



July 17, 2008

JOANN FEINDT  
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Detroit, Michigan Processing and Distribution Center  
Consolidation (Report Number EN-AR-08-005)

This report presents the results of our audit of the Detroit, Michigan Area Mail Processing (AMP)<sup>1</sup> proposal (Project Number 08XG001EN000). Our objectives were to determine if the AMP proposal was accurate and supported and if the proposed AMP and Decision Analysis Report (DAR)<sup>2</sup> support the Postal Service's network streamlining efforts by reducing cost, increasing operational effectiveness, and improving service. The U.S. Postal Service requested the audit and we conducted it in cooperation with Postal Service officials. Click [here](#) to go to Appendix A for additional information about this audit.

## Conclusion

The Detroit AMP proposal was generally accurate and supported, reduced costs, and increased operational effectiveness. However, we identified a significant overstatement in proposed annual savings, decreasing the total annual savings from \$4.2 million to \$1.2 million. We will report \$3,060,158 of non-monetary impact (data integrity—reliability of information) in our *Semiannual Report to Congress*. Management generally complied with the processes outlined in Handbook PO-408.<sup>3</sup> In addition, we identified issues in the Detroit AMP proposal with a potential service downgrade, the stakeholder communication process, legislative restrictions, and potential risk factors. Several factors contributed to these discrepancies including overly optimistic cost-saving projections, unclear AMP policy, and inadequate management oversight. 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 process.

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<sup>1</sup> The consolidation of all originating and/or destinating distribution operations from one or more Post Offices/facilities into other automated processing facilities for the purpose of improving operational efficiency and/or service.

<sup>2</sup> A document the requesting organization prepares to recommend an investment; it defines the problem and details the need for the expenditure. A DAR is required for field investments that exceed the threshold; minimum requirements greater than \$5 million require headquarters approval.

<sup>3</sup> Management prepared the Detroit AMP proposal using Handbook PO-408, *Area Mail Processing Guidelines*, dated April 1995, which provided a framework for consolidating operations in the mail processing network.

**This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the Postal Service with a need to know.**

We did not audit the Northeast Metro Michigan DAR, dated August 20, 2005.<sup>4</sup> As part of our AMP audit, we accepted workhour reductions noted in the DAR to establish the Detroit AMP baseline. Click [here](#) to go to Appendix B for additional information about the DAR.

### Savings Misstatements

We identified an approximately \$3.1 million misstatement in proposed annual savings, decreasing the total annual savings from \$4.3 million to \$1.2 million. Discrepancies occurred in costs associated with workhours, executive and administrative schedule (EAS) personnel, transportation, and one-time associated costs. Figure 1 summarizes these discrepancies. Click [here](#) or go to Appendix C for more details.

**Figure 1: Summary of Adjusted Total Annual Savings**

Savings Category	AMP (Cost) / Savings	U.S. Postal Service Office of Inspector General (OIG) Adjustments	Revised (Cost) / Savings
Workhours	\$5,848,554	(\$2,879,902)	\$2,968,652
EAS Personnel	326,378	(159,650)	166,728
Transportation	(2,157,671)	(20,606)	(2,178,277)
Annual Associated	277,285	0	277,285
<b>Total Annual Savings</b>	<b>\$4,294,546</b>	<b>(\$3,060,158)</b>	<b>\$1,234,388</b>
<b>One-Time Associated Savings</b>	<b>(\$433,670)</b>	<b>\$678,393</b>	<b>\$244,723</b>

- Annual Workhours – Management overstated workhour savings by approximately \$2.9 million, reducing annual workhour savings from \$5.8 million to approximately \$3.0 million.<sup>5</sup> This occurred primarily because management benchmarked using a Saturday mail processing study that resulted in overly optimistic workhour savings. See the [Workhours](#) section of Appendix C for more details.
- EAS Personnel – Management overstated EAS savings by approximately \$160,000 by understating two EAS personnel as a result of the workhour discrepancies. Additionally, management used the number of employees “authorized” instead of “on-rolls” to calculate EAS staffing requirements and

<sup>4</sup> In January 2007, the Northeast Metro Processing and Distribution Center (P&DC) facility was renamed the Michigan Metroplex P&DC.

<sup>5</sup> The \$3 million savings includes workhour reductions claimed in the Northeast Metro DAR. We did not validate or confirm the accuracy of DAR projections.

savings estimates.<sup>6</sup> This occurred because there was unclear guidance in effect when management prepared the AMP. See the [EAS](#) Personnel section of Appendix C for more details.

- [Transportation](#) – Highway Contract Route (HCR) transportation costs did not include the required annual fuel cost, which, according to management, was a preparation oversight. Additionally, management understated Postal Vehicle Service (PVS) transportation costs by \$20,606 because they used the rate per hour instead of the rate per mile, and the rate per hour was unsupported. See the [Transportation](#) section of Appendix C for more details.
- [One-Time Associated Costs](#) – Management understated first year annual savings by \$678,393 because the AMP proposal did not include savings from closing the leased Detroit Annex. See the [One-Time Associated Costs](#) section of Appendix C for more details.

#### Other Issues:

- [Service](#) – The Service Standard Directory (SSD) identified a potential downgrade from 2-day to 3-day in First-Class Mail® (FCM) service standards that was not reported in the AMP proposal. See the [Service Downgrade](#) section of Appendix D for more details.
- [Communication Process](#) – Stakeholders expressed concern with the AMP communication process. We plan to examine stakeholder communications in a subsequent review. See the [Communication](#) Process section of Appendix D for more details.
- [Legislation](#) – The fiscal year (FY) 2008 Omnibus Spending Bill, dated January 2008, directs the Postal Service to delay the Detroit AMP consolidation until the Government Accountability Office (GAO) reports back to the Appropriations Committee. This delay has the potential to defer mail processing operation efficiency gains and related cost savings. See the [Legislative Restrictions](#) section of Appendix D for more details.
- [Risk Factors](#) – We identified potential risks that management should consider to avoid additional costs and delays associated with the consolidation. See Appendix E, [Risk Factors](#), for more details.

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<sup>6</sup> Revised Handbook PO-408, *Area Mail Processing* (March 2008), calculates the difference between the “Proposed Staffing” and “Current On-Rolls” positions on the Staffing – Postal Career Executive Service/EAS worksheet.

We recommend the Vice President, Great Lakes Area Operations:

1. Update the Detroit Area Mail Processing proposal to correct issues identified in this report, adjust savings/costs as appropriate, and then resubmit the updated proposal to headquarters for review and approval.

### Management's Comments

Management agreed with our recommendation and plans to submit an updated AMP proposal to headquarters using the new PO-408 worksheets by April 30, 2009. Management also agreed to address issues noted in the EAS Personnel, Transportation and Service AMP worksheets when submitting the updated AMP. Further, management confirmed their intent to close the Detroit Annex; however, they consider it an initiative independent of the AMP study. Additionally, management disagreed with our workhour finding and the associated \$3.1 million savings overstatement. They stated the OIG assumed there was no absorption factor associated with this AMP and attributed the majority of the savings discrepancy to this issue. Finally, management provided clarifying information for various issues in this report. Management's comments, in their entirety, are included in [Appendix F](#).

### Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation in the report. Additionally, management's planned update to the Detroit AMP proposal using the new PO-408 worksheets should resolve the issues identified in the report. When completed, we will assess the updated Detroit AMP proposal.

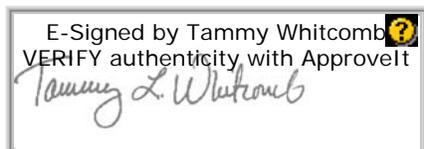
The OIG agrees the consolidation of processing operations into the Michigan Metroplex should result in increased productivity; however, Great Lakes management used a methodology that appeared optimistic. The OIG analysis is more consistent with the methodology described in the new AMP policy. In addition, to account for productivity gains at the Metroplex, the OIG adjusted the Detroit AMP baseline to reflect an efficiency gain of an additional 55,875 workhours. The adjusted calculations resulted in the OIG attributing an additional \$1.1 million in workhour savings to the Detroit AMP proposal.

Further, management stated, "Independent of the AMP study, the Detroit Annex will be closed within the next few years." The new PO-408 requires a disclosure of other cost-savings initiatives occurring concurrently with the AMP proposal development. Such disclosures increase transparency for stakeholders during the AMP process and help provide a better understanding of the source of saving during the post-implementation review process.

The OIG considers the recommendation significant; therefore, it requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when

management completes the corrective action. The recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that it can be closed. In addition, where appropriate we incorporated management's suggestions to clarify the report.

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



**for**  
Colleen A. McAntee  
Deputy Assistant Inspector General  
for Mission Operations

Attachments

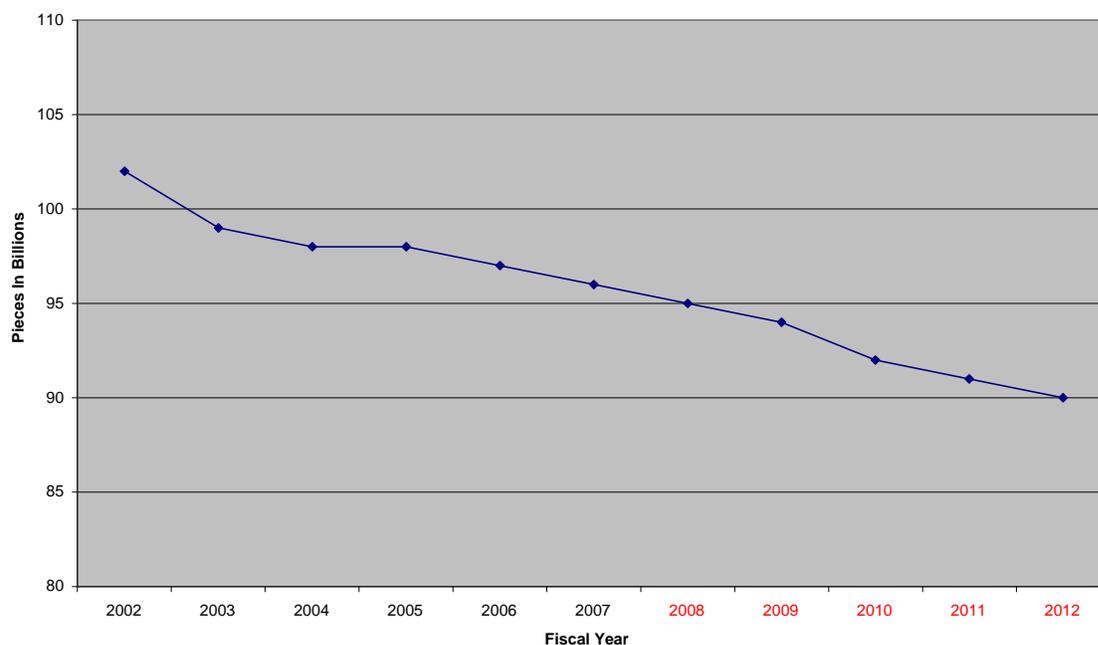
cc: Anthony M. Pajunas  
David E. Williams, Jr.  
Nancy L. Rettinhouse  
Kelly M. Sigmon  
Katherine S. Banks

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The U.S. Postal Service recognized the need to redesign and optimize its processing and transportation network in response to declining 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. The aggregate volume of FCM declined by 6.3 percent (or 6.4 billion pieces) from FYs 2002 to 2007. In addition, the Postal Service projects FCM volume will continue to decline. Figure 2 shows these trends.

Figure 2: FIRST-CLASS ACTUAL (2002-2007) AND  
PROJECTED (2008-2012) MAIL VOLUME



In addition, eCommerce and electronic messaging are slowly replacing personal paper-based correspondence and will continue to influence single-piece FCM volume. As FCM volume declines, the total number of mailpieces delivered per address could decline as well.

The Postal Service defines its strategic objectives in its *Transformation Plan*,<sup>7</sup> which states the agency is committed to improving its operational efficiency by consolidating

<sup>7</sup> *Strategic Transformation Plan, 2006-2010, Annual Progress Report*, December 2006.

mail processing operations when feasible. In addition, the President's Commission<sup>8</sup> 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<sup>9</sup> (Postal Act of 2006), signed into law on December 20, 2006, further encourages the Postal Service to continue streamlining its processing and distribution network to eliminate excess costs.

The Postal Service revised Handbook PO-408 in March 2008. The previous AMP policy – which we used as criteria in this audit – was published in 1995. The handbook provides a framework for consolidating operations in the mail processing network and performing post-implementation reviews (PIR). 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 AMP process to consolidate mail processing functions and to eliminate excess capacity, increase efficiency, and better use resources. The Postal Service defines AMP as:

. . . the consolidation of all originating and/or destinating distribution operations from one or more Post Offices/facilities into other automated processing facilities for the purpose of improving operational efficiency and/or service.

The Detroit P&DC in the Detroit District and the Michigan Metroplex P&DC in the Southeast Michigan District are both in the Great Lakes Area. The AMP proposes to move originating collection single piece mail volume for two 3-digit ZIP Codes™ (481 and 482) from the Detroit P&DC to the Michigan Metroplex P&DC.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our objectives were to determine if the proposed AMP was accurate and supported and if the proposed AMP and DAR supported the Postal Service's network streamlining efforts by reducing cost, increasing operational effectiveness, and improving service. We interviewed management and reviewed applicable guidelines, including Handbook PO-408. We did not assess communications with stakeholders or compliance with the *Area Mail Processing Communications Plan* in this report. We plan to address noted communications issues in a subsequent review. 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.

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<sup>8</sup> The President's Commission on the United States Postal Service reported its findings on July 31, 2003.

<sup>9</sup> Postal Accountability and Enhancement Act, Public Law 109-435, dated December 2006.

We relied on Postal Service data systems, including the Breakthrough Productivity Initiative website (BPI), the Management Operating Data System (MODS), the Web Enterprise Information System (WebEIS), and the Enterprise Data Warehouse (EDW) to analyze workhours, mail volumes, service performance, and service indicators.<sup>10</sup> We reviewed Postal Regulatory Commission filings related to network realignment initiatives. We also used information from the Transportation Contract Support System and the Transportation Information Management and Evaluation System to review, verify, and validate transportation data; the Web Complement Information System to review employee complement issues; and the 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 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 audit<sup>11</sup> 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.

The Michigan Metroplex is a new facility and is not yet operational. As a result, historical productivity rates are not available for the gaining facility. Therefore, OIG workhour savings were adjusted to include the workhour reductions noted in the DAR<sup>12</sup> as the baseline for potential workhour reductions at the losing facility. We did not validate or conduct an analysis of the Royal Oak P&DC workhour reductions and efficiency gains reported in the DAR.

We conducted this performance audit from October 2007 through July 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 did not directly audit the BPI, MODS, WebEIS, and EDW systems, but performed a limited data integrity review to support our data reliance. We discussed our observations and conclusions with management officials on April 21, 2008, and included their comments where appropriate.

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<sup>10</sup> In order to be consistent with data in the AMP proposal, we focused on the same data scope.  
<sup>11</sup> *Management Operating Data System* (Report Number MS-AR-07-003, dated August 6, 2007).  
<sup>12</sup> Column adjustments in the Data Collection for DAR, page 48.

**PRIOR AUDIT COVERAGE**

The OIG has issued 11 reports related to AMP guidelines and consolidation initiatives.

	<b>Report Name</b>	<b>Report Number</b>	<b>Date Final Report Issued</b>	<b>Results</b>	<b>Non-Monetary Impact (Data Integrity)</b>
1	<i>Area Mail Processing Guidelines</i>	NO-AR-06-001	12/21/05	The AMP process was fundamentally sound. However, the process could be improved by updating AMP guidance, processing and approving AMPs timely, conducting PIRs on all AMPs, and addressing stakeholder resistance. Management agreed with the findings and recommendations.	
2	<i>Pasadena, California Processing and Distribution Center Consolidation</i>	EN-AR-06-001	09/26/06	Our analyses provided confirming evidence for the consolidation. However, the process could be improved by complying with policy in the development, approval, and implementation of the AMP proposal. We recommended management revise the AMP proposal to document all service standard changes and transportation costs; establish central files for approved AMP proposals and supporting documentation to facilitate PIRs; and update AMP policy. Management generally agreed with our recommendations.	
3	<i>Bridgeport, Connecticut Processing and Distribution Facility Outgoing Mail Consolidation</i>	NO-AR-06-010	09/30/06	Our analysis disclosed the Postal Service was justified in moving outgoing mail processing operations. However, we identified weaknesses in management controls over the processing and approval of the AMP proposal. We recommended the Postal Service maintain supporting documentation and use current data for future AMP proposals. Management generally agreed with our recommendations.	

4	<i>Sioux City, Iowa Processing and Distribution Facility Consolidation</i>	EN-AR-07-001	11/09/06	<p>Our analysis provided confirming evidence for the consolidation. However, we identified inconsistencies in AMP proposal data and inaccuracies in the information shared with stakeholders. We recommended management provide detailed instructions for documenting facility and employee relocation expense information; revise the AMP to accurately document impacts on employees, equipment, transportation; and communicate updated information on the AMP proposal to stakeholders. Management agreed with the recommendations in this report.</p>	
5	<i>Service Implications of Area Mail Processing Consolidations</i>	EN-AR-07-002	12/05/06	<p>The Postal Service could improve the way it documents service impacts in AMP proposals and PIRs. The process could be improved if management revises AMP policy to include guidance for reporting service standards information; measuring service performance; and documenting potential changes affecting customer service, such as collection box pick-up times and access to the business mail entry unit. Management agreed with the recommendations.</p>	
6	<i>Review of the Steubenville –Youngstown, Ohio Outgoing Mail Consolidation</i>	NO-AR-07-003	03/30/07	<p>Our analysis provided confirming evidence for cost savings, improved service performance, and increased productivity. However, we identified discrepancies with the AMP proposals, the timing of the PIR, and the data used to support the PIR. We recommended that management update the AMP policy and provide training on the revised policy. Management agreed with the recommendations.</p>	

7	<i>Area Mail Processing Initiation Process</i>	EN-MA-07-001	06/26/07	The Postal Service could improve its process for identifying AMP consolidation opportunities by integrating the benefits of a strategic approach (top-down) with the existing tactical approach (bottom-up). We recommended management revise the AMP policy, integrate the bottom-up and top-down approaches to identifying consolidation opportunities, and validate current consolidation opportunities with changes in the network realignment strategy, including future equipment space needs. Management agreed with the recommendations	
8	<i>Bronx, New York Processing and Distribution Center Consolidation</i>	EN-AR-07-003	07/18/07	Our analysis identified confirming evidence for the consolidation proposal; however, we noted a workhour savings overstatement of \$1.4 million, a slight downgrade in Standard Mail® service, and some potential risk factors. Management corrected the misstatement and resubmitted the AMP proposal for approval during our audit. We recommended management update AMP policy to include a more objective and supportable method for determining workhours and update the integrated operating plans for two stations to reflect the correct trip-of-value. Management agreed with our recommendations.	\$1,443,374
9	<i>Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation</i>	EN-AR-07-004	08/14/07	Our analysis disclosed that management could improve the support and accuracy of the Marina PIRs. We identified significant misstatements in workhours, transportation, associated costs, data retrieval timeframe issues, service impacts during the first year after consolidation, and AMP policy compliance issues. We recommended that management correct and resubmit to headquarters the annual PIR; revise AMP guidelines to include specified data retrieval timeframes and other cost-saving initiatives under way concurrently with the consolidation; and establish a rigorous review process at the area and headquarters levels to identify AMP and PIR errors. Management agreed with the recommendations.	

10	<i>Management Advisory – Automated Area Mail Processing Worksheets</i>	EN-MA-08-001	10/19/07	The Postal Service's revisions to AMP guidance have resulted in significant improvements. Management has incorporated 32 prior OIG audit recommendations on AMP policy into the revisions. However, additional enhancements could further improve AMP guidance with regard to such things as workhours, transportation, communication, service, performance indicators, and supervisory ratios. Management agreed with the recommendations.	
11	<i>Kansas City, Kansas Processing and Distribution Center Consolidation</i>	EN-AR-08-001	01/14/08	Our analysis disclosed the Kansas City AMP consolidation proposal was generally accurate, supported, and showed evidence of management review. However, we identified an overall savings overstatement of \$2.4 million; a mail volume transfer that was not documented in the AMP proposal; and a slight downgrade in First-Class, Priority, and Periodicals mail service. We recommended management revise the AMP proposal and resubmit it for review. Management did not agree with one finding on executive staff savings; however, they did agree with our recommendation.	\$2,459,332

A recurring issue in the AMP consolidation audits over the past 3 years has been that the AMP consolidation policy, Handbook PO-408, *Area Mail Processing Guidelines*, needed to be updated to help improve accuracy and consistency in the AMP proposals process. In March 2008, the Postal Service issued a revised Handbook PO-408 and incorporated 41 prior OIG audit recommendations on AMP policy into the revisions. The Postal Service's revisions to AMP guidance should result in significant improvements in the AMP proposal process.

## [APPENDIX B: MICHIGAN METROPLEX DECISION ANALYSIS REPORT](#)

The Board approved the DAR on January 9, 2005. The purpose of the DAR was to reduce costs, increase operational effectiveness, and improve service. The project consolidates mail processing operations for ZIP Code areas 480, 483 and portions of 484 and 485 into the new Michigan Metroplex P&DC. After the initial headquarters functional review, an additional analysis was performed and determined there were opportunities for increased operational savings. The analysis indicated the Postal Service could realize significant savings if it moved part of the originating mail processing for ZIP Code areas 481 and 482 from the Detroit P&DC to the proposed Michigan Metroplex P&DC.

The Michigan Metroplex P&DC site acquisition, design, and construction included 803,325 square feet in the new facility. The total square footage required to meet the mail processing requirements on the workroom floor is 527,051 square feet. The Detroit AMP proposal indicates that Detroit mail processing operations require less than 1 percent of the total workroom floor.

At the time of this report, the Michigan Metroplex P&DC was not fully operational. The Postal Service began to move operations to the Metroplex P&DC at the end of May 2008. Click the illustrations below to see maps of consolidated facilities, [Illustration A](#) (existing) and [Illustration B](#) (proposed).

Since mail processing operations have not been moved, the current Royal Oak P&DC facilities listed in the DAR were used as the gaining facility's baseline for the Detroit AMP proposal. Workhour adjustments were made to the current Royal Oak P&DC MODS data to account for the projected workhour reductions in the DAR, which allow for anticipated efficiency gains at the new facility.

### APPENDIX C: SAVINGS MISSTATEMENTS

We identified an approximate \$3.1 million overstatement in proposed annual savings, decreasing the total annual savings from \$4.3 million to \$1.2 million. Discrepancies occurred in costs associated with workhours, EAS personnel, and transportation, as well as annual associated costs. Figure 3 summarizes the cost/savings misstatements.

**Figure 3: Summary of Adjusted Total Annual Savings**

Savings Category	AMP (Cost) / Savings	OIG Adjustments	Revised (Cost) / Savings
Workhours	\$5,848,554	(\$2,879,902)	\$2,968,652
EAS Personnel	326,378	(159,650)	166,728
Transportation	(2,157,671)	(20,606)	(2,178,277)
Annual Associated	277,285	0	277,285
<b>Total Annual Savings</b>	<b>\$4,294,546</b>	<b>(\$3,060,158)</b>	<b>\$1,234,388</b>
<b>One-time Associated Savings</b>	<b>(\$433,670)</b>	<b>\$678,393</b>	<b>\$244,723</b>

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.<sup>13</sup>

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

Our analysis identified an overstatement of approximately \$2.9 million in workhour savings, reducing the estimated workhour savings from \$5.8 million to approximately \$3.0 million.

The overstatement occurred because management used an overly optimistic absorption rate.<sup>14</sup> Specifically, management benchmarked data from the Saturday consolidation (Detroit P&DC to the Royal Oak P&DC). The Saturday study resulted in an 88.4 percent absorption rate in workhours. According to management, the absorption rate seemed high and was adjusted to 56 percent based on management’s experience.

<sup>13</sup> The handbook 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.

<sup>14</sup> An absorption rate represents the opportunity to achieve efficiency gains associated with a consolidation of mail processing operations.

Management used the 56 percent absorption rate in the reduction of projected workhours for all affected operations.

Several factors contributed to the discrepancies. Saturday mail processing productivity is not necessarily representative of a normal work week and using the same absorption rate for all operations does not recognize the variability in each operation, including efficiency losses that may occur in some operations. Additionally, to test the reasonableness of management's proposed absorption rate, we benchmarked the Detroit AMP proposed productivity against other facilities in two similar BPI groups. The productivity management proposed in the Detroit AMP was higher than the top three facilities in the BPI groups used as a comparison. [REDACTED]

[REDACTED]<sup>15</sup>

The workhour overstatement affects the number of craft personnel needed at the gaining facility. Based on our analysis, the gaining facility (Michigan Metroplex P&DC) would need an additional 42 craft employees<sup>16</sup> to maintain the same productivity anticipated for the Michigan Metroplex before the Detroit consolidation.

### EAS Personnel

Management underestimated staffing by two EAS personnel because of the workhour discrepancies noted above. The increase in craft complement increases the proposed EAS staffing by two additional positions<sup>17</sup> in the Michigan Metroplex. Therefore, EAS savings were overstated by approximately \$160,000.

Additionally, management calculated EAS complement changes from the "authorized" positions and not the current "on-rolls." Management stated this methodology more accurately reflected the effort needed to perform the work. Additionally, they stated some craft employees are acting in EAS positions to fill vacancies, which is not reflected in the "on-rolls" complement list. Further, management stated that if required to use "on-rolls" they would adjust the proposed number of employees to reflect the same net difference. This discrepancy occurred because AMP guidelines, at the time of the AMP proposal, were unclear. However, the revised Handbook PO-408 addresses this issue and requires using "on-rolls" personnel.

If corrected, there will be no net impact other than the adjustment for the two additional EAS personnel due to the workhour adjustment. However, if not corrected, there could be a significant understatement in EAS costs, potentially affecting the PIR process.

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<sup>15</sup> [REDACTED]  
<sup>16</sup> An additional 74,161 workhours divided by the employee utilization rate of 1,759 hours per year.  
<sup>17</sup> [REDACTED]

Figure 5: Summary of EAS Analysis

		Detroit P&DC	Michigan Metro P&DC	Combined Totals
<b>A</b>	<b>Current (on-rolls)</b>	113	79	192
<b>B</b>	<b>Authorized</b>	149	86	235
<b>C</b>	<b>Proposed</b>	142	91*	233*
<b>D</b>	<b>AMP Impact (B-C)</b>	-7	+5*	-2*
<b>E</b>	<b>OIG Impact (using on-rolls) (A-C)</b>	+29	+12	+41
	<b>AMP Savings</b>	<b>\$565,853</b>	<b>(\$399,125)</b>	<b>\$166,728</b>

\*Note: AMP proposed complement and savings adjusted to include the two additional EAS personnel required as a result of the workhour adjustment.

### Transportation

Highway Contract Routes (HCR) – Management understated transportation costs for the Detroit AMP proposal by approximately \$16 million because they did not include required annual fuel cost. However, because they understated both current and proposed costs, there was no net impact to the AMP savings. Specifically, 52 of the 57 HCR contracts did not include the required annual fuel cost in accordance with AMP guidelines. This condition occurred because coordination was insufficient among Postal Service Headquarters and area, district, and Detroit P&DC officials regarding what guidelines to use in developing the Detroit AMP proposal. Detroit P&DC officials used the current Handbook PO-408 for Worksheet 9. However, Great Lakes Area personnel stated that, during subsequent discussions with Postal Service Headquarters, they were verbally instructed to complete the transportation section using revised AMP Worksheets 9 and 9A. In addition, the Great Lakes Area has not completed their training on the revised Handbook PO-408 and was not clear on which cost to use.

Postal Vehicle Service (PVS) – Management understated AMP transportation savings by \$20,606. Our analysis concluded the total annual PVS transportation costs for both losing and gaining facilities were \$196,307 instead of \$175,701 identified in the Detroit AMP.

As a result, we recalculated the PVS cost for the gaining facility using the supporting documentation provided by district officials, which included a rate of [REDACTED]. Postal Service officials calculated the gaining facility (Michigan Metroplex) costs using the rate per hour, instead of the rate per mile used for the losing facility. In addition, inadequate supporting source documentation made it difficult to follow the methodology and establish an effective audit trail to validate all transportation costs associated with the AMP proposal.

### One-Time Associated Cost

The Detroit AMP did not include the cost savings associated with the closure of the Detroit Annex (a leased facility). During our review, management furnished a feasibility drawing depicting the Detroit P&DC after the Detroit AMP consolidation that showed the incorporation of the Detroit Annex. According to management they did not include the savings because they did not consider the Annex closure a part of the AMP initiative. Also, they stated the decision to close the Annex was made after the AMP proposal was submitted to headquarters and that the Annex closure would be pursued whether the Detroit AMP was approved or not.<sup>18</sup> The lease has approximately 3 years remaining, expiring in December 2011. The annual lease savings is approximately \$678,393, however, the savings would be reduced by several factors including: the cost to move the equipment (approximately \$78,000), early termination fees, and the requirement to return the building to its original state.

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<sup>18</sup> Revised Handbook PO-408 (March 2008) states that other significant cost-saving programs occurring during the AMP process, but not associated with the consolidation, must be noted in the Summary Narrative.

## APPENDIX D: OTHER ISSUES

### Service Downgrade

During our initial fieldwork, we noted the SSD showed a service standard downgrade that was not reported on the AMP proposal. Handbook PO-408 states the executive summary should include impacts on service commitments. The downgrade was for FCM service standards from 2-day to 3-day, for ZIP Code 482. During our discussions with management about this issue, they indicated that although a downgrade had been requested, a subsequent review by management concluded that the service downgrade was not needed and the original 2-day service standard was retained in the SSD. We validated that the noted service downgrade was no longer showing in the SSD. See [Illustration C](#) for the AMP timeline.

### Communication Process

Stakeholders expressed concerns with the communication process for the Detroit 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.

### Legislative Restrictions

Report language from the FY 2008 Omnibus Spending Bill<sup>19</sup> directs the Postal Service to delay the Detroit AMP consolidation, along with several others, until GAO reports back to the Appropriations Committee. The Appropriations Committee has questioned the efficacy of proceeding with AMP consolidations if management is making decisions with inadequate data analysis and stakeholder input when considering potential AMP consolidations.

Delays in AMP consolidation implementation impact the Postal Service's efforts to streamline the network infrastructure and projected cost savings. The Detroit AMP consolidation delay could possibly defer mail processing operation efficiency gains and potential cost savings of approximately \$1.2 million annually.

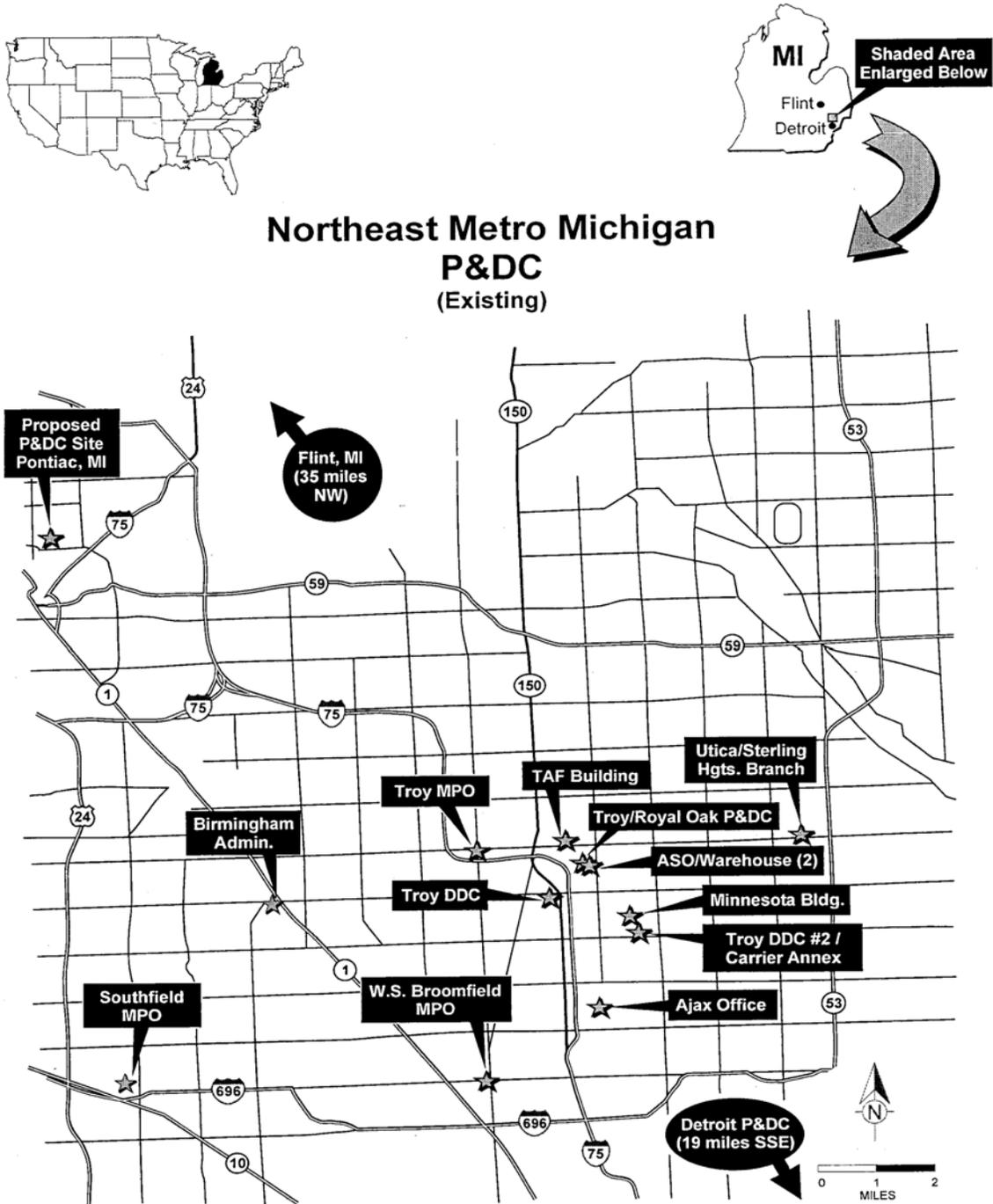
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<sup>19</sup> An omnibus spending bill sets the budget of many departments of the U.S. government at once. When Congress does not or cannot produce separate bills in a timely fashion (by beginning of the fiscal year), it will roll many of the separate appropriations bills into one omnibus spending bill.

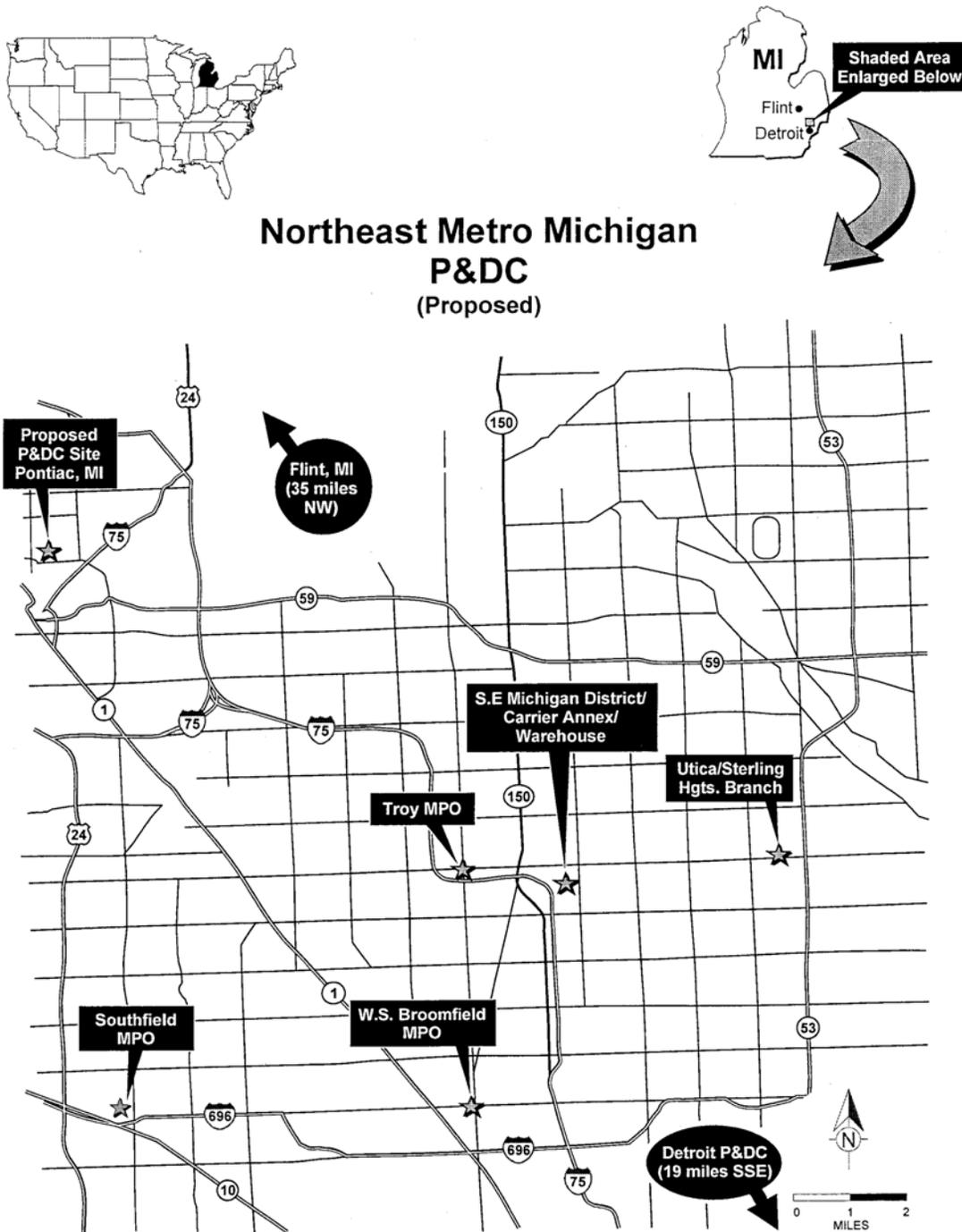
APPENDIX E: RISK FACTORS

Redacted

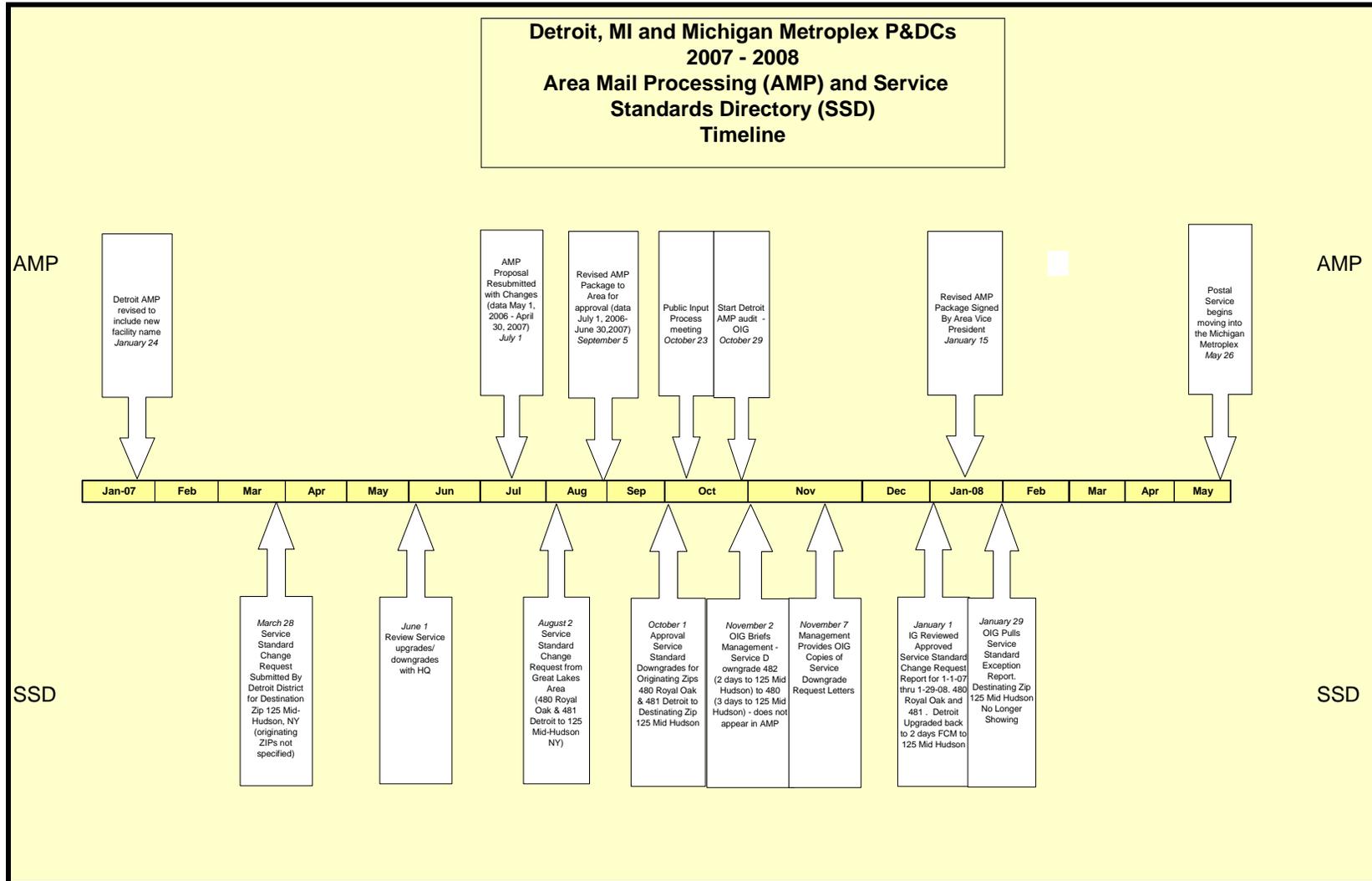
**ILLUSTRATION A. MAP OF GREAT LAKES AREA (Existing)**



**ILLUSTRATION B. MAP OF GREAT LAKES AREA (Proposed)**

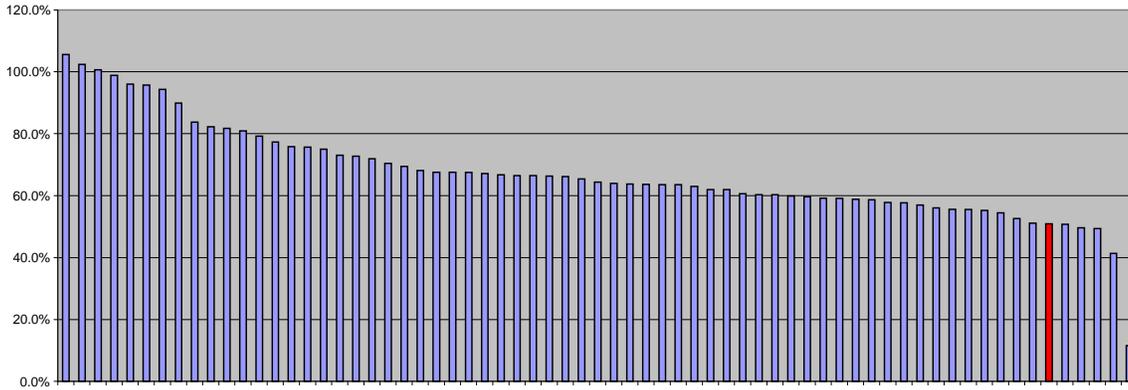


**ILLUSTRATION C: AREA MAIL PROCESSING TIMELINE**

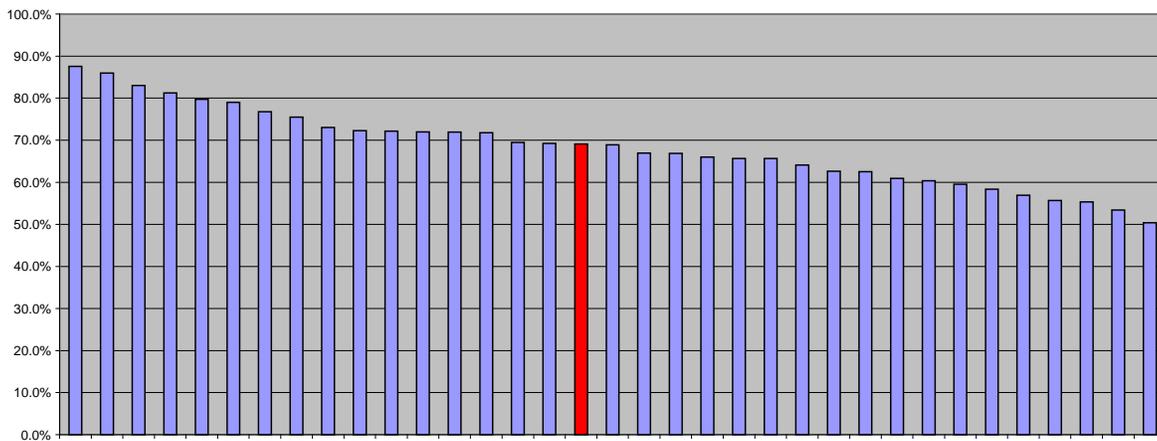


**ILLUSTRATION D: PLANT PERFORMANCE**

**Plant Stratification Group Ranking - Group 1 Plants**  
July 1, 2006 - June 30, 2007  
\*Detroit P&DC in Red Highlight\*



**Plant Stratification Group Ranking - Group 2 Plants**  
July 1, 2006 - June 30, 2007  
\*Royal Oak P&DC in Red Highlight\*



## APPENDIX F. MANAGEMENT'S COMMENTS

JO ANN FEINDT  
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



July 2, 2008

BRIAN NEWMAN  
ACTING DIRECTOR, AUDIT OPERATIONS

SUBJECT: OIG Audit Response - Detroit AMP

The result of the audit of the Detroit, Michigan Area Mail Processing (AMP) proposal has been received and reviewed by the Great Lakes Area. The audit was handled professionally and the flow of communication was maintained throughout the process.

All issues in this document have been identified and discussed in previous meetings. Several factors contributed to the discrepancies and we have been unable to come to a complete agreement.

### SAVINGS OVERSTATEMENT:

#### Workhours:

We disagree with the OIG assumption there is no absorption factor in this AMP. The majority of the \$3.1 million decrease in savings comes from this discrepancy. Management's data was obtained from the Saturday AMP of operations. Although Saturday is only one day and not a Monday through Friday workweek, our data is supported by 44 weeks of proven operational savings. All mail types are processed at the facility on Saturday. As discussed, we have data to support the absorption rate utilized.

#### EAS Personnel:

The 1995 PO-408 does not have clear verbiage on supervisor to employee ratio. Management's calculations are normally based on full staffing thus EAS was made to "authorized" not "on rolls". By OIG admission, the current PO-408 was not clear. The new version of the PO-408 does address this issue.

#### Transportation:

Several factors caused the discrepancies in the transportation portion of the AMP. As the development and review of this AMP package was during the period HQ was re-evaluating the 408 policy and processes, guidance was given which caused management to use a combination of both the "new" and old PO-408 worksheets.

The Postal Vehicle Service savings had been calculated using the [REDACTED] costs. Clear documentation at the time of the audit was only available from the Royal Oak figures. We agree this could have been handled more smoothly.

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BLOOMINGDALE, IL 60117-1000  
630/539-5858  
FAX: 630/539-7171

ONE TIME ASSOCIATED COSTS:

Detroit Annex:

The Detroit Annex was not listed in the AMP because it was not initially part of that package. USPS volumes have decreased since the time of the AMP creation. The Detroit District Manager has been assessing the operation for additional consolidations given the volume losses. Independent of the AMP study, the Detroit Annex will be closed within the next few years. Processing is being moved out, but the lease has no early termination clause. The Annex is a leased building with three years still on the lease; any savings until the expiration of the lease will be minimal.

OTHER ISSUES:

Service:

On March 28, 2007, a Service Standard Change request was submitted by Detroit District for Mid Hudson, NY 125. A review of service upgrades/downgrades was held with HQ on June 1, 2007. On August 2, the Area sent a request for zip codes 480, 481 to downgrade Mid Hudson 125 from 2 days to 3 days. On October 9, 2007, approval came back from HQ stating that Royal Oak 480 and Detroit 481 to Mid Hudson 125 had been determined to be non-service responsive and the downgrade was accepted. This approval was within the scope of the original request; it did not encompass the entire request, which was to downgrade zip codes 480-485 to 124-127. When a review of the original request was done, it was concluded that the service downgrade would not be changed, as Detroit was service responsive to Albany. Since the original request had all zips combined, the entire request was subsequently denied and zip codes 480, 481, and 125 all reinstated to their original standards.

Effective January 2008, all the Detroit and Royal Oak zip codes to Mid Hudson are 2 day service standard. The Service Standard issue did not impact the costs or savings of the AMP package.

RECOMMENDATION:

Update the Detroit Area Mail Processing proposal to correct issues identified in this report, adjust savings/costs as appropriate, and then resubmit the updated proposal to headquarters for review and approval.

RESPONSE:

Workhours:

The Area recognizes the efforts of the OIG to take into account the fixed mechanization related productivity in the DAR; however, we disagree with the \$3.1 million decrease in savings. We believe our demonstrated Saturday AMP savings are indicative of full AMP savings.

EAS Personnel:

We will use the language in the revised PO-408 to calculate EAS savings and impacts.

Transportation:

We will use the language in the revised PO-408 to calculate transportation savings and impacts.

Detroit Annex:

Consolidation of the Detroit Annex will be moving forward regardless of the Detroit AMP. This decision was independent of the AMP process.

Service:

Service standards will be reviewed immediately prior to submission of the AMP and disclosure of any downgrades will be listed.

AMP Submission:

We will build the AMP using the most current data, PQ 3-4, FY-08, and PQ 1-2, FY-09. PQ 1-2, FY 09 will reflect a fully operational Michigan Metroplex. The new proposal is expected to be ready for submission by April 30, 2009.

If you have any questions, please contact Jacqueline M. Krage, Manager, Operations Support, at 630-539-4801.

  
for Ann Feindt

cc: Kelly Sigmon, District Manager, Southeast Michigan  
Nancy Rettinhouse, District Manager, Detroit  
Katherine Banks, Manager, Corporate Response and Audit  
Victoria Walker, OIG