



January 14, 2008

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS

SUBJECT: Audit Report – Kansas City, Kansas Processing and Distribution Center Consolidation (Report Number EN-AR-08-001)

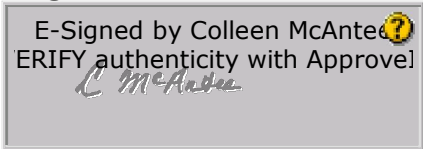
This report presents our audit results for the Kansas City, Kansas Area Mail Processing (AMP) proposal (Project Number 07XG030EN000). Our objectives were to determine whether the AMP proposal was accurate and supported and whether management evaluated the impacts of the consolidation. The U.S. Postal Service requested the audit and we conducted it in cooperation with U.S. Postal Service officials.

We concluded the Kansas City AMP consolidation proposal was generally accurate and supported, and showed evidence of management review. Our analyses provided confirming evidence for the consolidation. However, we identified discrepancies in workhours savings, executive and administrative schedule personnel savings, transportation costs, and annual associated costs. These issues resulted in an overall savings overstatement of \$2.4 million, decreasing the total annual savings from \$5.7 million to \$3.3 million. We identified mail volume transferred from the Kansas City, Kansas Processing and Distribution Center to the Kansas City, Kansas Bulk Mail Center for processing that was not documented in the AMP proposal. In addition, we noted a slight downgrade in First-Class Mail®, Priority Mail®, and Periodicals service and some potential risks. We are making one recommendation in this report. Implementing our recommendation could enhance data integrity for management decision making information. We will report this non-monetary impact (data integrity – reliability of information) in our *Semiannual Report to Congress*.

Management agreed with our recommendation and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendation¹ significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Michael A. Magalski, Director, Network Optimization, or me at (703) 248-2100.



Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

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EXECUTIVE SUMMARY

Introduction

At the request of U.S. Postal Service management, the U.S. Postal Service Office of Inspector General (OIG) reviewed the Area Mail Processing (AMP) proposal to consolidate mail processing operations from the Kansas City, Kansas (KCKS) Processing and Distribution Center (P&DC) into the Kansas City, Missouri (KCMO) P&DC. Management projected the consolidation would save approximately \$5.7 million annually. Our objectives were to determine whether the AMP proposal was accurate and supported and whether management evaluated the impact of the proposed consolidation.

Results in Brief

The AMP consolidation proposal was generally accurate and supported, and showed evidence that management had evaluated the impact of the consolidation. The AMP proposal, supporting documentation, and our analyses provided confirming evidence for the consolidation, including opportunities to achieve savings, eliminate excess capacity, and maintain service.

Management generally complied with the processes outlined in Handbook PO-408.¹ However, we identified discrepancies in workhour savings, executive and administrative schedule personnel savings, transportation costs, and annual associated costs. These discrepancies resulted in an overall savings overstatement of \$2.4 million, decreasing the total annual savings from \$5.7 million to \$3.3 million annually. We will report this discrepancy as non-monetary impact (data integrity – reliability of information) in our *Semiannual Report to Congress*.

We identified three additional issues with the AMP proposal and communication process:

- Management transferred approximately 5,800 pieces of mail per day from the KCKS P&DC to the Kansas City Bulk Mail Center (BMC) for processing that were not documented in the AMP proposal. According to management, mail volume transferred to the BMC occurred after the initial AMP was submitted to headquarters and was not associated with the AMP. Management stated the volume moved was part of long-term plans to better utilize mail processing equipment,

¹ Handbook PO-408, *Area Mail Processing Guidelines*, dated April 1995, provides a framework for consolidating operations in the mail processing network.

- Stakeholders expressed concerns with the AMP communication process. We plan to examine stakeholder communications in a subsequent review.
- The Service Standard Directory (SSD) identified a downgrade from 1- to 2-day delivery times in First-Class Mail® (FCM), Priority Mail®, and Periodicals. Management plans to implement special procedures to help ensure no downgrades occur and overnight FCM and Priority Mail continue to arrive in 1 day. Additionally, for Periodicals, management stated SSD was in error, so there will be no downgrade, and they will request a correction.

Several factors contributed to the discrepancies identified with the AMP proposal including not having a detailed AMP policy; misstated volume data; inadequate supporting documentation; and the use of inaccurate accounting periods.

While the consolidation is projected to achieve substantial savings, eliminate excess capacity, and reduce costs, we identified some potential risk factors. These risk factors include performance achievement scores below national average, integration of reassigned employees, potential unexpected traffic delays, and the physical layout of the KCMO P&DC. Management should be attentive to these potential issues when implementing the consolidation and adjust plans as necessary to ensure they minimize mail processing and delivery delays.

Accurate and complete AMP data and a rigorous review process are important for supporting management decisions, ensuring management accountability, and strengthening stakeholder confidence in the consolidation processes.

**Postal Service
Actions**

Some of the issues discussed in this report have been noted in previous AMP audits. Rather than implement the OIG AMP recommendations incrementally, management decided to incorporate 32 prior audit recommendations related to the AMP process into revised Handbook PO-408, *Area Mail Processing Guidelines*. The OIG assessed proposed changes to AMP policy and determined management had addressed prior

recommendations in the revised policy.² The Postal Service expects to issue the revised AMP guidelines in the spring of fiscal year (FY) 2008.

Summary of Recommendation	We recommend the Vice President, Western Area Operations, revise the AMP proposal to accurately document savings and potential service impacts and resubmit it to headquarters for review.
Summary of Management's Comments	Management agreed with our recommendation and plans to submit an updated AMP proposal to headquarters by January 31, 2008. Management also agreed with discrepancies identified in work hour savings, transportation costs and annual associated costs resulting in AMP savings overstatement of \$1.8 million. However, management did not agree with our executive and administrative schedule (EAS) finding and associated savings overstatement of \$600,000 due to the use of on-rolls complement. Finally, management provided clarifying information for various issues in this report. Management's comments, in their entirety, are included in Appendix E.
Overall Evaluation of Management's Comments	Management's planned action is responsive to the recommendation and should address the issues identified in the finding. In addition, where appropriate we incorporated management's suggestions regarding clarifying information. Management is partially correct on the EAS finding; the current Handbook PO-408 does not specify whether to use on-rolls or the authorized number of EAS positions. The proposed revisions to Handbook PO-408 address this issue and require using the number of personnel on-rolls. Therefore, we believe on-rolls complement should be used and our calculation of the EAS savings overstatement is accurate.

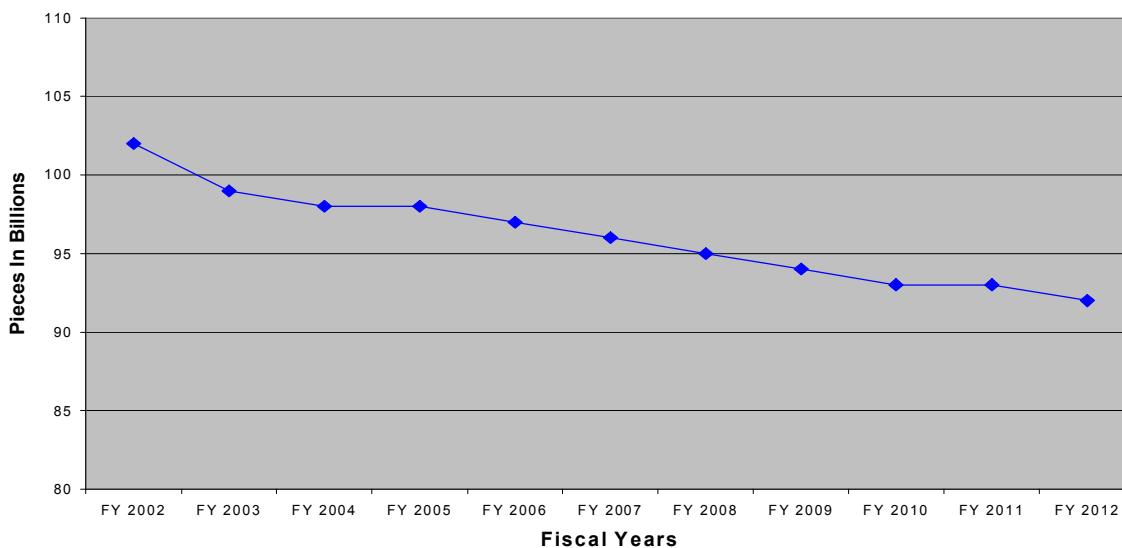
² *Automated Area Mail Processing Worksheets* (Report Number EN-MA-08-001, dated October 19, 2007).

INTRODUCTION

Background

The U.S. Postal Service has recognized the need to redesign and optimize its processing and transportation network in response to declining First-Class Mail® (FCM) volume, increasing competition with traditional mail products from the private sector, increasing automation and mail processing by mailers, and shifting population demographics. The goal of these evolving optimization efforts is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service. Despite a recent increase in mail volume, the aggregate volume of FCM declined by 4.8 percent (or 4.9 billion pieces) from fiscal year (FY) 2002 to 2006. In addition, the Postal Service projects FCM volume will continue to decline. Figure 1 shows these trends.

FIGURE 1: FIRST-CLASS ACTUAL (2002 - 2006) AND PROJECTED (2007-2012) MAIL VOLUME



In addition, despite the Postal Service's monopoly on FCM, eCommerce and electronic messaging are slowly replacing personal paper-based correspondence and will continue to influence volume growth of single-piece FCM. As FCM volume declines, the number of mailpieces delivered per address will decline as well.

The Postal Service's strategic objectives are defined in its *Transformation Plan*,³ which states the Postal Service is committed to improving its operational efficiency by consolidating mail processing operations when feasible. In addition, the President's Commission⁴ found the Postal Service had more facilities than needed and recommended optimizing the facility network by closing and consolidating unneeded processing centers. The Postal Accountability and Enhancement Act, signed into law on December 20, 2006, further encourages the Postal Service to continue streamlining its processing and distribution network to eliminate excess costs.

Handbook PO-408, *Area Mail Processing Guidelines*, provides a framework for consolidating operations in the mail processing network and performing post-implementation reviews. Issued in April 1995, these guidelines state consolidations should improve operational efficiency and/or service, make optimum use of available resources, and ensure management's accountability for consolidating operations.

The Postal Service uses the Area Mail Processing (AMP) process to consolidate mail processing functions and to eliminate excess capacity, increase efficiency, and better use resources. The Postal Service defines the AMP process as:

. . . the consolidation of all originating and/or destinating distribution operations from one or more post offices into another automated or mechanized facility to improve operational efficiency and/or service.

The Postal Service is currently revising the AMP guidelines and testing the revised AMP worksheets. They expect to issue the revised AMP guidelines in the spring of FY 2008.

The Kansas City, Kansas (KCKS) and Kansas City, Missouri (KCMO) Processing and Distribution Centers (P&DC) are in the Western Area. Management proposes consolidating the KCKS P&DC incoming⁵ and outgoing⁶ mail processing operations into the KCMO P&DC. The AMP proposal signed May 2, 2007, is for

³ *Strategic Transformation Plan, 2006-2010 Annual Progress Report*, December 2006.

⁴ The President's Commission on the U.S. Postal Service reported its findings on July 31, 2003.

⁵ Incoming mail is received by a postal facility, most commonly for distribution and delivery within that facility's delivery area.

⁶ Outgoing mail is sorted within a mail processing facility and dispatched to another facility for additional processing or delivery.

incoming and outgoing mail for three-digit ZIP Codes™ 660 and 661 and incoming flat mail operations for ZIP Code 662. (See Appendix A for a map of the Western Area.)

The KCMO P&DC serves as the Area Distribution Center⁷ for destinating mail to the KCKS P&DC. The KCMO P&DC currently processes KCKS P&DC's originating mail on Saturdays. The AMP would consolidate the remaining Monday through Friday KCKS P&DC originating and destinating operations into the KCMO P&DC. The KCKS P&DC is a leased facility and will close as a result of the consolidation. If management approves the AMP proposal before the lease expires on January 31, 2010, the Postal Service plans to use the space as a Christmas Annex until expiration of the lease.

**Objectives, Scope,
and Methodology**

Our objectives were to determine whether the AMP proposal was accurate and supported and whether management evaluated the impact of the consolidation. We reviewed applicable guidelines, including Handbook PO-408. We did not assess communications with stakeholders or compliance with the *Area Mail Processing Communications Plan*. We performed trend and cost analyses of workhours, transportation, mail volume, and productivity for each facility; and conducted other analytical procedures to determine the potential impacts of the consolidation.

We relied on Postal Service data systems, including the Breakthrough Productivity Initiative website, the Management Operating Data System (MODS), the Web Enterprise Information System, and the Enterprise Data Warehouse to analyze workhours, mail volumes, service performance, and service indicators.⁸ We reviewed Postal Regulatory Commission filings related to network realignment initiatives. We also used information from the Transportation Contract Support System to review, verify, and validate transportation data; used the Web Complement Information System to review employee complement issues; and used the Service Standard Directory (SSD) to review service implications of the AMP.

We examined computer data related to planned workhour reductions, transportation costs, number and types of employee positions affected, and projected service implications to

⁷ A mail processing facility that receives, processes, and distributes mail destined for specific ZIP Code areas.

⁸ In order to be consistent with data in the AMP proposal, we focused on the same data scope.

customers. We did not test the validity of controls over Postal Service data systems; however, we noted several control weaknesses including missing, incomplete, and inaccurate data records. Additionally, another OIG audit⁹ identified control weaknesses with MODS at the operation code level. To compensate for identified control weaknesses, we applied alternate audit procedures, including source document examination, observation, and discussion with responsible officials.

We conducted this audit from May 2007 through January 2008 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 officials on December 5, 2007, and included their comments where appropriate.

Prior Audit Coverage

The OIG has issued 13 reports related to AMP guidelines and consolidation initiatives. (See Appendix B.)

⁹ *Management Operating Data System* (Report Number MS-AR-07-003, dated August 6, 2007).

AUDIT RESULTS

Data Supports Consolidation

The KCKS AMP consolidation proposal was generally accurate and supported and management generally complied with the processes outlined in Handbook PO-408. The AMP proposal and supporting documentation indicate management evaluated the impact of the consolidation in seeking opportunities to achieve savings, eliminate excess capacity, and maintain service.

Our analyses provided confirming evidence for the consolidation and noted:

- Significant potential annual savings of approximately \$3.3 million.
- Generally adequate support for workhour estimates that should result in a significant reduction.
- Minimal impact on productivity and performance achievement scores.
- Reduced excess capacity, including:
 - Elimination of the KCKS P&DC.
 - Better use of 300,000 square feet of vacant space on an empty third floor at the KCMO P&DC, which will house KCKS P&DC operations, as well as two Flats Sequencing System machines.
 - Elimination of five mail processing machines and better usage of the remaining machines.¹⁰

However, we noted the KCKS P&DC AMP proposal contained discrepancies in workhours savings, executive and administrative schedule (EAS) personnel savings, transportation costs, and annual associated costs. These discrepancies resulted in an overall savings overstatement of \$2.4 million, decreasing the total annual savings from \$5.7 million to \$3.3 million. (See Figure 2 for a summary of adjusted savings.) We will report this discrepancy as non-monetary impact (data integrity – reliability of information) in our *Semiannual Report to Congress*. We also identified a slight FCM, Priority Mail, and Periodical service downgrade and some potential risk factors.

¹⁰ The five machines management eliminated from the KCKS P&DC were: Small Parcel Bundle Sorter (SPBS), Advanced Facer Cancelling System (AFCS), Multi-Line Optical Character Reader, and two Mail Processing Bar Code Sorters. Management will move the remaining machines to the KCMO P&DC after approval of the AMP proposal.

Figure 2: Summary of Adjusted Savings

Savings Category	AMP Savings	OIG Adjustments	Revised Savings
Workhour	\$3,250,395	(\$1,634,958)	\$1,615,437
EAS Employees	705,050	(683,699)	21,351
Transportation	116,376	10,211	126,587
Annual Associated	1,665,468	(150,886)	1,514,582
Total Annual Savings	\$5,737,289	(\$2,459,332)	\$3,277,957

39 U.S.C. § 403 (a) states, “The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services . . .” Further, Handbook PO-408 sets forth guidelines for consolidating mail processing operations.¹¹

Accurate and complete AMP data and a rigorous review process are important for supporting management decisions, ensuring management accountability, and strengthening stakeholder confidence in the consolidation processes.

Workhours

As part of the AMP process, management analyzed the workhours used to process mail at the KCKS P&DC and projected workhour requirements for mail volume transferred to the KCMO P&DC. Our analysis identified an overstatement of approximately \$1.6 million in workhour savings, reducing the estimated workhour savings from \$3.2 million to \$1.6 million.

Differences in savings projections were primarily due to volume data misstatements in [REDACTED].¹² The volume error occurred because management did not consistently include Non-Add Total Pieces Handled (NATPH)¹³ in operational volume. The MODS volume was used to calculate corrected cost savings. (See Figure 3 for details of misstated volume.) According to management, NATPH was reported for operations with single-piece meter counts, but was not reported for operations that did not have single-piece meter counts.

¹¹ Handbook PO-408 provides a framework for consolidating operations in the mail processing network. It states that consolidations should improve operational efficiency and/or service, make optimum use of available resources, and ensure management’s accountability for consolidating operations.

¹² [REDACTED], Hand Cancellations; [REDACTED], Flat Mail Preparation; [REDACTED], SPBS Incoming Preferential; and [REDACTED], SPBS Incoming Standard

¹³ NATPH is total pieces handled mail volume that is recorded in non-distribution operations.

Figure 3 – Worksheet 4 Volume Understatement

Operation Code	AMP Worksheet 4 Volume (million pieces)	MODS Volume (million pieces)	Pieces Misstatement on Worksheet 4 (million pieces)
KCMO	11.4	2.1	9.3
KCKS	0	69.3	69.3
KCKS	0	2.7	2.7
KCKS	0	5.8	5.8
Total Volume			87.1

EAS Personnel

Our review of EAS personnel cost savings determined management understated personnel costs by \$683,699, resulting in a reduction in savings from \$705,050 to \$21,351 for EAS employees. This discrepancy occurred because current AMP guidance was unclear, support was not provided showing craft employees in acting EAS positions, and the staffing reports used to calculate savings were not current.

Although area managers generally followed Handbook PO-408 policies, the guidelines did not specify whether to use authorized or on-rolls number of EAS employees.¹⁴ Area management believes using authorized employees more accurately reflects the number of EAS personnel needed to manage the facility. According to management, acting supervisors from the craft employees are using the workhours associated with the vacant EAS positions; therefore, using on-rolls number of EAS employees penalizes the gaining site when they fill vacancies. However, management did not provide adequate support showing craft employees were acting in EAS positions during the feasibility study. Area management has expressed their concerns on this issue to headquarters. (See Figure 4 for an EAS personnel summary analysis and Appendix C for additional details on the number of on-rolls, authorized, and proposed employees.)

However, the purpose for worksheet 6 is to identify the number of EAS employees currently working at the facility (on-rolls) and the proposed increase or decrease as a result of the consolidation. The proposed revisions to Handbook PO-408 address this issue and require using the number of personnel on-rolls.

¹⁴ A draft revision of the AMP worksheets Postal Service Headquarters is currently testing requires the on-rolls number of EAS employees be used for AMP worksheet 6.

Figure 4 – EAS Personnel Analysis

		AMP (9/20/06)	Current Data (8/29/07)
1	Position Gain/(Loss) at KCKS	(22)	(21)
2	Current Number of Positions at KCMO	98	93
3	Proposed Number of Positions at KCMO	112	114
4	Difference (Line 3 – 2)	14	21
5	Employee Gains/(Loss) (Line 1 + 4)	(8)	0
6	Annual Savings KCKS	\$1,783,448	\$1,688,207
7	Annual Savings KCMO	1,078,398	1,666,856
10	Total Savings/(Cost) (Line 6 - 7)	\$ 705,050	\$ 21,351
	Variance to AMP:		(\$ 683,699)

Transportation Management understated AMP transportation savings by \$10,211. This condition occurred because management could not provide adequate support for the rate per mile used to calculate Postal Vehicle Service (PVS) costs. Specifically, the rate per mile used was originally designed as a conversion rate from PVS to highway contract route for the Blue Springs Annex in Missouri. We recreated the cost per mile for our analysis based on available documentation, resulting in an increase for overall transportation savings from \$116,376 to \$126,587.

Annual Associated Costs Management overstated the AMP annual associated cost savings by approximately \$150,886, reducing the AMP annual associated cost savings from \$1,665,468 to \$1,514,582. We identified two issues which contributed to the savings reduction. First, both current and proposed fuel and utility costs at the KCMO P&DC were understated, including the utilities required after the build-out of the third floor. Second, annual maintenance costs for both the KCKS and KCMO P&DCs were determined using 13 months instead of 12 months.

Volume Transfer We identified volume associated with [REDACTED] and [REDACTED] (approximately 1.8 million mailpieces annually or 5,800 pieces per day processed on the SPBS) that was transferred from the KCKS P&DC to the Kansas City Bulk Mail Center (BMC) in June 2007 and not

identified in the AMP proposal. According to management, mail volume transferred to the BMC occurred after the initial AMP was submitted to headquarters and was not associated with the initial AMP. They stated the volume moved was part of long-term plans to better utilize mail processing equipment. Disclosure of all facilities receiving mail processing volume during the AMP proposal process is important to ensure accuracy and transparency.

Stakeholder Communications	Stakeholders expressed concerns with the communication process for the Kansas City AMP. Concerns include which stakeholders were notified, when stakeholders were notified, and the information shared with stakeholders. We plan to examine stakeholder communications in a subsequent review.
Mail Service Standards	We noted in the SSD a downgrade from 1- to 2-day delivery times in FCM, Priority Mail, and Periodicals that the AMP did not report. According to management, they did not think it necessary to report the potential downgrades because they will use additional transportation and operational changes to provide the existing service standards for all classes of mail. ¹⁵ Additionally management stated if the AMP is implemented, they will request the SSD be changed to reflect no downgrades in service. External stakeholders are concerned about the effects of consolidations on service to customers, and accurate analysis and complete disclosure of service standards is critical to building positive stakeholder relations.
Risk Factors	While management projected the consolidation to achieve significant savings, eliminate excess capacity, and reduce costs, we identified some risks associated with the consolidation. <ul style="list-style-type: none">➤ Service Performance Indicators – We reviewed External First-Class Measurement (EXFC)¹⁶ system scores, Origin-Destination Information System (ODIS) scores, and 24-hour clock indicators for the KCKS and KCMO P&DCs. (See Appendix D.) The KCMO P&DC’s service performance scores exceeded most of the KCKS P&DC’s scores; however, they were slightly below the national average which may affect service after the consolidation.

¹⁵ The Kansas City AMP did not include the cost of these special procedures and we did not evaluate these procedures during this audit.

¹⁶ The EXFC system measures FCM service performance from a customer perspective for approximately 80 percent of the nation’s destinating FCM volume. It measures FCM performance from the time mail enters the mailstream until it is delivered to a household, small business, or Post Office Box.™

- **Transitioning Employee Integration** – Employee attrition and the process for moving employees to the KCMO P&DC may result in the loss of skilled plant employees. This transition may require increased time for employee training and orientation. Management should provide an effective communication mechanism for transitioning employees that allows them to address questions and concerns timely.
- **Transportation Delays** – Although management has prepared a comprehensive transportation plan that includes staggering dispatches to eliminate potential transportation delays, minimize congestion around the KCMO P&DC, and achieve on-time delivery, transportation delays remain a risk factor. Specifically, the KCMO P&DC has limited space to stage mail prior to loading trucks. Therefore, additional mail volume may increase the risk of transportation delays. Consequently, there is the potential for delayed transportation if trucks are waiting for employees to load them with mail.
- **Multi-Story Facility** – The KCMO P&DC is a three-story facility and employees move mail between floors using large elevators. Dependence on elevators for movement of mail volume and the potential for mechanical failure of the elevators presents a risk not encountered at single-story facilities.

Management should be attentive to these potential risks as they implement the consolidation and adjust plans as necessary.

**Postal Service
Actions**

In previous OIG AMP consolidation reports, we reported some of the same control weaknesses as identified in the Kansas City consolidation and have provided recommendations to correct these systemic issues. (See Appendix B.) We consider management's ongoing and planned actions sufficient to address weaknesses identified in this audit related to AMP preparation and review policy, service analysis, and supporting documentation retention. Therefore, this report does not include recommendations for those issues.

Recommendation

We recommend the Vice President, Western Area Operations:

1. Revise the Area Mail Processing proposal to accurately document savings and potential service impacts and resubmit it to headquarters review.

**Management's
Comments**

Management agreed with our recommendation and plans to submit an updated AMP proposal to headquarters by January 31, 2008. Management also agreed with discrepancies identified in work hour savings, transportation costs and annual associated costs resulting in AMP savings overstatement of \$1.8 million. However, management did not agree with our EAS finding and associated savings overstatement of \$600,000 due to the use of on-rolls complement. Finally, management provided clarifying information for various issues in this report. Management's comments, in their entirety, are included in Appendix E.

**Evaluation of
Management's
Comments**

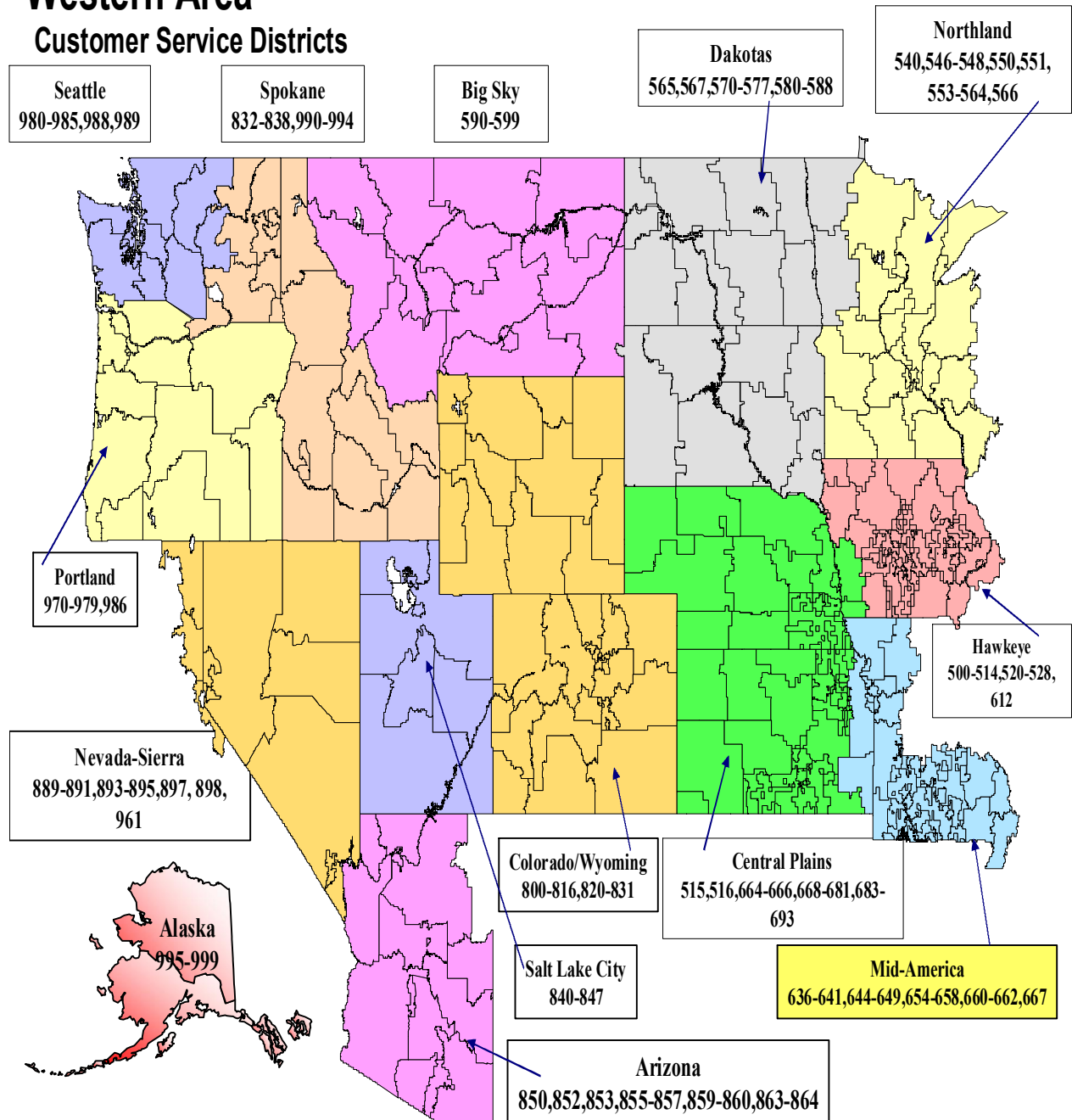
Management's planned action is responsive to the recommendation and should address the issues identified in the finding. In addition, where appropriate we incorporated management's suggestions regarding clarifying.

Management is partially correct on the EAS finding, the current Handbook PO-408 does not specify whether to use on-rolls or the authorized number of EAS positions. The proposed revisions to Handbook PO-408 address this issue and require using the number of personnel on-rolls. Therefore, we believe on-rolls complement should be used and the EAS savings overstatement is accurate.

APPENDIX A. MAP OF WESTERN AREA

Western Area

Customer Service Districts



APPENDIX B. PRIOR AUDIT COVERAGE

	Report Name	Report Number	Date Final Report Issued	Number of Significant Recommendations	Number of Recommendations Agreed to by Management
1	Efficiency Review of the Mansfield, Ohio Main Post Office	NO-AR-05-004	12/08/04	3	3
2	Efficiency Review of the Canton, Ohio Processing and Distribution Facility	NO-AR-05-013	09/22/05	4	4
3	Area Mail Processing Guidelines	NO-AR-06-001	12/21/05	4	4
4	Status Report on the Evolutionary Network Development Initiative	NO-MA-06-001	03/20/06	none	not applicable
5	Pasadena, California Processing and Distribution Center Consolidation	EN-AR-06-001	09/26/06	3	3
6	Bridgeport, Connecticut Processing and Distribution Facility Outgoing Mail Consolidation	NO-AR-06-010	09/30/06	2	2
7	Sioux City, Iowa Processing and Distribution Facility Consolidation	EN-AR-07-001	11/09/06	4	4
8	Service Implications of Area Mail Processing Consolidations	EN-AR-07-002	12/05/06	4	4
9	Timeliness of Mail Processing at the Los Angeles, California Processing Distribution Center	NO-AR-07-001	02/09/07	2	2
10	Review of the Steubenville Youngtown, Ohio Outgoing Mail Consolidation	NO-AR-07-003	03/30/07	1	1
11	Bronx, New York Processing and Distribution Center Consolidation	EN-AR-07-003	07/18/07	2	2
12	Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation	EN-AR-07-004	08/14/07	4	4
13	Management Advisory - Automated Area Mail Processing Worksheets	EN-MA-08-001	10/19/07	4	4

APPENDIX C. EAS PERSONNEL

Kansas City, MO						
Title	Payscale	AMP Current # of EAS Employees Based on Authorized (Aug 29,2007)	AMP Proposed # of EAS Employees		WebCoins Current # of EAS Employees Using On-Roll (Aug 29,2007)	Area's Revised Proposed # of EAS Employees
SR PLANT MANAGER	PCES-01	0	0		1	1
MGR IN-PLANT SUPPORT	EAS-25	1	1		1	1
MGR DISTRIBUTION OPERATIONS	EAS-24	1	1		0	1
MGR MAINTENANCE	EAS-24	1	1		1	1
MGR TRANSPORTATION/NETWORKS	EAS-23	1	1		1	1
MGR DISTRIBUTION OPERATIONS	EAS-22	5	6		5	6
MGR MAINTENANCE OPERATIONS	EAS-21	0	0		3	3
OPERATIONS INDUSTRIAL ENGINEER	EAS-21	3	3		0	0
MGR DISTRIBUTION OPERATIONS	EAS-21	1	1		0	0
OPERATIONS SUPPORT SPECIALIST	EAS-20	1	1		1	1
INDUSTRIAL ENGINEER (FLD)	EAS-19	2	2		1	2
MAINTENANCE ENGINEERING SPECIALIST	EAS-19	1	1		1	1
MGR DISTRIBUTION OPERATIONS	EAS-19	1	1		1	1
MGR FIELD MAINTENANCE OPERATIONS	EAS-19	0	0		0	0
MGR MAINTENANCE OPERATIONS SUPPT	EAS-19	1	1		1	1
MGR PVS OPERATIONS	EAS-19	1	1		1	1
AIR TRANSPORTATION SPECIALIST	EAS-18	0	0		1	1
OPERATIONS SUPPORT SPECIALIST	EAS-18	3	4		2	4
OPERATIONS QUALITY IMPROVEMENT SPEC	EAS-17	1	2		1	2
OPERATIONS SUPPORT SPECIALIST	EAS-17	4	4		3	4
SUPV DISTRIBUTION OPERATIONS	EAS-17	50	59		42	53
SUPV MAINTENANCE OPERATIONS	EAS-17	11	12		11	12
SUPV MAINTENANCE OPERATIONS SUPPORT	EAS-17	0	0		1	1
SUPV TRANSPORTATION OPERATIONS	EAS-17	5	5		4	5
DIRECTORY ANALYSIS SPECIALIST	EAS-16	1	1		1	1
NETWORKS SPECIALIST	EAS-16	2	3		2	3
ASSOCIATE SUPERVISOR-DIST OPS	EAS-15	0	0		6	6
SECRETARY (FLD)	EAS-12	1	1		1	1
	TOTAL:	98	112		93	114
EAS Gain KCMO			14			21
EAS Loss KCKS			-22			-21
Total Gain/Loss			-8			0
Total EAS Understatement	VARIANCE			8		

APPENDIX D. SERVICE PERFORMANCE INDICATORS PLANT PERFORMANCE

Redacted

APPENDIX D. SERVICE PERFORMANCE INDICATORS (continued)

**EXFC and ODIS: QUARTER 4 OF 2006 THROUGH
QUARTER 3 OF 2007**

**Comparison for
KCKS and KCMO P&DCs**

EXFC Scores	National	KS	MO
Overnight Composite	95	96	96
2-Day Composite	92	86	90
3-Day Composite	89	88	88

Originating ODIS Scores	National	KS	MO
Overnight Composite	87	81	89
2-Day Composite	83	70	81
3-Day Composite	80	68	74

Destinating ODIS Scores	National	KS	MO
Overnight Composite	87	87	90
2-Day Composite	83	75	77
3-Day Composite	80	78	83

APPENDIX D. SERVICE PERFORMANCE INDICATORS (continued)
24-HOUR CLOCK

Redacted

Legend:

Red -- did not meet national average

Green -- met or exceeded national average

APPENDIX E. MANAGEMENT'S COMMENTS

SYLVESTER BLACK
VICE PRESIDENT, WESTERN AREA OPERATIONS



January 2, 2008

COLLEEN A. MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL FOR MISSION OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Kansas City, Kansas, Processing and Distribution Center Consolidation (Report Number EN-AR-08-DRAFT)

Dear Ms. McAntee,

The Western Area is in receipt of the official report issued by the United States Postal Service (USPS) Office of Inspector General (OIG) regarding your findings related to the pre-decisional consolidation proposal for the Kansas City, Kansas, Processing and Distribution Facility (Project Number 07XG030EN000). We very much appreciate the professional manner in which this audit was performed as well as the accuracy and attention to detail practiced in its construction. The OIG has put forth one recommendation.

Recommendation:

Revise the Area Mail Processing (AMP) proposal to accurately document savings and potential service impacts and resubmit it to Headquarters (HQ) for review.

Response:

The Western Area is in agreement with this recommendation as follows:
An updated AMP feasibility study is being completed with more current information and will be submitted to Headquarters by January 31, 2008.

The following are responses to specific findings in the OIG audit report:

Finding #1 (Cover letter – Second paragraph):

However, we identified discrepancies in work hours savings, executive and administrative schedule personnel savings, transportation costs, and annual associated costs. These issues resulted in an overall savings overstatement of \$2.4 million, decreasing the total annual savings from \$5.7 million to \$3.3 million. We will report this non-monetary impact (data integrity – reliability of information) in our Semiannual Report to Congress.

Response:

The Western Area agrees with the discrepancies associated with work hours savings, transportation and annual associated costs. However, we disagree with the discrepancy associated with executive and administrative schedule (EAS)

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personnel savings due to the use of on-the-rolls complement versus authorized complement. (Reference Finding #9) We request the overall savings overstatement be changed to \$1,775,633 and re-calculate the total annual savings to \$3,961,656 to be reported as non-monetary impact in your Semiannual Report to Congress.

Finding #2 (Page i – Last paragraph):

Management transferred approximately 5,800 pieces of mail per day from the KCKS P&DC to the Kansas City Bulk Mail Center (BMC) for processing that were not documented in the AMP proposal.

Response:

Mail volume transferred to the BMC occurred after the initial AMP was submitted to HQ and was not associated with the AMP. The volume moved was part of the Mid-America Cluster's long-term plans to better utilize mail processing equipment in the Cluster.

Finding #3 (Page 2 – Last sentence, continuing to page 3):

The AMP proposal is for incoming and outgoing mail for three-digit ZIP Codes 660 and 661 and incoming flat mail operations for ZIP Code 662.

Response:

The AMP proposal is for outgoing and incoming mail operations for ZIP Codes 660-662 to be moved into KCMO P&DC.

Finding #4 (Page 5 – Fourth bullet – last item):

Elimination of five mail processing machines and better usage of the remaining five machines.

Response:

Please clarify the "remaining five machines." A total of 15 machines will be moved from KCKS to KCMO as follows:

- 2 AFCS
- 6 DBCS
- 2 DBCS OSS
- 1 EC-DIOSS
- 2 AFSM100
- 1 NEC
- 1 LMLM

Finding #5 (Page 5 – Footnote):

The five machines management eliminated from the KCKS P&DC were Small Parcel Bundle Sorter (SPBS), Advanced Facer Canceling System (AFCS), Multi-Line Optical Character Reader, and two Mail Processing Bar Code Sorters. Management will move the remaining five machines to the KCMO P&DC after

approval of the AMP proposal. The machine use after consolidation for the remaining five machines is estimated to be approximately 95 percent for AFCS, 59 percent for Automated Package Processing System, 91 percent for Automated Flat Sorting Machine, 99 percent for Delivery Barcode Sorter, and 78 percent for SPBS.

Response:

A total of 15 machines will be moved from KCKS to KCMO. Since the number of machines being relocated is inaccurate, the percent of use does not apply.

Finding #6 (Page 5 – Last sentence, continuing to page 6)

We also identified a slight FCM, Priority Mail, and Periodical service downgrade and some potential risk factors.

Response:

The current USPS Service Standard Directory (SSD) reflects numerous downgrades in service for FCM, Priority and Periodical volumes. With additional transportation, and operational changes, the Mid-America Cluster is committed to provide the existing service standards for all classes of mail that are currently being processed in Kansas City, KS. If the AMP is implemented, the Cluster will request that the Postal SSD be changed to reflect no downgrades in service for any classes of mail.

Finding #7 (Page 6 – Last sentence):

According to management, they did not include NATPH volume in operational volume due to guidance from headquarters management.

Response:

NATPH volume was reported for operations with single-piece meter counts but was not reported for operations that did not have single-piece meter counts.

Finding #8 (Page 6 – Footnote 13):

NATPH is mail volume that is not the result of a single-piece distribution.

Response:

NATPH is TPH volume (workload credits) that is recorded in non-distribution operations. (This includes operations with single-piece volume such as operation 015.)

Finding #9 (Page 7 – Last paragraph):

However, the purpose for worksheet 6 is to identify the number of EAS employees currently working at the facility (on-rolls) and the proposed increase or decrease as a result of the consolidation. The proposed revisions to Handbook PO-408 address this issue and require using the number of personnel on-rolls.

Response:

“On-the-rolls” complement is not necessarily an accurate depiction of the “number of EAS employees currently working at the facility” as it does not account for the 204B acting supervisors. The authorized number of EAS employees was used in the AMP study due to numerous EAS vacancies that existed at that time. They planned to fill those vacancies through continual job postings. Acting Supervisors were being utilized to cover these vacancies, so the work hours associated with the authorized numbers were being realized. If on-the-rolls complement is used and the vacancies are filled, when the Post Implementation Review is conducted, you will have an increase in on-the-rolls and an additional cost to the AMP. This analysis would be flawed, as the work hours associated with the on-the-rolls and acting supervisors would not change once the vacancies are filled; the acting supervisors would no longer be utilized. The current PO-408, which was the basis for this AMP, states “Enter the number of EAS positions.” It does not specify whether to use on-the-rolls or authorized. This AMP must conform to the current Postal Regulations and not proposed regulations. The Western Area disagrees that on-the-rolls complement should be used for worksheet 6. As stated, the authorized complement more accurately reflects the number of EAS personnel needed to manage the facility.

Finding #10 (Page 8 – Last sentence, continuing to page 9):

We identified volume associated with operation codes 136 and 137 (approximately 1.8 million mail pieces annually or 5,800 pieces per day processed on the SPBS) that was transferred from the KCKS P&DC to the Kansas City Bulk Mail Center (BMC) in June 2007 and not identified in the AMP proposal.

Response:

Mail volume transferred to the BMC occurred after the initial AMP was submitted to HQ and was not associated with the initial AMP. The volume moved was part of the Mid-America Cluster’s long-term plans to better utilize mail processing equipment in the Cluster.

Finding #11 (Page 9 – Mail Service Standards paragraph):

We noted in the SSD a downgrade from 1- to 2-day delivery times in FCM, Priority Mail, and Periodicals that the AMP did not report. According to management, they will use special procedures to ensure overnight FCM and Priority Mail continues to arrive in one day. Additionally, regarding Periodicals, management stated the SSD was in error and no downgrade will occur. Therefore, management did not think it necessary to report the potential downgrades. External stakeholders are concerned about the effects of consolidations on service to customers, and accurate analysis and complete disclosure of service standards is critical to building positive stakeholder relations.

Response:

The current SSD reflects downgrades in service for FCM, Priority and Periodical volumes. With additional transportation, and operational changes, the Mid-America Cluster is committed to provide the existing service standards for all classes of mail that are currently being processed in Kansas City, KS. If the AMP is implemented, the Cluster will request that the SSD be changed to reflect no downgrades in service for any classes of mail. For these reasons, we did not state there would be downgrades in service as there will be none and the SSD will be changed. To disclose incorrect downgrades in the SSD to external stakeholders would be communicating inaccurate information. Knowing, however, the SSD currently would reflect downgrades in service, we should have done a better job explaining how service would be maintained. We have accomplished that, based on the new AMP package submitted to HQ.

Finding #12 (Page 9 – Last sentence):

The KCMO P&DC's service performance scores exceeded most of the KCKS P&DC's scores; however, they were slightly below the national average which may affect service after the consolidation.

Response:

Although the service performance for KCMO was below the national average through the period noted, we have seen significant gains in the KCMO service performance in Quarters 3 and 4 of Fiscal Year (FY) 2007 and Quarter 1 of FY 2008. The fact that KCMO P&DC's service performance equals or exceeds KCKS P&DC's scores (see appendix D) would give evidence that this consolidation would provide improved service to our customers.

Finding #13 (Page 10 – First paragraph):

Transitioning Employee Integration – Employee attrition and the process for moving employees to the KCMO P&DC may result in the loss of skilled plant employees. This transition may require increased time for employee training and orientation. Management should provide an effective communication mechanism for transitioning employees that allows them to address questions and concerns timely.

Response:

A comprehensive plan to communicate a timeline for implementation of the AMP will be shared with employees in all impacted facilities. There will be minimal training and orientation required due to the fact that impacted employees in KCKS will be working on identical equipment in KCMO.

Finding #14 (Page 10 – Second paragraph)

Transportation Delays – Although management has prepared a comprehensive transportation plan that includes staggering dispatches to eliminate potential transportation delays, minimize congestion around the KCMO P&DC, and achieve on-time delivery, transportation delays remain a risk factor. Specifically,

the KCMO P&DC has limited space to stage mail prior to loading trucks. Consequently, there is the potential for delayed transportation if trucks are waiting for employees to load them with mail.

Response:

We request this last sentence be deleted from this report. The consolidation of these two plants will not increase the risk associated with delayed transportation due to trucks waiting for employees to load them with mail.

Finding #15 (Page 10 – Third paragraph):

Multi-Story Facility – The KCMO P&DC is a three-story facility and employees move mail between floors using large elevators. Dependence on elevators for movement of mail volume and the potential for mechanical failure of the elevators presents a risk not encountered at single-story facilities. Management should be attentive to these potential risks as they implement the consolidation and adjust plans as necessary.

Response:

KCMO has operated in a multi-story facility for over five years and is experienced in retrieving and dispatching mail in elevators. There will be other options to move mail between floors, such as the tray management system (TMS). We do not find any risk associated with this multi-story facility.

In addition, the Western Area requests removal of Appendix D, *Service Performance Indicators*, from the audit report, which should be exempt from disclosure under the Freedom of Information Act. Legal counsel advises plant rankings should not be made part of the public record and are not consistent with good business practice under 39 USC 410 (c) (2).


Sylvester Black

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