



April 21, 2011

ROBERT A. CAVINDER
DISTRICT MANAGER, APPALACHIAN DISTRICT

SUBJECT: Audit Report – Beckley, WV Post Office Facility Consolidation
(Report Number EN-AR-11-005)

This report presents the results of our audit of the Beckley, WV Post OfficeTM (PO) proposed consolidation of mail processing operations into the Charleston, WV Processing and Distribution Center (P&DC) (Project Number 11XG003EN000). The report responds to a congressional request. Our audit objectives were to assess the business case and operational impacts of the proposed consolidation. This audit addresses financial and operational risks. See [Appendix A](#) for additional information about this audit.

Illustration 1: The Beckley, WV PO



Source: U.S. Postal Service Office of Inspector General

As the economy weakened in 2010, mail volume and revenue continued to decline. The U.S. Postal Service attempted to address these challenges with focused cost reductions and increased efficiency. One initiative to reduce costs is area mail processing (AMP) consolidations, which consolidate mail volume from two (or more) Postal Service processing facilities into one to improve operational efficiency and/or service.

Conclusion

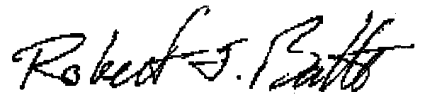
A valid business case exists to consolidate mail processing operations from the Beckley PO into the Charleston P&DC. The consolidation should increase operational efficiency and reduce processing costs in support of the Postal Service's streamlining efforts. Based on our analysis:

- Service performance should improve. However, there is potential for some temporary service degradations during implementation.
- No career employee should lose his or her job, although some might be reassigned.
- Capacity exists at the Charleston P&DC to process mail from the Beckley PO.
- Transportation route changes should ensure the mail meets operational clearance times at the Charleston P&DC.
- Projected annual maintenance cost savings were overstated by \$228,181 due to calculation errors. During our review, management corrected the proposed maintenance savings in the AMP worksheets to reflect the correct savings of \$189,555.
- Contingency plans are in place at the facilities to ensure that the collection and delivery of mail continue if weather or other events disrupt service.
- The consolidation will not impact bulk mail discounts.
- A local postmark will remain available.

As a result of this consolidation, the Postal Service could save approximately \$1.1 million annually. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our other impact calculations.

Because our findings support the consolidation and management took corrective action during the review to address the issues identified, we are not making any recommendations. Management agreed with the findings. See [Appendix D](#) for management's comments in their entirety.

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.

A handwritten signature in black ink, reading "Robert J. Batta". The signature is written in a cursive style with a large, stylized "B" and "A".

Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
Megan J. Brennan
David E. Williams
John L. Prokity
Damon M. Manz
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history and incurred a net loss of \$8.5 billion¹ in fiscal year (FY) 2010. A significant portion of this loss is attributed to the continual decline in First-Class Mail® (FCM). The Postal Service experienced a 20-percent loss of mail volume over the past 4 years, resulting in a decline of more than 6 billion pieces during 2010. Although the Postal Service has reduced expenses by \$11 billion over the past 3 years, it has not made sufficient reductions to fully offset the decline in mail volume and related revenue.

In testimony before Congress in June 2010,² the U.S. Government Accountability Office (GAO) found that deteriorating financial conditions and declining mail volume have reinforced the Postal Service's need to increase operational efficiency and reduce expenses in its mail processing network. One of the initiatives listed according to GAO, states that AMP proposals are intended to reduce costs and increase efficiency by making better use of excess capacity or underused resources, primarily at Postal Service P&DCs. The Postal Service AMPs may involve the consolidation of originating operations (canceling and sorting locally generated mail), destinating operations (sorting and preparing mail received from more distant areas for local delivery), or both.

Title 39 U.S.C., § 101, Part 1, Chapter 1, states that the Postal Service “. . . shall provide prompt, reliable, and efficient services to patrons in all areas. . . .” Further, the September 2005 Postal Service *Strategic Transformation Plan* states, “The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates.” The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20, 2006, highlights “. . . the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services. . . .”

This report responds to a request from Congressman Nick Rahall of West Virginia's 3rd Congressional District (see Map 1) to examine the consolidation of mail processing operations from the Beckley PO into the Charleston P&DC. Congressional concerns included the following:

- Quality of service performance.
- Possible loss of jobs and staffing relocations.
- Efficiency of mail operations.
- Transportation routes and costs.
- Impact on security and contingency plans for the mail.

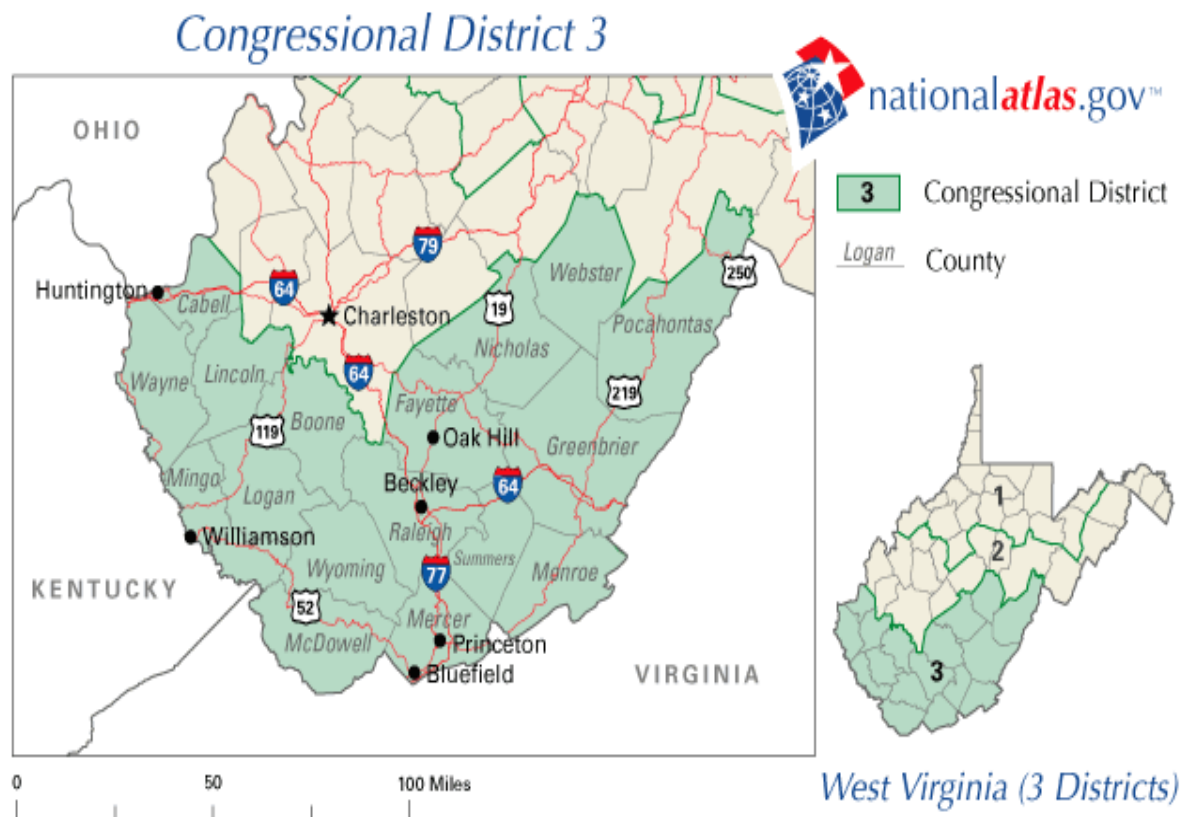
¹ Of this amount, \$5.5 billion was due to an annual legislative mandated obligation to prefund retiree health benefits.

² Testimony to the Congressional Committees: *Mail Processing Network Initiatives Progressing and Guidance for Consolidating Area Mail Processing Operations Being Followed*, (GAO-10-731, dated June 2010).

- Impacts to bulk mail discounts, the local postmark, and the electrical system at the Charleston P&DC.

Since September 2009, Postal Service management has initiated five feasibility studies involving mail processing facilities in West Virginia. One study was approved and implemented, two studies have been approved pending implementation, and two remain pending. As a result, additional congressional concerns to the Postal Service surfaced regarding the number of consolidations in process or planned in West Virginia.

Map 1: West Virginia's 3rd Congressional District



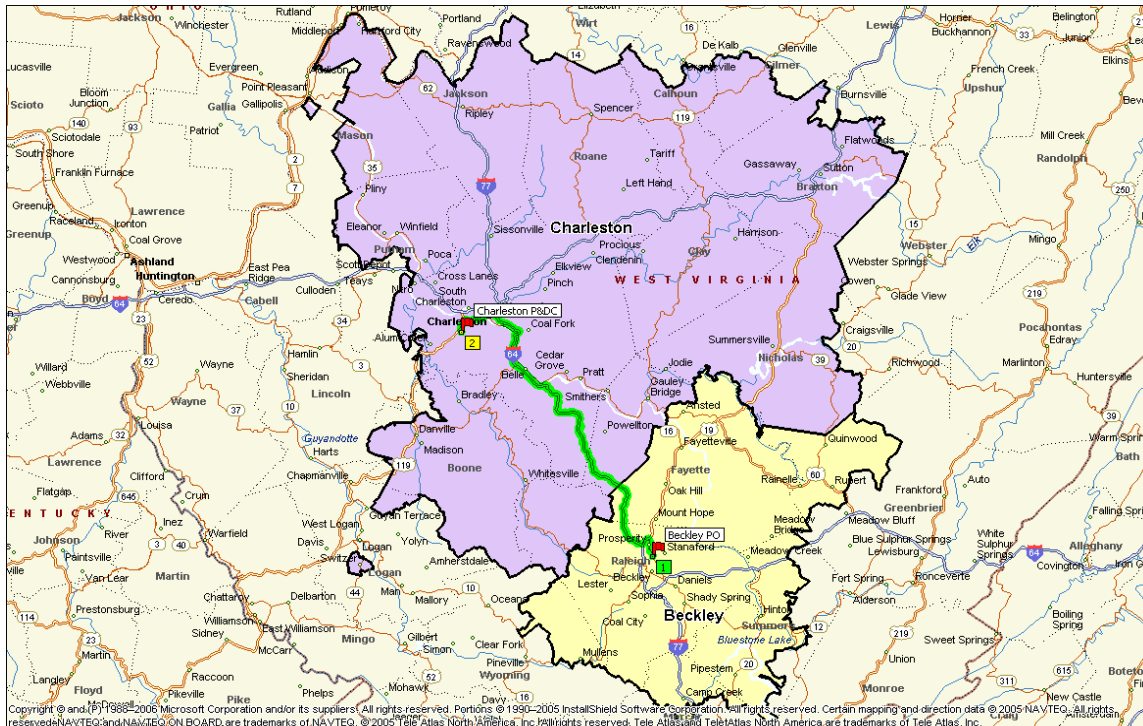
The Beckley AMP feasibility study included originating³ and destinating⁴ mail processing operations and was based on operational data from April 1, 2009, through March 31, 2010. The feasibility study was approved on November 23, 2010, and consolidation was scheduled to be implemented by March 31, 2011.

The Beckley, WV and Charleston, WV mail processing facilities are approximately 65.1 miles apart in the Appalachian District of the Postal Service's Eastern Area. Map 2 shows the locations of the two facilities.

³ Originating operations are those associated with the acceptance and initial processing of mail that, for example, is either tendered at Postal Service retail windows or bulk entry units, or is deposited in collection boxes. Originating processing marks the beginning stages of its journey in the mailstream.

⁴ Destinating operations are those associated with the final processing of mail that, for example, is either drop-shipped at various facilities or received from the network. Destinating processing marks the end stages of its journey in the mailstream.

Map 2: Beckley PO (1) and Charleston P&DC (2)



OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit were to assess the business case and operational impacts of the proposed consolidation. In response to the congressional request, we evaluated the workforce and operational impacts, service implications, efficiency gains, and savings projections of the Beckley PO into the Charleston P&DC consolidation proposal.

We reviewed current and historical data for the Beckley and Charleston facilities, including data from the period covered by the AMP feasibility study worksheets. We conducted on-site observations during the week of November 15, 2010, interviewed Postal Service officials and employees; and reviewed applicable Postal Service guidelines. We used the AMP proposal, dated November 15, 2010, as the basis for our review. We generated reports and prepared analyses using Postal Service databases to confirm information related to capacity, workhours, staffing, transportation, and service standards regarding the proposed consolidation. These databases included the following:

- Activity Based Costing.
- Enterprise Data Warehouse (EDW).
- Service Standard Directory.
- Transit Time Measurement System.
- Transportation Contract Support System.

- Web Complement Information System.

We conducted this performance audit from October 2010 through April 2011 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 on April 15, 2011, and included their comments where appropriate.

We assessed the reliability of workhour, staffing, transportation, and service data by comparing our results with that reported in the AMP feasibility study and through discussions with Postal Service managers. We determined that the data were sufficiently reliable for the purposes of this report.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date
<i>Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-09-011	9/22/2009
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	2/1/2010
<i>Manasota Processing and Distribution Center Consolidation</i>	EN-AR-10-003	2/12/2010
<i>Lakeland Processing and Distribution Center Consolidation</i>	EN-AR-10-004	2/12/2010
<i>Southeast Area Processing and Distribution Center Consolidations</i>	EN-AR-10-006	9/17/2010
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010
<i>Consolidation of the Lima P&DF Mail Operations Into the Toledo P&DC</i>	NO-AR-10-007	7/2/2010
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010
<i>Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010
<i>Houston, TX Processing and Distribution Center Mail Consolidation</i>	NO-AR-11-004	12/14/10

APPENDIX B: DETAILED ANALYSIS

Business Case

A valid business case exists to consolidate mail processing operations from the Beckley PO into the Charleston P&DC to achieve projected cost savings. Projected savings appear realistic and attainable based on our analyses of available data. The Appalachian District projects to save about \$1.1 million annually through increased productivity gains from moving mail processing operations, transportation route changes, a reduction of nine craft positions, and a net increase of two management positions. The majority of the savings will come from approximately \$800,000 in reduced labor costs. The Postal Service will assess actual savings from the consolidation as part of the post-implementation review process.

We also examined why multiple consolidations were being considered in West Virginia. Many of the Postal Service's mail processing facilities are part of a legacy network that reflect decisions made over decades to address a robust and growing mail volume. Today the network is larger than necessary to handle declining mail volume. The Postal Service takes a holistic approach in examining opportunities for potential mail processing consolidations, which considers cost savings while balancing impacts to service. We determined that West Virginia has a higher number of mail processing facilities than other states based on population and square miles supported.⁵

Service

The consolidation should have little overall impact on customer service. There is, however, a potential for some temporary degradation of service during the implementation process. The Beckley PO and Huntington Processing and Distribution Facility consolidations are being implemented concurrently into the Charleston P&DC. There is an increased risk for mail delays and service interruptions when multiple facilities are consolidated into the same gaining facility concurrently. However, an implementation team of functional area specialists onsite during the consolidation and the relatively small amount of mail transferred should mitigate this risk. In a prior OIG audit,⁶ we made a recommendation to use an implementation team to mitigate potential service impacts; therefore, we are not making a recommendation in this report.

We reviewed two measures of customer service; the External First-Class Measurement system (EXFC),⁷ and the projected service standard changes. Because of the small

⁵ Nine processing facilities are in West Virginia. Each facility covers an average of 2,675 square miles, with an average population of 205,888. Nationally, processing facilities cover an average of 7,642 square miles, with an average population for all states of 566,049.

⁶ *Lima, OH to Toledo, OH Area Mail Processing Consolidation* (Report Number EN-AR-11-004, dated March 31, 2011).

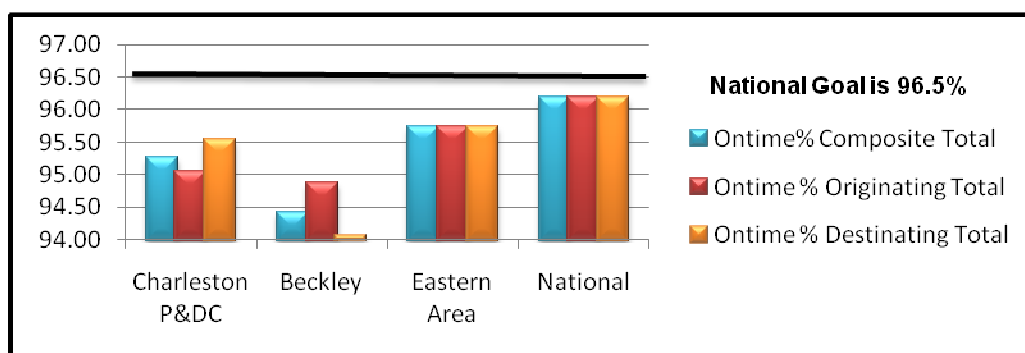
⁷ An independent measurement of service performance for FCM (letters, flats, and postcards) deposited in collection boxes and business mail chutes. It provides national, area, performance cluster, and city estimates, which are compared to service goals.

size and limited mail processing operations at the Beckley PO, 24-hour clock performance indicators used to measure operational performance were not available.

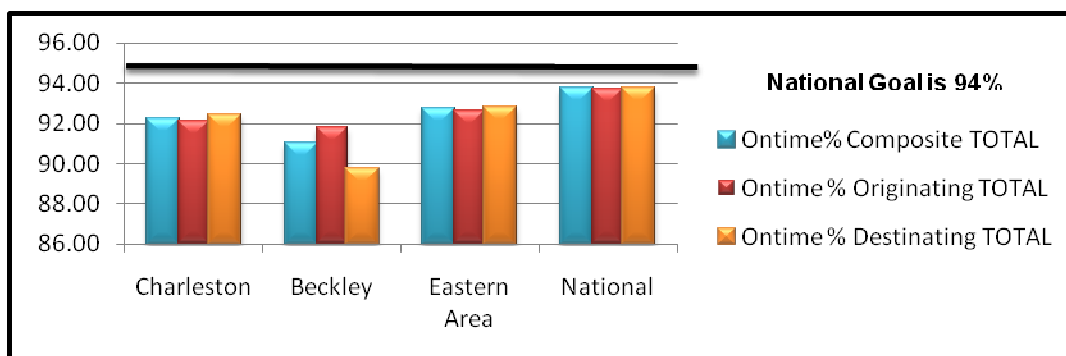
▪ EXFC Scores

During the period April 1, 2009, through March 31, 2010, the Charleston P&DC had slightly higher EXFC overnight, 2-day, and 3-day service scores than the Beckley PO (see Charts 1, 2, and 3).

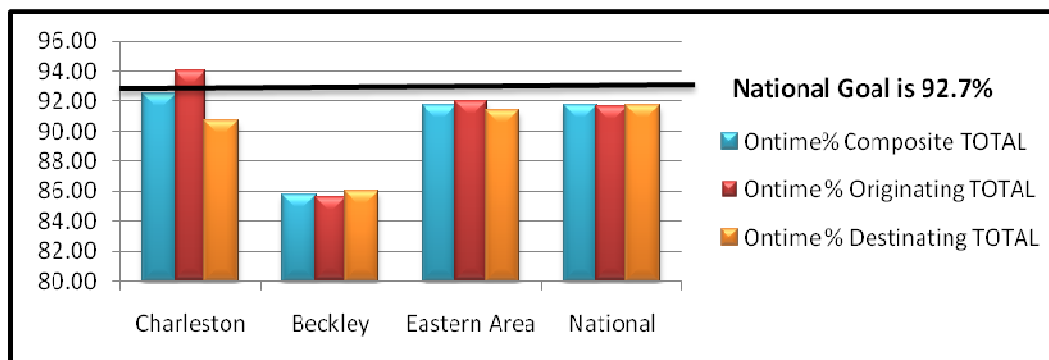
**Chart 1: Charleston P&DC vs. Beckley PO Overnight EXFC Service Scores
April 1, 2009, through March 31, 2010**



**Chart 2: Charleston P&DC vs. Beckley PO 2-Day EXFC Service Scores
April 1, 2009, through March 31, 2010**



**Chart 3: Charleston P&DC vs. Beckley PO 3-Day EXFC Service Scores
April 1, 2009, through March 31, 2010**



Service Standards

We determined that the overall impact on service standards⁸ for all mail classes will be a net upgrade. There will be 2,494 upgrades and 52 downgrades to service standards. See Table 1 for a summary of service standard changes.

Table 1: Service Standard Changes

Mail Class	Upgrades	Downgrades	Net Change
First-Class™	18	10	8
Priority Mail®	18	10	8
Periodicals	588	16	572
Standard Mail®	1,850	8	1,842
Package Services	20	8	12
All Classes	2,494	52	2,442

Employees

Consolidation of the Beckley PO's mail into the Charleston P&DC will impact staffing, although no career employee should lose his or her job. Some employees may, however, be reassigned.⁹

Staff reductions appear reasonable based on proposed AMP projections. The transfer of mail processing operations from the Beckley PO to the Charleston P&DC may impact

⁸ Service standards are defined as "A stated goal for service achievement for each mail class." Service standards represent the level of service the Postal Service strives to provide to customers and are considered one of the primary operational goals against which service performance is measured. An upgrade or downgrade means that service between two ZIP Codes is either faster or slower than it was before a change.

⁹ Reassignments will be in accordance with labor/management agreements.

24 craft employees at the Beckley PO. These impacts will result in a combined net reduction of nine craft positions. However, these employees will have opportunities to fill other vacancies in the Appalachian District.¹⁰ Attrition and retirement could reduce the number of employees that would have to be accommodated.

Capacity and Efficiency

Adequate capacity exists to process additional originating and destinating mail volume at the Charleston P&DC. The Beckley PO will transfer an average daily volume of approximately 15,000 pieces of mail, which represents a very small amount of mail. We determined that existing capacity at the Charleston P&DC along with the two additional delivery barcode sorter (DBCS) machines from the Beckley PO should provide sufficient capacity to process the combined mail volumes at the Charleston P&DC.

The proposed consolidation at the Charleston P&DC will require an upgrade to the electrical power system to handle the additional two DBCS machines. The improvements will include wiring to the additional mail processing equipment and upgrades to a transformer and electrical panel. The AMP proposal includes an estimate of \$25,810 to upgrade the electrical system.

Efficiency should continue to improve at the Charleston P&DC as a result of the consolidation. Breakthrough Productivity Initiative (BPI)¹¹ scores show the performance of plants compared to established performance expectations, with higher scores representing better performance. Productivity at the Charleston P&DC is projected to increase by approximately 7 percent as a result of the consolidation. Table 3 shows an improvement in productivity at the Charleston P&DC since FY 2008.

Table 3: BPI Scorecard

Facility	FY 08	FY 09	FY 10	FY 11
Charleston P&DC	54.6%	56.2%	57.8%	59.9%

Source: EDW.

Transportation

An increase in transportation costs of \$59,337 associated with travel between the Beckley PO and Charleston plant should ensure the mail meets operational clearance times at the Charleston P&DC. The projected increase in costs is due to transportation route changes associated with the Beckley PO and Charleston P&DC.

¹⁰ Some employees may be entitled to relocation benefits.

¹¹ BPI is a comprehensive and integrated method for comparing and improving productivity in mail processing operations.

Maintenance

Projected maintenance savings were overstated by a total of \$228,181. The savings were overstated, because management did not estimate workhours needed to operate and maintain the mail processing equipment coming from the Beckley PO. During fieldwork, management corrected the maintenance costs to reflect workhours associated with mail processing equipment, building equipment, and maintenance training at the Charleston P&DC.

Workhours

Approximately \$800,000 of the \$1.1 million in projected cost savings will result from workhour reductions. This represents an increase in productivity associated with this consolidation. The workhour savings appear reasonable given continuing declines in mail volume.

Other Concerns

According to Handbook PO-408, each PO is required to make a local postmark available. The Beckley PO can provide a local postmark on stamped mail at a retail counter.

Continuity of operation plans at the Charleston P&DC address security concerns to protect employees, the mail, facilities, and the mail processing process.

Operations at the Business Mail Entry Unit and retail operations will remain at the Beckley PO. We did not identify any additional customer service-related issues that would be impacted by the consolidation.

Potential Risks

We determined that identifying key risks can provide support to management when making decisions and taking actions.

Key Risks

Risk Category	Risk Factor	Probability	Impact	Risk
Strategic	Stakeholder Relations	High	High	Changes to network encounter resistance and can delay/terminate consolidations.
Financial	Labor Costs	High	High	Duplication of craft positions and workhours at losing and gaining facilities may increase costs temporarily. There is also a lack of flexibility in adjusting workhours to workload.
Operational	Emergency Preparedness/ Security Plan	Low	High	Ability to build and maintain a comprehensive security plan to effectively protect facilities and assets, people, and the process.
Operational	Service	Medium	Medium	Use of an onsite implementation and integration team to assist in planning and monitoring workload during execution.
Operational	Real Estate/Space Management	Medium	Medium	Efficient and cost-effective use and disposition of excess space.

APPENDIX C: OTHER IMPACTS

Finding	Impact Category	Amount
Maintenance Costs	Predicted Savings Shortfall	\$228,181

We identified a predicted savings shortfall of \$228,181 in maintenance cost savings. While we were onsite at the Charleston P&DC, management adjusted the AMP worksheets to increase workhours for mail processing equipment, building equipment, and training and correct the projected maintenance savings.

APPENDIX D: MANAGEMENT'S COMMENTS



DISTRICT MANAGER
APPALACHIAN DISTRICT

April 15, 2011

[To] LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: [Beckley WV Consolidation] (Report Number [11XG003EN000-DAFT])

The Appalachian District Management team agrees with the findings of the OIG.

Projected annual maintenance cost savings were overstated by \$228,881 due to calculation errors. This was corrected during review to \$189,555.

Recommendation:

From report the OIG are not making any recommendations in the report because their findings support the consolidation.

Management Response/Action Plan:

Management agrees that this is a valid business case -- Consolidate mail processing operations from Beckley PO into the Charleston WV Processing and Distribution Center.

Target Implementation Date:

Beckley AMP completed March, 2011

Responsible Official:

Robert A. Cavinder, District Manager Appalachian District

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

Handwritten signature of Robert A. Cavinder in black ink.

Robert A. Cavinder
District Manager, Appalachian District

Handwritten signature of John L. Prokity in black ink.

John L. Prokity
Senior Plant Manager, Appalachian District

cc: Jan Young
Bob Roseberry
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