern Processing and Distribution Centers (P&DCs). Metered and stamped collection box mail goes to these P&DCs for cancellation and subsequent distribution. Employees typically use the Automated Flat Sorter Machine (AFSM) to sort and cancel the mail, minimizing manual handling of individual mailpieces.

Illustration 1:
Blue
collection
boxes in front
of the
Kingsessing
Post Office



¹ A flexible, rectangular piece of mail 11½ to 15 inches long or 6 1/8 to 12 inches high, or ¼-¾ inch thick.

Conclusion

The Philadelphia and Southeastern P&DCs were manually processing about 4,200² collection box flats a day, rather than using more efficient mail processing machines. This occurred because the Philadelphia District instituted a program 8 to 10 months ago to maintain better control of mail flow at a time when External First-Class Measurement (EXFC)³ service scores⁴ for flats were low. Manually processing collection box flats resulted in increased mail processing costs of \$188,170 over a 2-year period.⁵

In addition, the Philadelphia P&DC did not cancel approximately 334⁶ stamped collection box flat mailpieces per day. This occurred because the mail bypassed automated cancellation, and to expedite mail flow, the P&DC did not manually cancel stamped flats as required. Failure to cancel stamped flats resulted in \$123,059⁷ of revenue at risk by enabling the reuse of postage stamps. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our monetary impact calculation.

We recommend the district manager, Philadelphia District:

1. Ensure that unit employees process collection box flats in accordance with Postal Service Standard Operating Procedures.

Management's Comments

Management agreed with the findings and recommendation to process collection box flats in accordance with Postal Service Standard Operating Procedures. They provided a recommendation implementation date of April 1, 2011. See [Appendix D](#) for management's comments, in their entirety.

² Since these flat mailpieces did not go through the mail processing machines, we do not have any automated machines counts to validate the volume and had to rely on Postal Service estimates. Mail carriers do not record the number of pieces they collect except when performing a collection box utilization analysis. Even when performing the collection box analysis, there is no breakdown of letters and flats.

³ A system whereby a contractor performs independent service performance tests on certain types of First-Class Mail (letters, flats, postcards) deposited in collection boxes and business mail chutes. It provides national, area, performance cluster, and city estimates for comparison to U.S. Postal Service goals. The Postal Service's consumer advocate releases the results to the public quarterly.

⁴ The EXFC measurement process is as follows: mailpieces are fabricated and made into test mail and the "Droppers" place the test mail into collection receptacles and report the time and date in the EXFC measurement system. Next, the mail is accepted, processed, and delivered by the Postal Service. The delivered mail is received either at a home, business address, or P.O. Box by "Reporters" who, in turn, report the time and date of receipt in the EXFC measurement system.

⁵ We calculated the additional cost from manually processing collection box flats by multiplying excess workhours by the hourly rate for a Level 6 clerk. This figure represents additional costs for a 2-year period using a 1.17 percent escalation factor.

⁶ To be conservative, we calculated the uncanceled stamp flats as 25 percent of the 1,335 stamped flats or 334 uncanceled stamped flats per day. This represents less than 2 percent of the originating Philadelphia District flat volume.

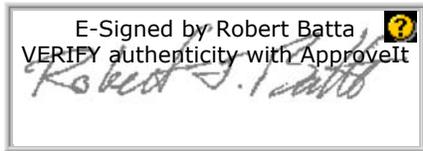
⁷ We calculated revenue at risk by multiplying 334 uncanceled stamped flat mailpieces per day by 302 annual mail processing days by \$1.22, or the postage for a 3-ounce flat mailpiece.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation in the report.

The OIG considers recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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



E-Signed by Robert Batta
VERIFY authenticity with ApproveIt

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Megan J. Brennan
Kristin A. Seaver
Jordan M. Small
David E. Williams Jr.
Daniel P. Muldoon
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in First-Class Mail® (FCM) volume⁸ over the past decade. The Postal Service's financial condition continued to decline over the past fiscal year (FY) and its financial outlook is poor for FY 2011 and the foreseeable future. FY 2010 included a record loss of about \$8.5 billion for the Postal Service. The Postal Service has released its budget for FY 2011, projecting a \$6.4 billion loss — one of the largest in Postal Service history.

The Postal Service's revenue drop in FY 2010 was driven by mail volume decline of about 6 billion pieces from FY 2009. This volume was about 20 percent below the peak of 213 billion pieces delivered during FY 2006. Most volume declines were in profitable FCM — particularly significant because the average piece of FCM generated about three times the profit of the average piece of Standard Mail. The Postal Service projects mail volume to increase by about 2 billion pieces in FY 2011; however, it expects FCM to decrease by 3 billion pieces with an increase other classes of mail.

In recent testimony before Congress,⁹ the U.S. Government Accountability Office (GAO) found that deteriorating financial conditions and declining mail volume have reinforced the Postal Service's need to increase operational efficiency and reduce expenses in its mail processing network. Title 39 U.S.C., § 101, Part 1, Chapter 1, states that the Postal Service "...shall provide prompt, reliable, and efficient services to patrons in all areas...." Further, the September 2005 Postal Service *Strategic Transformation Plan* states, "The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates." The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20, 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 Postal Service deployed flats processing technology to keep operating costs down and maintain stable rates. Flat mail is traditionally collected along with letter mail in collection boxes. Employees use AFSMs to separate and cancel these flats. It allows the Postal Service to move mail from manual flats processing operations at a FY 2010 cost of approximately \$90.27 per 1,000 pieces processed to the more efficient automated operation. It costs approximately \$12.09 per 1,000 pieces processed using the AFSM100¹⁰ Alone. It should also help curtail delayed mail volumes that result in poor service performance and unacceptable customer satisfaction scores.

⁸ According to the Postal Service's FY 2010 Comprehensive Statement, "First-Class Mail revenue was \$34 billion, or 51 percent of the total Postal Service revenue of \$67.1 billion."

⁹ Testimony to the Congressional Committees: *Mail Processing Network Initiatives Progressing and Guidance for Consolidating Area Mail Processing Operations Being Followed*, (GAO-10-731, dated June 2010).

¹⁰ Information obtained from the Postal Service Activity-Based Cost System.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to assess the processing of collection box flat mailpieces in the Philadelphia District. To achieve this objective, we conducted observations of or reviewed manual flat operations at the Philadelphia and Southeastern P&DCs, reviewed EXFC service scores within the Philadelphia District, analyzed manual flat collection box volume data, reviewed an OIG hotline complaint, and interviewed Postal Service employees.

We conducted this review from November 2010 to March 2011 in accordance with the Quality Standards for Inspections.¹¹ We discussed our findings and conclusions with management officials on November 19, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date Report	Results
<i>Activation of the Philadelphia Processing and Distribution Center</i>	NO-AR-08-004	7/10/2008	We found that not all activation steps were fully implemented, resulting in significant mail delays.
<i>Allegations Concerning Operations and Service in the Philadelphia Customer Service District</i>	NO-MA-09-001	3/30/2009	Of 18 media allegations, we substantiated 1, partially substantiated 7, and were unable to substantiate 10. Management agreed with our findings and recommendations.

¹¹ These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, The Inspector General Act of 1978, as amended by the IG Reform Act of 2008, created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

APPENDIX B: DETAILED ANALYSIS

Manual Processing of Collection Box Flats

Based on estimates provided by Philadelphia District management, the Philadelphia and Southeastern P&DCs manually process about 4,200 collection box flat mailpieces per day¹² rather than using more efficient mail processing machines. According to AFSM Standard Operating Procedures, sites must redirect machineable flats to an AFSM for processing.

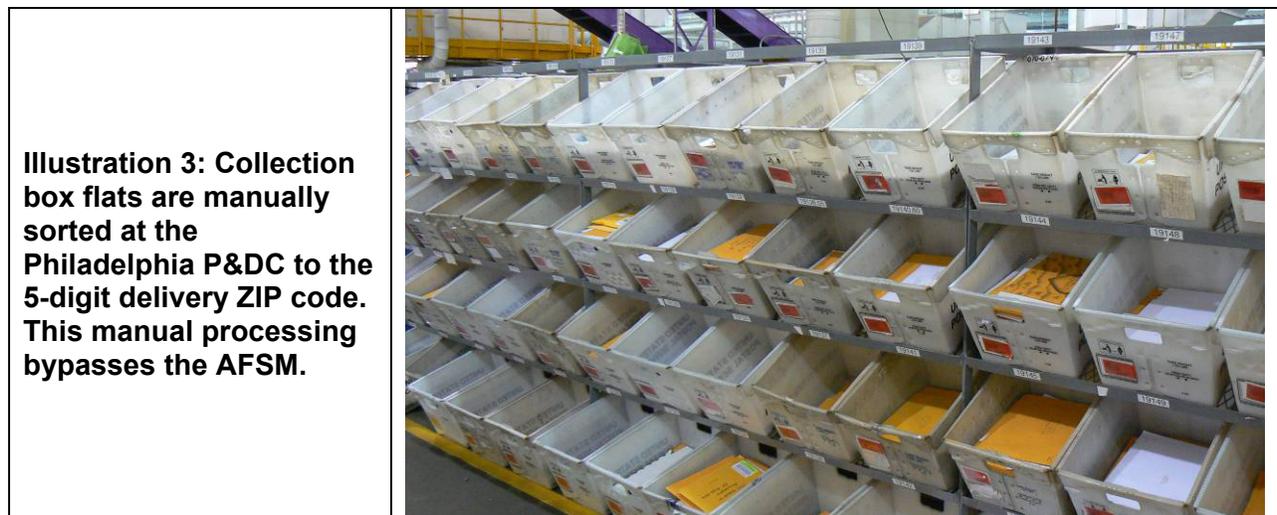
Illustration 2: Originating Philadelphia District collection box flats are separated at the Post Offices and labeled “Blue Collection Box Flats.” They are then sent to either the Philadelphia or Southeastern P&DC for manual sortation.



According to Postal Service officials, manual processing of collection box flats was part of a district-wide program enacted 8 to 10 months earlier in an attempt to improve EXFC service scores.¹³ Philadelphia District officials indicated that EXFC scores for flats were below letter scores and they felt they could improve these scores by having employees manually process collection box flats.

¹² Since these flat mailpieces did not go through the mail processing machines, we do not have any automated machines counts to validate this volume.

¹³ Our analysis revealed that Philadelphia P&DC EXFC service scores for originating stamped flat mailpieces actually declined from 93.08 percent in Quarter 4, FY 2009 to 88.39 percent in Quarter 4, FY 2010.



Manually handling mailpieces increases mail processing costs. Our analysis revealed that manually processing collection box flats resulted in an additional 3,675 workhours at a cost of \$188,170 over a 2-year period (see Table 1 below).

Table 1: Monetary Impact of Manually Processing Collection Box Flats

P&DC	Estimated Annual Manual Collection Box Flat Volume (1)	Manual Workhours (2)	AFSM Workhours (3)	Excess Workhours (4)	Additional Cost Incurred from Manually Processing Collection Box Flats (5)
Philadelphia	906,000	2,840	179	2,661	\$136,262
Southeastern	362,400	1,136	122	1,014	\$51,908
Totals 1,268,400		3,976	301	3,675	\$188,170

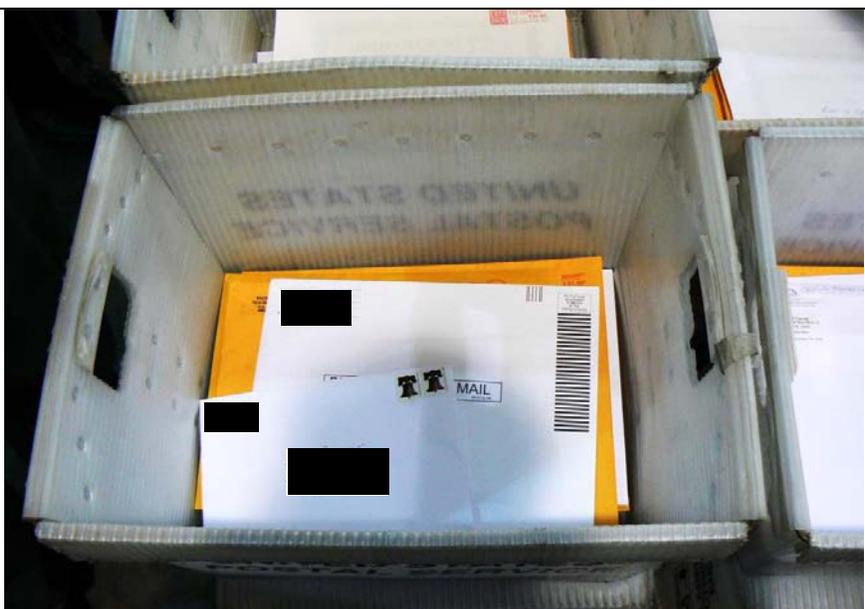
Table Notes:

- (1) Philadelphia District management estimates that the Philadelphia and Southeastern P&DCs manually process daily collection flat mailpieces of 3,000 and 1,200, respectively, or 4,200 collection box flat mailpieces. We based annual volume on 302 days per year.
- (2) We based the number of manual and automated workhours needed to process collection box flat volume on the FY 2010 AFSM-AI (Automated Induction) productivities of 5,068 and 2,965 pieces per hour for originating collection box flats at the Philadelphia and Southeastern P&DCs, respectively.
- (3) We based the number of manual workhours needed to process collection box volume on the national manual flats productivity of 319 pieces per hour.
- (4) The difference between manual and AFSM workhours.
- (5) We calculated the additional cost from manually processing collection box flats by multiplying excess workhours by the hourly rate for a Level 6 clerk. This figure represents additional costs for a 2-year period using a 1.17 percent escalation factor.

Cancellation of Collection Box Stamped Flats

The Philadelphia P&DC did not cancel approximately 334¹⁴ stamped collection box flats because manually processing the flats bypasses automated cancellation. These flats represent less than 2 percent of the originating Philadelphia District flat volume. Postal Service policies require mail to be adequately prepared, which entails dumping, culling, facing, traying, and canceling it. When a mailpiece is not canceled by automation, it should be manually canceled. In an effort to expedite mail flow, the P&DC did not cancel stamped flats as required, resulting in \$123,059¹⁵ of revenue at risk by enabling the reuse of postage stamps.

Illustration 4: Collection box flats are manually processed without canceling postage stamps.



¹⁴ According to the Origin Destination Information Network, the Philadelphia District has an average daily volume of 1,335 stamped flats originating in Philadelphia and delivered to Philadelphia customers. All of these are manually sorted bypassing AFSM cancellation. Of this volume, based on our observations, we estimated that at least 50 percent were not cancelled with an ink stamp. To be conservative, we calculated the uncanceled stamp flats as 25 percent of the 1,335 stamped flats or 334 uncanceled stamped flats per day.

¹⁵ We calculated revenue at risk by multiplying 334 uncanceled stamped flat mailpieces per day by 302 annual mail processing days by \$1.22 or the postage for a 3-ounce flat mailpiece.

APPENDIX C: MONETARY AND NON-MONETARY IMPACTS**Monetary Impacts**

Finding Impact	Category	Amount
Philadelphia P&DC	Funds Put to Better Use	\$136,262
Southeastern P&DC	Funds Put to Better Use	\$51,908
Total		\$188,170

Other Impacts

Finding Impact	Category	Amount
Philadelphia Metro	Revenue at Risk	\$123,059

Notes

- Funds put to better use are funds that could be used more efficiently by implementing recommended actions. We calculated the additional cost from manually processing collection box flats by multiplying excess workhours by the hourly rate for a Level 6 clerk. This figure represents additional costs for a 2-year period using a 1.17 percent escalation factor.
- Revenue at risk is revenue the Postal Service is at risk of losing. We calculated revenue at risk by multiplying 334 uncanceled stamped flat mailpieces per day by 302 annual mail processing days by \$1.22 which is the postage for a 3-ounce flat mailpiece.

APPENDIX D: MANAGEMENT'S COMMENTS

District Manager
Philadelphia Metropolitan District



February 10, 2011

TO: LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Management Advisory – Processing of Collection Box Flats in the Philadelphia District (Report Number NO-MA-11-Draft)

The Philadelphia District Office has reviewed the subject audit report and agrees with the findings and recommendations along with the monetary impacts.

Recommendation #1:

Ensure that unit employees process collection box flats in accordance with Postal Service Standard Operating Procedures.

Management Response / Action Plan:

The Eastern Area agrees with the recommendation to process flats in the most efficient manner in accordance with Postal Service Standard Operating Procedures.

Target Implementation Date:

The targeted implementation date is the beginning of Postal Quarter 3 (April 1, 2011).

Responsible Official:

Daniel P. Muldoon, Senior Plant Manager Philadelphia P&DC

After reviewing the report, we have no Freedom of Information Act (FOIA) issues related to this audit. If you have any questions regarding this response, please contact Daniel P. Muldoon, Senior Plant Manager at 215-749-4307.

Thank you,


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District Manager

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