



# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Equipment Transfer  
From the Lansing, MI,  
Processing and  
Distribution Center to  
the Grand Rapids, MI,  
Processing and  
Distribution Center

## Audit Report

Report Number  
NO-AR-14-010

September 5, 2014





# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Highlights

***A business case exists to support moving the APBS from the Lansing P&DC to the Grand Rapids P&DC. The overall cost savings will be about \$1.8 million in the first year, and about \$1.9 million annually in subsequent years.***

## Background

The U.S. Postal Service continues to aggressively cut costs. To that end, it is consolidating the mail processing network to align it with reduced mail volume and a smaller workforce.

This report responds to a congressional request from Senator Carl Levin of Michigan to review the Postal Service's proposed move of the Automated Parcel and Bundle Sorter (APBS) machine from the Lansing, MI, Processing and Distribution Center (P&DC) to the Grand Rapids, MI, P&DC.

The APBS performs the primary function of receiving small parcels, bundles, and irregular parcels and sorting them based on their postal code into as many as 200 separate output locations.

Our objective was to determine whether a business case exists for moving the APBS from the Lansing P&DC to the Grand Rapids P&DC.

## What The OIG Found

A business case exists to support moving the APBS from the Lansing P&DC to the Grand Rapids P&DC. The overall cost savings will be about \$1.8 million in the first year, and about \$1.9 million annually in subsequent years.

The Lansing P&DC is not fully utilizing the APBS and transferring it will give the Grand Rapids P&DC more machine capacity to process the large volume of mail being processed manually.

In addition, the Grand Rapids P&DC needs an additional APBS due to increased volume. For the period October 1, 2013, through March 31, 2014, the Lansing P&DC APBS mail volume declined 20 percent compared to the same period last year. Conversely, the APBS mail volume at the Grand Rapids P&DC increased 54 percent compared to the same period last year. In addition, if the APBS is transferred, the Lansing P&DC plans to reassign the 25 employees working on the APBS to other mail processing operations within its facility.

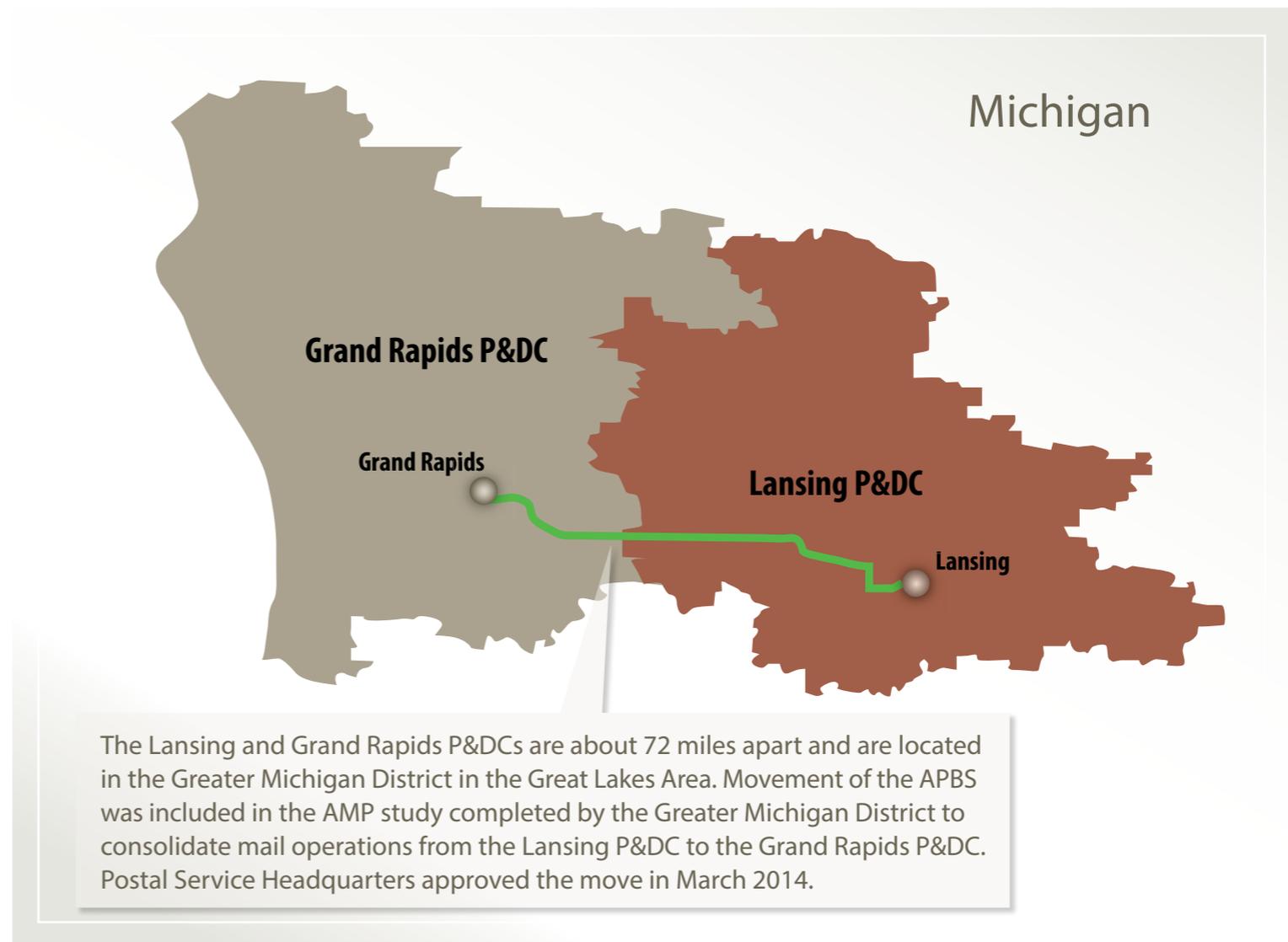
## What The OIG Recommended

We recommended the vice president, Network Operations, transfer the Lansing P&DC's APBS to the Grand Rapids P&DC.



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE



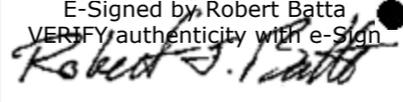
# Transmittal Letter



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

September 5, 2014

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

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


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

SUBJECT: Audit Report – Equipment Transfer from the Lansing, MI,  
Processing and Distribution Center to the  
Grand Rapids, MI, Processing and Distribution Center  
(Report Number NO-AR-14-010)

This report presents the results of our audit of an Equipment Transfer from the Lansing, MI, Processing and Distribution Center to the Grand Rapids, MI, Processing and Distribution Center (Project Number 14XD001NO000). Specifically, we reviewed the proposed move of the Automated Parcel and Bundle Sorter from the Lansing facility to the Grand Rapids facility.

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

# Table of Contents

Cover	
Highlights.....	1
Background.....	1
What The OIG Found.....	1
What The OIG Recommended .....	1
Transmittal Letter.....	3
Findings .....	5
Introduction .....	5
Conclusion .....	5
Machine Use .....	5
Employee Impact .....	7
Cost Savings.....	8
Recommendations.....	9
Management’s Comments .....	9
Evaluation of Management’s Comments .....	9
Appendices.....	10
Appendix A: Additional Information .....	11
Background .....	11
Objective, Scope, and Methodology.....	13
Prior Audit Coverage .....	13
Appendix B: Management’s Comments.....	14
Contact Information .....	16

# Findings

***The Lansing P&DC is not fully utilizing the APBS and transferring it will give the Grand Rapids P&DC more machine capacity to process the large volume of mail being processed manually. In addition, the Grand Rapids P&DC needs an additional APBS due to increased volume.***

## Introduction

This report presents the results of our audit of an Automated Parcel and Bundle Sorter (APBS)<sup>1</sup> transfer from the Lansing Processing and Distribution Center (P&DC) to the Grand Rapids P&DC (Project Number 14XD001NO000). The report responds to a request from Senator Carl Levin of Michigan to review the transfer. Our objective was to determine whether a business case exists for moving the APBS from the Lansing, MI, P&DC to the Grand Rapids, MI, P&DC. See [Appendix A](#) for additional information about this audit.

Movement of the APBS was included in the approved Area Mail Processing (AMP)<sup>2</sup> study completed by the Greater Michigan District to relocate all originating<sup>3</sup> and destinating<sup>4</sup> mail processing and distribution operations from the Lansing P&DC to the Grand Rapids P&DC. Postal Service Headquarters approved the move in March 2014.

## Conclusion

A business case exists to support moving the APBS from the Lansing P&DC to the Grand Rapids P&DC. The overall cost savings will be about \$1.8 million in the first year, and about \$1.9 million annually in subsequent years.

The Lansing P&DC is not fully utilizing the APBS and transferring it will give the Grand Rapids P&DC more machine capacity to process the large volume of mail being processed manually. In addition, the Grand Rapids P&DC needs an additional APBS due to increased volume. For the period October 1, 2013, through March 31, 2014, the Lansing P&DC APBS mail volume declined 20 percent compared to the same period last year (SPLY). Conversely, the APBS mail volume at the Grand Rapids P&DC increased 54 percent compared to the SPLY. In addition, if the APBS is transferred, the Lansing P&DC plans to reassign the 25 employees working on the APBS to other mail processing operations within its facility.

## Machine Use

The Lansing P&DC was not fully utilizing the APBS. The Lansing P&DC ran the APBS an average of 10.1 hours a day, with a throughput of 2,827 mailpieces per hour from April 1, 2013 through March 31, 2014. In the same period, the Grand Rapids P&DC ran its APBS an average of 11.1 hours a day with an average throughput of 3,862 mailpieces per hour. The APBS national average utilization was also higher than the Lansing P&DC's, with an average run time of 10.7 hours a day and an average throughput of 3,973 mailpieces per hour (see Table 1).

**Table 1. Machine Use (April 1, 2013 through March 31, 2014)**

	Daily Machine Run Time	Mailpieces Per Hour
Grand Rapids APBS	11.1	3,862
Lansing APBS	10.1	2,827
National APBS	10.7	3,973

Source: Web-End of Run (WebEOR).

- 1 The APBS performs the primary function of receiving small parcels, bundles, and irregular parcels and sorting them based on their postal code into up to 200 separate output locations. Depending on the type of mail being processed, the APBS can sort it at four different rates into standard trays, sacks, U-carts, hampers, or wire containers.
- 2 Consolidation of all originating and/or destinating distribution operations from one or more Post Office or postal facility into other automated processing facilities to improve operational efficiency and service.
- 3 Outgoing and local mail that enters the mailstream (the point of origin) for processing and delivery.
- 4 Incoming mail arriving for its point of final delivery (destination) through a processing facility.

In addition, in terms of utilization, the Lansing P&DC's APBS ranked 190th out of 208 APBS machines in use nationwide (or in the bottom 10 percent). In comparison, the Grand Rapids APBS ranked 92nd, placing it in the upper half in terms of APBS utilization (see Table 2).

**Table 2. National APBS Machine Use Ranking (May 2014)**

Site	Mailpieces Processed	National Rank
Grand Rapids P&DC	1,290,075	92
Lansing P&DC	672,946	190

Source: WebEOR.

The Grand Rapids P&DC needs an additional APBS due to increased volume. For the period October 1, 2013, through March 31, 2014, Lansing P&DC APBS mail volume declined by 1.175 million mailpieces (or 20 percent)<sup>5</sup> compared to the SPLY. Conversely, APBS mail volume at the Grand Rapids P&DC increased by 2.643 million pieces (or 54 percent)<sup>6</sup> compared to the SPLY (see Table 3).

**Table 3. Mail Volume (October 1, 2013 to March 31, 2014 vs. SPLY)**

	Mailpieces Processed	Mailpieces Processed SPLY <sup>1</sup>	Difference	Change in Percentage of Mailpieces Processed
Lansing APBS	4,604,104	5,779,589	(1,175,485)	-20%
Grand Rapids APBS	7,582,193	4,939,071	2,643,122	54%

Source: WebEOR.

<sup>1</sup> October 1, 2012 through March 31, 2013.

Our field observations contributed to our conclusions that the Lansing P&DC underutilized the APBS and the Grand Rapids P&DC could benefit from additional APBS capacity. For example, on June 4, 2014, the Lansing P&DC processed a total of 20,581 mailpieces, with an average throughput of 2,687 mailpieces per hour, while the Grand Rapids P&DC processed a total of 60,824 mailpieces, with an average throughput of 5,198 mailpieces per hour (see Table 4 and Figure 1).

**Table 4. APBS Mail Volume (June 4, 2014)**

Site	Mailpieces Processed	Mailpieces per Hour
Lansing P&DC	20,581	2,687
Grand Rapids P&DC	60,824	5,198

Source: WebEOR.

<sup>5</sup> A part of the volume decline at the Lansing P&DC was the transfer of mail processing volume from ZIP CODE 492 to the Michigan Metroplex P&DC.

<sup>6</sup> The majority of this parcel volume increase at the Grand Rapids P&DC was the result of mail consolidations as well as overall increase in volumes at the facility.

**Figure 1. Lansing P&DC APBS**



Observations at the Lansing P&DC on June 4, 2014, at 8:47 p.m. found the APBS idle due to lack of mail.

Total parcel volume and manually processed parcel volume both indicate that the Grand Rapids P&DC would more fully utilize an APBS than the Lansing P&DC. From October 2013 to March 2014, the Grand Rapids P&DC processed about six times the Lansing P&DC's volume. The Grand Rapids P&DC processed 35 million parcels compared with the Lansing P&DC's 5.7 million parcels. Moreover, the Grand Rapids P&DC's manual processing volume was more than eight times that of the Lansing P&DC from October 2013 to March 2014. The Grand Rapids P&DC manually processed about 12.6 million parcels during that time, while the Lansing P&DC processed about 1.5 million parcels.

### **Employee Impact**

Transferring the APBS from the Lansing P&DC to the Grand Rapids P&DC will not result in any full-time job losses. The Lansing P&DC plans to reassign the 25 employees working on the APBS to other mail processing operations within the same facility.

## Cost Savings

The U.S. Postal Office of Inspector General (OIG) estimates cost savings from transfer of the APBS at \$1,814,853 in the first year and \$1,892,353 annually in subsequent years. This savings takes into account the additional cost of \$2,382,108 the Lansing P&DC will incur by manually processing mail that is processed on the APBS (see Table 5).

**Table 5. Overall Savings**

<b>Category</b>	<b>Savings/(Costs)</b>
<b>Grand Rapids P&amp;DC's Savings:</b>	
Manual Processing Savings <sup>1</sup>	\$6,138,511
APBS Mail Processing Cost <sup>2</sup>	(\$1,864,050)
<b>Net Savings at Grand Rapids P&amp;DC</b>	<b>\$4,274,461</b>
<b>Lansing P&amp;DC's Additional Cost:</b>	
Cost of Manual Processing <sup>3</sup>	\$3,420,922
Cost of Processing Mail on APBS <sup>4</sup>	\$1,038,814
<b>Lansing P&amp;DC's Net Cost</b>	<b>(\$2,382,108)</b>
<b>Net Savings From Moving APBS to Grand Rapids</b>	<b>\$1,892,353</b>
One-Time Cost <sup>5</sup> to Move APBS	(\$77,500)
<b>Total First Year Savings</b>	<b>\$1,814,853</b>
<b>Annual Savings After First Year</b>	<b>\$1,892,353</b>

Source: OIG calculation.

- 1 We calculated this number by dividing the Grand Rapids P&DC excess machine capacity the Lansing P&DC's APBS will bring to the Grand Rapids P&DC by the Postal Service's manual Breakthrough Productivity Initiative (BPI) and multiplying the product by Grand Rapids' P&DC Labor Distribution Code (LDC) 14 labor cost rate ((15,108,577 mailpieces/116 BPI)\*47.13).
- 2 We calculated this number by dividing the Grand Rapids P&DC excess machine capacity the Lansing P&DC APBS will bring to the Grand Rapids P&DC by the Postal Service's APBS BPI and multiplying the product by the Grand Rapids P&DC's LDC 14 labor cost rate ((15,108,577 mailpieces/382 BPI)\*47.13).
- 3 We calculated this number by dividing the number of mailpieces that will have to be processed manually at the Lansing P&DC because of the APBS move by the Postal Service's manual BPI and multiplying the product by Lansing P&DC's LDC 14 labor cost rate ((8,845,896 mailpieces/116 BPI)\*44.86).
- 4 We calculated this number by dividing the number of mailpieces that will have to be processed manually at the Lansing P&DC because of the APBS move by the Postal Service's APBS BPI, and multiplying the product by Lansing P&DC's LDC 14 labor cost rate ((8,845,896 mailpieces/382 BPI)\*44.86).
- 5 We determined there will be a one-time cost due to relocating the APBS.

# Recommendations

***Management agreed with our recommendation to transfer the Lansing, MI, P&DC's Automated Parcel and Bundle Sorter to the Grand Rapids, MI, P&DC.***

We recommend the vice president, Network Operations:

1. Transfer the Lansing, MI, Processing and Distribution Center's Automated Parcel and Bundle Sorter to the Grand Rapids, MI, Processing and Distribution Center.

## Management's Comments

Management agreed with our findings and recommendation. Management agreed to transfer the Lansing, MI, P&DC's APBS to the Grand Rapids, MI, P&DC by September 30, 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 recommendation in the report.

# Appendices

*Click on the appendix title  
to the right to navigate to  
the section content.*

Appendix A: Additional Information .....	11
Background .....	11
Objective, Scope, and Methodology.....	13
Prior Audit Coverage .....	13
Appendix B: Management’s Comments.....	14

## 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 and the continuous drop in First-Class Mail® volume have been major factors contributing to the Postal Service's losses.

In April 2013, the Postal Service released its updated comprehensive Business Plan, which included detailed plans to eliminate nearly \$20 billion in annual costs by 2017. The Postal Service stated that 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 save nearly \$6 billion annually by consolidating the mail processing, retail, and delivery networks. The Postal Service stated that network consolidations are necessary to better align its networks with mail volume and workhours.

The Postal Service uses guidelines<sup>7</sup> to consolidate mail processing functions, eliminate excess capacity, increase efficiency, and better use resources. Consolidations provide opportunities for the Postal Service to reduce costs, improve service, and operate as a leaner, more efficient organization.

Title 39 U.S.C. Part 1, Chapter 1, §101, states that the Postal Service:

“ . . . shall provide prompt, reliable, and efficient services to patrons in all areas . . . .”

Further, the September 2005 Postal Service Strategic Transformation Plan states:

“The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates.”

The Postal and Accountability Enhancement Act of 2006, highlights:

“ . . . the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services . . . .”

This audit responds to a request from U.S. Senator Carl Levin of Michigan to review the Postal Service's proposed move of the APBS from the Lansing P&DC to the Grand Rapids P&DC.

---

<sup>7</sup> Handbook PO-408, *Area Mail Processing Guidelines*, March 2008.



## Objective, Scope, and Methodology

Our objective was to determine whether a business case exists for moving the APBS from the Lansing P&DC to the Grand Rapids P&DC. We reviewed data from October 2012 through March 2014 to analyze machine use and capacity at the Lansing and Grand Rapids P&DCs and conducted observations and interviewed management.

We used computer-processed data from the Enterprise Data Warehouse and the WebEOR database. We assessed the reliability of the data by interviewing agency officials knowledgeable about them. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from May through September 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 11, 2014, and included their comments where appropriate.

## Prior Audit Coverage

We have not previously performed an audit on equipment moves.

## Appendix B: Management's Comments

DAVID E. WILLIAMS  
Vice President, Network Operations



August 21, 2014

LORI LAU DILLARD  
Acting Director, Audit Operations

SUBJECT: Draft Audit Report – Equipment Transfer from the Lansing to the  
Grand Rapids Processing and Distribution Center  
(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.

Management is in agreement with the results of the audit. The Postal Service regularly evaluates the utilization and effectiveness of its processing equipment and continually relocates machines to improve its overall effectiveness.

Recommendation 1:

Transfer the Lansing, MI, Processing and Distribution Center's Automated Parcel and Bundle Sorter to the Grand Rapids, MI, Processing and Distribution Center.

Management Response/Action Plan:

Management agrees with this recommendation. The sorter will be relocated as soon as practical.

Target Implementation Date:

September, 2014

Responsible Official:

Manager, Processing Operations

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

A blue ink signature of David E. Williams, consisting of a stylized 'D' and 'W' followed by a horizontal line.

David E. Williams

475 L'Enfant Plaza SW  
Washington, DC 20260-7100  
202-268-4305  
Fax: 202-268-3331  
www.usps.com

- 2 -

cc: Ms. Brennan  
Corporate Audit and Response Management



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

Contact us via our [Hotline](#) and [FOIA](#) forms, follow us on social networks, or call our Hotline at 1-888-877-7644 to report fraud, waste or abuse. Stay informed.

1735 North Lynn Street  
Arlington, VA 22209-2020  
(703) 248-2100