



## AUDIT REPORT

# Consolidation of the Huntsville, AL, Processing and Distribution Facility

May 5, 2014





May 5, 2014

**Consolidation of the Huntsville, AL,  
Processing and Distribution Facility**

Report Number NO-AR-14-005

***BACKGROUND:***

The U.S. Postal Service uses the Area Mail Processing study to determine whether it should consolidate Postal Service facilities. The Huntsville, AL, Processing and Distribution Facility (P&DF) consolidation consisted of two phases: the originating mail consolidation (mail sent from Huntsville) and the destinating mail consolidation (mail delivered to Huntsville). The Postal Service completed the originating consolidation on December 31, 2011, but has not fully implemented the destinating consolidation. This report responds to a congressional request for a review of the consolidation.

Our objectives were to determine whether a business case existed for consolidating mail processing operations from the Huntsville, AL, P&DF into the Birmingham, AL, Processing and Distribution Center and assess compliance with Area Mail Processing guidelines.

***WHAT THE OIG FOUND:***

A business case existed to support the originating mail consolidation and the Postal Service generally followed Area Mail Processing guidelines. Overall, cost savings were about \$4.9 million annually, or about \$3.1 million higher than estimated. However, the Postal Service has not yet fully implemented the destinating mail consolidation because the overnight service standards were not revised as anticipated. Without these revisions, the Birmingham

Processing and Distribution Center has insufficient machine capacity to process all of Huntsville's destinating letter mail. Consequently, some letter mail still has to be processed at the Huntsville P&DF. The Postal Service has taken corrective action by postponing future consolidations that require overnight service changes.

Revisions to the service standards would allow the Postal Service more time to process letter mail at the Birmingham Processing and Distribution Center and to move all mail processing operations out of the Huntsville P&DF.

Following the partial move of destinating letter mail, we found that customer service scores did not significantly change, productivity increased, and delayed mail decreased. However, we also found nearly 70 percent of carriers were delivering mail after 5 p.m., which is a significant increase compared to pre-consolidation levels.

***WHAT THE OIG RECOMMENDED:***

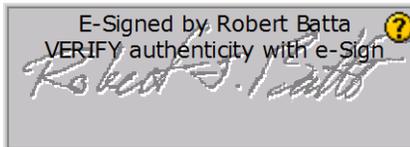
We recommended the vice president, Network Operations, continue processing Huntsville's delivery point sequence mail at the Huntsville P&DF. We also recommended to re-evaluate staffing and resources at the Huntsville P&DF to ensure timely processing of delivery point sequence mail so fewer carriers return after 5 p.m.

[\*Link to review the entire report\*](#)



May 5, 2014

**MEMORANDUM FOR:** DAVID E. WILLIAMS, JR.  
VICE PRESIDENT, NETWORK OPERATIONS



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

**SUBJECT:** Audit Report – Consolidation of the Huntsville, AL,  
Processing and Distribution Facility  
(Report Number NO-AR-14-005)

This report presents the results of our audit of the Consolidation of the Huntsville, AL, Processing and Distribution Facility (Project Number 14XG002NO000).

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 and Transportation, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the Consolidation of the Huntsville, AL, Processing and Distribution Facility (P&DF) (Project Number 14XG002NO000). The report responds to a congressional request for review of the consolidation. Our objectives were to determine whether a business case existed for consolidating mail processing operations from the Huntsville, AL, P&DF into the Birmingham, AL, Processing and Distribution Center (P&DC) and assess compliance with established Area Mail Processing (AMP) guidelines. This consolidation consisted of two phases: the originating mail operation followed by the destinating mail operation. Mail sent from Huntsville is considered originating mail and mail delivered to Huntsville is considered destinating mail.

The Postal Service completed consolidation of the Huntsville P&DF originating mail operation on December 31, 2011. Destinating mail parcels moved to the Birmingham P&DC in April and May 2012 while destinating flats and part of the letter processing operation moved in May and June 2013. The Delivery Point Sequence (DPS)<sup>1</sup> processing of letter mail remained at the Huntsville P&DF and continued to be sorted on 10 Delivery Barcode Sorter (DBCS) machines. Management indicated this operation will remain at the Huntsville P&DF to maintain the overnight service standard<sup>2</sup> for delivery of First-Class Mail (FCM). See [Appendix A](#) for additional information about this audit.

The Postal Service developed a formal process for reviewing and implementing AMP proposals.<sup>3</sup> It uses the AMP process to determine whether it can consolidate one or more postal facilities into other automated processing 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.
- Provide Postal Service customers with the same high-quality service they expect.
- Ensure overall cost reductions.

## Conclusion

A business case existed to support the originating mail consolidation and the Postal Service generally followed AMP guidelines. Overall, cost savings were about

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<sup>1</sup> DPS is the automated process of sorting mail into delivery order, which eliminates the need for carriers to sort the mail manually.

<sup>2</sup> Overnight service is the standard by which mail is processed and delivered within 1 day. The Postal Service intended to revise overnight service standards in February 2014; however, on January 24, 2014, it postponed this revision.

<sup>3</sup> This process is defined in Handbook PO-408, *Area Mail Processing Guidelines*.

\$4.9 million annually, or about \$3.1 million higher than estimated. However, the Postal Service has not yet fully implemented the destinating mail consolidation because the overnight service standards were not revised as anticipated. Revisions to the standards would give the Postal Service more time to process mail at the Birmingham facility and move all mail processing operations out of the Huntsville P&DF.

Without these revisions, the Birmingham P&DC has insufficient machine capacity to process all of Huntsville's destinating letter mail. For example, the combined letter volume from June to November 2013 totaled 1.105 billion mailpieces, while letter machine capacity at the Birmingham P&DC was only about 883 million mailpieces. This left a shortfall of about 222 million mailpieces, which had to be processed at the Huntsville P&DF. The Postal Service has taken corrective action by postponing future consolidations that require overnight service changes.

Following the partial move of the destinating letter mail, we found that customer service scores did not significantly change, productivity increased, and delayed mail decreased. However, we also found nearly 70 percent of carriers were delivering mail after 5 p.m., which is a significant increase compared to pre-consolidation levels.

### Machine Capacity

Machine capacity exists at the Birmingham P&DC to process all Huntsville P&DF originating mail. Specifically, the Birmingham P&DC had overall excess machine capacity of 32 percent (or almost 1.2 billion mailpieces) after the Postal Service moved the originating mail from the Huntsville P&DF (see [Table 1](#)).

**Table 1. Birmingham P&DC Equipment Excess Capacity (Originating)**

Equipment	Number of Machines	Mailpieces			
		Maximum Capacity*	Mail Volume**	Excess Capacity	
Automated Facer Cancellor System	6	381,225,600	184,506,229	196,719,371	52%
Automated Flats Sorting Machine	3	188,325,000	103,035,942	85,289,058	45%
Automated Parcel and Bundle Sorter	3	71,842,221	45,110,971	26,731,250	37%
DBCS	27	2,393,987,400	1,744,475,792	649,511,608	27%
Delivery Input Output Sub-System	5	585,900,000	376,035,734	209,864,266	36%
<b>Total</b>	<b>44</b>	<b>3,621,280,221</b>	<b>2,453,164,668</b>	<b>1,168,115,553</b>	<b>32%</b>

Source: Enterprise Data Warehouse (EDW) and Web End-of-Run (WebEOR).

\* 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 originating mail volume from December 1, 2012 through November 30, 2013.

However, the Birmingham P&DC could not process all of Huntsville's destinating mail under the existing service standards. We found a 25 percent capacity shortfall existed on the DBCS machines to process Huntsville's DPS letter mail (see [Table 2](#)). To process this letter mail, the Birmingham P&DC would need additional DBCS machines, but it does not have sufficient floor space to accommodate them. Consequently, the Huntsville P&DF must continue processing DPS letters.

**Table 2. Birmingham P&DC Machine Capacity Shortfall (Destinating)**

Equipment	Number of Machines	Mailpieces			
		Maximum Capacity*	Mail Volume**	Capacity Shortfall	
DBCS	27	882,951,300	1,105,028,093	222,076,793	25%

Source: EDW and WebEOR.

\* 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. DPS mail is part of the destinating operation and has a shorter operating window than other mail types.

\*\* We calculated destinating mail volume using data from June 1 through November 30, 2013. This was the most recent time period after the partial destinating mail move.

Full implementation of the destinating AMP was contingent on revisions to service standards, particularly the overnight standard for FCM. These service standard revisions were to take effect on February 1, 2014; however, on January 24, 2014, the Postal Service postponed them.<sup>4</sup> The revised service standards would have allowed more time for letter mail processing, ensuring ample capacity on Birmingham’s existing DBCS machines to process all of Huntsville’s DPS letter mail.

### Customer Service

Customer service performance measured by the External First-Class Measurement System (EXFC)<sup>5</sup> improved by consolidating the originating mail operation. We found that 21 of 24 indicators in overnight, 2-day, and 3-day service improved compared to the pre-consolidation levels (see [Table 3](#)).

<sup>4</sup> *Federal Register*, Volume 79, No. 16, 39 CFR Part 121.

<sup>5</sup> Test an independent contractor performs to measure service performance for FCM (letters, flats, and postcards) from mail collection to final delivery.

**Table 3. Originating EXFC Scores**

EXFC Standard	Facility <sup>6</sup>	Before Consolidation				After Consolidation			
		Fiscal Year (FY) 2011			FY 2012	FY 2012			FY 2013
		Quarter (Q) 2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Overnight	Huntsville P&DF	95.98	95.61	96.92	96.42	96.48	96.82	94.87	95.18
	Birmingham P&DC	95.92	96.24	95.93	96.03	96.09	96.85	96.59	94.12
2-Day	Huntsville P&DF	89.60	91.57	92.27	90.12	95.43	94.45	95.51	95.29
	Birmingham P&DC	92.06	93.50	92.16	91.69	93.96	94.03	95.24	93.42
3-Day	Huntsville P&DF	92.43	92.55	91.97	88.24	93.45	93.34	92.13	92.40
	Birmingham P&DC	90.00	93.29	91.94	88.92	93.17	94.37	94.28	89.26

Source: EDW.

Note: Green numbers show improved service scores compared to the same quarter the previous fiscal year, while red numbers indicate a decline.

Following a partial move of the destinating letter processing operation, customer service performance, measured by the EXFC measurement system, did not significantly change. Overnight service scores for the Huntsville P&DF and the Birmingham P&DC declined, while 3-day service scores for both facilities improved (see [Table 4](#)).

<sup>6</sup> Facility three-digit ZIP Codes impacted were Huntsville P&DF 356, 357, and 358; and Birmingham P&DC 350, 351, 352, 354, 355, 359, and 362.

**Table 4. Destinating EXFC Scores**

<b>EXFC Standard</b>	<b>Facility</b>	<b>Same Period Last Year (SPLY)*</b>	<b>After Partial Consolidation**</b>	<b>Change</b>	<b>Percentage Change</b>
Overnight	Huntsville P&DF	95.36	95.19	-0.17	-0.2%
	Birmingham P&DC	95.96	95.33	-0.63	-0.7%
2-Day	Huntsville P&DF	95.35	93.88	-1.47	-1.5%
	Birmingham P&DC	94.75	94.85	0.10	0.1%
3-Day	Huntsville P&DF	92.93	93.25	0.32	0.3%
	Birmingham P&DC	93.54	93.79	0.25	0.3%

Source: EDW.

\* June through November 2012.

\*\* June through November 2013.

Note: Green numbers show an improvement in service scores and red numbers show a decline in service scores as compared to SPLY.

### Service Standard Impacts

Overall, consolidating the originating mail operation improved service standards.<sup>7</sup> For example, there were 21 net upgrades for all classes of mail, including six upgrades to FCM (see Table 5). Service standard upgrades improve customer service by requiring mail to arrive sooner at the destinating facility for delivery; however, we could not evaluate service standard impacts for the consolidation of the destinating mail operation since they have not yet been determined.

<sup>7</sup> Service standards are a stated goal for service achievement for each mail class.

**Table 5. Service Standard Impacts**

Mail Class	Service Standard Changes 3-Digit ZIP Code Pairs <sup>8</sup>		
	Upgrade	Downgrade	Net Change
First-Class	6	0	6
Priority <sup>9</sup>	6	111	(105)
Periodicals	105	9	96
Standard	30	12	18
Packages	15	9	6
<b>Total</b>	<b>162</b>	<b>141</b>	<b>21</b>

Source: Originating AMP study and Service Standard Directory.

### Employee Impact

Consolidating the Huntsville P&DF into the Birmingham P&DC has not resulted in any career employee job losses. As of November 12, 2013, the Huntsville P&DF eliminated 90 employee positions (clerks, mail handlers, and postal support employees [PSE]) and three executive and administrative schedule (EAS) positions. The Postal Service reassigned affected employees to the Birmingham P&DC and to various post offices in Alabama. Four employees accepted Postal Service jobs outside Alabama. The Postal Service terminated 12 non-career PSEs and one PSE voluntarily resigned. Table 6 illustrates how the Postal Service reduced its staff.

**Table 6. Employee Impact**

How Reduction was Accomplished	Number of Employees
Retired	29
Resigned	4
Reassigned	46
Exercised retreat rights (back to the Huntsville P&DF)	-3
Deceased	1
Voluntary transfer to another agency	1
Terminated (non-career PSEs)	12
<b>Total</b>	<b>90</b>

Source: U.S. Postal Service Office of Inspector General (OIG) and Postal Service analysis.

<sup>8</sup> A service standard pair is the service standard between one 3-digit origin ZIP Code and one 3-digit destination ZIP Code.

<sup>9</sup> Priority downgrades were 2-day destinations that became 3-day destinations.

Productivity

The combined first-handling piece (FHP)<sup>10</sup> productivity<sup>11</sup> for the Huntsville P&DF and the Birmingham P&DC increased more than proposed in the originating AMP. The AMP projected an increase of 3.14 percent in combined FHP productivity; however, the OIG calculated a productivity increase of 3.94 percent (see Table 7).

**Table 7. Productivity Impact (Originating)**

Facility	Per AMP			Per OIG	
	Before Consolidation*	Proposed	Percentage Difference	After Consolidation**	Percentage Difference
Huntsville P&DF	1,566	1,661	6.09%	1,565	-0.05%
Birmingham P&DC	1,096	1,147	4.68%	1,176	7.27%
<b>Combined</b>	<b>1,195</b>	<b>1,232</b>	<b>3.14%</b>	<b>1,242</b>	<b>3.94%</b>

Source: Originating AMP Study and EDW.

\* October 2009 through September 2010.

\*\* January through December 2012.

Additionally, in the 6-month period following the partial destinating consolidation, combined facility FHP productivity increased by 3.16 percent compared to SPLY (see Table 8).

**Table 8. Productivity Impact (Destinating)**

Facility	SPLY (Before Consolidation)*	After Partial Consolidation**	Percentage Difference
Huntsville P&DF	1,602	2,148	34.09%
Birmingham P&DC	1,168	1,168	0.06%
<b>Combined</b>	<b>1,239</b>	<b>1,279</b>	<b>3.16%</b>

Source: EDW.

\* June through November 2012.

\*\* June through November 2013.

<sup>10</sup> A letter, flat, or parcel that receives its initial distribution at a Postal Service facility.

<sup>11</sup> Productivity is calculated by dividing mailpieces by workhours. This number is useful when evaluating overall efficiency.

## Delayed Mail

Following consolidation of the originating mail operation, delayed mail<sup>12</sup> decreased at both facilities. Specifically, delayed mail at the Huntsville P&DF decreased from 9.30 to 3.13 percent of FHP volume. Similarly, the Birmingham P&DC realized a decrease in delayed mail from 3.44 to 3.28 percent even with the additional mail volume from the Huntsville P&DF (see Table 9). In the 6 months following the partial destinating consolidation, the total delayed mail at both facilities decreased by 22 percent compared to SPLY.

**Table 9. Delayed Mail as a Percentage of FHP Volume**

Facility	Before Consolidation*		After Consolidation**	
	Delayed Mail (Pieces)	Percentage Delayed	Delayed Mail (Pieces)	Percentage Delayed
Huntsville P&DF	34,245,293	9.30%	10,001,507	3.13%
Birmingham P&DC	39,317,027	3.44%	38,430,172	3.28%

Source: EDW and Mail Condition Reporting System.

\*January through December 2011.

\*\*January through December 2012.

## Area Mail Processing Guidelines

The Postal Service complied with stakeholder communication policies when conducting the consolidation and generally followed AMP guidelines; however, there were instances where the Postal Service did not complete some AMP steps within established timeframes. Missing the timeline did not adversely impact the consolidation process.

## Cost Savings

The Postal Service estimated cost savings from the Huntsville P&DF originating mail consolidation to be \$1,465,265 in the first year and \$1,796,900 annually in subsequent years. However, the OIG estimated a higher savings of \$5,371,294 in the first year and \$4,879,056 annually in subsequent years (see Table 10). The difference in the Postal Service and OIG estimates is primarily due to mail processing workhour savings, which were significantly higher than projected in the AMP. This was because the Postal Service offered a voluntary early retirement in 2012 and fewer employees moved to Birmingham than the AMP proposed.

Our analysis also indicated the Postal Service underestimated transportation costs in the originating AMP because it did not include all costs associated with increases in fuel, wages, mileage, overtime, and extra trips. Although the Postal Service incurred

<sup>12</sup> The Postal Service considers mail to be delayed when it is not dispatched in time to meet its established delivery day.

additional transportation costs, this did not impact the overall viability of the originating AMP as the additional workhour savings more than offset the increased transportation costs. Finally, savings for the destinating mail consolidation were limited because the Postal Service has not yet fully implemented the Huntsville P&DF destinating consolidation. The Huntsville P&DF remains open to process DPS letter mail under existing service standards.

**Table 10. Overall Savings**

Category	AMP Projected Savings/(Cost)	OIG Projected Savings/(Cost)	Difference
Mail Processing Workhours	\$1,792,472	\$6,952,630	\$5,160,158
Postal Career Executive Service/EAS Supervisor Workhours	0	(5,214)	(5,214)
Transportation	(100,421)	(2,248,833)	(2,148,412)
Maintenance*	104,849	180,473	75,624
<b>Annual Savings After the First Year</b>	<b>\$1,796,900</b>	<b>\$4,879,056</b>	<b>\$3,082,156</b>
One-Time Maintenance Savings**	0	\$667,967	\$667,967
One-Time Cost***	(331,635)	(175,729)	155,906
<b>Total First Year Savings</b>	<b>\$1,465,265</b>	<b>\$5,371,294</b>	<b>\$3,906,029</b>

Source: EDW.

\* Maintenance savings were more than projected in the AMP, primarily due to machine and equipment relocation related costs incurred during the AMP baseline period.

\*\* We determined there was a one-time maintenance savings due to vacant maintenance positions.

\*\*\* One-time costs were less than projected in the AMP primarily because fewer employees moved to Birmingham, resulting in lower than estimated relocation costs.

## Carrier Impacts

### Mail in DPS

On June 1, 2013, the Postal Service moved part of the destinating letter mail processing operation from the Huntsville P&DF to the Birmingham P&DC. While DPS letter processing remained at the Huntsville P&DF, the percentage of DPS mail sorted by 7 a.m. at the Huntsville P&DF declined sharply, from 96.5 to 75.3 percent. Late arriving mail from the Birmingham P&DC and inadequate staffing contributed to the decline in DPS mail sorted by 7 a.m. Similarly, the percentage of DPS mail sorted by 7 a.m. at the Birmingham P&DC declined from 98.2 percent to 91.7 percent (see [Table 11](#)). When the Postal Service does not meet the DPS target of 7 a.m., it can result in carriers receiving mail later and finishing their routes later.

**Table 11. 24-Hour Clock Indicator, DPS Cleared by 7 a.m.**

Indicator	Huntsville P&DF			Birmingham P&DC			Target
	SPLY*	After Partial Destinating Consolidation**	Change	SPLY	After Partial Destinating Consolidation	Change	
DPS cleared by 7 a.m.	96.5%	75.3%	-21.2%	98.2%	91.7%	-6.5%	100%

Source: WebEOR and EDW.

\* June through November 2012.

\*\* June through November 2013.

Carriers on the Street After 5 p.m.

Following the partial move of the destinating letter mail processing operation, the percentage of carriers in Huntsville and Birmingham on the street after 5 p.m. increased significantly. For instance, before the consolidation, 36 percent of the carriers in Huntsville and 32 percent of the carriers in Birmingham were delivering mail after 5 p.m. After the consolidation, the percentage of carriers delivering mail after 5 p.m. increased to 69 percent in Huntsville and 68 percent in Birmingham (see Table 12).

**Table 12. Carriers on the Street after 5 p.m.**

Measurement	City	SPLY*	After Partial Consolidation**
Percentage of carriers returning after 5 p.m.	Huntsville	36%	69%
	Birmingham	32%	68%

Source: EDW

\* June through November 2012.

\*\* June through November 2013.

This increase occurred because the Postal Service adjusted carrier start times to accommodate mail arriving later at delivery units. As a result, carriers are finishing their routes later and customers are receiving their mail later, sometimes after dark.

**Recommendations**

We recommend the vice president, Network Operations:

1. Continue processing Huntsville's delivery point sequence mail at the Huntsville Processing and Distribution Facility.
2. Re-evaluate staffing and resources at the Huntsville Processing and Distribution Facility to ensure timely processing of delivery point sequence mail so fewer carriers return after 5 p.m.

## Management's Comments

Management agreed with our finding and recommendations.

In response to recommendation 1, management stated that consolidation of the destinating operations from the Huntsville P&DF into the Birmingham P&DC is still in progress and will be completed when the service standards change.

In response to recommendation 2, management will 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. The target completion date is August 2014. 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.

The OIG considers all the 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.

## Appendix A: Additional Information

### Background

The Postal Service ended FY 2013 with a net loss of \$5 billion, marking the 7th consecutive year in which the Postal Service incurred a net loss. The requirement to prefund its retiree health benefit obligations, plus the continuous drop in FCM<sup>®</sup> volume, have been major contributors to these losses.

In April 2013, the Postal Service released its updated comprehensive *Business Plan*, which included detailed plans to eliminate nearly \$20 billion of annual costs by 2017. The Postal Service stated it will continue to aggressively pursue the strategies within its control to increase operational efficiency and improve its liquidity position. As part of the *Business Plan*, the Postal Service expects to realize savings of nearly \$6 billion annually by consolidating mail processing, retail, and delivery networks.<sup>13</sup> The Postal Service stated the consolidations are necessary to better align the networks with mail volume and workhours.

The Postal Service uses AMP guidelines<sup>14</sup> to consolidate mail processing functions and eliminate excess capacity, increase efficiency, and better use resources. Consolidations provide opportunities for the Postal Service to reduce costs and 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 Accountability and 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 report responds to a request from Congressman Mo Brooks, who represents the 5th Congressional District of Alabama, to review the consolidation of mail processing operations from the Huntsville P&DF to the Birmingham P&DC. The representative's concerns include whether the consolidation will be cost effective.

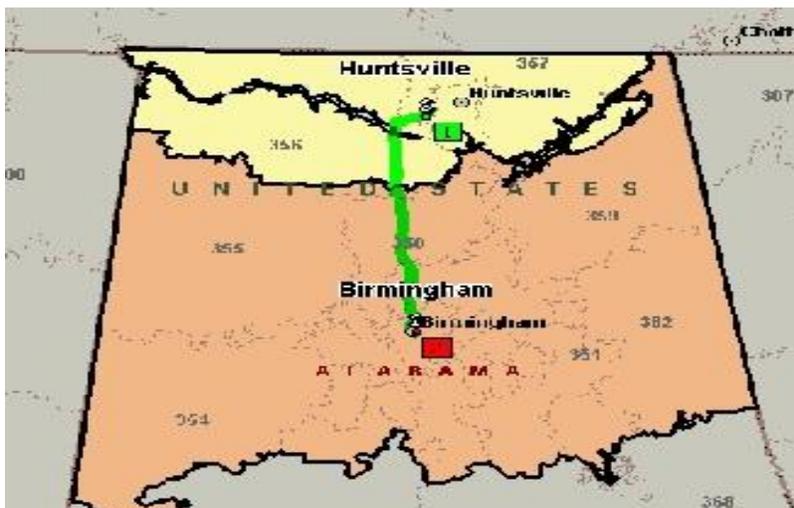
The Huntsville P&DF and the Birmingham P&DC are 92 miles apart and are in the Alabama District of the Southern Area (see [Figure 1](#)).

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<sup>13</sup> On January 24, 2014, the Postal Service announced that it is postponing the implementation date for service standard changes that would have enabled the Postal Service to consolidate many mail processing facilities.

<sup>14</sup> Handbook PO-408, *Area Mail Processing Guidelines*, March 2008.

**Figure 1. Map of Alabama**



Source: Originating AMP study.

This consolidation moved the originating mail and part of the destinating mail from the Huntsville P&DF to the Birmingham P&DC. The originating consolidation, which was implemented first, resulted in an overall increase in FHP volume of 2.37 percent at the Birmingham P&DC. Later, the partial destinating consolidation increased FHP volume by 2.15 percent.

The Postal Service completed consolidation of the Huntsville P&DF originating mail operation on December 31, 2011. Destinating mail parcels moved to the Birmingham P&DC in April and May 2012 and destinating flats and part of the letter processing operation moved in May and June 2013. The DPS processing of letter mail remains in Huntsville and continues to be sorted on 10 DBCS machines (see Figure 2). Management indicated this operation will remain at the Huntsville P&DF to maintain the existing overnight service standard for delivery of FCM.

**Figure 2. DBCS Machines at the Huntsville P&DF**



Source: OIG photograph taken November 19, 2013.

## Objectives, Scope, and Methodology

Our objectives were to determine whether a business case existed for consolidating mail processing operations from the Huntsville, AL, P&DF into the Birmingham, AL, P&DC and assess compliance with AMP guidelines. To accomplish our objectives, we reviewed and analyzed mail trends and productivity from October 2009 through November 2013 at the Huntsville P&DF and the Birmingham P&DC. We reviewed service scores, transportation costs, and carrier data; and conducted observations, interviewed employees, and reviewed documentation to determine compliance with AMP guidelines.

We used computer-processed data from the following Postal Service systems:

- EDW.
- Mail Condition Reporting System.
- Service Standards Directory.
- Transportation Contract Support System.
- Web Complement Information System.
- WebEOR.

We conducted this performance audit from October 2013 through April 2014 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 March 26, 2014, 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>Altoona, PA, Originating and Destinating Mail Consolidation</i>	NO-AR-13-010	9/30/2013	\$138,839
<p><b>Report Results:</b>            There was a business case to support the consolidation. However, the AMP overstated savings by \$89,326 for the first year due to a one-time cost overestimate. In addition, the AMP savings were overstated by \$138,839 in subsequent years due to additional transportation costs and unrealized maintenance savings. Management agreed with our recommendation to re-evaluate maintenance savings and make adjustments to the AMP proposal in the first Post-Implementation Review.</p>			
<i>New Castle and Greensburg, PA, Consolidation</i>	NO-AR-13-004	8/16/2013	\$978,954
<p><b>Report Results:</b>            There was a business case to support the consolidation. Management agreed with our 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, buyout, or terminate lease agreements for vacated facilities; and ensure Voyager eFleet cards are stored in a secure manner.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Modified Altoona, PA, Originating and Destinating Area Mail Processing Package</i>	NO-MA-13-006	8/7/2013	None
<p><b>Report Results:</b> Review of the revised AMP indicated that the Altoona P&amp;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 in cost savings associated with this revised AMP. Conversely, the revised AMP would have created overstaffing at the Johnstown P&amp;DF by about 16 employees. Management agreed with our recommendation to make necessary corrections in the revised AMP package by adjusting workhours and employee complement accordingly. However, management did not agree that the Altoona P&amp;DF would not have enough employees to process the remaining workload asserting our conclusion is based on general, rather than in-depth, analysis.</p>			
<i>Frederick, MD, to Baltimore, MD, Area Mail Processing Consolidation</i>	NO-AR-12-006	7/3/2012	\$558,021
<p><b>Report Results:</b> 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 recommendation to avoid implementing consolidations during the fall and holiday peak mailing seasons, as appropriate. Management also agreed with the recommendation 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. Management also stated the Postal Service was paying a contractor for services no longer required since the consolidation. Management is working to ensure reimbursement of payments for services not performed and expect this to be completed by the end of the calendar year.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Oxnard, CA, Processing and Distribution Facility Destinating Mail Consolidation</i>	NO-AR-12-004	3/6/2012	None
<p><b>Report Results:</b> There was a business case to support the consolidation. Management agreed with our recommendations to monitor customer service measurement, and regarding 24-hour clock indicators, delayed mail, and staffing levels to ensure mail is processed timely.</p>			
<i>Consolidation of Mail Processing Operations at the Mansfield, OH, Customer Service Mail Processing Center</i>	NO-AR-12-003	1/20/2012	None
<p><b>Report Results:</b> There was a business case to support the consolidation, producing a first-year savings of about \$4.8 million if the Postal Service successfully repositions affected employees. Management agreed with our recommendations to identify repositioning plans for all impacted employees at the Mansfield Customer Service Mail Processing Center and continue to monitor and take necessary actions to process mail timely at the Cleveland P&amp;DC.</p>			
<i>Industry, CA, Processing and Distribution Center Originating Mail Consolidation</i>	NO-AR-12-002	10/17/2011	None
<p><b>Report Results:</b> There was a business case to consolidate originating mail processing operations from the Industry P&amp;DC into the Santa Ana P&amp;DC to achieve a cost savings of about \$1.32 million annually. We made no recommendations.</p>			

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Flint, MI, Processing and Distribution Center Consolidation</i>	EN-AR-12-001	10/6/2011	None
<p><b>Report Results:</b> There was a business case to consolidate destinating mail processing operations from the Flint Michigan P&amp;DC into the Michigan Metroplex P&amp;DC. We made no recommendations.</p>			
<i>Bowling Green, KY, Consolidation</i>	EN-AR-11-008	8/25/2011	None
<p><b>Report Results:</b> There was a business case to consolidate originating mail processing operations. Management agreed with our recommendation that processing and transportation plans be in place to achieve overnight service standards as outlined in the AMP proposal and our recommendation to enhance AMP worksheets to ensure data can be consolidated electronically when there are two or more gaining facilities.</p>			
<i>Oshkosh, WI, Processing and Distribution Facility Consolidation</i>	NO-AR-11-006	7/29/2011	None
<p><b>Report Results:</b> Although, the consolidation would result in cost savings, adequate facility and machine capacity did not exist at the Green Bay P&amp;DC to process the additional mail volume and service could be negatively impacted. Management agreed with our recommendation to re-evaluate capacity at the Green Bay P&amp;DC to determine if sufficient work floor and dock space is available. In addition, management agreed with our recommendation to reassess machine capacity; however, management disagreed with our analysis of floor space and letter processing capacity.</p>			

## Appendix B: Management's Comments

DAVID E. WILLIAMS  
VICE PRESIDENT, NETWORK OPERATIONS



April 29, 2014

JUDITH LEONHARDT

SUBJECT: Draft Audit Report – Consolidation of the Huntsville, AL Processing and Distribution Facility (Report Number NO-AR-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft report.

The Huntsville AL Processing and Distribution Facility (P&DF) was studied for consolidation under two separate Area Mail Processing (AMP) studies. The first, proposed the consolidation of originating operations into the Birmingham AL Processing and Distribution Center (P&DC). This consolidation was completed on 12/31/2011.

The second AMP study proposed the consolidation of destinating operations into the Birmingham AL P&DC. This consolidation was initiated in 2012, but has not yet been completed. To date, all destinating operations except for the processing of delivery point sequenced (DPS) mail have been moved into Birmingham. While some of the DPS operation was moved into Birmingham, the remainder is still processed in Huntsville.

The Phase II service standard change for First Class Mail, which was originally planned for February, 2014, has been postponed to a future date. The changes provide sufficient operational capacity to enable the completion of the consolidation of the remaining Huntsville P&DC destinating operation into the Birmingham P&DC.

### Recommendation 1

Continue processing Huntsville's delivery point sequence mail at the Huntsville Processing and Distribution Facility.

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Management Response/Action Plan:

Management agrees with this recommendation. As noted above, the implementation of the consolidation of destinating operations from Huntsville into Birmingham is still in progress. The consolidation of the remaining Destinating operations will occur when the service standards change.

Target Implementation Date:

Ongoing until service standards change

Responsible Official:

Manager, Processing Operations

Recommendation 2

Re-evaluate staffing and resources at the Huntsville Processing and Distribution Facility to ensure timely processing of delivery point sequence mail so fewer carriers return after 5 p.m.

Management Response/Action Plan:

Management agrees with this recommendation. Management will evaluate the required staffing for the Huntsville facility in order to meet targets for presentation of DPS mail to the delivery units timely.

Target Implementation Date:

August, 2014

Responsible Official:

Manager, Network Development & Support

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



David E. Williams

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cc: Megan Brennan  
Corporate Audit and Response Management