



October 6, 2014

**MEMORANDUM FOR:** DAVID E. WILLIAMS, JR.  
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:** Management Alert – Lack of Service Standard Change  
Information in Area Mail Processing Feasibility Studies  
(Report Number NO-MA-15-001)

This management alert presents our concerns with the Lack of Service Standard Change Information in Area Mail Processing Feasibility Studies (Project Number 14XG036NO001). The issue came to our attention during our audit of Area Mail Processing Consolidations (Project Number 14XG036NO000).

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

## Introduction

On June 30, 2014, the postmaster general announced the U.S. Postal Service's plans to implement Phase 2 of the Network Rationalization Initiatives (NRI) by consolidating up to 82 facilities starting in January 2015. Specifically, the Postal Service completed Area Mail Processing (AMP)<sup>1</sup> feasibility studies to move mail processing operations from 79 facilities to 95 existing facilities. This alert is to bring to your attention the need to complete and evaluate the service standard<sup>2</sup> impacts portions of the feasibility studies prepared for the Phase 2 consolidations.

In the summer of 2012, the Postal Service executed Phase 1 of its NRI and announced its intention to implement revised service standards for market-dominant mail products<sup>3</sup> on February 1, 2014. On January 24, 2014, the Postal Service postponed implementing the revised service standards and on August 1, 2014, announced the revised service standards for market-dominant mail products associated with Phase 2 of the NRI will be effective January 5, 2015.

Postal Service officials testified before the U.S. Postal Regulatory Commission (PRC) that it was necessary to relax service standards, stating that the planned revisions would eliminate the availability of overnight service for a large portion of First-Class Mail and Periodicals. Management planned to shift mail no longer eligible for overnight service to a 2-day service standard and defer a substantial portion of mail currently subject to the 2-day standard to a 3-day standard. Furthermore, the revisions would allow for significant consolidation of the Postal Service's processing and transportation networks, resulting in an infrastructure that better matches current and projected mail volumes, while achieving significant cost savings.

## Conclusion

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 in 91 of the 95 AMP feasibility studies. The other four feasibility studies did not include updated service standard changes in the service standard impacts worksheet (see [Appendix A](#)). The worksheet should detail the upgrades and downgrades between 3-digit ZIP Codes<sup>4</sup> by class of mail<sup>5</sup> and volume.

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<sup>1</sup> The consolidation of all originating and/or designating distribution operations from one or more Post Office/facility into other automated processing facilities to improve operational efficiency and/or service. Three of the 82 Phase 2 consolidations did not require an AMP feasibility study because they are either an annex or a delivery distribution center (DDC). The three facilities are the Fayetteville, NC, and Jet Cove, TN, annexes; and the Seattle, WA, DDC.

<sup>2</sup> The stated goal for service achievement for each mail class.

<sup>3</sup> First-Class letters, sealed parcels, cards, Periodicals, Standard Mail, single-piece Parcel Post, Media Mail, Bound Printed Matter, Library Mail, special services, and single-piece international mail.

<sup>4</sup> A presort level in which all pieces in the bundle or container are addressed for delivery within the same first three digits of a 5-digit ZIP Code area.

<sup>5</sup> The classification of domestic mail according to content (e.g., personal correspondence versus print advertising) and other factors.

The first objective of an AMP feasibility study is to evaluate service standard impacts for all classes of mail.<sup>6</sup> The Postal Accountability and Enhancement Act,<sup>7</sup> which was enacted on December 20, 2006, impacts the feasibility study process. The Postal Service must:

- Provide adequate public notice to communities affected by a proposed network rationalization decision.
- Make available information about any service changes in the affected communities, any effects on customers or Postal Service employees, and any cost savings.
- Afford affected persons ample opportunity to provide input on the proposed decision.
- Take public comments into account in making a final decision.<sup>8</sup>

The Postal Service did not complete the service standard impacts worksheets because the revised service standards for market-dominant mail products associated with Phase 2 of the NRI had not been finalized when the Postal Service conducted the AMP feasibility studies. A Postal Service official said that, as of August 20, 2014, the analysis required to complete the service standard impacts worksheets was not completed and the Postal Service anticipates publishing the worksheets online ([www.usps.com](http://www.usps.com)) in the beginning of calendar year 2015, at the same time the consolidations are scheduled to begin.

Without completing and disclosing the analysis of planned service standard changes the Postal Service may experience:

- Degradation of service to communities, including delayed mail.
- Carriers delivering mail after 5 p.m. because of unexpected workload.
- Customer dissatisfaction, which could harm the Postal Service's brand and affect future revenue.

Moreover, completing the feasibility studies based on the revised service standards will allow the Postal Service to accurately assess the reasonableness of the consolidations, determine their impact on customers, better communicate the AMP results, and improve the probability of successful consolidations.

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<sup>6</sup> Handbook PO-408, *Area Mail Processing Guidelines*, Section 2-1, Purpose, dated March 2008.

<sup>7</sup> Public Law 109-435.

<sup>8</sup> Handbook PO-408, Section 4-3, Postal Service Accountability and Enhancement Act, dated March 2008.

## Recommendation

We recommend the vice president, Network Operations:

1. Complete the service standard impacts worksheet in all of the Area Mail Processing 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's Comments

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. However, management made NRI consolidation decisions during the proposal period for changing mail service standards for market-dominant products, therefore each AMP package they approved during this time included language necessary to provide transparency. Management disagreed that failure to complete and disclose the analysis of planned service standard changes may have a negative effect on delivery service quality.

Management agreed to compute the service standard impacts using the January 5, 2015 standards as the starting point prior to beginning the consolidations on January 10, 2015.

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

## Evaluation of Management's Comments

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

Regarding management's assertion that each AMP package approved during a specific period included language necessary to provide transparency, we agree that the majority of AMP feasibility studies include this language. However, the language did not provide sufficient transparency because the feasibility studies do not include details necessary to evaluate the service standard impacts for all classes of mail and the public did not have an opportunity to review the impacts and provide comments prior to the studies being approved. As stated in the alert, Postal Service policy states that the first objective of an AMP feasibility study is to evaluate service standard impacts for all classes of mail. Policy also requires the Postal Service to make information about any service changes in the affected communities available and take public comments into account when making a final decision.

Regarding management's assertion that incomplete analysis of planned service standard changes prior to consolidation will not have a negative effect on delivery service quality, our past audit work has shown that is not the case.

For example:

- We reported that, while there was a valid business case for consolidating the Lima, OH, Processing and Distribution Facility (P&DF) into the Toledo, OH, Processing and Distribution Center (P&DC), management did not ensure improvement or maintenance of on-time performance and customer service during the consolidation.<sup>9</sup>
- We reported that, while a business case existed to support the originating mail consolidation from the Huntsville, AL, P&DF into the Birmingham, AL, P&DC and the Postal Service generally followed AMP guidelines, we found nearly 70 percent of carriers were delivering mail after 5 p.m., which was a significant increase compared to pre-consolidation levels.<sup>10</sup>

Therefore, we believe it is critical that management complete and evaluate service standard impacts worksheets before implementing consolidations to ensure there is no negative impact on delivery service quality.

The OIG considers the recommendation significant, and therefore requires concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The 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.

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<sup>9</sup> *Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation* (Report Number EN-AR-11-004, dated March 31, 2011).

<sup>10</sup> *Consolidation of the Huntsville, AL, Processing and Distribution Facility* (Report Number NO-AR-14-005, dated May 5, 2014).

**Appendix A: Details of Review of Area Mail Processing Feasibility Studies**

	<b>Consolidating Facility</b>	<b>Gaining Facility</b>	<b>Service Standard Impacts Worksheets<sup>11</sup> Completed</b>
1	Huntsville, AL, P&DF	Birmingham, AL, P&DC	No
2	Tucson, AZ, P&DC	Phoenix, AZ, P&DC	No
3	Eureka, CA, Customer Service Mail Processing Center (CSMPC)	Medford, OR, CSMPC	No
4	Industry, CA, P&DC	Santa Ana, CA, P&DC Anaheim, CA, P&DC	No No
5	North Bay, CA, P&DC	Oakland, CA, P&DC	No
6	Redding, CA, CSMPC	West Sacramento, CA, P&DC	No
7	Colorado Springs, CO, P&DC	Denver, CO, P&DC	No
8	Southern Connecticut P&DC	Hartford, CT, P&DC Springfield, MA, National Distribution Center (NDC)	No No
9	Stamford, CT, P&DC	Westchester, NY, P&DC	No
10	Gainesville, FL, P&DC	Jacksonville, FL, P&DC	No
11	Manasota, FL, P&DC	Fort Myers, FL, P&DC Tampa, FL, P&DC	<b>Yes</b> <b>Yes</b>
12	Mid-Florida P&DC	Orlando, FL, P&DC	No
13	Athens, GA, P&DF	North Metro, GA, P&DC	No
14	Augusta, GA, P&DF	Columbia, SC, P&DC Macon, GA, P&DC	No No
15	Pocatello, ID, CSMPC	Salt Lake City, UT, P&DC	No
16	Fox Valley, IL, P&DC	South Suburban, IL, P&DC	No
17	Gary, IN, P&DC	South Suburban, IL, P&DC	No
18	Kokomo, IN, P&DF	Indianapolis, IN, P&DC	No
19	Lafayette, IN, P&DF	Indianapolis, IN, P&DC	No
20	Muncie, IN, P&DF	Indianapolis, IN, P&DC	No
21	South Bend, IN, P&DC	Fort Wayne, IN, P&DC	No
22	Salina, KS, P&DF	Wichita, KS, P&DC	No
23	Campton, KY, CSMPC	Louisville, KY, P&DC	No
24	Lexington, KY, P&DC	Louisville, KY, P&DC Knoxville, TN, P&DC	No No
25	Paducah, KY, P&DF	Evansville, IN, P&DC	No

<sup>11</sup> We reviewed 95 service standard impacts worksheets.

	Consolidating Facility	Gaining Facility	Service Standard Impacts Worksheets Completed
26	New Orleans, LA, P&DC	Baton Rouge, LA, P&DC	No
27	Central Mass, MA, P&DC	Boston, MA, P&DC Middlesex Essex, MA, P&DC	No No
28	Middlesex Essex, MA, P&DC	Boston, MA, P&DC	No
29	Northwest Boston, MA, P&DF	Boston, MA, P&DC Middlesex Essex, MA, P&DC	No No
30	Southern MD, P&DC	Suburban, MD, P&DC	No
31	Iron Mountain, MI, P&DF	Green Bay, WI, P&DC	No
32	Kalamazoo, MI, P&DC	Grand Rapids, MI, P&DC	No
33	Lansing, MI, P&DC	Michigan Metroplex P&DC Grand Rapids, MI, P&DC	No No
34	Bemidji, MN, CSMPC	Minneapolis, MN, P&DC	No
35	Duluth, MN, P&DF	Saint Paul, MN, P&DC	No
36	Mankato, MN, P&DF	Minneapolis, MN, P&DC	No
37	Saint Cloud, MN, P&DF	Minneapolis, MN, P&DC	No
38	Cape Girardeau, MO, P&DF	St. Louis, MO, P&DC	No
39	Springfield, MO, P&DF	Kansas City, MO, P&DC	No
40	Grenada, MS, CSMPC	Jackson, MS, P&DC	No
41	Gulfport, MS, P&DF	Mobile, AL, P&DC	No
42	Hattiesburg, MS, CSMPC	Mobile, AL, P&DC	No
43	Asheville, NC, P&DF	Greenville, SC, P&DC	No
44	Fayetteville, NC, P&DC	Charlotte, NC, P&DC Raleigh, NC, P&DC	No No
45	Rocky Mount, NC, P&DF	Raleigh, NC, P&DC	No
46	Minot, ND, CSMPC	Bismarck, ND, P&DC	No
47	Grand Island, NE, P&DF	Omaha, NE, P&DC	No
48	Norfolk, NE, P&DF	Omaha, NE, P&DC	No
49	Elko, NV, CSMPC	Salt Lake City, UT, P&DC	No
50	Mid-Hudson, NY, P&DC	Albany, NY, P&DC	No
51	Queens, NY, P&DC	Brooklyn, NY, P&DC	No
52	Akron, OH, P&DC	Cleveland, OH, P&DC	No
53	Dayton, OH, P&DC	Columbus, OH, P&DC	<b>Yes</b>
54	Toledo, OH, P&DF	Michigan Metroplex P&DC Detroit, MI, P&DC Columbus, OH, P&DC	No No No
55	Youngstown, OH, P&DF	Cleveland, OH, P&DC	No
56	Tulsa, OK, P&DC	Oklahoma City, OK, P&DC	No
57	Bend, OR, CSMPC	Portland, OR, P&DC	No
58	Eugene, OR, P&DF	Portland, OR, P&DC	No

	Consolidating Facility	Gaining Facility	Service Standard Impacts Worksheets Completed
59	Pendleton, OR, CSMPC	Portland, OR, P&DC	No
60	Erie, PA, P&DF	Pittsburgh, PA, P&DC Rochester, NY, P&DC	No No
61	Lancaster, PA, P&DF	Harrisburg, PA, P&DC	No
62	Scranton, PA, P&DF	Lehigh Valley, PA, P&DC	No
63	Florence, SC, P&DF	Columbia, SC, P&DC	No
64	Dakota Central, SD, P&DF	Sioux Falls, SD, P&DC	No
65	Chattanooga, TN, P&DC	Nashville, TN, P&DC Atlanta, GA, P&DC	No No
66	Abilene, TX, CSMPC	Austin, TX, P&DC Midland, TX, P&DC	No No
67	Corpus Christi, TX, P&DC	San Antonio, TX, P&DC	No
68	Provo, UT, CSMPC	Salt Lake City, UT, P&DC Grand Junction, CO, CSMPC Las Vegas, NV, P&DC	No No No
69	Norfolk, VA, P&DC	Richmond, VA, P&DC	No
70	Roanoke, VA, P&DC	Greensboro, NC, P&DC	No
71	Tacoma, WA, P&DC	Seattle, WA, P&DC	No
72	Wenatchee, WA, CSMPC	Spokane, WA, P&DC	No
73	Eau Claire, WI, P&DF	Saint Paul, MN, P&DC	No
74	La Crosse, WI, P&DF	Saint Paul, MN, P&DC	No
75	Madison, WI, P&DF	Milwaukee, WI, P&DC	<b>Yes</b>
76	Wausau, WI, P&DF	Green Bay, WI, P&DC	No
77	Rock Springs, WY, CSMPC	Salt Lake City, UT, P&DC	No
78	Beaumont, TX, P&DC	North Houston, TX, P&DC	No
79	Houston, TX, P&DC	North Houston, TX, P&DC	No

Source: Postal Service Network Operations AMP.

## Appendix B: Management's Comments

DAVID E. WILLIAMS  
VICE PRESIDENT, NETWORK OPERATIONS



September 25, 2014

LORI LAU DILLARD  
Director, Audit Operations

SUBJECT: Management Alert – Lack of Service Standard Change Information in  
Area Mail Processing Feasibility Studies  
(Report Number NO-MA-14-DRAFT)

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

The Management Alert indicates that almost all of the Area Mail Processing (AMP) feasibility studies comprising the ongoing Network Rationalization initiative did not reflect estimated percentages of mail volume expected to experience a service standard change in the delivery area affected by each AMP.

Ordinarily, such information is included in individual AMP final decision packages and indicates the service standard impact expected to result from implementation of a particular AMP consolidation. As you will recall, the consolidation decisions that comprise the Network Rationalization initiative were, in the main, made in February 2012, during the pendency of the rulemaking that solicited public comment on proposed mail service standard changes for market-dominant products published at 76 FR 77942 on December 15, 2011. It bears emphasizing that the AMP decisions that are a part of the Docket No. N2012-1 Network Rationalization initiative (including the consolidations relegated to Phase 2 in May 2012) assumed implementation of a set of service standards business rule changes that were more aggressive than those ultimately decided upon and scheduled for Phase 2. Compare 76 FR 77942 to 77 FR 31190.

To account for the pending resolution and still provide the transparency required, each AMP package approved during this time period included the following language:

***Specific service standard changes associated with this Area Mail Processing consolidation are contingent upon the resolution of both (a) the rulemaking in which current market dominant product service standards in 39 CFR Part 121 are being evaluated, and (b) all remaining AMP consolidation proposals that are part of the same network rationalization initiative. A complete file reflecting any new service standards will be published at [www.usps.com](http://www.usps.com)***

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***once all of the related AMP decisions that provide the foundation for new service standards are made. Priority and Express Mail service standards will be based upon the capability of the network.***

Ordinarily, service standards are static during the evaluation of a proposed AMP consolidation and the AMP decision package will reflect estimates of the percentage of mail volume expected to experience a service standard change as result of changes in operations and in the 3-digit ZIP Code service area boundary changes for affected mail processing plants. However, estimates of changes in the percentage of mail subject to a service standard change in conjunction with the February 2012 Network Rationalization AMP decisions could not be developed for each AMP consolidation until the service standard business rule changes under consideration at the time were determined in May 2012. As you know, at that time, we decided to implement the Network Rationalization AMP consolidations in two phases, the first of which began in the summer of 2012 and continued into 2013. At the time, the public was informed of the service standard business rule changes that the Postal Service intended to implement and the general result that some First-Class Mail with an overnight service standard would end up with a 2-day standard and some First-Class Mail with a 2-day service standard would end up with a 3-day standard. The specific local mail volume percentage impacts could not be determined until July 2012, when the database of over 849,000 3-digit ZIP Code pairs was updated to reflect the new service standards.

At page 2, the draft Management Alert asserts that the “failure of the Postal Service to complete and disclose the analysis of the planned service standard changes may result in:

- degradation of service to communities, including delayed mail;
- carriers delivering mail after 5:00pm because of unexpected workload; and
- customer dissatisfaction, which could harm the Postal Service’s brand and affect future revenue.”

The Postal Service devotes considerable resources to monitoring delivery service performance on a routine basis, irrespective of mail processing plant consolidation activity or post-implementation review of AMP consolidations. Accordingly, one should not equate a failure to update the Network Rationalization AMP decision packages in August 2012 to include estimates of the percentage of mail volume expected to experience a service standard change as evidence that of any failure to analyze the impact of the Phase 1 operational changes on delivery service quality.

The Postal Service is aware of no basis for the conclusion that its failure to “complete and disclose the analysis of the planned service standard changes” in August 2012 could have resulted in “[c]ustomer dissatisfaction, which could harm the Postal Service’s brand and affect future revenue.” Nor are we aware of any basis for quantifying such speculative impact or asserting that it would be significant or lasting.

We are equally puzzled by the assertion of a nexus between (1) a purported failure to analyze and disclose the service standard changes and (2) negative changes in the

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quality of delivery service. The Postal Service agrees that postal operational adjustments that conform to a service standard change for an origin-destination 3-digit ZIP Code pair (for example, from overnight to two-day) will result in mail taking longer to get from that origin to that destination. However, if this change in service constitutes the "degradation of service" or generates the "delayed mail" referenced at page 2 of the Management Alert, logic dictates that the planned operational change (or a failure to properly implement it or a routine operational failure) would be the cause of any service degradation or delay, not some failure to analyze the change or disclose to the public the percentage of mail volume expected to experience a shift in service standard as a result of the change.

Finally, it is not clear to the Postal Service how a failure to publicly disclose an estimate of the percentage of mail expected to experience a service standard change as the result of an AMP consolidation has a bearing on carriers delivering mail after 5:00pm because of unexpected workload.

Recommendation

Complete the service standard impacts worksheet in all of the Area Mail Processing 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 Response/Action Plan:

Management partially agrees with this recommendation. The implementation of the consolidations is scheduled to begin on January 10, 2015. On January 5, 2015, the business rules for service standards for market-dominant products in 39 CFR 121 will change as currently outlined in 79 FR 44700 (August 1, 2014). Management will compute the service standard impacts using the January 5, 2015 standards as the starting point prior to consolidation.

Target Implementation Date:

January, 2015

Responsible Official:

Manager, Processing Operations

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



David E. Williams

cc: Ms. Brennan  
Corporate Audit and Response Management