



October 19, 2007

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VICE PRESIDENT, NETWORK OPERATIONS

SUBJECT: Management Advisory - Automated Area Mail Processing Worksheets
(Report Number EN-MA-08-001)

This report presents the results of our review of the Automated Area Mail Processing (AMP) Worksheets (Project Number 07XG027EN000). Our objective was to assess management's proposed changes to AMP guidance and provide input on possible enhancements. We conducted this review at management's request and in cooperation with Postal Service officials.

Background

The Postal Service recognized the need to redesign and optimize its processing infrastructure 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 the evolving optimization effort is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service.

Handbook PO-408, *Area Mail Processing Guidelines*, provides the framework for consolidating mail processing operations and performing post-implementation reviews (PIR). The Postal Service uses these guidelines, last issued in April 1995, to ensure that AMP¹ consolidations support strategic objectives, make optimum use of available resources, and establish management's accountability for the AMP decision. These guidelines include standardized worksheets and instructions to document how projected savings are calculated and potential impacts on service and employees. The Postal Service has revised the AMP worksheets several times through the years, last issuing updates in January 2005.

The Postal Service developed a separate document titled *Area Mail Processing Notifications Tool Kit* (May 2006) to enhance the AMP stakeholder communications process, address community-related concerns, and provide more effective outreach.

¹ AMP is the consolidation of all originating and/or destinating distribution operations from one or more Postal Service facilities into other automated facilities to improve operational efficiency and/or service.

The Postal Service is revising this document and will issue it with the revised PO-408 guidelines, so we did not assess this document as part of this review.

The AMP process is a high-profile, sensitive program with visibility from Congress, mailers, unions, and other stakeholders. Prior audits have noted that Postal Service area officials have been inconsistent in preparing feasibility studies, AMP proposals, and worksheets. Additionally, information filed with the Postal Regulatory Commission stated that each AMP is evaluated on its own merits and the AMP guidelines are the only criterion.

Objective, Scope, and Methodology

We discuss our objective, scope, and methodology in Appendix A.

Prior Audit Coverage

Fourteen reports related to AMP policy and consolidation initiatives have been issued in recent years. The U.S. Postal Service Office of Inspector General (OIG) has issued 12, while the Government Accountability Office (GAO) has issued two reports on the Postal Service's mail processing infrastructure, including AMP. For details of prior audit coverage, see Appendix B.

Results

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, communications, service, performance indicators, and supervisory ratios.

Significant AMP Policy Improvements

Management has proposed major improvements to AMP guidance² that will significantly improve consistency and accuracy; provide improved disclosure; and enhance planning, implementation, and review.

- **Enhanced Worksheet Accuracy** – Management improved the layout and readability of the AMP worksheets to provide added clarity and labeled the individual worksheets according to subject (not worksheet number). Personnel preparing the worksheets will use standardized queries to extract the required source data for placement in the AMP workbook. Lookup tables and other locked formulas will further automate data placement and perform worksheet

² During our review, proposed changes to AMP guidance were being coordinated both internally with cross-functional teams and externally.

calculations. Additionally, management has increased centralized control for data input and added a new AMP data entry page to pre-populate all other worksheets with facility information and other required data.

- Improved Instructions – Management identified sources, added guidance, specified methodologies, and added controls to establish a more relevant (i.e., current) and consistent pre-AMP baseline. Instructions require coordination and review with cross-functional teams. Management also increased the period for area and headquarters (HQ) reviews to 60 days, running concurrently.
- Improved Visibility – Management added and supplemented worksheets to improve visibility over future AMP consolidations. Additional disclosures provide information regarding impacts to postal vehicle service, mail processing equipment inventory, facility space, service standards, and customer service (e.g., collection times, retail hours, and postmarks). Management also added to the summary narrative a new requirement to disclose other significant savings programs running concurrently with the AMP. In addition, separate PIR worksheets were created to compare pre- and post-AMP consolidations; these worksheets will be pre-populated from the originating AMP worksheets.
- Additional Criteria – AMP guidelines require staff to retain supporting documentation at the area office for 3 years. In addition, management added a new chapter on AMP communications and a section on facility reclassification to the AMP guidelines.

Prior Audit Recommendations Addressed

Management has addressed 32 prior OIG audit recommendations in the proposed revisions to AMP policy. For details of prior recommendations, see Appendix C. As a result of this audit, management has also addressed four additional OIG suggestions made during AMP working group meetings:

- Documenting the specific AMP event³ in the communications worksheets.
- Simplifying the PIR “Workhour Costs” column headings to clarify column content.
- Adding worksheet columns to enable comparison of the pre-AMP actual baseline and the projected savings to the actual PIR results.
- Disclosing AMP costs and savings without projecting Function 1 productivity improvement goals.

³ AMP events include the start of the study, the public input process meeting, and the final decision.

Additional Enhancements

Although management has devoted substantial efforts to revising the AMP worksheets and related instructions, we have concerns with the planned methods of calculating potential workhour and transportation savings and other disclosure items, including communications, service, performance indicators, and supervisory ratios.

- **Workhours:** During our review, management considered several different methodologies to calculate workhour savings. Each method used an objective approach based on empirical data. However, we have noted limitations and concerns about each of the suggested methods and have expressed our concerns to management. At the time of this report, management had not made a final decision about the workhour methodology. The three methods under consideration are:
 1. **“As Is”** – Management transfers all workhours currently being used at the losing facility to the gaining facility without any adjustments to productivity or efficiency. The only possible savings would result from a decrease in labor rates. Management stated this method was intended to provide a baseline for comparison when analyzing the effectiveness of the AMP.
 2. **“Nominal Improvement”** – Management reduces workhours based on a straight percentage to all operations transferred to the gaining facility. This method does not recognize efficiency losses that may occur in some of the consolidated operations. Additionally, management applies disproportionate weight to operations with low workhours at losing facilities.
 3. **“Targeted Values”** – Management applies a Breakthrough Productivity Initiative (BPI)⁴ target productivity to the mail volume transferred to the gaining facility to estimate workhours required at all operations with available volume data. Proposed productivity will be limited to no more than a 5 percent increase over current performance levels. Our concern is that BPI targets are not performance measures. Rather, BPI targets are goals against which actual performance achievements are measured and are rarely fully achieved. Accordingly, we believe the use of the BPI targets may result in overly optimistic savings projections.

It is crucial to accurately estimate workhour requirements in the proposed “Workhour Costs” worksheets, but both the “Nominal Improvement” and “Targeted Values” methods may result in overly optimistic savings projections. The Postal Service has generally consolidated smaller, more productive mail processing operations into larger, less productive facilities. We believe the Postal Service should not base cost savings

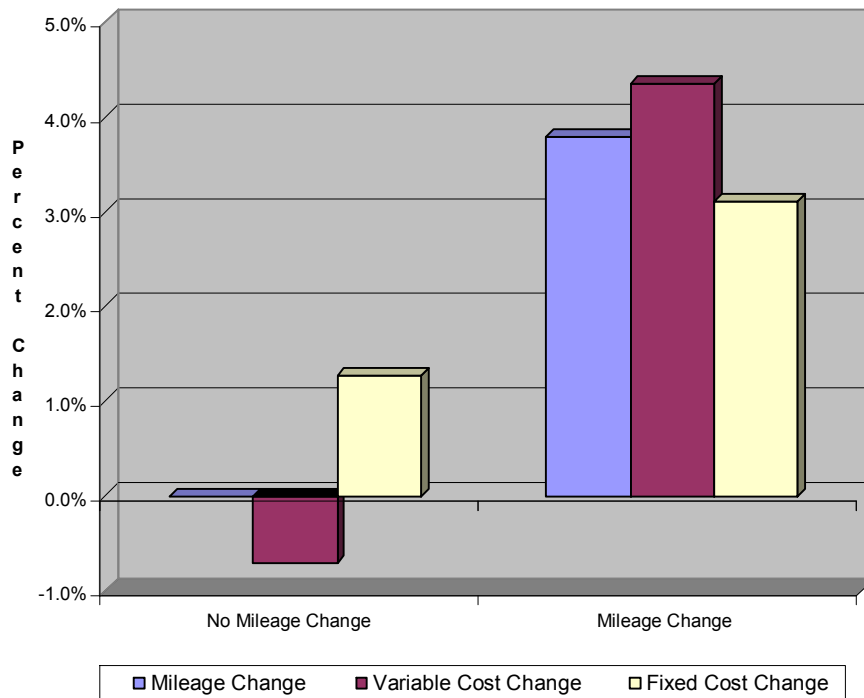
⁴ BPI uses comparative monitoring and performance ranking in operating units across the country. Higher performing units are used as models, and targets are set to drive performance toward the highest levels.

projections on performance achievement goals, but rather on actual performance based on historical data.

- Transportation:** The ratio used to calculate Highway Contract Route (HCR) transportation costs might be too low. The proposed worksheet “Transportation-HCR” uses a new mathematical approach to calculate changes in transportation costs by multiplying 75 percent of the current cost per mile by the change in contract miles. The rationale for excluding fixed costs, which total approximately 25 percent of the total HCR costs, is that those costs are not normally renegotiated when the Postal Service makes a change to the contract route. Management did not perform an analysis to determine the extent that fixed costs change in response to contract mileage changes. However, our analysis disclosed a strong correlation between the increase in miles and the increase in fixed costs during a 12-month period. (See Exhibit 1.) Accordingly, the proposed 75 percent ratio may underestimate transportation costs, resulting in overstated savings estimates on an AMP proposal.

Exhibit 1

Mileage to Variable and Fixed Transportation Cost Comparison for the 12-Month Period Ending March 31, 2007



- **Communications:** The revised Handbook PO-408 should provide additional recognition to stakeholder and employee concerns:
 1. Stakeholder – Concerns have been expressed about inadequate transparency and a perception that management does not consider public input when making decisions to consolidate operations. A summary of public comments is to be submitted to the area vice president; however, the draft AMP policy does not require their inclusion in the AMP proposal. Recognizing public input in the proposal will enhance the guidelines by documenting stakeholder concerns and improving transparency.
 2. Employee – The new chapter 4 on communications does not discuss the importance of addressing employee concerns regarding employment retention and available opportunities. Postal employees' efforts have a direct and visible impact on the organization's results. Managing organizational change is essential to continued success, and helping employees adjust to changing roles requires open communication at all levels.
- **Service:** The volume data obtained from the Origin Destination Information System (ODIS) is derived from sampling and may not match volume data from the Management Operating Data System (MODS) included in the workhour analysis. Accordingly, inconsistent volume data between the two separate worksheets may be recorded.
- **Performance Indicator:** Handbook PO-408 does not require the review and documentation of 24-hour clock⁵ key indicators. When indicators deteriorate, the situation represents a risk of declining service that requires special attention.
- **Supervisory Ratio:** A 22:1 supervisory ratio will be used as an indicator for Executive and Administrative Schedule (EAS) staffing during the AMP evaluation process. Changing the supervisory ratio at the gaining facility may result in savings that are not a direct result of the consolidation.
- **Data Issues:**
 1. The average daily volume (ADV) moving from the losing facility is calculated by using a hard-coded 310 processing days per year on the AMP Data Entry Page. However, the ADV for the gaining facility is not calculated to show perspective at the gaining facility.

⁵ The 24-hour clock is a highly structured means of managing mail flows to achieve optimum service and efficiency by using eight standard indicators and targets. Managers are responsible for meeting these targets at Postal Service facilities nationwide.

2. The 30-day timeframe for drop shipment data extraction from the Facility Access and Shipment Tracking system (FAST) may be too narrow and not adequately represent activity for comparison between the losing and gaining facilities.
3. Some systems related to staffing (web-based Complement Information System) and customer service issues (retail and Business Mail Entry Unit hours) do not maintain historical data that is essential during reviews. The absence of supporting documentation makes it very difficult to validate data used in the AMP proposal.

Recommendations

We recommend the Vice President, Network Operations, make the following enhancements to the AMP guidelines:

1. Use facility-specific historical productivity rates by operation code to project workhour requirements.
2. Analyze Highway Contract Route (HCR) variable and fixed-cost data to determine the average price to mileage increase ratio and modify the factor used in the transportation HCR worksheet.
3. Document major concerns and input provided by stakeholders, along with the responses and actions taken to address concerns as part of the area mail processing proposal.
4. Include a reference to Article 12 of the appropriate collective bargaining agreements to help ensure that employees understand the potential impacts and available protections.
5. Add a footnote disclosing that the volume data obtained from Origin Destination Information System is derived from sampling and may vary from actual volume.
6. Include the 24-hour clock indicators for the gaining and losing facility in the area mail processing proposal.
7. Disclose the additional workhour costs and savings in the summary narrative if the area mail processing proposal required supervisory ratio varies from the currently used ratio.
8. Disclose the average daily volume for both the gaining facility and the losing facility to provide perspective.

9. Extend the scope when comparing facilities' drop shipment activity from Facility Access and Shipment Tracking system.
10. Include specific instructions to retain all documentation and reports used to complete the area mail processing proposal.

Management's Comments

Management agreed with nine of the 10 recommendations and stated the requested changes have been incorporated into the revised Handbook PO-408, AMP Guidelines, which will be issued by March 2008. Management did not agree with recommendation 7 and stated the supervisory staffing ratio is a guideline that is considered when developing a proposal and is not a requirement for approving an AMP. Management's comments, in their entirety, are included in Appendix D.

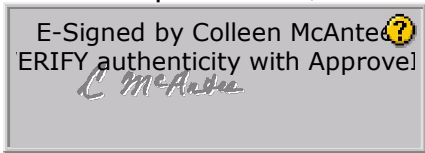
Evaluation of Management's Comments

Management's comments on recommendations 1, 2, 3, 4, 5, 6, 8, 9, and 10 are responsive. Although management agreed with recommendation 1 and has established a more objective methodology for calculating workhour costs and savings based on actual historical data, the proposed methodology may still result in optimistic savings projections. We plan to review the proposed workhour savings methodology in a future PIR to determine its reasonableness. Management's actions taken or planned should correct the corresponding issues identified in the finding.

We reviewed management's disagreement with recommendation 7 and determined that the response meets the intent of our recommendation. At the time our draft report was issued, the AMP guidelines were still under development. In our recommendation, we requested that management disclose the additional workhour costs and savings in the AMP if the required supervisory ratio varies from the currently used ratio. Management's response explained that EAS staffing ratio is a guideline to be considered when developing a proposal and is not a requirement. Management's change from requiring a specific supervisory ratio to suggesting a supervisory ratio as a guide for calculating EAS staffing meets the intent of our recommendation.

The OIG considers recommendations 1, 2, 3, and 10 significant. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

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.



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Attachments

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APPENDIX A OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to assess management's proposed changes to AMP guidance and provide input on possible enhancements. To accomplish our objective, we reviewed prior AMP guidance and analyzed the proposed Handbook PO-408, worksheets, and instructions. We participated in working group meetings with management, including Network Alignment Implementation, Network Development and Support, and Finance and Business Analysis. We evaluated prior audit reports on the AMP process and reviewed criteria, laws, rulings, and regulations related to our audit objective. We also assessed impacts related to savings, communications, service, performance indicators, supervisory ratios, and other topics.

We relied on Postal Service MODS and HCR data files to analyze mail volumes, workhours, and HCR costs. We took care to remain independent of any management decisions on policy. We will not be able to validate all impacts of the enhancements until the Postal Service implements and uses the new worksheets. We did not test the validity of controls over Postal Service data systems, but checked the accuracy of data by confirming our analyses with management and found no material differences.

We conducted this review from April through October 2007 in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on August 23, 2007, and included their comments where appropriate.

APPENDIX B PRIOR AUDIT COVERAGE

The OIG report titled *Efficiency Review of the Mansfield, Ohio Main Post Office* (Report Number NO-AR-05-004, dated December 8, 2004) found the Postal Service could improve operational efficiency by reducing 24,000 mail processing workhours. This would allow the facility to achieve 90 percent of targeted goals and could produce a cost avoidance of \$7.6 million based on labor savings over 10 years. We also concluded that the Postal Service had a favorable business case to move the Mansfield Main Post Office's (MPO) outgoing mail operations to the Akron Processing and Distribution Center (P&DC) to save an additional 28,000 workhours at the Mansfield MPO, improve network efficiencies, and potentially upgrade delivery service, possibly producing a cost avoidance of over \$9.6 million based on labor savings over 10 years. We recommended mail processing operations at the Mansfield MPO be reduced by 52,000 workhours, and outgoing mail operations be consolidated into the Akron P&DC, as the Eastern Area AMP study recommended. Management agreed, and the actions planned were responsive to the issues identified.

The GAO report titled *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (GAO-05-261, dated April 8, 2005) found that declining FCM volumes, increasing competition, and shifting population demographics meant the Postal Service needed to increase efficiency and reduce capacity. The GAO recommended the Postal Service establish criteria for evaluating realignment decisions. The GAO also recommended the Postal Service develop a process for implementing those decisions that included evaluating and measuring the results, as well as the actual costs and savings resulting from the decisions. The Postal Service responded that they were making great strides in both service improvement and cost control, and that AMP is one of the tools they were using to implement the goals of the Evolutionary Network Development (END) initiative.

The OIG report titled *Efficiency Review of the Canton, Ohio Processing and Distribution Facility* (Report Number NO-AR-05-013, dated September 22, 2005) found the Postal Service could increase operational efficiency at the Canton Processing and Distribution Facility (P&DF) by reducing mail processing workhours by 202,000, possibly producing a cost avoidance of approximately \$64 million based on labor savings over 10 years. We recommended the mail processing operations at the Canton P&DF be reduced by 93,000 workhours and the outgoing mail operations be consolidated into the Akron P&DC to save an additional 109,000 workhours. Management agreed, and the actions planned were responsive to the issues identified.

The OIG report titled *Area Mail Processing Guidelines* (Report Number NO-AR-06-001, dated December 21, 2005) found the AMP process was fundamentally sound, appeared credible, and provided a PIR process to assess results from mail processing consolidations. However, the Postal Service could improve management of the AMP

process and guidance. AMPs were not processed or approved in a timely manner, PIRs were not always conducted, and stakeholders' resistance affected the approval process. The report recommended the Postal Service update AMP guidance, comply with policy, and address stakeholder resistance. Management agreed with the findings and recommendations.

The OIG report titled *Status Report on the Evolutionary Network Development Initiative* (Report Number NO-MA-06-001, dated March 20, 2006) found the Postal Service END initiative was continuing to evolve, documented the progress of network changes, and identified some key challenges. The report indicated the Postal Service was taking an incremental approach to streamlining the mail processing networks using END as a framework, which represented a shift from its initial focus of optimizing the performance of the entire mail processing and transportation infrastructure. Management has stated the only realistic course is to continuously examine the network for inefficiencies and redundancies and to standardize the best operational practices. We recognized that transforming one of the largest processing and logistics networks in the world is difficult and complex, and that research supports an incremental approach because (1) technology is complex and advancing; (2) the Postal Service faces an unpredictable environment; and (3) it supports prototype and pilot testing. Although this report contained no recommendations, management generally agreed with the issues.

The OIG report titled *Pasadena, California Processing and Distribution Center Consolidation* (Report Number EN-AR-06-001, dated September 26, 2006) found support for the workhour cost analysis in the AMP proposal. Additional OIG analyses provided confirming evidence for the consolidation. However, in the development, approval, and implementation of the Pasadena AMP proposal, management did not always comply with the processes outlined in policy, and some AMP proposal data was inaccurate, incomplete, or unsupported. We recommended that management revise the Pasadena 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 and has initiatives in progress, completed, or planned addressing the issues.

The OIG report titled *Bridgeport, Connecticut, Processing and Distribution Facility Outgoing Mail Consolidation* (Report Number NO-AR-06-010, dated September 30, 2006) found the Postal Service was justified in moving outgoing mail processing operations from the Bridgeport P&DF to the Stamford, Connecticut P&DC. The Postal Service expected the consolidation to have minimal impact on employees, use excess mail processing capacity, reduce labor costs, increase processing efficiency, and potentially improve delivery service. Transportation costs may increase slightly, but the consolidation will allow expansion of Bridgeport P&DF carrier operations. The Postal Service implemented this consolidation during our audit. Consequently, we did not make recommendations on the consolidation itself, since our assessment supported management's actions. However, we identified some weaknesses in management

controls over the processing and approval of the AMP proposal and recommended that the Postal Service maintain supporting documentation and use current data for future AMP proposals. Management generally agreed with our recommendations.

The OIG report titled *Sioux City, Iowa, Processing and Distribution Facility Consolidation* (Report Number EN-AR-07-001, dated November 9, 2006) found the Postal Service provided adequate support for its analysis of workhours, transportation, and facility costs in the AMP proposal. Our additional analysis provided confirming evidence for the consolidation. Management generally complied with AMP guidance and maintained supporting documentation. However, we identified some inconsistencies in AMP proposal data, and inaccurate information may have been shared with stakeholders. We recommended that management complete revisions to the Sioux City AMP to accurately document impacts on employees, equipment, transportation, facilities, and service, and submit the revised proposal to Postal Service Headquarters. Additionally, we recommended that management communicate updated information on the Sioux City AMP proposal to stakeholders, and provide detailed instructions for documenting facility information and estimating employee relocation expenses. Management agreed with the four recommendations in this report.

The OIG report titled *Service Implications of Area Mail Processing Consolidations* (Report Number EN-AR-07-002, dated December 5, 2006) found the Postal Service could improve the way it documents impacts in the AMP proposals and PIRs. Management did not fully document changes to service standards (both upgrades and downgrades) in the AMP proposals. Management also did not include an analysis of service performance data in the AMP proposals or an analysis of service performance after a consolidation for the PIRs. Lastly, the consolidation proposals did not consistently address other potential changes affecting customer service, such as collection box pickup times and access to the business mail entry unit (BMEU). We recommended management revise AMP policy to improve guidance for completing the service standards information and measuring service performance at affected plants for AMP proposals and PIRs. Additionally, we recommended management require that proposals document key changes and update the Collection Point Management System to provide a historical record of changes to collection box pickup times. Management agreed with the four recommendations in this report.

The OIG report titled *Review of the Steubenville Youngtown, Ohio Outgoing Mail Consolidation* (Report Number NO-AR-07-003, dated March 30, 2007) found that consolidating the Steubenville MPO outgoing mail processing operations into the Youngstown P&DF achieved the desired results. The workhour and transportation cost analysis included in the PIR showed the Postal Service achieved the projected savings. Our analysis provided confirming evidence for cost savings, improved service performance, and increased productivity. However, management did not always comply with the processes outlined in Handbook PO-408. We found discrepancies with the AMP proposals, the timing of the PIR, and the data used to support the PIR. We

recommended that management conduct training on the AMP policy after updating Handbook PO-408, and they agreed.

The GAO report titled *U.S. Postal Service Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation* (GAO-07-717, dated June 2007) noted that AMP consolidations are one of the four initiatives that play a central role in realignment of the processing network. The report stated that, while the Postal Service had made progress in implementing its realignment initiatives, it was not apparent that these initiatives will meet the network realignment goals. The report also noted that management had made some improvements to its communication practices, but these practices continued to have gaps related to engaging stakeholders and the public in the realignment process and effectively communicating decisions. Management agreed with the GAO's findings and recommendations and plans to take steps to improve its communication and transparency.

The OIG report titled *Area Mail Processing Initiation Process* (Report Number EN-MA-07-001, dated June 26, 2007) found 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). The report recommended management validate current consolidation opportunities with changes in the network realignment strategy, including future equipment space needs, and revise Handbook PO-408 to integrate the bottom-up and top-down approaches to identifying consolidation opportunities. Management agreed with these recommendations and stated they have included both approaches in the revised Handbook PO-408.

The OIG report titled *Bronx, New York Processing and Distribution Center Consolidation* (Report Number EN-AR-07-003, dated July 18, 2007) found confirming evidence for the consolidation proposal and concluded that it was generally accurate, supported, and showed evidence of management review. However, the report noted concerns with calculating savings from workhours and associated costs, resulting in a savings overstatement of \$1.4 million. We also determined that management's planning appeared adequate to minimize any negative impacts of the consolidation related to community concerns. Some potential risk factors were identified, along with a slight downgrade in Standard Mail® service. We recommended management update Handbook PO-408 to include a more objective and supportable method for determining the workhours required to process mail volume transferred between mail processing facilities, and update the integrated operating plans for two stations to reflect the correct trip-of-value. Management agreed with our recommendations.

The OIG report titled *Post-Implementation Reviews of the Marina Processing and Distribution Center Area Mail Processing Consolidation* (Report Number EN-AR-07-004, dated August 14, 2007) determined that management could improve the support and accuracy of the Marina PIRs. Although it provided confirming evidence for reduced workhours, considerable cost savings, and improved productivity, the PIRs contained significant misstatements in workhours, transportation, associated costs, data retrieval

timeframe issues, service impacts during the first year after consolidation, and Handbook PO-408 compliance issues. We recommended that management correct the Marina annual PIR and resubmit it to HQ for approval. We also recommended that management clarify the AMP guidelines to include specified data retrieval timeframes, require a description in the AMP and PIR of other cost-saving initiatives under way concurrently with the consolidation, and establish a rigorous review process at the area and HQ levels to more effectively identify AMP and PIR errors. Management agreed with the recommendations and has initiatives in progress, completed, or planned addressing the issues in this report.

APPENDIX C PRIOR AUDIT RECOMMENDATIONS INCORPORATED

Report	OIG Recommendation(s)	Subject	Postal Action
Mansfield Efficiency Review NO-AR-05-004 12/8/04	1. Evaluate operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.	Workhours	In process of adding absorption factor.
Canton Efficiency Review NO-AR-05-013 9/22/05	2. Evaluate operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.	Workhours	In process of adding absorption factor.
AMP Guidelines NO-AR-06-001 12/21/05	3. Develop a process for addressing resistance to mail processing consolidations and facility closures.	Communications	Established HQ multi-functional communication team and AMP Communications Plan.
	4. Process and approve or disapprove AMP proposals in a timely manner.	Approvals	Implemented an AMP Proposal Tracking System to manage the AMP process and milestones.
	5. Ensure that PIRs are conducted according to established guidance.	PIRs	Implemented an AMP Proposal Tracking System to manage the AMP process and milestones, including conducting two PIRs.
	Update AMP Guidelines or supporting policies to address: 6. What should be communicated with stakeholders, by whom, when, and how. 7. The criteria Postal Service Headquarters uses to evaluate the AMP proposals. 8. The use of excess capacity at the losing facility after the consolidation. 9. The process for closing a facility and managing excess equipment.	Communications Criteria Facility Capacity Excess equipment	AMP Communications Plan provides the details for required communication to the stakeholders – revised standardized worksheets for evaluating AMP impacts – developed WS 11 to evaluate the intended use of vacant workspace – Handbook AS-701 Material Management governs the process for managing excess equipment.
Pasadena AMP EN-AR-06-001 9/26/06	10. Establish central files for approved AMP proposals and supporting documentation to facilitate PIRs.	Documentation	Included in AMP Feasibility Study chapter of updated Handbook PO-408.
	Update AMP Guidelines to address: 11. Requirements for documenting service standard changes for all mail classes in an AMP proposal. 12. Requirements and methodology for reviewing AMP proposals at the headquarters level to ensure compliance with policy prior to approval. 13. Requirements and methodology for reviewing AMP proposals at the area level. 14. Requirements for maintaining AMP proposals and supporting documentation. 15. Documentation of local and area approvals when changes are made to an AMP proposal.	Service standards HQ reviews Area reviews Support retention Changes approval Revisions	Modified WS 7, 7a, and 8. (Included in revised Handbook PO-408 and instructions.) Included in AMP Feasibility Study chapter of updated Handbook PO-408.

Report	OIG Recommendation(s)	Subject	Postal Action
	16. Process for revising cost estimates when substantive changes occur during implementation of an AMP proposal.		
Bridgeport AMP NO-AR-06-010 9/30/06	17. Maintain supporting documentation used to prepare the AMP proposal, including methodology and assumptions, until completion of the PIR.	Documentation	Included in AMP Feasibility Study chapter of updated PO-408.
	18. Use the most current data available on future AMP proposals.	Scope	Most current data used at time of study or updated if AMP process is delayed.
Sioux City AMP EN-AR-07-001 9/9/06	19. Complete revisions to the AMP proposal and executive summary to accurately document the impacts on employees, equipment, transportation, and facilities, and submit the revised proposal to Postal Service Headquarters.	Revisions to executive summary	Worksheets contain locked formulas that update summary sheets.
	20. Communicate updated information on the AMP proposal to stakeholders.	Communications	Summary brief on usps.com.
	Update Handbook PO-408 to: 21. Provide detailed instructions for completing facility information by requiring clarification of proposed facility closures and identifying data sources for completing worksheets. 22. Establish a methodology and instructions for estimating employee relocation expenses.	Instructions and data sources Employee relocation	All worksheet instructions have been revised and now include data sources. Modified WS 10.
AMP Service Implications EN-AR-07-002 12/5/06	23. Improve instructions for completing the service standards worksheets by identifying sources for the data and the methodology to be used.	Service standards	Modified instructions for updated WS 7, 7a, and 8.
	24. Revise AMP guidelines to outline a specific methodology for measuring service performance using available data and require documentation of this analysis in the consolidation proposal and the PIR.	Service measures	FCM EXFC analysis for both AMP and PIR.
	25. Revise AMP guidelines to require the Postal Service to include the impact on collection box pickup times and any planned changes for business mail entry units and retail operations in the proposal worksheets. The PIR guidance should also require an analysis of the accuracy of these projected customer impacts.	Customer service PIRs	New WS 12
Steubenville PIR NO-AR-07-003 3/30/07	26. Conduct training sessions on area mail processing after the completion of the update to Handbook PO-408.	Training	Training plan being developed for roll-out of updated Handbook PO-408.
Area Mail Processing Initiation Process EN-MA-07-001 6/26/07	27. Validate current consolidation opportunities with changes in the network realignment strategy, including future needs for space to house equipment.	Equipment and space	Revisions to WS 10a and 11.
	28. Revise Handbook PO-408 to integrate the bottom-up and top-down approaches to identifying consolidation opportunities.	Guidelines	Added to Handbook PO-408 overview.
Bronx AMP EN-AR-07-003 7/18/07	29. Update Handbook PO-408 to include a more objective and supportable method for determining workhours required to process mail volume transferred between mail processing facilities.	Workhours	In process of adding absorption factor.

Report	OIG Recommendation(s)	Subject	Postal Action
Marina PIRs EN-AR-07-004 August 14, 2007	30. Clarify AMP guidelines to identify and use the most current four postal quarters prior to the AMP submission as a source for the AMP and PIR baseline data.	Scope	Added scope to instructions.
	31. Include in the AMP and PIR a description of other cost-saving initiatives underway concurrently with the consolidation, and the savings projected from those initiatives.	Other initiatives	Added to Handbook PO-408 summary narrative.
	32. Establish a more rigorous review process at the area and headquarters levels to more effectively identify misstatements and errors in methodology.	Review process	Improved instructions and worksheets.
U.S. Postal Service: The USPS's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability GAO-05-261 April 2005	1. Establish criteria for evaluating realignment decisions.	Criteria	Revised AMP guidelines.
	2. Develop a mechanism for informing stakeholders as management makes decisions.	Communications	Improved communications.
	3. Develop a process for implementing these decisions that includes evaluating and measuring the results, as well as the actual costs and savings resulting from the decisions.	PIR	Improved PIR process.
U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation GAO-07-717 June 21, 2007	4. Improve public notice. Clarify notification letters to explain whether the Postal Service is considering closing the facility under study or consolidating operations with another facility; explain the next decision point; and provide a date for the required public meeting.	Communications	Updated communications and revised Public Input Process (PIP).
	5. Improve public engagement. Hold a public meeting during the data-gathering phase of the study, make an agenda, and provide background information (such as briefing slides) to the public in advance.	PIP	Updated communications and revised PIP process.
	6. Increase transparency. Update AMP guidelines to explain how management considers public input in their decision-making process.	PIP	Updated communications and revised PIP process.

APPENDIX D. MANAGEMENT'S COMMENTS

TONY PAJUNAS

VICE PRESIDENT, NETWORK OPERATIONS



October 15, 2007

Colleen A. McAntee
Deputy Assistant Inspector General for Mission Operations
Office of the U.S. Postal Service Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

SUBJECT: Transmittal of Draft Management Advisory – Automated Area Mail Processing Worksheets (Report Number EN-MA-07_DRAFT)

Dear Ms. McAntee:

This is in response to the draft management advisory on the Postal Service's automated Area Mail Processing (AMP) worksheets (Report Number EN-MA-07_DRAFT). The objective of the Office of the Inspector General (OIG) review was to assess proposed changes to AMP guidance and provide input on possible enhancements. We are pleased with the OIG's recognition of major improvements to AMP guidance and agree these actions will significantly improve consistency and accuracy, provide improved disclosure, and enhance planning, implementation, and review.

The draft management advisory contained ten recommendations to enhance the AMP guidelines, which have been incorporated into the revised Handbook PO-408 AMP Guidelines. We expect the revised AMP Guidelines to be issued by the end of March 2008.

Recommendation 1: Use facility specific historical productivity rates by operation code to project workhour requirements.

Response: Network Operations agrees with this recommendation, and we have modified our calculations for the automated AMP worksheet, *Workhour Cost-Proposed*, to incorporate increased sensitivity for facility specific historical productivity rates.

Recommendation 2: Analyze HCR variable and fixed cost data to determine the average price to mileage increase ratio and modify the factor used in the Transportation HCR worksheet.

Response: Network Operations agrees with this recommendation and has already implemented this change. Headquarters Logistics determined that 85 percent provides a more appropriate average price to mileage increase ratio. The ratio to calculate costs on the AMP worksheet, *Transportation – HCR*, has been increased from 75 percent to 85 percent.

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Recommendation 3: Document major concerns and input provided by stakeholders, along with the responses/actions taken to address concerns as part of the AMP proposal.

Response: Network Operations agrees with this recommendation and has already implemented this change. All written inquiries and comments from the employee organizations and employees are addressed by local management. The local Consumer Affairs or Public Affairs and Communications office handles other inquiries and comments. A summary of written comments and the verbal comments from the public meeting are submitted as part of the AMP proposal and becomes part of the record. An overview of concerns raised will also be posted to www.usps.com.

Recommendation 4: Include a reference to Article 12 of the appropriate collective bargaining agreements to help ensure employees understand potential impacts and available protections.

Response: Network Operations agrees with this recommendation and has already implemented this change. The revised Handbook PO-408, *Area Mail Processing Guidelines*, indicates that reassignments and/or excessing will be accomplished in accordance with the applicable provisions of the Employee and Labor Relations Manual and the applicable collective bargaining agreements between the Postal Service and its employee organizations.

Recommendation 5: Provide a footnote disclosure noting the volume data obtained from ODIS is derived from sampling and may vary from actual volume.

Response: Network Operations agrees with this recommendation and has already implemented this change. A statement indicating that volume "data obtained from ODIS is derived from sampling and may vary from actual volume" has been added to the AMP worksheet, *Service Standard Impacts*.

Recommendation 6: Include the 24-hour clock indicators for the gaining facility in the AMP proposal.

Response: Network Operations agrees with this recommendation and has already implemented this change. A table will be included in the AMP documentation depicting the 24-hour clock targets and percentage achieved at the national, area, losing and gaining facilities' levels.

Recommendation 7: Disclose the additional workhour costs/savings in the *Summary Narrative* if the AMP required supervisory ratio varies from the currently used ratio.

Response: Network Operations does not agree with this recommendation. The 22:1 EAS staffing ratio is only a guideline considered during development of a proposal and is not a requirement for approving an AMP, variation is expected within EAS staffing at losing and gaining facilities.

Recommendation 8: Calculate the gaining facility's ADV alongside the ADV moving from the losing facility to provide perspective.

Response: Network Operations agrees with this recommendation and has already implemented this change. The total average daily volume (ADV) for both the losing and gaining facilities is identified on AMP worksheets, *Workhour Costs – Current* and *Executive Summary*.

Recommendation 9: Extend the scope when comparing facilities' drop shipment activity from FAST.

Response: Network Operations agrees with this recommendation and has already implemented this change. The AMP worksheet, *Distribution Changes*, was modified to include two months of

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data for the losing and gaining facilities from Facility Access Shipment Tracking (FAST) Appointment Summary Report.

Recommendation 10: Include specific instructions to retain all documentation and reports used to complete the AMP proposal.

Response: Network Operations agrees with this recommendation and has already implemented this change. Automated workbooks contain data tabs for retention of all downloads from various systems such as Management Operating Data System (MODS), Labor Utilization Reporting System (LURS), Web Complement Information System (WebCOINS), and others. The updated Handbook PO-408 requires retention of supporting documentation for three years after the headquarters approval of the final post-implementation review.

We have no Freedom of Information Act exemption concerns associated with the draft management advisory. If you have any questions or need additional information regarding this response, please contact David Williams, Manager, Processing Operations, at (202) 268-4305.



Tony Pajunas

cc: Mr. Galligan
Mr. Williams
Mr. Field