

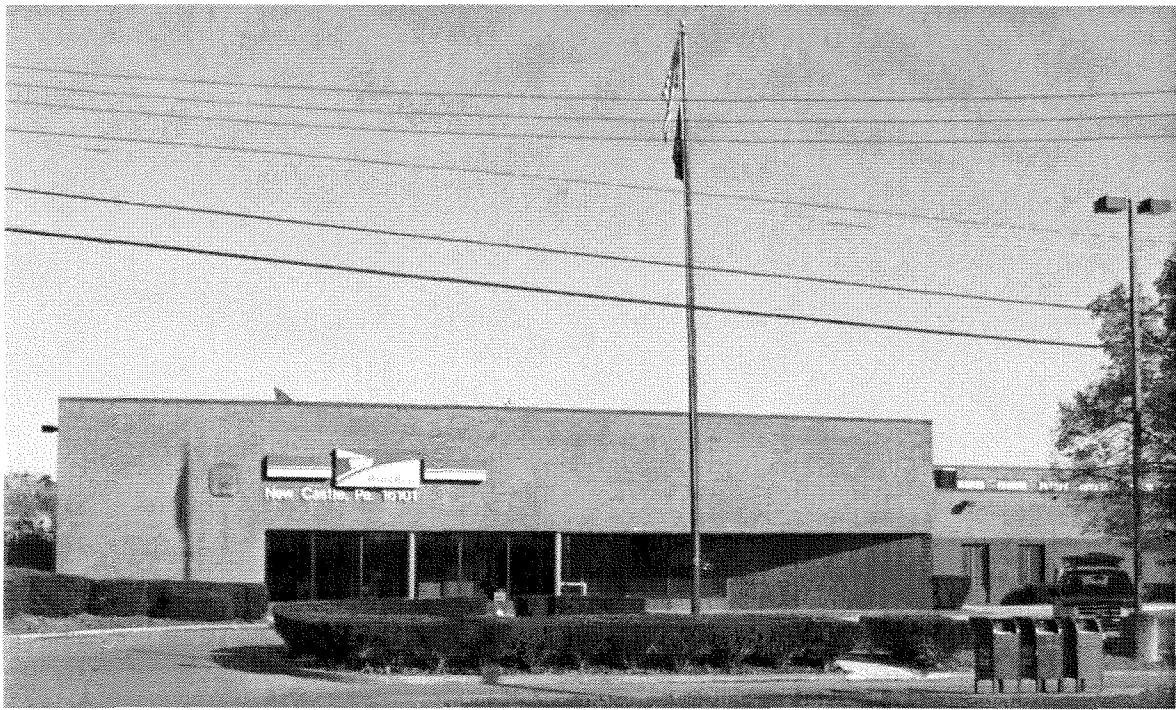


February 1, 2010

MEGAN J. BRENNAN
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – New Castle Processing and Distribution Facility Outgoing
Mail Consolidation (Report Number NO-AR-10-002)

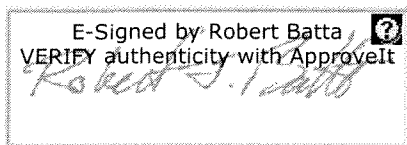
This report presents the results of our audit of the proposed consolidation of the New Castle Processing and Distribution Facility's (P&DF) outgoing mail operation to the Pittsburgh Processing and Distribution Center (P&DC) (Project Number 09XG036NO000). The report responds to a Congressional request. Our audit objective was to determine whether the consolidation of outgoing mail operations is a prudent business decision. This audit addresses operational risk. See Appendix A for additional information about this audit.




Conclusion

Consolidating the New Castle P&DF outgoing mail processing operations¹ into the Pittsburgh P&DC is a prudent business decision. Our analysis showed the consolidation will minimally impact employees, improve service, and reduce costs through increased efficiency. Additionally, the U.S. Postal Service has addressed community concerns and the Area Mail Processing (AMP) consolidation estimates appeared reasonable. Because our findings support the consolidation, we are not making recommendations. Postal Service management agreed with the report but chose not to comment because there were no recommendations. See Appendix B for our detailed analysis of this topic.

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



E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt
Robert J. Batta

Robert J. Batta
Deputy Assistant Inspector General
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¹ The New Castle P&DF will transfer approximately 81 million First handled pieces (FHP) of mail per year to the Pittsburgh P&DC.

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in First-Class[®] Mail (FCM) volume over the past decade. During fiscal year (FY) 2009, the decline in overall mail volume was more than 25 billion pieces, resulting in a net loss of \$3.8 billion.

Although the Postal Service has reduced expenses by nearly \$6 billion in FY 2009, the expense reduction was not sufficient to fully offset the decline in mail volume and rising cost of workers' compensation and retirement costs. In recent testimony before Congress,² the U.S. Government Accountability Office (GAO) recommended that urgent action was needed to streamline the mail processing and retail networks, as the Postal Service no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. Furthermore, GAO stated it was necessary for the Postal Service to consider whether it was cost-effective to retain underutilized facilities and to take action to right size its network.

Through AMP guidelines, the Postal Service streamlines operations by consolidating mail processing functions resulting in increased efficiencies and better use of its resources. Automated processing of mail has provided opportunities to take advantage of consolidations. The opportunities include consolidations of:

- Saturday First-Class[™] originating operations.
- First-Class originating operations.
- First-Class incoming operations.
- Overnight Priority Mail[®] processing.
- Originating Priority Mail processing.
- Originating and destinating Priority Mail processing.
- Annexes into main facilities.
- Facilities.

In answering a Congressional request, we examined the proposed consolidation of outgoing mail processing operations from the New Castle P&DF into the Pittsburgh P&DC. Concerns included:

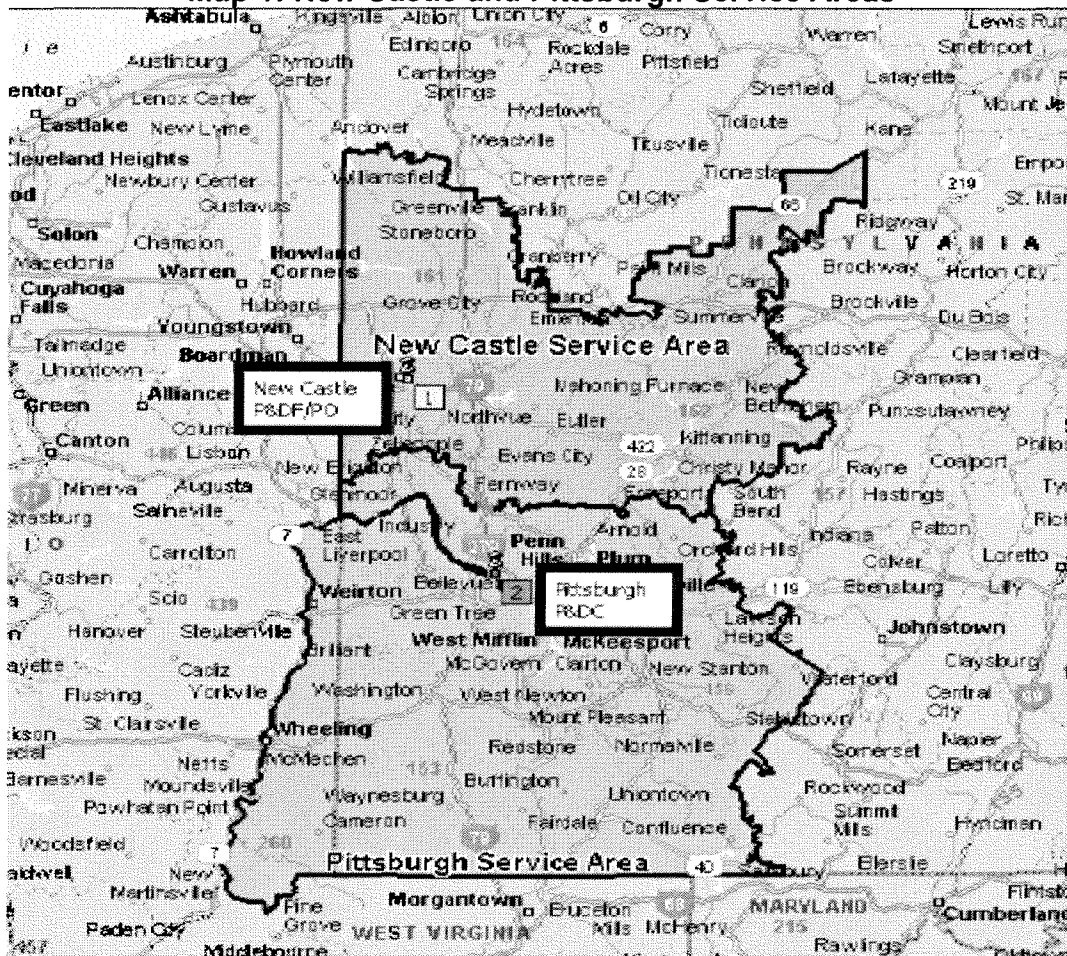
- Protecting the interest of Pennsylvanians.
- Maintaining the facility.

The request asked that the consolidation be delayed until our review was completed.

² *Testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives (GAO-09-475T, dated March 25, 2009).*

The Postal Service conducted an AMP study to determine whether efficiency could increase by consolidating outgoing³ mail processing operations from the New Castle P&DF into the Pittsburgh P&DC. The study proposed that New Castle P&DF zones 160 through 162 outgoing (originating) mail processing be moved to Pittsburgh P&DC. The New Castle P&DF would continue to process the destinating mail. The consolidation is scheduled to involve a shift of approximately 60 million originating mailpieces per year with a projected savings of \$1.5 million per year. New Castle P&DF is approximately 54 miles from the Pittsburgh P&DC. The New Castle and Pittsburgh facilities are in the Western Pennsylvania District in the Eastern Area. See Map 1.

Map 1: New Castle and Pittsburgh Service Areas



³ Mail originating at the New Castle P&DF either from collections or through Business Mail Acceptance.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether the consolidation of outgoing mail operations is a prudent business decision. We reviewed capacity, customer service, staffing, efficiency, transportation, and maintenance data for the New Castle P&DF and the Pittsburgh P&DC. We evaluated potential efficiencies at both locations as well as analyzed capacity of the Pittsburgh P&DC. Additionally, we conducted observations at both sites during the week of October 19, 2009, and interviewed Postal Service officials and employees. We also reviewed the New Castle P&DF AMP consolidation study prepared by Postal Service Headquarters for reasonableness. Because the New Castle P&DF AMP package had been prepared beginning in April 2009, we used updated data to determine potential cost savings.

We used computer-processed data from the following systems:

- Enterprise Data Warehouse.
- Customer Satisfaction Measurement.
- Electronic Maintenance Activity Reporting and Scheduling System (eMARS).

We did not test controls over these systems. However, we checked the reasonableness of results by confirming our analyses and results with Postal Service managers and multiple data sources. We conducted this performance audit from September 2009 through January 2010 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 November 24, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Steubenville – Youngstown, Ohio, Outgoing Mail Consolidation</i>	NO-AR-07-003	March 30, 2007	Consolidating the Steubenville Main Post Office outgoing mail processing operations into the Youngstown P&DF achieved the desired results.
<i>Canton Processing and Distribution Facility Outgoing Mail Consolidation</i>	NO-AR-09-011	September 22, 2009	We concluded that consolidating the Canton P&DF outgoing mail processing operations into the Akron P&DC was a prudent business decision.

APPENDIX B: DETAILED ANALYSIS

Capacity

The Pittsburgh P&DC has sufficient capacity to absorb the outgoing mail processing operations from the New Castle P&DF.

- Daily volume from the New Castle P&DF of approximately 238,000 mail pieces would be less than 5 percent of Pittsburgh P&DC's daily volume of about 4.9 million FHPs.
- By reducing idle time on Pittsburgh P&DC's machinery, all of the New Castle P&DF's volume can be run within the existing operational window. See Table 1.
- The Pittsburgh P&DC has sufficient capacity to process an additional 100 million mail pieces on its advanced facer cancellers (AFCS), while New Castle P&DF will transfer only about 43 million pieces. See Table 2.
- The Pittsburgh P&DC has sufficient capacity to process an additional 157 million pieces of mail on its delivery input output subsystem (DIOSS) machines, while New Castle P&DF will only transfer about 72 million pieces. See Table 2.
- Average volume of outgoing flats from New Castle to Pittsburgh is less than 20,000 pieces. This volume of flats could be processed at Pittsburgh on the AFSM 100 during its existing operational time.

Table 1: Pittsburgh P&DC Automation Utilization

Average Operational Day					
	Operational Time	Run Time	Idle Time	Down Time	Idle Time Percentage
AFCS	5.9	3.3	2.6	0.0	44
AFSM	14.5	12.9	0.3	1.3	2
CIOSS	10.5	5.3	4.0	1.1	38
DIOSS	10.8	4.3	5.0	1.5	46
DBCS	9.2	5.4	3.2	0.6	35
SPBS	12.5	11.6	0.7	0.2	5
UFSM	17.2	8.3	6.9	2.0	40

Table 2: Pittsburgh P&DC Available Capacity

Annual Volume			
	Pittsburgh Volume	Additional Available Capacity	New Castle P&DF Volume
AFCS	259,872,209	104,163,239	42,520,126
DIOSS	273,409,819	157,410,574	71,651,337

Customer Service

Consolidating the New Castle P&DF’s outgoing mail operation into the Pittsburgh P&DC will improve customer service to New Castle P&DF customers. There are six city pairs⁴ currently receiving 2-day First Class® mail service that will receive an upgrade to overnight service with the consolidation without any downgrades. The Western Pennsylvania District plans to continue the high level of customer service currently provided including:

- No changes to collection box times.
- No changes to Bulk Mail Acceptance and window service hours.
- Achieving customer satisfaction measurement (CSM) scores above the national average. During quarter 4, 2009, the Postal Service achieved a national score of 94 percent in the category of excellent, very good, or good as reported in CSM. New Castle P&DF and Pittsburgh P&DC achieved a score higher than the national average. See Table 3.

Table 3: Customer Satisfaction Survey Results

CMS Scores									
Percent of Customers Rating Their Residential Service as Excellent, Very Good, or Good									
	Three-Digit ZIP	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Pittsburgh P&DC	150 - 154, 156, & 260	95	95	96	96	96	96	96	96
New Castle P&DF	160	98	95	89	98	95	94	97	97
	161	94	93	97	94	96	94	97	96
	162	98	95	90	99	92	92	96	98
National	All	92	92	92	93	93	93	93	94

⁴ There are service standards established for mail traveling between all three-digit zones. Each pair of three-digit zones is referred to as a “city pair.”

- Continued high performance in External First Class Measurement System (EXFC), service performance from a customer perspective. For six of the last seven quarters, the Pittsburgh P&DC has outperformed the New Castle P&DF in overnight service. Two-day trends have been similar at both plants, while for the past 3 years, 3-day service provided by the Pittsburgh P&DC has been more consistent averaging 92.07 percent on-time compared to the New Castle P&DF's on-time rate of 90.93 percent. See Charts 1, 2, and 3.

Chart 1: EXFC Overnight Service

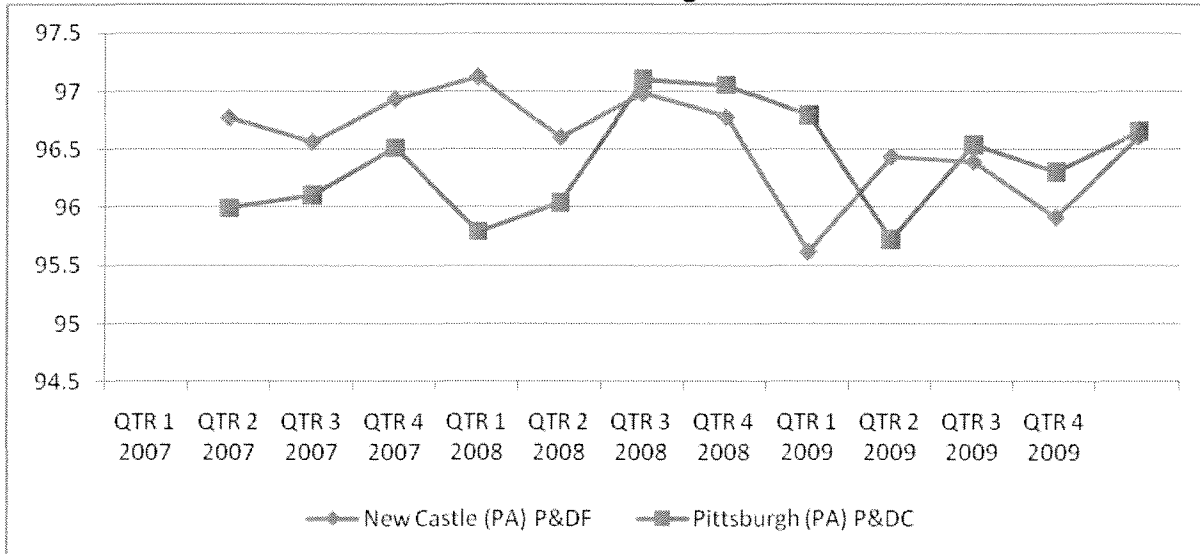


Chart 2: Two-Day Service

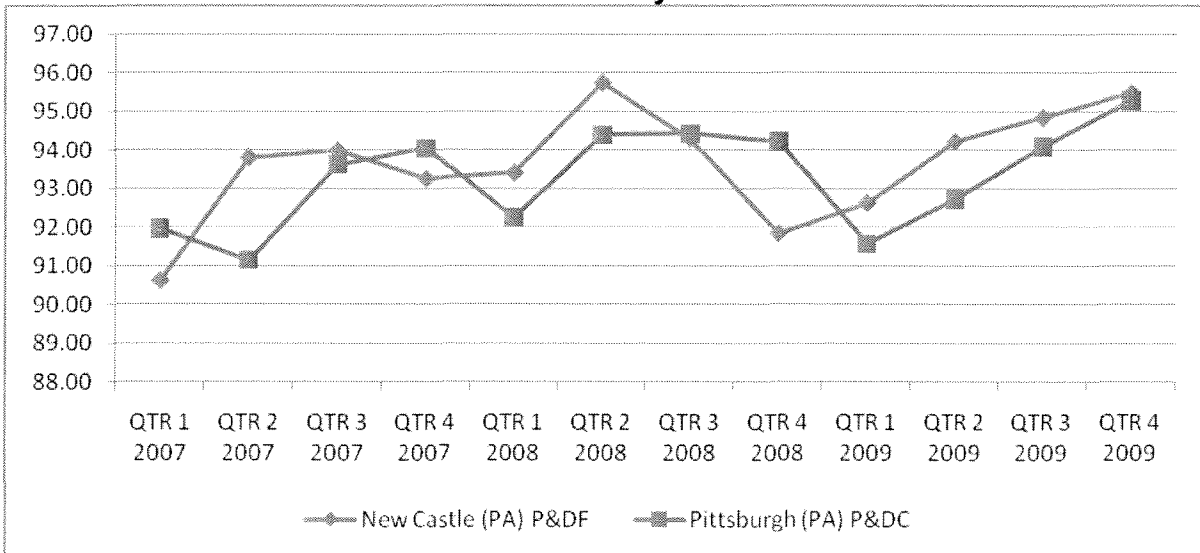
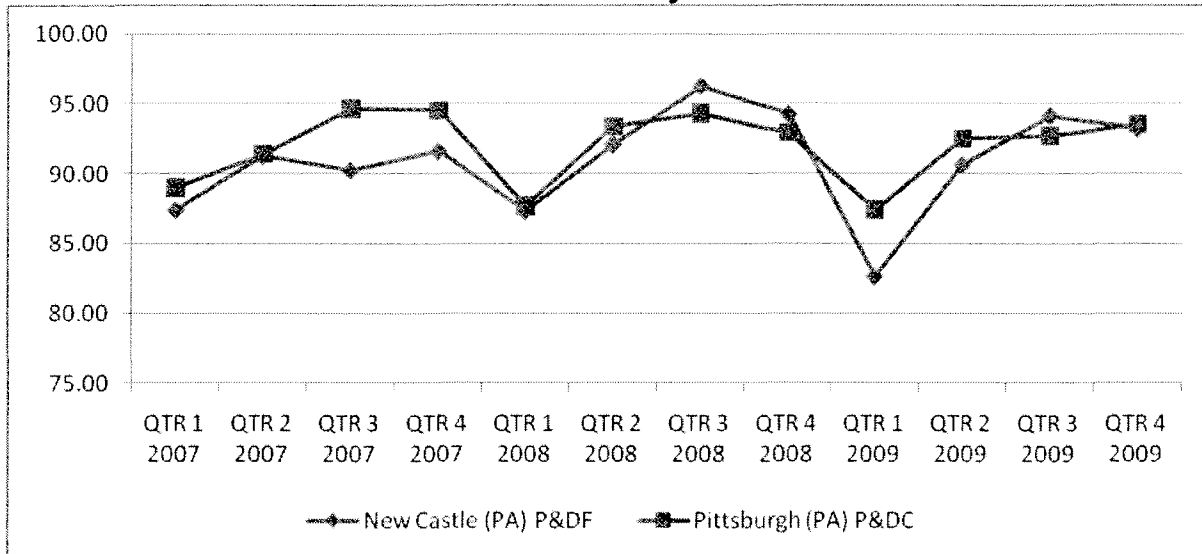


Chart 3: Three-Day Service



- Locally available postmark. See Illustration 1.

Illustration 1:
Mail processed at the New Castle P&DF will be processed at the Pittsburgh P&DC receiving the Pittsburgh, PA postmark. Local postmarks will still be available at the window in local post offices.

Employee Impacts

Impact on employees due to the consolidation will be minimal. We found the consolidation will eliminate 20 positions.⁵ Management can accomplish this by:

- Not replacing nine employees who have announced their intention to retire,
- Eliminating 10 positions held by temporary employees, and
- Relocating one clerk. See Table 4.

Table 4: New Castle P&DF Proposed Complement Changes

	Career Positions to Eliminate	Employees Retiring	Temporary Positions to Eliminate	Career Employees to Relocate
Clerks	13	4	8	1
Mail Handlers	5	4	1	0
Maintenance	1	1	0	0
Supervisors	1	0	1	0
Totals	20	9	10	1

Although the transfer of the outgoing operations to the Pittsburgh P&DC will not require additional staffing, it also has 86 clerks and 22 mail handlers who will retire by the end of this year. The Pittsburgh P&DC will hire additional temporary employees to replace those retiring.

Efficiency

We projected the consolidation of originating processing operations into the Pittsburgh P&DC will increase overall productivity. Processing costs will decrease through the reduction of almost 32,000 function 1 workhours at the New Castle P&DF without an increase at the Pittsburgh P&DC.

- For FY 2009, FHP productivity at the New Castle P&DF was 1,291 pieces per hour (PPH), well above the 1,222 PPH average for its group.⁶ Transferring the originating operations also eliminates the need for a unit supervisor saving an additional 1,825 hours annually.

⁵ The Postal Service AMP study projects a reduction of nine clerks and six mail handlers.

⁶ Based on BPI groupings, New Castle P&DC is one of 47 processing facilities in group 6. There are seven groupings with the largest facilities belonging to group 1. The Pittsburgh P&DC is a group 1 facility.

- The FY 2009 productivity at the Pittsburgh P&DC was 813 PPH compared to its group average of 850 PPH. Transferring the New Castle P&DF outgoing volume without increasing hours will result in an increase in productivity to 855 PPH, equaling a 5-percent increase. See Table 5.

Table 5: Projected Consolidation Effects on Productivity

	New Castle P&DF <u>Before</u> Consolidation FY 2009	New Castle P&DF <u>After</u> Consolidation	Pittsburgh P&DC <u>Before</u> Consolidation FY 2009	Pittsburgh P&DC <u>After</u> Consolidation
Mailpieces Processed FHP	328,999,409	248,165,618	1,546,585,053	1,627,418,844
F-1 Workhours	254,855	223,026	1,902,861	1,902,861
FHP Productivity	1,291	1,113	813	855
Targeted FHP Productivity	1,222	1,222	850	850

Nationally, it cost \$82.61 to process 1,000 mail pieces. The cost of processing 1,000 mailpieces at the Pittsburgh P&DC is \$81.63. The increase in volume from the New Castle P&DF will further decrease the processing cost at Pittsburgh P&DC.

Transportation

Transportation routes and schedules changes would save money. Proposed transportation changes include creating new consolidation points at the New Castle P&DF, Butler Post Office, and Cranberry Township Post Office. Other offices will continue to serve as hubs, reducing the traffic into the Pittsburgh P&DC. There are no proposed changes to Postal Vehicle Services schedules; however, management plans to adjust 20 highway contract routes (HCRs) and add three new routes for an annual savings of \$127,391. See Table 6 provided by the Postal Service.

Table 6: Proposed Highway Contract Route Changes

Highway Contract Route ID Number	Current Annual Mileage	Current Annual Cost	Proposed Annual Mileage	Proposed Annual Cost
160A0	62,787	\$120,821	48,506	\$97,463
16027	96,853	192,299	87,855	177,114
16039	48,541	102,853	41,878	90,851
161A1	52,543	79,468	40,297	63,725
161L0	145,774	197,450	126,990	175,824
161L4	170,513	311,247	170,010	310,466
161L6	56,954	98,024	56,853	97,877
161L7	80,675	125,992	91,538	140,413
161L8	58,520	94,017	71,219	111,359
16129	63,334	102,098	41,457	72,121
16131	124,819	193,039	93,064	151,295
16138	67,371	123,911	75,994	137,392
16140	197,569	291,490	155,213	238,372
16142	85,979	119,772	63,851	93,570
16143	64,375	101,498	62,363	98,802
16144	48,241	\$79,112	58,878	93,940
16163	95,010	116,246	95,161	116,403
16191	121,079	319,136	109,231	292,592
16111	102,415	134,220	99,398	130,859
16231	36,914	52,184	27,157	40,460
161NEW1			18,005	35,034
161NEW2			15,641	30,435
161NEW3			15,993	31,120
Total	1,780,265	\$2,954,877	1,666,551	\$2,827,486
Total HCR Annual Savings				\$127,391

Maintenance

As part of the planned consolidation, the two AFCSs at the New Castle P&DF will be removed and replace two older AFCSs at the Pittsburgh P&DC. This will eliminate the need for the associated maintenance at the New Castle P&DF. In FY 2009, 1,955 hours were utilized to maintain the AFCSs including 1,153 hours of preventative maintenance, 32 hours corrective maintenance, and 770 hours of operational maintenance. Additionally, \$20,505 was spent on parts for the two AFCSs that will no longer be in service.

Cost Analysis

Consolidating the outgoing mail processing operations from the New Castle P&DF to the Pittsburgh P&DC will generate savings⁷ from employee workhours, transportation reductions, and machine maintenance costs. Total yearly savings is projected to equal more than \$1.8 million. See Table 7.

- The New Castle P&DF will be consolidating 25 percent of its FHP volume into the Pittsburgh P&DC. Our analysis projects that the New Castle P&DF could reduce more than 12 percent of its overall function 1 work hours as a result of the consolidation.
- Realignment of transportation routes is projected to save more than \$127,000.
- Maintenance savings of \$115,000 from work hour savings and reduction of spare parts inventory.
- Our analysis consists of FY 2009 data compared to the April 2008 through March 2009 data that the Postal Service used in preparing the AMP package. Our analysis of clerk and mail handler hours consists of actual hours that the New Castle P&DF used for outgoing distribution.
- We applied a different methodology than what was used in the New Castle P&DF AMP package to determine savings. Although our total savings projected at more than \$347,000 is more than the New Castle P&DF's AMP package, the package supports a favorable business case to consolidate outgoing mail volume.

Table 7: Estimated Costs Savings of Consolidation

	OIG Cost Savings ⁸			New Castle P&DF
	Hours ⁹	Dollar Rate	Savings	AMP Package
Clerk	23,258	\$46.91	\$1,091,073	981,322 ¹⁰
Mail handler	8,571	\$45.66	391,381	
Supervisor	1,825	\$48.79	89,059	143,118
Transportation	NA	NA	127,391	\$127,391
Maintenance	1,955	\$48.20	94,234	\$214,380
Spare Parts Inventory	NA	NA	20,505	Not included in AMP
		Total	\$1,813,643	\$1,466,211

⁷ We reviewed the New Castle P&DF AMP consolidation study prepared by Postal Service Headquarters and determined the assumptions and estimates were reasonable.

⁸ Clerk, mail handler, and supervisor hours are detailed in the "Efficiency" section of the report. Transportation and maintenance savings are outlined in their respective sections.

⁹ For craft employees (clerks, mail handlers, and maintenance), 1,752 hours is equivalent to one employee for 1 year. For supervisors, 1,825 hours is equivalent to one employee for 1 year. Employee totals are listed in the "Employee Impact" section of this report.

¹⁰ The AMP package combined clerk and mail handler savings into one dollar figure.