



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Southeastern Pennsylvania Processing and Distribution Center Consolidation

Audit Report

Report Number
NO-AR-14-006-DR

May 16, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

We determined a business case existed to support the consolidation. It should produce a cost savings of about \$3.8 million in the first year and about \$9.4 million annually in subsequent years.

Background

The U.S. Postal Service continues to aggressively cut costs. Its efforts include consolidating the mail processing network to align it with reduced mail volume and a smaller workforce.

This report responds to a request from Congressman James Gerlach of Pennsylvania's Sixth Congressional District regarding redistribution of processing functions of the Southeastern Pennsylvania Processing and Distribution Center. The Area Mail Processing (AMP) review for this facility redistributed its originating and destinating mail to the Wilmington, DE, Processing and Distribution Facility and the Philadelphia, PA, Processing and Distribution Center. The consolidation was completed on September 7, 2013.

Our objectives were to determine whether a business case existed for the consolidation of mail processing operations from the Southeastern Processing and Distribution Center into the Philadelphia and Wilmington facilities and to assess compliance with established AMP guidelines.

What the OIG Found

A business case existed to support the consolidation. It should produce a cost savings of about \$3.8 million in the first year, and about \$9.4 million annually in subsequent years. Our analysis indicates that adequate machine capacity and floor space existed and overall productivity increased at the gaining facilities after the consolidation. We also concluded that the consolidation did not significantly impact customer service, delayed mail declined, and no employees lost their jobs due to the consolidation.

We found the AMP proposal overstated annual savings by \$4.6 million because it did not include additional workhour and transportation costs associated with the consolidation. Finally, the Postal Service generally followed AMP guidelines. Although some deadlines were missed, this did not adversely affect the consolidation process.



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What the OIG Recommended

We recommended the vice president, Network Operations, direct the manager, AMP and Facility Consolidations, to re-evaluate workhour and transportation savings and make adjustments to the AMP proposal during the first Post-Implementation Review.

Cost savings verification by category

* Management created 38 new positions at the Philadelphia NDC. However, we attributed a third of the positions to additional mail volume from the Southeastern P&DC consolidation. We estimate these positions will cost the Postal Service \$897,780 annually.

**Because of the Southeastern P&DC consolidation, the Postal Service incurred additional highway contract route trips at an additional cost of \$3,293,929.

Source: EDW.

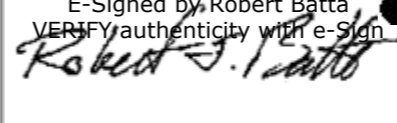
Transmittal Letter



OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

May 16, 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 – Southeastern Pennsylvania Processing
and Distribution Center Consolidation
(Report Number NO-AR-14-006)

This report presents the results of our audit of the Southeastern Pennsylvania Processing and Distribution Center Consolidation in the Philadelphia Metro District in the Eastern Area (Project Number 13XG040NO000).

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

Attachment

cc: Corporate Audit and Response Management

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Findings

Our analysis concluded that adequate machine capacity and floor space existed and overall productivity increased at the gaining facilities after the consolidation. We also concluded the consolidation did not significantly impact customer service, delayed mail declined, and no employees lost their jobs due to the consolidation.

Introduction

This report presents the results of our audit of the Southeastern Pennsylvania Processing and Distribution Center (P&DC) originating and destinating mail consolidation into the Philadelphia, PA, P&DC and the Wilmington, DE, Processing and Distribution Facility (P&DF) (Project Number 13XG040NO000). In response to a congressional request, we assessed whether a business case existed for consolidating processing operations and determined whether the U.S. Postal Service followed Area Mail Processing (AMP) guidelines. The Southeastern AMP redistributed originating¹ and destinating mail² from the Southeastern P&DC to the Philadelphia P&DC and Wilmington P&DF. See [Appendix A](#) for additional information about this audit.

An AMP is the consolidation of all originating and/or destinating distribution operations from one or more Post Office™ facilities with excess machine capacity into another automated processing facility to improve operational efficiency or service. When implemented properly, a consolidation enables the Postal Service to increase automated operations and worker productivity, reduce personnel costs, and make more efficient use of transportation while maintaining and improving the quality of mail service. Specific factors that should be in an AMP proposal are the methodology for calculating associated costs or savings and other evaluating criteria found in the AMP guidelines.³

Conclusion

We determined a business case existed to support the consolidation. It should produce a cost savings of about \$3.8 million in the first year and about \$9.4 million annually in subsequent years. Our analysis also concluded that:

- There is adequate machine capacity and floor space to process mail at the Philadelphia P&DC and Wilmington P&DF.
- Overall productivity at the Philadelphia P&DC and the Wilmington P&DF increased after the consolidation.
- The consolidation did not significantly impact customer service performance measured by the External First-Class Measurement (EXFC) System.⁴
- Delayed mail declined after the consolidation at the Philadelphia P&DC and Wilmington P&DF.
- No employees lost their jobs as a result of the consolidation and management reassigned all affected employees to facilities within a 50-mile radius.
- The AMP estimated savings to be \$13,983,843 annually and we estimated a predicted savings shortfall of \$4,625,829. See [Appendix B](#) for a detailed explanation of predicted savings shortfall.
- The Postal Service generally followed established AMP guidelines; however, employees did not complete some procedures timely.

¹ The processing facility where the mailpiece enters the mailstream.

² Incoming mail arriving for its point of final delivery (destination) through a processing facility.

³ Handbook PO-408, *Area Mail Processing Guidelines*, revision.

⁴ A system that allows a contractor to perform 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, which are compared with the Postal Service's service goals. A consumer advocate releases the results to the public quarterly.

Capacity

Adequate machine capacity and floor space existed at the Philadelphia P&DC⁵ and the Wilmington P&DF to process mail volume from the Southeastern P&DC. After the consolidation, the Philadelphia P&DC and Wilmington P&DF still had additional capacity on all of their major equipment (see Tables 1 and 2).

Table 1. Philadelphia P&DC Capacity

Equipment	Number of Machines	Maximum Processing Capacity (Mailpieces)	Projected Mail Volume (Mailpieces)	Percentage of Idle Processing Capacity
Advanced Facer Cancellor System (AFCS)	10	635,376,000	257,444,149	59%
Automated Flat Sorting Machine (AFSM)	5	418,500,000	332,153,033	21%
Delivery Barcode Sorter (DBCS)	46	5,914,335,000	3,730,841,309	37%
Delivery Input Output Subsystem (DIOS)	12	1,249,920,000	330,209,919	74%

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

Table 2. Wilmington P&DF Capacity

Equipment	Number of Machines	Maximum Processing Capacity (Mailpieces)	Projected Mail Volume (Mailpieces)	Percentage of Idle Processing Capacity
AFCS	5	317,688,000	93,656,245	71%
AFSM	2	167,400,000	100,735,160	40%
DBCS	18	2,314,305,000	1,680,031,730	27%
DIOS	6	624,960,000	148,836,292	76%

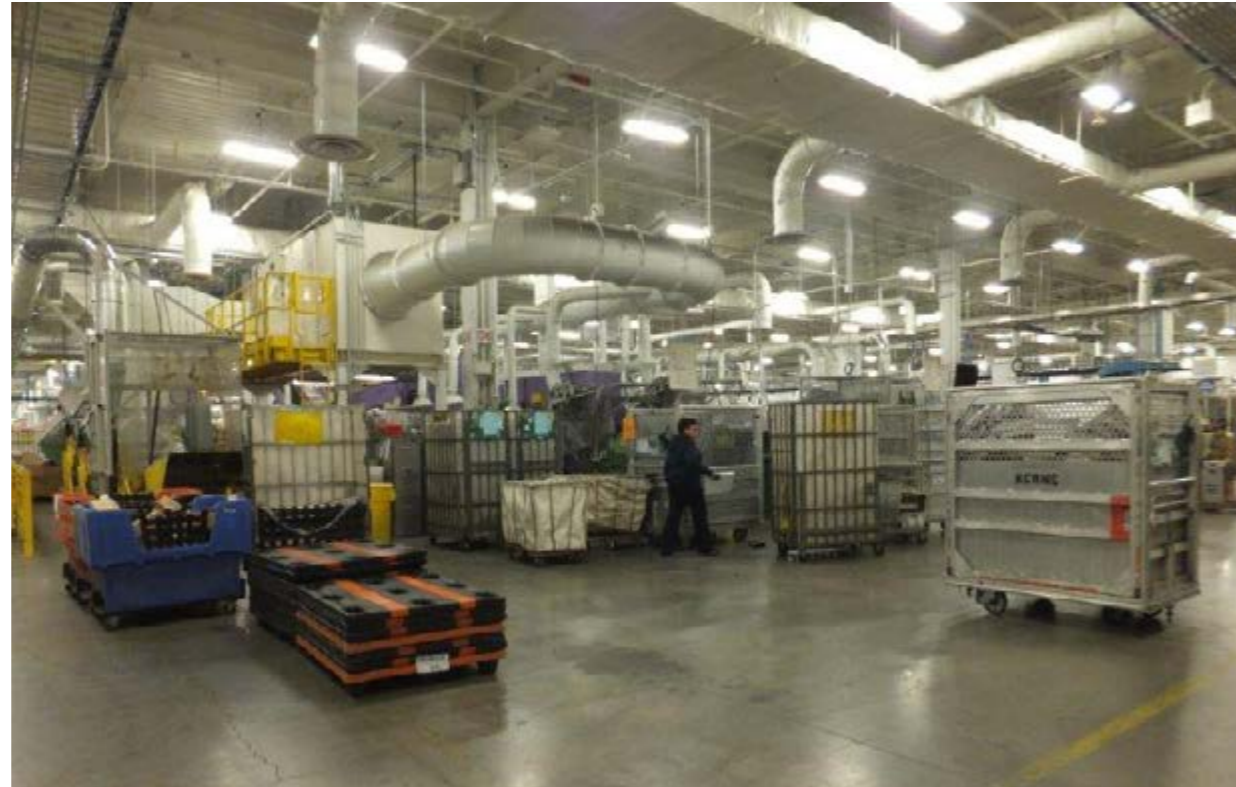
Source: EDW and WebEOR.

Floor Space and Dock Capacity. The Philadelphia P&DC and the Wilmington P&DF had sufficient floor space to accommodate the additional equipment and staging areas needed to process the additional mail volume (see [Figure 1](#)). Furthermore, adequate dock door capacity existed for morning delivery point sequence (DPS)⁶ dispatches to the stations.

⁵ We calculated maximum capacity by either reducing idle time or expanding the window of operation.

⁶ DPS provides the Postal Service with a more cost-efficient way of preparing the carrier's mail in delivery sequence using automated processing equipment.

Figure 1. Philadelphia P&DC



Observations at the Philadelphia P&DC revealed ample floor space for additional equipment and staging areas.

Source: U.S. Postal Service Office of Inspector General (OIG) photograph taken November 2013.

Efficiency

Mail processing first-handling piece (FHP) productivity at the gaining facilities improved after the consolidation. Compared to the same period last year (SPLY), Philadelphia P&DC FHP productivity⁷ increased by 61 mailpieces per hour to 915 mailpieces per hour (7 percent), while Wilmington P&DF productivity increased by 154 mailpieces per hour to 1,162 mailpieces per hour (15 percent) (see Table 3).

Table 3. Impact on Productivity at the Philadelphia P&DC and the Wilmington P&DF

Philadelphia P&DC		Wilmington P&DF	
Period	FHP Productivity	Period	FHP Productivity
Fiscal Year (FY) 2013, Quarter (Q)1	854	FY 2013, Q1	1,008
FY 2014, Q1	915	FY 2014, Q1	1,162
Percentage Change	7.19%	Percentage Change	15.27%

Source: EDW.

⁷ FHP divided by workhours is FHP productivity. This number is useful in evaluating overall productivity.

Customer Service

The consolidation did not significantly impact customer service performance for the impacted Southeastern P&DC ZIP Codes measured by EXFC. As shown in Table 4, service scores for overnight, 2- and 3-day mail classes increased in six of nine ZIP Codes impacted by the consolidation. We also noted that three service scores declined, but not significantly, when compared to the SPLY.

Table 4. EXFC Measurement

EXFC Standard	ZIP Code	Before Consolidation FY 2013, Q1	After Consolidation FY 2014, Q1
Overnight	189	96.93	94.97
	193	96.40	96.19
	194	94.21	95.83
2-Day	189	94.49	94.22
	193	94.02	94.40
	194	94.41	94.89
3-Day	189	92.00	92.73
	193	91.69	91.70
	194	90.47	93.53

Note: Red numbers are service scores that declined from FY 2013, Q1 compared to the SPLY. Blue service scores are service scores that have increased from FY 2013, Q1 compared to the SPLY.

Source: EDW.

Priority Mail

Priority Mail® air and surface service scores increased significantly for the impacted ZIP Codes for FY 2014, Q1 compared to the SPLY (see Table 5). This means that on-time delivery performance for these mail classes improved.

Table 5. Priority Mail Service

Priority Mail Service Standard	ZIP Code	Before Consolidation FY 2013, Q1	After Consolidation FY 2014, Q1
Air	189	69.34	78.84
	193	65.68	75.86
	194	66.83	79.32
Surface	189	84.22	89.47
	193	82.73	88.70
	194	83.57	89.21

Note: Blue service scores are service scores that have increased from FY 2013, Q1 compared to the SPLY.

Source: EDW.

Delayed Mail

Delayed mail decreased after the consolidation. Philadelphia P&DC delayed mail volume as a percentage of total FHP volume declined by 4.55 percent (from 8.29 percent of FHP volume to 3.74 percent of FHP volume) after the consolidation. Likewise, Wilmington P&DF delayed mail volume as a percentage of total FHP volume declined by 1.38 percent (from 1.82 percent of FHP volume to 0.44 percent of FHP volume). See Table 6.

Table 6. Delayed Mail Volume

Facility	Period	Total Delayed	Total FHP	Percentage of Delayed FHP
Philadelphia P&DC	Before Consolidation FY 2013, Q1	42,010,252	506,470,448	8.29%
	After Consolidation FY 2014, Q1	24,562,661	656,778,336	3.74%
Wilmington P&DF	Before Consolidation FY 2013, Q1	2,681,991	147,479,566	1.82%
	After Consolidation FY 2014, Q1	1,165,249	265,544,355	0.44%

Source: EDW.

Employee Impact

Consolidation of the Southeastern P&DC into the Philadelphia P&DC and the Wilmington P&DF did not result in any job losses. Management transferred affected employees to the Philadelphia P&DC, the Wilmington P&DF, or another facility within 50 miles of the Southeastern P&DC. Specifically:

- Management reduced 407 craft employees (including clerks, mail handlers, and maintenance positions) and eliminated 38 executive and administrative schedule (EAS) positions at the Southeastern P&DC.
- Management reassigned 66 clerks and 67 mail handlers to the Philadelphia P&DC.
- Management reassigned 43 clerks and 25 mail handlers to the Wilmington P&DF.
- Management reassigned 29 clerks and 31 mail handlers to the Philadelphia National Distribution Center (NDC).
- Management transferred 20 clerks and two maintenance employees to other facilities.
- Twelve clerks and mail handlers either died or took other positions.
- One hundred ten employees retired.
- Management created an additional 24 clerk and 14 mail handler positions at the Philadelphia NDC to support a new Automated Parcel and Bundle Sorter. We attributed a third of the positions to the AMP.
- Management transferred 22 EAS or postal career executive schedule employees to the Philadelphia P&DC, two to the Wilmington P&DF, one to the Philadelphia NDC, and eight to other facilities within the district. Five others either retired or relinquished their positions.
- The Southeastern P&DC AMP proposal did not include relocation costs for the affected employees since all reassignments were within 50 miles.

Cost Savings

The Postal Service estimated cost savings from the Southeastern P&DC consolidation to be \$8,420,869 in the first year, while the OIG estimated a first year savings of \$3,795,040 and cost savings of \$9,358,014 annually in subsequent years. The difference in the Postal Service and OIG estimates is due primarily to differences in workhour adjustments and transportation costs (see Table 7).

Table 7. Cost Savings Verification

Savings Category	AMP Projected Savings (Loss)	OIG Projected Savings (Loss)	Difference
Mail Processing Workhour Savings*	\$11,892,534	\$10,994,754	(\$897,780)
Non-Mail Processing Craft/EAS Workhour Savings	486,535	486,535	0.00
Postal Career Executive Service/EAS Supervisor Workhour Savings	3,725,727	3,725,727	0.00
Transportation Savings**	434,120	(3,293,929)	(3,728,049)
Maintenance Savings	(2,555,073)	(2,555,073)	0.00
Annual Savings	13,983,843	9,358,014	(4,625,829)
One-Time Cost	(5,562,974)	(5,562,974)	0.00
Total First Year Savings	\$8,420,869	\$3,795,040	(\$4,625,829)

*Management created 38 new positions at the Philadelphia NDC. However, we attributed a third of the positions to additional mail volume from the Southeastern P&DC consolidation. We estimate these positions will cost the Postal Service \$897,780 annually.

**Because of the Southeastern P&DC consolidation, the Postal Service incurred additional highway contract route trips at an additional cost of \$3,293,929.

Source: EDW.

Area Mail Processing Guidelines

The Postal Service complied with stakeholder communication policies and followed AMP guidelines when conducting the AMP study; however, some of the AMP study steps were not completed within established deadlines. Missing these deadlines did not adversely affect the consolidation process.

Recommendation

We recommend management re-evaluate workhour and transportation savings and make adjustments to the AMP proposal during the first Post-Implementation Review.

We recommend the vice president, Network Operations, direct the manager, Area Mail Processing and Facility Consolidations, to:

1. Re-evaluate workhour and transportation savings and adjustments contained in the Area Mail Processing proposal during the first Post-Implementation Review.

Management's Comments

Management agreed with our findings and recommendation. Management agreed to re-evaluate workhour and transportation savings in the AMP during the Post-Implementation Review. The target completion date is June 2014.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

Appendices

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Appendix A: Additional Information

Background

As of June 30, 2013, the Postal Service has suffered net losses in 16 of the last 18 quarters. The requirement to prefund its retiree health benefit obligations, plus the precipitous drop in mail volume caused by changes in consumers' use of mail, have been the two major factors contributing to these losses since the recession ended in 2009.

The Postal Service continues to aggressively pursue strategies to cut costs, including consolidating mail processing, retail, and delivery networks to better align them with declining mail volume and a reduced workforce.

During 2012, the Postal Service announced detailed plans to implement these strategies and is acting to increase the productivity of the mail processing, delivery, and retail networks. To this end, it is consolidating mail processing facilities, and rescheduling transportation routes, while continuing to deliver appropriate service to communities throughout America.

The Postal Service uses AMP guidelines 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 or improve service and operate as a leaner, more efficient infrastructure. Automated processing of mail has provided opportunities to consolidate:

- First-Class originating and incoming operations
- Overnight and originating Priority Mail processing
- Destinating Priority Mail processing
- Annexes into main facilities
- Facilities

In response to a request from Congressman James Gerlach of Pennsylvania's Sixth Congressional District, we initiated this audit of the Southeastern P&DC mail consolidation into the Philadelphia P&DC and the Wilmington P&DF. Specifically, Congressman Gerlach asked us to:

- Determine whether the consolidation would improve efficiency and productivity and reduce costs.
- Determine whether the consolidation would adversely affect customer service.

The Southeastern P&DC consolidation occurred on September 7, 2013. The Southeastern and Philadelphia P&DCs are in the Philadelphia District and the Wilmington P&DF is in the South Jersey District; however, both districts are in the Eastern Area.

Objectives, Scope, and Methodology

Our objectives were to assess whether a business case existed for consolidating processing operations from the Southeastern P&DC into the Philadelphia P&DC and Wilmington P&DF and determine whether the Postal Service followed AMP guidelines.

To meet our objectives, we interviewed Postal Service officials and reviewed applicable guidelines, including Handbook PO-408 and the *AMP Communication Plan*. We analyzed workhours, mail volume, and employee complement and observed the facilities. We reviewed data from FY 2013, Q1 and FY 2014, Q2 to analyze efficiencies at the Southeastern P&DC, Philadelphia P&DC and the Wilmington P&DF and used computer-generated data from the following systems:

- Electronic Facilities Management
- Customer Experience Measurement
- EDW
- Web Complement Information
- WebEOR

We conducted this performance audit from July 2013 through May 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 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 13, 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

Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Altoona, PA, Originating and Destinating Consolidation</i>	NO-AR-13-010	9/30/2013	\$138,839

Report Results: Our report found there was a business case to support consolidation; however, adjustments needed to be made to maintenance savings. Management agreed with our recommendation and will make changes during the first Post-Implementation Review.

Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>New Castle and Greensburg, PA, Consolidation</i>	NO-AR-13-004	8/16/2013	\$978,954
Report Results: Our report found 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, buy out, or terminate lease agreements for vacated facilities; and ensure employees store Voyager eFleet cards securely.			
<i>Frederick, MD, to Baltimore, MD, Area Mail Processing Consolidation</i>	NO-AR-12-006	7/3/2012	\$558,021
Report Results: Our report found that consolidation of destinating mail processing operations initially resulted in significant delayed mail, declines in service and customer experience scores, and increased transportation costs. Management acknowledged there were challenges with the consolidation, but 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. It is working to ensure reimbursement of payments for services not performed and expects this to be completed by the end of the calendar year.			
<i>Oxnard, CA, Processing and Distribution Facility Destinating Mail Consolidation</i>	NO-AR-12-004	3/6/2012	None
Report Results: Our report found there was a valid business case to support the consolidation. Management agreed with our recommendations to monitor customer service measurement, 24-hour clock indicators, delayed mail, and staffing levels to ensure mail is processed timely.			
<i>Industry, CA, Processing and Distribution Center Mail Consolidation</i>	NO-AR-12-002	10/17/2011	\$1,321,651
Report Results: Our report found there was a valid business case to consolidate originating mail processing operations from the Industry P&DC into the Santa Ana P&DC to achieve a cost savings of about \$1.32 million annually. We made no recommendations.			
<i>Oshkosh, WI, Processing and Distribution Facility Consolidation</i>	NO-AR-11-006	7/29/2011	None
Report Results: Our report found there was a valid business case to support the consolidation with the exception of sufficient floor space and machine capacity. Management agreed with the recommendations, but disagreed with our analysis of floor space and letter processing capacity.			

Appendix B: Other Impacts

Recommendation	Impact Category	Amount
1	Predicted Savings Shortfall ⁸	\$4,625,829

⁸ The difference between the savings the Postal Service predicts for a project (capital investment, consolidation, and so forth) and the actual savings or the OIG's estimate of savings that will be realized.

Appendix C: Management's Comments

DAVID E. WILLIAMS
VICE PRESIDENT, NETWORK OPERATIONS



May 12, 2014

JUDITH LEONHARDT

SUBJECT: Draft Audit Report – Southeastern Pennsylvania Processing and Distribution Center Consolidation (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 Postal Service agrees with the results of the audit regarding the business case for the consolidation. Ongoing changes in the Postal Service may require sites involved with consolidations to alter their plans to achieve our mission. We use the Post-Implementation Review (PIR) process to identify areas that may need attention and will work with the sites in question to achieve the maximum savings possible.

Recommendation 1

Re-evaluate workhour and transportation savings and adjustment [sic] the Area Mail Processing proposal in the first Post-Implementation Review.

Management Response/Action Plan:

Management agrees with this recommendation. The PIR is used to assess whether planned savings, work hours, and levels of service are achieved. In the PIR process, any variances from the Area Mail Processing (AMP) study will be identified and documented. The first PIR for this consolidation is currently underway and results are scheduled to be available by June 2014.

Target Implementation Date:

June, 2014

Responsible Official:

Manager, Processing Operations

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



David E. Williams

cc: Megan Brennan
Corporate Audit and Response Management



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