



September 20, 2010

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SUBJECT: Postal Service Area and District Office Field Structure
(Report Number FF-AR-10-224(R))

This report presents the results of our audit of the area and district office field structure (Project Number 09BG005FF000). Our objective was to evaluate the effectiveness of recent U.S. Postal Service area and district office consolidations and to determine whether opportunities exist to consolidate further. The report responds to a request from Senator Susan M. Collins, Ranking Member, Senate Committee on Homeland Security & Governmental Affairs, to evaluate the U.S. Postal Service's area and district office structure, recent organizational changes, and next steps to enhance efficiency and profitability. This audit addresses financial risk. See [Appendix A](#) for additional information about this audit.

In 2009, the Postal Service announced plans to eliminate the New York Metro Area office and six district offices – Central Florida, Central New Jersey, Erie, Massachusetts, New Hampshire/Vermont, and Spokane – by consolidating their operations into other offices.¹ With the consolidations completed, the area and district office field structure currently includes eight area and 74 district offices, costing approximately \$1.5 billion during fiscal year (FY) 2009. A recent U.S. Government Accountability Office (GAO) report² and U.S. Postal Service Office of Inspector General (OIG) testimony³ have suggested, given the Postal Service's financial crisis, that it should consider several options to reduce costs – one of which is to reevaluate the area and district field structure.

¹ The area consolidation was completed January 2010. The consolidation of the six district offices was completed September 30, 2009.

² *U.S. Postal Service Strategies and Options to Facilitate Progress toward Financial Viability* (Report Number GAO-10-455, dated April 12, 2010).

³ Hearing before the Subcommittee on Financial Services and General Government Committee on Appropriations, U.S. Senate, David Williams, Inspector General, OIG, *Oral Statement on the Financial Situation of the Postal Service*, March 18, 2010.

Since 1992, the Postal Service's workforce has decreased by almost 106,992 employees (13 percent); the cumulative total factor productivity has increased approximately 11 percent; and mail processing automation has improved. By FY 2010, mail volume is projected to be at the level it was in FY 1992. Since 1992, the Postal Service's field structure has also changed. The number of area offices has decreased from 10 to eight and the number of district offices has decreased from 85 to 74. However, a 2003 study for the President's Commission on the Postal Service ("the Commission")⁴ suggested that, while the management structure was appropriately lean, there was a real opportunity to continue to rationalize the network with regard to the number of districts, post offices, and processing plants and this effort could enable a reduction in the number of areas. Further, in 2007, the OIG recommended the Postal Service develop a comprehensive workforce plan to assist with making decisions about structuring and deploying its workforce.⁵

Conclusion

The Postal Service has significant opportunities to reduce costs by consolidating its field structure. We identified two options the Postal Service should consider that would reduce the number of area and district offices. Further, we identified a third option the Postal Service should consider that would relocate area offices to headquarters. The Postal Service should develop a comprehensive strategic plan that would guide future field structure decisions and explore the viability of relocating area offices to headquarters. At a minimum, this strategic plan would provide the Postal Service with a method to evaluate and define an economic, efficient, and effective field structure to oversee its universal service mission. The strategic plan would also provide the needed foundation to develop a more flexible area and district field structure and workforce that is responsive to changing demand. During the development of a comprehensive strategic plan, fundamental issues such as the functional need for area and/or district offices, right-sized staffing, operational impact, geographic distribution, and the ideal location for area offices should be addressed.

Because consolidations were limited and management did not have documentation of data used to make the decisions, we could not fully evaluate the effectiveness of the recent area and district consolidations. However, headquarters, area, and district management we interviewed believed the consolidations went smoothly and had no negative impact on operations.

⁴ In early June 2003, the Commission sought assistance from Unisys/Watson Wyatt in examining and assessing the existing management structure to identify possible areas of opportunity to improve the Postal Service's productivity, reduce costs, enhance customer service and, overall, more effectively support the organization's mission.

⁵ *The Postal Service's Comprehensive Strategic Workforce* (Report Number HM-AR-07-004, dated October 27, 2007).

Postal Service Can Consolidate Further

Although the Postal Service recently consolidated one area and six district offices, we identified three other options, done separately or in combination, to consolidate its field structure further:

- Eliminate 14 offices by consolidating districts that have offices within 50 miles of another district office.
- Eliminate four area and 32 district offices by consolidating those offices whose workhours and mail volume are both below the mean mail volume and workhours.
- Eliminate duplicative staff positions and better position area management to work strategically with headquarters by relocating all area offices to headquarters.

In exploring the viability of relocating area offices to headquarters and determining field structure, the Postal Service should develop a comprehensive strategic plan. To develop the plan, management should study spans of control, environmental⁶ and operational factors, and other issues impacting the Postal Service. Having a comprehensive strategic plan will enable the Postal Service to have a supportable method to evaluate and oversee its universal service mission and adjust its organizational structure when circumstances warrant. Such a plan would be useful in developing a more flexible area and district field structure and a workforce that can respond to changes in Postal Service operations. While the Postal Service did take a step towards developing a workforce plan by contracting for a study of critical mission skills, they have not yet developed a comprehensive plan that addresses the area and district field structure.

Management could not address why a comprehensive strategic plan has not been developed for area and district optimization. They stated they did not review all offices for consolidations across the country for the 2009 consolidations, because it would have taken significantly more time. Rather, management limited the district consolidations to those they believed could be accomplished quickly with no negative impact to operations. See [Appendix B](#) for our detailed analysis of this topic.

Implementing option 1, the most conservative of the options, closing district offices that are within 50 miles of one another, the Postal Service can save approximately \$33.6 million annually or \$289 million over 10 years. See [Appendix C](#) for monetary impact. Option 2, closing area and districts that have less than the mean mail volume and workhours, the Postal Service can save approximately \$104 million annually or \$894 million over 10 years. We did not estimate the cost savings that could be realized

⁶ Environmental factors include items such as labor contracts, legal limitations, and multiple stakeholders (for example, Congress, U.S. taxpayers, mass mailers). The Postal Service must reconcile the often conflicting demands of these groups to deliver on its mission.

for option 3 due to the many factors associated with such a move. However, we believe this option provides both overall cost savings and other non-financial benefits.

We recommend the senior vice president, Operations, in coordination with the vice president, Employee Resource Management:

1. Develop a comprehensive strategic plan to guide future area and district field structure decisions. The plan should address environmental factors, mail volumes, technological advancements, operational considerations and other issues impacting Postal Service strategic goals.
2. Implement one or more of the three options, or combinations of portions of these options, for consolidating the area and district field structure:
 - Consolidate district offices that are within 50 miles of one another.
 - Consolidate area and district offices that have less than the mean mail volume and workhours.
 - Relocate area offices to headquarters.
3. Develop a policy and process for performing a comprehensive evaluation of the area and district office structure at least every 5 years.

Postal Service Decisions and Estimates Need to Be Better Documented

The Postal Service could not always provide adequate documentation for decisions and estimates to support:

- Area and district office consolidation decisions – for 2009 and prior years.
- Estimated and actual cost savings for 2009 and prior consolidations.

Management has established policies and procedures to assess, implement, and document plant (Area Mail Processing [AMP]) consolidations. Included is a feasibility study to determine whether there is a business case for relocating processing and distribution operations from one location to another. All supporting documentation must be kept on file at the area office for at least 3 years after headquarters' approval of the final post-implementation review (PIR), or after the last step is taken in the AMP process, if the AMP is not approved. Following implementation, an approved AMP must be reviewed twice to assess whether planned savings, workhours, and levels of service are achieved. The PIR provides a process to evaluate the effectiveness of consolidating mail processing operations. The PIR compares the proposed savings or costs to the actual savings or costs after AMP implementation. Just as Postal Service AMP consolidation decisions must be transparent, it is equally important that the Postal Service document the rationale, costs and savings associated with other

consolidations.⁷ Federal agencies also have requirements to make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency. These requirements are designed to furnish the information necessary to protect the legal and financial rights of the government and of persons directly affected by the agency's activities.⁸

Postal Service personnel stated the 2009 consolidation decisions were made by senior management and no documentation was available other than the factors⁹ they stated were used to make the decisions. In some cases, the individuals responsible for the calculations are no longer with the organization or the documentation no longer exists. By not maintaining adequate documentation, the Postal Service could lose valuable information to base future decisions. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the senior vice president, Operations, in coordination with the vice president, Employee Resource Management:

4. Develop a policy and procedures to maintain adequate supporting documentation for all area and district consolidations or expansions as part of a comprehensive strategic plan.

Management's Comments

Management agreed with recommendations 1, 3, and 4. They will develop a comprehensive strategic plan and provide recommendations for future area and district field structures by September 30, 2011. By March 31, 2012, management will develop a policy and process for implementing evaluations of area and district structures, with appropriate review intervals to be determined. Management will also outline how they will maintain documentation to support policies and procedures for area and district consolidations, expansions, and major cost-saving initiatives. Management anticipates to be completed by March 31, 2012.

Management disagreed with recommendation 2 and stated that, before considering these or other options, they need to develop the comprehensive strategic plan. This plan will include a thorough assessment and analysis of all areas and district field structures. As such, they could not describe what actions they would take to put the noted monetary impact to better use. However, as noted in their response to recommendation 1, they will provide recommendations for future area and district field structures by September 30, 2011.

⁷ Handbook PO-408, *Area Processing Guidelines*, Sections 2 and 7, March 2008.

⁸ *Records Management by Federal Agencies*, (44 U.S.C. § 3101).

⁹ Factors used to make the decisions included the ability to recruit, proximity to other districts, distance to travel within a district, ability to combine smaller districts with larger ones, and workload. Management stated these factors allowed the consolidations to occur with minimal risk and without disruption to operations or service performance.

Management also disagreed with our third option of relocating area offices to headquarters, stating that area vice presidents are already consistently involved in strategic and tactical operations and that implementing this option would cost \$61 million.

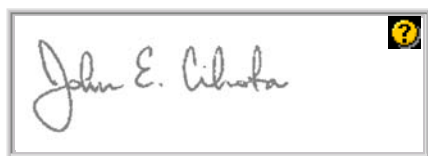
Finally, management clarified that the factors they used to make the 2009 consolidations allowed the consolidations to occur with minimal risk and without disruption to operations or service performance. See [Appendix E](#) for management's comments in their entirety.

Evaluation of Management's Comments

We understand that development of the comprehensive strategic plan can assist management in determining the best options to address the area and district field structure. Based on management's response that they will provide recommendations for future area and district field structures in conjunction with development of the plan, the OIG considers management's comments responsive to recommendations in the report. However, we continue to believe the Postal Service needs to consider in the comprehensive strategic plan "the ideal location for area offices," as long-term costs savings and other non-financial benefits may be available. Further, we clarified the report to include management's statement that the factors they used to make the 2009 consolidations allowed the consolidations to occur with minimal risk and without disruption to operations or service performance.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's 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 Linda Libician-Welch, director, Field Financial – West, or me at 703-248-2100.

A rectangular box containing a handwritten signature in cursive script that reads "John E. Cihota". In the top right corner of the box, there is a small yellow circular icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

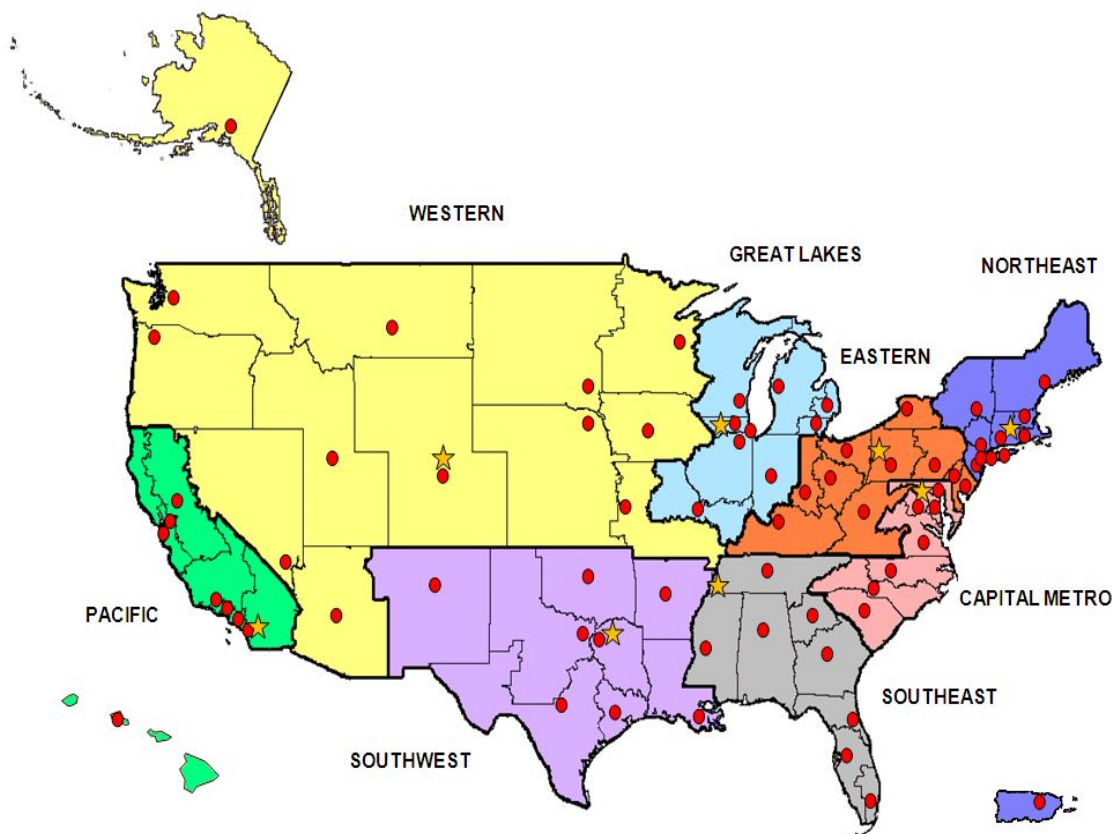
cc: Patrick R. Donahoe
Joseph Corbett
Anthony J. Vegliante
Vice Presidents, Area Operations
Stephen Masse
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service currently has eight area and 74 district offices as shown on Map 1.¹⁰

Map 1: Locations of Area and District Offices



Source: Postal Service Intranet, Maps – FY 2010 PowerPoint and Inside Postal Service/Field.

The Postal Service's area offices have the responsibility within a specific geographical area to ensure headquarters directives are implemented; manage major functional groups having area-wide impact; and oversee districts, processing and distribution centers, network distribution centers, airport mail centers, international service centers, and remote encoding centers. The functional units within each area office include the following:

- Operations Programs Support.
- Finance.
- Human Resources.
- Marketing.

¹⁰ The yellow stars and red dots represent locations of area and district offices, respectively. The dark lines delineate the area boundaries and the lighter lines delineate district boundaries.

The Postal Service's district offices report to an area, and are responsible for major functional groups having district-wide impact, including oversight of post offices and delivery distribution centers. In addition, the district offices coordinate the day-to-day management of the following functional units:

- Post Office™ Operations.
- Operations Programs Support.
- Finance.
- Human Resources.
- Information Systems.
- Marketing.

In FY 2009, the Postal Service spent \$212 million and \$1.3 billion to support the area and district offices, respectively. Table 1 presents the breakdown of FY 2009 costs for areas and districts.¹¹

Table 1: FY 2009 Costs to Support Area and District Offices

Costs	Area	District
Compensation	\$119,106,969	\$970,740,769
Benefits and Incentives ¹²	67,201,339	31,122,915
Services	6,519,966	71,750,229
Travel	6,012,895	18,962,427
Rent	4,692,316	17,893,885
Depreciation and Amortization	2,828,236	18,885,494
Equipment and Supplies	2,228,872	36,824,868
Miscellaneous	1,654,822	5,257,096
Utilities	661,075	88,297,240
Information Technology	435,188	10,816,219
Vehicle Maintenance and Usage	273,911	11,885,893
Training	141,665	1,135,577
Communications	21,956	794,738
Total	\$211,779,210	\$1,284,367,350
Total for Area and Districts	\$1,496,146,560	

Source: Postal Service Integrated Financial Planning.

Since 1992, the Postal Service has changed its area and district office field structure several times. Table 2 shows some of the most significant changes.

¹¹ [Appendix D](#) provides the costs for each area and district office.

¹² Area benefits and incentives include \$57.6 million for unemployment compensation.

Table 2: Major Changes to Area and District Field Structure (1992-2009)

Year	Number of		Change to Area and District Structure
	Areas	Districts	
1992	10	85	Five regions, 73 field divisions and 144 management sectional centers (MSC) were replaced by 10 areas and 85 districts.
2002	8	85	The Midwest and Mid-Atlantic areas were consolidated into other areas.
2003	8	80	<ul style="list-style-type: none"> Springfield District absorbed by New Hampshire and Middlesex-Central Districts. Akron District absorbed by Cincinnati and Cleveland Districts. Lancaster District absorbed by the Philadelphia and Harrisburg Districts. Long Beach District absorbed by Los Angeles and Santa Ana Districts. San Jose District absorbed by Oakland, Sacramento and Van Nuys Districts.
2006	9	80	Capital Metro Area is created.
2009	8	74	<ul style="list-style-type: none"> NY Metro Area absorbed by Northeast Area. Central Florida District absorbed by Suncoast and South Florida Districts. Central New Jersey District absorbed by Northern New Jersey and South Jersey Districts. Erie District absorbed by Pittsburgh District and renamed the Western Pennsylvania District. Massachusetts District absorbed by Connecticut Valley and Greater Boston Districts. New Hampshire/Vermont District absorbed by Maine District and renamed Northern New England District. Spokane District absorbed by Salt Lake and Seattle Districts.

Source: *The United States Postal Service, An American History 1775-2006*; 2002 and 2003 Comprehensive Statement on Postal Operations; PostalReporter.com; and Postal Service News Link Extra.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the effectiveness of the 2009 Postal Service area and district office consolidations and to determine whether opportunities exist to consolidate further. Additionally, the report responds to a request from Senator Susan M. Collins to evaluate the Postal Service's area and district office structure, recent organizational changes, and next steps to enhance efficiency and profitability.

To accomplish our objective, we analyzed Postal Service financial and facilities data from the Enterprise Data Warehouse (EDW);¹³ workhours from the eFlash System; mail volume data from Revenue, Pieces and Weights (RPW) System; and human resources

¹³ A warehouse that provides a single repository for managing the Postal Service's corporate data assets and a common source of corporate data across Postal Service organizations.

data from the Human Capital Enterprise System (HCES)¹⁴ for the period October 2008 through May 2010. In addition, we reviewed the OIG's Performance and Results Information Systems (PARIS) models to identify at risk districts. We also interviewed Postal Service Headquarters managers and judgmentally selected and interviewed area and district management personnel involved with the 2009 consolidations. Furthermore, we researched and evaluated major companies regarding recent consolidations and/or changes to their management structures. We also conducted a blog to gather information from interested stakeholders on whether or not the area and district field structure should be consolidated further.

We conducted this performance audit from August 2009 through September 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe 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 August 19, 2010, and included their comments where appropriate. We verified accuracy of the data by confirming our analysis and results with Postal Service management and other data sources. In addition, the OIG tests the financial information in EDW, RPW¹⁵ and HCES as part of its annual financial statement audits. We did not perform tests of the eFlash system; however, this is the system management uses for their analysis. We determined the information to be sufficiently reliable for our audit.

¹⁴ The HCES is a fully integrated human resource system featuring streamlined processes that are standardized, automated, and results in a single view of the employee.

¹⁵ The Postal Service has a significant deficiency related to RPW. Specifically, design gaps exist related to inadequate general computer controls and documentation of management oversight.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>The Postal Service's Comprehensive Strategic Workforce Plan</i>	HM-AR-07-004	9/26/2007	The Postal Service has not developed and implemented a comprehensive strategic workforce plan that addresses the five key elements essential to successful workforce planning. Management agreed with the recommendations.
<i>Location of Southeast Area Office Space</i>	SA-MA-08-002	6/17/2008	The Postal Service may benefit from the Southeast Area office moving to another location within the area they serve. Management agreed with the recommendations.
<i>Restructuring Urgently Needed to Achieve Financial Viability</i>	GAO-09-958T	8/6/2009	The testimony states that broad restructuring is needed to help the Postal Service achieve financial viability. The testimony suggests reviewing the need for nine area and 74 district offices.
<i>U.S. Postal Service Strategies and Options to Facilitate Progress toward Financial Viability</i>	GAO-10-455	4/12/2010	The report suggests the Postal Service can reduce operational costs by further streamlining its field structure.

APPENDIX B: DETAILED ANALYSIS

On March 20, 2009, the Postal Service announced the closing of six district offices and, on July 2, 2009, the closing of one area office. Operations of these closed offices were absorbed by other offices. Management stated these consolidations were initiated as a cost-saving measure and the rapid decline in revenue and mail volume factored into the overall decision to reduce the number of districts and area offices. Further, management stated the factors they used to make the decisions included the ability to recruit employees, proximity to other districts, distance to travel within a district, the ability to combine smaller districts with larger ones, and workload.

The consolidations were not undertaken based on a comprehensive study or plan and were limited to offices management believed could be consolidated quickly without negative impact on operations. Management stated they did not review all possible offices across the country for the 2009 consolidations, because it would have taken significantly more time. Management could not address why a comprehensive strategic plan has not been developed for area and district office optimization. However, the Postal Service estimated the consolidations would save \$100 million annually. Management at headquarters and at the affected area and district offices believe the consolidations, although challenging due to the impact on employees, were a success.

We believe the Postal Service has options to consolidate further. Additionally, we believe a comprehensive strategic plan would enable the Postal Service to quickly assess the future need to reduce or increase area and district structure based on solid criteria and accompanying supporting evidence.

Postal Service Can Consolidate Further

The Postal Service has at least three options for further consolidation of its area and district structure. These options include consolidating offices that are in close proximity to one another, closing offices that are below the mail volume and workhours mean, and relocating area offices to headquarters.

Option 1- Consolidating offices that are in close proximity of one another

The first option the Postal Service should consider is the need for district offices that are as close as 11 miles away from another district office. Using the proximity method partially used by the Postal Service in its latest round of consolidations, the Postal Service can eliminate 14 districts that are within 50 miles of another district office. We estimate the Postal Service can save approximately \$33.6 million annually or \$289 million over 10 years, by closing the 14 districts within 50 miles of another district and eliminating duplicate managerial positions. Further cost savings may be realized from additional positions that may be eliminated. See [Appendix C](#) for monetary impact.

Option 2 – Consolidating Offices that have significantly less mail volume and workhours

The second option the Postal Service should consider is the need for areas and districts that have significantly less mail volume and workhours than other areas and districts. Workhours for districts are budgeted based on the number of workhours needed for the operations or facilities. Totaling the district workhours by area shows the workhours assigned to areas vary significantly as shown in Table 3.

Table 3: Mail Volume and Workhours Cumulated by Area

Area	Mail Volume		Area	Workhours	
	Total for Districts Within the Area (October - December 2009)	Percentage Compared to the Largest Area		Total for Districts Within the Area (October - December 2009)	Percentage Compared to the Largest Area
1	3,210,996,107	35%	1	25,863,008	54%
2	4,012,584,500	44%	2	30,596,140	64%
3	4,091,707,182	45%	3	32,543,852	68%
4	4,608,787,963	50%	4	37,141,661	78%
5	4,918,241,209	54%	8	38,564,642	81%
6	7,245,299,593	79%	7	41,459,823	87%
7	8,157,259,020	89%	5	45,043,439	95%
8	9,175,762,716	100%	6	47,662,188	100%
Total	45,420,638,290	-	Total	298,874,753	-
Mean	5,677,579,786	-	Mean	37,359,344	-

Source: Postal Service Integrated Financial Planning and eFlash System.

As shown in the table, four areas have less mail volume and workhours than the other areas.

- Areas 1, 2, 3, 4, and 5 have less than the mean mail volume of 5.7 billion pieces. Furthermore, Area 1 has only 35 percent of the mail volume of Area 8, the area with the highest mail volume figures.
- Areas 1, 2, 3, and 4 have less than the mean workhours of 37.4 million hours. Further, Area 1 has 54 percent of the workhours of Area 6, the area with the highest workhour figures.

The Postal Service could consolidate area offices so mail volume and workhours are more equally distributed. We estimate that eliminating the four area offices that were below the mean in both mail volume and workhours would save the Postal Service \$27 million annually or \$233 million over 10 years.

Similarly, Table 4 shows that mail volume and workhours vary significantly by district.

Table 4: Mail Volume and Workhours by District

	District	Mail Volume		District	Workhours	
		(October – December 2009)	Percentage Compared to the Largest District		(October – December 2009)	Percentage Compared to the Largest District
1	1	33,610,647	1%	1	718,445	10%
2	2	73,851,681	3%	3	950,047	13%
3	3	76,484,200	3%	4	1,200,198	16%
4	4	78,532,792	3%	2	1,398,097	19%
5	5	79,987,184	3%	5	1,514,288	20%
6	6	146,164,478	6%	8	1,816,232	24%
7	7	180,656,868	7%	13	2,134,222	29%
8	8	198,579,297	8%	10	2,169,940	29%
9	9	225,228,651	9%	11	2,412,142	32%
10	10	229,147,541	9%	20	2,526,356	34%
11	11	243,063,477	9%	6	2,576,184	35%
12	12	246,699,333	9%	54	2,665,895	36%
13	13	264,152,846	10%	37	2,723,943	37%
14	14	273,507,273	10%	27	2,809,565	38%
15	15	276,462,144	11%	52	2,833,268	38%
16	16	280,278,044	11%	15	2,888,457	39%
17	17	282,371,281	11%	16	2,916,237	39%
18	18	298,745,041	11%	26	2,988,401	40%
19	19	300,678,744	11%	34	3,043,490	41%
20	20	335,549,223	13%	18	3,091,077	41%
21	21	359,564,563	14%	40	3,143,205	42%
22	22	362,436,817	14%	29	3,425,939	46%
23	23	368,509,316	14%	17	3,453,186	46%
24	24	392,405,514	15%	55	3,464,468	46%
25	25	392,843,557	15%	14	3,521,323	47%
26	26	396,695,684	15%	31	3,536,376	47%
27	27	409,784,694	16%	62	3,604,905	48%
28	28	416,674,533	16%	28	3,623,544	49%
29	29	429,909,746	16%	47	3,711,135	50%
30	30	438,531,306	17%	21	3,777,642	51%
31	31	449,838,726	17%	48	3,800,673	51%
32	32	453,333,750	17%	12	3,803,635	51%
33	33	462,966,215	18%	46	3,825,300	51%
34	34	465,712,313	18%	45	3,830,788	51%
35	35	469,508,490	18%	32	3,884,219	52%

	District	Mail Volume		District	Workhours	
		(October – December 2009)	Percentage Compared to the Largest District		(October – December 2009)	Percentage Compared to the Largest District
36	36	474,979,692	18%	59	3,884,500	52%
37	37	482,949,170	18%	44	3,895,022	52%
38	38	487,418,260	19%	24	3,964,358	53%
39	39	495,814,008	19%	57	3,999,646	54%
40	40	506,001,597	19%	30	4,073,778	55%
41	41	507,760,588	19%	19	4,193,805	56%
42	42	514,664,415	20%	58	4,248,321	57%
43	43	523,835,245	20%	69	4,313,982	58%
44	44	538,215,096	21%	7	4,325,451	58%
45	45	544,431,768	21%	60	4,352,112	58%
46	46	562,929,688	22%	36	4,356,584	58%
47	47	575,375,348	22%	43	4,389,987	59%
48	48	583,009,684	22%	25	4,523,120	61%
49	49	587,604,705	22%	68	4,542,658	61%
50	50	608,836,863	23%	22	4,644,292	62%
51	51	631,127,644	24%	39	4,647,993	62%
52	52	635,805,847	24%	72	4,655,748	62%
53	53	677,489,652	26%	64	4,674,385	63%
54	54	703,062,207	27%	9	4,689,578	63%
55	55	741,151,384	28%	41	4,832,318	65%
56	56	817,797,840	31%	53	4,925,925	66%
57	57	825,459,725	32%	23	4,936,912	66%
58	58	871,110,834	33%	71	4,976,400	67%
59	59	935,914,505	36%	70	5,018,078	67%
60	60	936,079,282	36%	74	5,129,320	69%
61	61	941,858,914	36%	33	5,173,590	69%
62	62	952,685,894	36%	67	5,217,117	70%
63	63	990,034,539	38%	38	5,262,894	71%
64	64	1,002,614,908	38%	65	5,443,750	73%
65	65	1,006,250,391	38%	50	5,479,086	73%
66	66	1,011,471,681	39%	49	5,552,319	74%
67	67	1,028,641,080	39%	51	5,568,076	75%
68	68	1,040,627,918	40%	63	5,711,393	77%
69	69	1,457,932,164	56%	66	5,722,302	77%
70	70	1,558,206,505	60%	35	5,737,508	77%
71	71	1,743,697,880	67%	42	5,814,963	78%
72	72	1,945,798,297	74%	56	5,995,268	80%
73	73	1,964,287,201	75%	73	6,231,958	84%

	District	Mail Volume		District	Workhours	
		(October – December 2009)	Percentage Compared to the Largest District		(October – December 2009)	Percentage Compared to the Largest District
74	74	2,615,239,903	100%	61	7,456,964	100%
	Total	45,420,638,290	-	Total	292,344,283	-
	Mean	613,792,409	-	Mean	3,950,598	-

Source: Postal Service Integrated Financial Planning and eFlash System.

As shown in Table 4, mail volume and workhours vary between districts:

- Fifty districts have less than the mean mail volume of 614 million pieces. Furthermore, 52 districts have less than 25 percent of the mail volume of District 74, the district with the highest mail volume figures.
- Thirty-seven districts have less than the mean workhours of 3.95 million hours. Furthermore, 66 districts have less than 75 percent of the workhours of District 61, the district with the highest workhour figures.

If the Postal Service were to eliminate the 32 districts with both mail volume and workhours below the mean, we estimate it could save \$77 million annually or \$661 million over 10 years.

Option 3 – Relocating area management to Postal Service Headquarters

Another option for the Postal Service to consider is relocating area offices to headquarters. We believe the Postal Service can benefit having the area vice presidents (AVP) located at headquarters without significantly impacting its operations.

- The synergy and dynamics attained by having knowledgeable, operational personnel with strategic and other operational personnel will enhance the Postal Service's strategic and tactical direction. Pooling other resources such as legal and customer relations personnel; being able to collaborate with budget and accounting staff or simply communicating in person with peers will foster common management practices and positively benefit Postal Service. In addition, the AVPs could quickly group with their headquarters functional counterparts, when necessary, and disseminate critical decisions without delay to the districts for execution of those decisions.
- The available technology allows anyone to communicate within seconds to any facility or office. Additionally, technology advances can remove redundancies and allow for efficiencies in common support functions that currently exist in both the area and district offices. However, the Postal Service should not overlook expenses in information technology (IT) support that tend to be costly. Integrating area and headquarters IT would be another source of savings.

- Partnering AVPs in one location will promote brainstorming, identifying best practices, and standardizing processes. This collaboration can make comparisons very effective and benchmarking highly successful.

The 2003 President's Commission suggested that the role of the AVPs be expanded in providing input to strategic decisions as the AVP position serves as the critical control point for quickly and consistently disseminating organization directives into their geographic entity. They added that headquarters bears the primary responsibility for determining the strategy and providing organizational oversight; however, given the magnitude and importance of operations to the Postal Service, the operations side of the organization may be under-represented in the development of key strategies and new programs. Having the AVPs located in headquarters should enhance opportunities for AVPs to be more integral to this function.

The 2003 President's Commission further suggested improving headquarters and area staff coordination and integration with operations by presenting ideas for ensuring that necessary coordination and shared services activities are delivered effectively. They stated the multi-tiered matrix creates some degree of uncertainty and confusion that is evident in duplicate initiatives and competing requests for information or action that flow through the management structure. They added there is a significant opportunity to more clearly define staff responsibilities, identify potential duplication, improve coordination and control over new initiatives, and ultimately, possibly reduce the number of support staff roles. If areas were relocated to headquarters, common support functions, such as mission support, marketing and finance, could be evaluated for consolidation between current headquarters or field functions. For example, the eight area offices currently have eight separate mission support functions. With a relocation of the areas to headquarters, those eight functions could be consolidated into one overall group to support the districts, significantly cutting costs.

While relocating area offices to headquarters would increase the distance to districts and likely increase travel costs, the current structure has area offices already located a significant distance away from the district offices. Table 5 presents information on how far district offices are currently from the area headquarters.

Table 5: Distances Between Districts and Their Area Office

District Office	Area	Distance (miles from area office)	District Office	Area	Distance (miles from area office)
Alaska	Western	3,210	Alabama	Southeast	232
Honolulu	Pacific	2,621	Western New York	Eastern	220
Caribbean	Northeast	1,655	Mississippi	Southeast	215
Seattle	Western	1,333	Central Pennsylvania	Eastern	214
Portland	Western	1,256	Appalachian	Eastern	214
South Florida	Southeast	993	Tennessee	Southeast	208
Northland	Western	883	Greater Michigan	Great Lakes	207
Arizona	Western	807	Northern New England	Northeast	205
Suncoast	Southeast	797	Oklahoma	Southwest	204
Nevada-Sierra	Western	758	Greater Indiana	Great Lakes	198
North Florida	Southeast	689	Columbus	Eastern	176
Hawkeye	Western	666	Sierra Coastal	Pacific	151
Albuquerque	Southwest	644	Long Island	Northeast	141
Dakotas	Western	623	Northern New Jersey	Northeast	133
Mid-America	Western	603	Triboro	Northeast	129
Big Sky	Western	552	Northern Ohio	Eastern	128
Louisiana	Southwest	526	New York	Northeast	125
Salt Lake City	Western	523	Richmond	Capital	122
Sacramento	Pacific	499	Los Angeles	Pacific	114
Greater South Carolina	Capital	498	Greater Boston	Northeast	106
San Francisco	Pacific	496	Albany	Northeast	103
Central Plains	Western	495	Westchester	Northeast	99
Bay-Valley	Pacific	484	Lakeland	Great Lakes	91
South Georgia	Southeast	461	Southeast New England	Northeast	84
Atlanta	Southeast	404	Santa Ana	Pacific	82
Mid-Carolinas	Capital	398	Baltimore	Capital	42
Kentuckiana	Eastern	381	Chicago	Great Lakes	30
Southeast Michigan	Great Lakes	325	Fort Worth	Southwest	29
South Jersey	Eastern	323	Central Illinois	Great Lakes	29
Arkansas	Southwest	320	Capital	Capital	26
Philadelphia Metropolitan	Eastern	320	Northern Virginia	Capital	25
Greensboro	Capital	316	Dallas	Southwest	16
Detroit	Great Lakes	310	Western Pennsylvania	Eastern	11
Gateway	Great Lakes	294	Connecticut Valley	Northeast	10
Cincinnati	Eastern	279	Colorado/Wyoming	Western	9
Rio Grande	Southwest	268	Northern Illinois	Great Lakes	3
Houston	Southwest	236	San Diego	Pacific	1

Source: Maps.google.com and batchgeo.com

Excluding Honolulu, Alaska, and the Caribbean, because of their distance from the continental U.S., there are 15 districts located more than 500 miles from the area office. For example, the Seattle and Portland Districts are more than 1,000 miles from the Western Area headquarters.

We did not estimate the cost savings that could be realized because of the many factors associated with such a move. However, we believe this option provides overall cost savings and other non-financial benefits.

Developing a Comprehensive Strategic Plan

In determining field structure coupled with exploring the viability of relocating area offices to headquarters, the Postal Service should develop a comprehensive strategic plan. To develop a plan, management should study spans of control, environmental and operational factors, and other issues impacting the Postal Service. By increasing spans of control and reducing organizational layers, companies have the opportunity to increase revenues by simplifying decision-making, enhancing customer responsiveness and unleashing innovation.¹⁶ Having a comprehensive strategic plan will enable the Postal Service to have a supportable method to evaluate and oversee its universal service mission and adjust its organizational structure when circumstances warrant. Such a plan would be useful in developing a more flexible area and district field structure and workforce that can respond to changes in Postal Service operations. Previous studies and reports have suggested that the Postal Service develop a comprehensive strategic plan.

In 2003, the Commission recommended the Postal Service restructure its management to eliminate redundant positions and geographical divisions and to standardize and clarify job functions. In addition, the Commission recommended the Postal Service conduct a review of the entire management structure, size, and cost to determine whether each component is necessary and consistent with the best practices of the private sector, and require managers to justify their functions and the size of their staffs. Furthermore, a study by a consultant hired by the Commission suggested that, although the management structure was appropriately lean, there was a real opportunity to continue to rationalize the network.¹⁷ The report stated the clearest opportunities for continued rationalization appear to exist at three levels: the performance cluster (or district); the post office; and the processing plant. Additionally, continued rationalization of the network could enable a reduction in the number of areas, thus a possible reduction in the number of management positions and the number of managers needed to staff them.

Further, in 2007, the OIG recommended the Postal Service develop guidance and procedures for creating a comprehensive workforce plan to assist with making decisions about structuring and deploying its workforce.¹⁸ In response to the report, management completed a study of critical mission positions¹⁹ and discussed it with the vice presidents and other senior officials responsible for the positions. The study was based on strategic alignment with the organization and took the first step towards the

¹⁶ Corporate Leadership Council. *Reporting Structure Guidelines: Determining Optimal Spans of Control and Management Layers*. Corporate Executive Board. August 2009.

¹⁷ In early June 2003, the Commission sought assistance from Unisys/Watson Wyatt in examining and assessing the existing management structure to identify possible areas of opportunity to improve the Postal Service's productivity, reduce costs, enhance customer service and, overall, more effectively support the organization's mission.

¹⁸ *The Postal Service's Comprehensive Strategic Workforce* (Report Number HM-AR-07-004, dated September 26, 2007).

¹⁹ The Postal Service contracted with Right Management, a Manpower Company, an employment lifecycle consulting firm. Their scope was limited to identifying the 10 critical, mission-enhancing roles and job functions that will form the foundation for other strategic goals.

formulation of a full workforce plan. Management stated, however, that they are using the critical mission study as the workforce plan for headquarters, areas, and districts.

In a June 2008 report,²⁰ the OIG reported that an area office may benefit by being in another location and recommended that management:

- Revise current policies and procedures concerning the determination of optimal facility location, to specifically include area and administrative office space.
- Conduct a detailed analysis to determine the optimal location for the Southeast Area office based on the policies, procedures, and criteria that are developed.

In response to the OIG report, the Postal Service stated that they conducted the study; however, given the current economic condition and an ongoing effort to review all leased space for possible consolidation into owned space, the Postal Service decided not to pursue relocation of the area office. Management stated they would review their internal procedures and make sure there are adequate policies to address the optimal facility location when dealing with area or administrative office space. Such policies and procedures would be useful in a comprehensive strategic plan.

Benchmarking/Best Practices

The Postal Service is a unique entity and benchmarking with other organizations is extremely difficult. Few organizations are as large as the Postal Service and face the same environmental factors. However, adapting best practices from other organizations could assist the Postal Service with identifying new ideas and processes. For example, in January 2010, United Parcel Service announced it would reduce its U.S. regions from five to three and its districts from 46 to 20, eliminating 1,800 management and administrative jobs. Company officials stated that they periodically form a cross-functional team to review the organization. They stated that the reduction in the number of offices was possible due to efficiencies achieved using technology. They determined that some positions could change or be eliminated based on technological advances. Management reviews position descriptions every 2 years as they change job responsibilities frequently. In addition, they stated the organization continually evaluates its customer base to ensure that offices are properly located. They used external resources/consultants to review its human resource organization and used its past reorganizations as a guide for the current reorganization.

Taking Performance into Consideration

In developing the comprehensive strategic plan, the Postal Service may also want to take district performance into consideration. The OIG PARIS models analyze Postal Service-wide data and assess risks by district. These models include Network and Delivery Optimization, Cost and Controls, Maintenance, Human Capital Optimization,

²⁰ *Location of Southeast Area Office Space* (Report Number SA-MA-08-002, dated June 17, 2009).

Revenue Generation and Assurance, Retail Customer Service, Facilities, and Workplace Environment. Sixteen districts appear on three or more high-risk lists. Districts that appear on a high risk list are deemed most at risk. See Table 6 for the list of districts that appear on three or more high-risk lists.

Table 6: Districts on Three or More OIG High-Risk Lists

Area	District	OIG Risk Models							
		Network and Delivery Optimization	Costs and Controls	Maintenance ²¹	Human Capital Optimization	Revenue Generation and Assurance	Retail Customer Service	Facilities	Workplace Environment
5	7		X				X		X
5	2		X	X			X		X
5	9		X	X*		X	X	X	
5	6		X	X*					
7	68	X	X		X				
7	64	X			X				X
6	35					X	X		X
3	23		X			X	X		
3	57				X		X	X	
3	19		X			X	X		
2	70		X	X	X				
2	38				X	X			X
8	48			X	X		X	X	X
1	47	X	X	X	X				
1	45			X	X			X	
1	32	X		X		X			X

**District 9 and District 6 are on both maintenance high-risk lists*

²¹ The maintenance category comprises two risk models that address (1) overall equipment effectiveness/machine under-utilization and (2) custodial/building maintenance.

Blog Comments

In May 2010, the OIG launched an external blog for the public to comment on the Postal Service's current field structure. Most of the comments supported additional area and district office and staffing consolidations.²² For example, the respondents stated that technological advances allow anyone to communicate within seconds to any facility, area or headquarters office. Additionally, areas and districts maintain the same functions at each of their locations (for example, Finance, Marketing, Personnel, Maintenance, and Operations). Some of these functions could be further centralized, ultimately reducing the number of managers and staff.

Decisions and Estimates Need to Be Better Documented

Postal Service management could not always provide adequate analysis or supporting documentation on their 2009 consolidation decisions and cost-savings estimates or for prior years' consolidations. By not maintaining documentation on the decisions or the costs and savings, the Postal Service could lose valuable information to base future decisions or perform vital analysis.

Maintaining adequate supporting documentation for the rationale and costs and savings related to area and district consolidation decisions is a critical foundation upon which future decisions can be improved. Management stated the factors used to make the 2009 consolidation decisions included the ability to recruit, proximity to other districts, travel distance between a district, combining smaller districts with larger ones, and workload. However, management could not provide supporting documentation to show what these factors were or how they were used for the consolidated offices.

When management announced the consolidation decisions, they stated they anticipated saving \$100 million annually. Management did not have documentation for how they arrived at the \$100 million savings; because a former budget manager, who had since retired, calculated the figure. Management contacted the retired manager and determined the \$100 million was arrived by projecting the elimination of 1,400 positions with the consolidations and calculating a ratio of \$1 million savings per 12 employees. This resulted in \$117 million, rounded down to the \$100 million amount. Management also did not have an analysis of the actual cost savings associated with the consolidations but provided a recent report that showed a \$47 million reduction in total costs over the same period last year for the area and district offices that absorbed the eliminated offices. It appears there has been cost savings, but the Postal Service had not analyzed the accuracy of their original estimate.

²² In response to a question if the Postal Service should consider further changes to its area and district administrative offices, 634 respondents (91 percent) voted it should and 59 respondents (9 percent) voted it should not. In response to a question on what changes should be made, 322 respondents (53 percent) voted to consolidate districts; 189 (31 percent) voted to consolidate areas, and 100 (16 percent) voted for 'other'. We received 57 narrative comments, of which 49 (86 percent) favored further consolidation, one (2 percent) favored no further consolidation, and seven (12 percent) either did not know or were focused on other topics.

The Postal Service did take a positive step to document how well the recent consolidation went, by contracting with Accenture to review the New York Metro Area closure and provide recommendations for the Postal Service to consider on future efforts.²³ The report outlined recommendations the Postal Service could use to better implement future consolidations, such as:

- Evaluating processes and policies.
- Creating merger/management guidance, to define and compile program standards for approaches, tools and illustrative documents.
- Communicating broaden strategic goals, emphasizing the strategy and goals that are communicated beyond cost reductions.
- Providing placement support, to include implementation of staffing flexibility, placement assistance and proactively managing non-placed staff.

Management had very limited information available regarding area and district consolidations prior to 2009. Management stated they used performance and mail volumes as factors for prior consolidations; however, they were not able to provide documentation on decisions or costs and savings.

²³ Accenture, *Area and District Consolidation Recommendation*, November 10, 2009. Accenture performed the review from August through November 2009.

APPENDIX C: MONETARY IMPACT

Finding	Impact Category	Amount
Consolidate district offices located within 50 miles of one another	Funds Put to Better Use ²⁴	\$289 million

The monetary impact calculation is based on 23 managerial positions the Postal Service always eliminates when consolidating a district with another, such as the district manager, manager finance, and manager human resources. While several other positions will likely be eliminated, as was the case in the 2009 consolidations, it is difficult to predict.

We calculated the amount by using a 10-year discounted cash flow at the net present value. We claimed one-half of the salaries for the first year, with full salaries in every year thereafter. We used the cost of borrowing of 3.875 percent to discount future years to present value.

²⁴ Funds that could be used more efficiently by implementing recommended actions.

APPENDIX D: DISTRICT OFFICE ATTRIBUTE DATA

Tables 7, 8, and 9 present other area and district information requested by Senator Collins related to installation type, revenue, functions, number of employees by function and costs. Information requested on costs and mission for the area and district offices is provided in [Appendix A](#). Mail volume and workhour information is provided in [Appendix B](#).

Table 7: Attributes of 74 District Offices

District ²⁵	Square Miles	Total District Employees	District Office Employees			Number of Mail Facilities by Type			Revenue (Millions)
			Number	Eligible to Retire	Percent Eligible to Retire	Post Office	BMEU	Other	
CAPITAL AREA									
Baltimore	7,573	7,617	93	26	28%	334	68	6	\$848
Capital	2,262	8,306	101	30	30%	249	14	15	607
Greater South Carolina	23,539	5,587	80	20	25%	355	88	7	760
Greensboro	25,192	8,399	98	23	23%	503	105	6	755
Mid-Carolinas	25,407	7,486	92	18	20%	479	134	7	721
Northern Virginia	4,107	5,561	84	20	24%	187	45	19	566
Richmond	20,890	7,124	97	27	28%	532	80	34	716
Subtotal	108,970	50,080	645	164	-	2,639	534	94	\$4,973
EASTERN AREA									
Appalachian	38,069	5,360	89	16	18%	975	81	7	\$734
Central Pennsylvania	19,561	9,112	120	33	28%	807	80	12	1,969
Cincinnati	16,779	9,607	112	14	13%	562	87	7	1,228
Columbus	16,403	5,057	73	12	16%	429	54	1	1,083
Kentuckiana	41,027	7,456	99	19	19%	855	120	9	887
Northern Ohio	11,753	10,050	115	18	16%	488	84	5	819
Philadelphia Metropolitan	3,646	10,394	114	33	29%	315	85	11	1,209
South Jersey	6,482	10,447	109	33	30%	434	165	8	1,320
Western New York	12,000	6,216	87	16	18%	422	56	3	537
Western Pennsylvania	22,215	9,780	118	19	16%	915	91	4	757
Subtotal	187,935	83,479	1,036	213	-	6,202	903	67	\$10,543
GREAT LAKES AREA									
Central Illinois	26,324	10,144	128	31	24%	645	112	10	\$1,841
Chicago	263	8,351	101	25	25%	90	4	7	579
Detroit	4,511	7,353	86	14	16%	196	33	3	647

²⁵ The following attributes have "as of" dates: total employees and district office employees, October 24, 2009; Post Office (including contract postal unit [CPU]), March 18, 2010; Business Mail Entry Unit (BMEU), May 13, 2010; and other mail facilities, October 24, 2009; revenue from October 1, 2008, through September 30, 2009.

District ²⁵	Square Miles	Total District Employees	District Office Employees			Number of Mail Facilities by Type			Revenue (Millions)
			Number	Eligible to Retire	Percent Eligible to Retire	Post Office	BMEU	Other	
Gateway	42,899	9,837	119	36	30%	815	199	6	1,037
Greater Indiana	30,610	10,380	121	20	17%	724	162	12	1,316
Greater Michigan	33,001	7,348	101	13	13%	636	232	13	607
Lakeland	50,423	10,212	125	21	17%	754	142	10	3,040
Northern Illinois	6,005	8,813	95	30	32%	244	82	3	1,715
Southeast Michigan	5,153	6,145	77	20	26%	185	94	2	519
Subtotal	199,189	78,583	953	210	-	4,289	1,060	66	\$11,301
NORTHEAST AREA									
Albany	27,901	6,070	85	15	18%	726	90	5	\$690
Caribbean	3,425	2,981	55	11	20%	157	2	3	189
Connecticut Valley	7,893	11,971	137	39	28%	480	155	10	1,393
Greater Boston	2,723	10,981	131	35	27%	325	142	6	899
Long Island	1,154	7,996	95	26	27%	191	92	3	1,205
New York	64	10,594	130	30	23%	120	4	4	1,289
Northern New England	49,079	7,699	96	20	21%	1,031	173	8	899
Northern New Jersey	2,889	16,049	159	42	26%	430	89	10	1,368
Southeast New England	3,118	5,852	91	24	26%	303	74	3	507
Triboro	280	9,183	126	29	23%	184	13	4	513
Westchester	5,810	5,380	80	27	34%	387	22	3	295
Subtotal	104,336	94,756	1,185	298	-	4,334	856	59	\$9,247
PACIFIC AREA									
Bay-Valley	8,245	10,924	103	29	28%	241	75	8	\$739
Honolulu	6,423	2,560	47	11	23%	155	54	1	211
Los Angeles	526	9,021	90	24	27%	160	24	3	1,003
Sacramento	47,317	9,060	105	24	23%	512	144	6	1,428
San Diego	39,383	9,948	103	25	24%	301	85	5	765
San Francisco	13,087	8,131	96	21	22%	267	56	5	512
Santa Ana	2,083	12,599	118	33	28%	227	45	4	1,604
Sierra Coastal	35,106	8,999	115	24	21%	313	79	5	738
Subtotal	152,170	71,242	777	191	-	2,176	562	37	\$7,000
SOUTHEAST AREA									
Alabama	49,510	7,345	100	21	21%	640	395	6	\$640
Atlanta	16,370	11,456	112	23	21%	364	187	5	1,386
Mississippi	48,140	3,940	69	19	28%	484	314	3	441
North Florida	26,508	7,653	98	22	22%	345	116	9	781
South Florida	8,611	11,409	127	29	23%	236	22	6	1,123
South Georgia	44,198	4,685	68	19	28%	482	167	5	536

District ²⁵	Square Miles	Total District Employees	District Office Employees			Number of Mail Facilities by Type			Revenue (Millions)
			Number	Eligible to Retire	Percent Eligible to Retire	Post Office	BMEU	Other	
Suncoast	18,808	14,915	158	23	15%	501	56	14	1,436
Tennessee	43,211	11,339	135	37	27%	691	367	7	1,036
Subtotal	255,356	72,742	867	193	-	3,743	1,624	55	\$7,379
SOUTHWEST AREA									
Albuquerque	129,432	3,109	51	11	22%	407	28	2	\$197
Arkansas	52,053	4,689	75	15	20%	674	118	1	484
Dallas	31,751	11,608	121	23	19%	441	78	4	1,928
Fort Worth	102,108	6,955	85	22	26%	538	65	4	577
Houston	19,831	10,804	99	26	26%	364	61	7	874
Louisiana	43,556	7,465	97	19	20%	550	49	5	447
Oklahoma	63,487	6,118	86	21	24%	632	62	5	643
Rio Grande	113,143	10,661	127	29	23%	673	75	10	1,027
Subtotal	555,361	61,409	741	166	-	4,279	536	38	\$6,177
WESTERN AREA									
Alaska	571,951	1,462	49	14	29%	283	18	2	\$154
Arizona	106,067	9,748	108	24	22%	419	59	9	973
Big Sky	145,590	1,909	43	8	19%	367	59	0	158
Central Plains	154,257	8,205	109	20	18%	1,175	111	8	1,475
Colorado/Wyoming	200,992	11,470	130	37	28%	709	108	6	863
Dakotas	159,250	3,552	72	19	26%	846	164	2	385
Hawkeye	53,377	6,971	99	24	24%	983	130	4	1,124
Mid-America	56,004	8,425	102	20	20%	848	112	2	930
Nevada-Sierra	119,982	4,405	69	22	32%	232	19	3	470
Northland	83,140	12,540	139	36	26%	1,041	163	12	2,277
Portland	101,823	7,265	92	26	28%	521	61	9	738
Salt Lake City	143,477	5,654	74	31	42%	452	65	5	897
Seattle	81,636	11,740	123	27	22%	671	138	18	1,027
Subtotal	1,977,546	93,346	1,209	308	-	8,547	1,207	80	\$11,471
Grand Total	3,540,863	605,637	7,413	1,743	-	36,209	7,282	496	\$68,091

Source: Postal Service Operations Administration and Planning; Human Resources Management Information Services; and Integrated Financial Planning. In addition, EDW.

Table 8: Number of District Employees by Function

	Number of Employees by Function ²⁶					
	Administrative /Information Systems	Operations Program Support	Finance	Human Resources	Marketing	Total
CAPITAL AREA						
Baltimore	11	31	14	23	14	93
Capital	8	29	11	32	21	101
Greater South Carolina	8	27	13	20	12	80
Greensboro	16	31	10	27	14	98
Mid-Carolinas	11	30	11	28	12	92
Northern Virginia	10	26	13	21	14	84
Richmond	17	31	13	21	15	97
EASTERN AREA						
Appalachian	16	27	14	19	13	89
Central Pennsylvania	18	41	13	29	19	120
Cincinnati	15	42	12	27	16	112
Columbus	10	20	13	19	11	73
Kentuckiana	16	32	12	26	13	99
Northern Ohio	16	37	13	32	17	115
Philadelphia Metropolitan	13	34	12	35	20	114
South Jersey	12	40	13	29	15	109
Western New York	12	26	12	24	13	87
Western Pennsylvania	20	40	13	31	14	118
GREAT LAKES AREA						
Central Illinois	17	43	14	33	21	128
Chicago	9	34	10	31	17	101
Detroit	13	26	11	24	12	86
Gateway	13	43	13	35	15	119
Greater Indiana	17	48	10	30	16	121
Greater Michigan	16	35	13	23	14	101
Lakeland	13	42	14	34	22	125
Northern Illinois	11	28	12	31	13	95
Southeast Michigan	12	22	11	20	12	77
NORTHEAST AREA						
Albany	14	25	10	24	12	85
Caribbean	7	15	10	14	9	55
Connecticut Valley	16	43	13	41	24	137
Greater Boston	14	45	15	37	20	131
Long Island	11	26	14	26	18	95
New York	10	38	14	42	26	130
Northern New England	18	28	15	22	13	96
Northern New Jersey	19	53	17	48	22	159
Southeast New England	12	29	12	24	14	91
Triboro	14	34	16	40	22	126

²⁶ As of October 24, 2009.

	Number of Employees by Function ²⁶					
	Administrative /Information Systems	Operations Program Support	Finance	Human Resources	Marketing	Total
Westchester	11	21	12	22	14	80
PACIFIC AREA						
Bay-Valley	13	34	12	28	16	103
Honolulu	5	12	10	11	9	47
Los Angeles	9	29	10	28	14	90
Sacramento	15	40	13	24	13	105
San Diego	13	34	12	30	14	103
San Francisco	11	30	12	29	14	96
Santa Ana	13	42	13	31	19	118
Sierra Coastal	16	45	12	26	16	115
SOUTHEAST AREA						
Alabama	18	34	12	22	14	100
Atlanta	13	36	15	30	18	112
Mississippi	11	20	9	16	13	69
North Florida	15	33	12	26	12	98
South Florida	18	45	15	33	16	127
South Georgia	14	20	10	17	7	68
Suncoast	21	66	15	34	22	158
Tennessee	20	49	16	31	19	135
SOUTHWEST AREA						
Albuquerque	9	14	9	12	7	51
Arkansas	13	21	12	19	10	75
Dallas	16	40	13	36	16	121
Fort Worth	12	28	12	20	13	85
Houston	13	34	13	26	13	99
Louisiana	13	33	13	27	11	97
Oklahoma	15	25	13	21	12	86
Rio Grande	17	49	14	30	17	127
WESTERN AREA						
Alaska	7	13	11	9	9	49
Arizona	16	37	14	25	16	108
Big Sky	8	11	9	9	6	43
Central Plains	19	36	15	24	15	109
Colorado/Wyoming	19	44	15	32	20	130
Dakotas	12	25	12	13	10	72
Hawkeye	18	31	14	25	11	99
Mid-America	14	41	10	22	15	102
Nevada-Sierra	9	23	10	15	12	69
Northland	19	48	16	33	23	139
Portland	15	30	12	22	13	92
Salt Lake City	13	22	12	16	11	74
Seattle	18	45	15	28	17	123
Function Total	1,016	2,441	930	1,924	1,102	7,413

Source: Postal Service Human Resources Management Information Services.

Table 9: FY 2009 Costs to Support Area and District Offices by Office

Areas and Districts	Costs	Areas and Districts	Costs
CAPITAL METRO AREA	\$18,302,562	PACIFIC AREA	26,544,638
Baltimore	12,905,146	Bay-Valley	20,761,653
Capital	18,394,724	Honolulu	8,409,042
Greater South Carolina	14,425,364	Los Angeles	13,647,938
Greensboro	14,307,718	Sacramento	21,943,639
Mid-Carolinas	15,658,481	San Diego	32,449,060
Northern Virginia	11,775,435	San Francisco	24,962,987
Richmond	14,062,250	Santa Ana	21,377,177
EASTERN AREA	11,822,352	Sierra Coastal	19,925,002
Appalachian	13,705,434	SOUTHEAST AREA	22,310,006
Central Pennsylvania	15,671,773	Alabama	16,334,349
Cincinnati	12,128,523	Atlanta	22,069,976
Columbus	11,595,944	Central Florida	11,494,977
Erie	5,731,761	Mississippi	10,499,657
Kentuckiana	14,345,642	North Florida	13,588,065
Northern Ohio	14,874,580	South Florida	15,275,083
Philadelphia Metropolitan	19,523,127	South Georgia	9,517,771
South Jersey	11,474,702	Suncoast	17,861,772
Western Pennsylvania	12,275,557	Tennessee	19,045,347
GREAT LAKES AREA	33,541,609	SOUTHWEST AREA	26,257,237
Central Illinois	19,420,378	Albuquerque	10,322,773
Chicago	19,706,648	Arkansas	11,144,798
Detroit	22,373,698	Dallas	18,162,059
Gateway	20,257,579	Fort Worth	16,681,288
Greater Indiana	20,737,224	Houston	22,563,203
Greater Michigan	12,513,541	Louisiana	17,765,203
Lakeland	24,760,708	Oklahoma	17,058,218
Northern Illinois	23,905,565	Rio Grande	17,338,187
Southeast Michigan	14,560,732	WESTERN AREA	28,364,776
NEW YORK METRO AREA	22,875,619	Alaska	8,870,004
Caribbean	13,952,715	Arizona	25,910,952
Central New Jersey	11,667,770	Big Sky	7,735,253
Long Island	19,661,487	Central Plains	14,147,861
New York	27,958,780	Colorado/Wyoming	30,688,009
Northern New Jersey	21,082,942	Dakotas	8,458,830
Triboro	19,259,971	Hawkeye	13,517,133
Westchester	14,848,643	Mid-America	12,269,747
NORTHEAST AREA	21,760,411	Nevada-Sierra	13,161,276
Albany	17,942,075	Northland	17,825,515
Connecticut Valley	13,669,889	Portland	15,892,319
Greater Boston	18,110,418	Salt Lake City	12,937,331
Massachusetts	14,543,497	Seattle	16,406,832
New Hampshire/ Vermont	7,990,776	Spokane	7,364,841
Northern New England	9,577,580		
Southeast New England	12,623,654		
Western New York	14,999,882		
		Total for Areas and Districts	\$1,496,146,560

Source: Postal Service Integrated Financial Planning.

APPENDIX E: MANAGEMENT'S COMMENTS



September 14, 2010

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS
1735 NORTH LYNN ST
ARLINGTON, VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report – Postal Service Area and District
Office Field Structure (Report Number FF-AR-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report and allowing us the time to address the issues raised with additional information. We understand the overall intent of the report was to evaluate the effectiveness of recent Postal Service area and district office consolidations, and to determine whether opportunities exist to consolidate further. We have already taken steps to address the recommendations in this report and will continue our efforts to meet our organizational and financial objectives.

We realize that the Postal Service faces numerous challenges in building an organization for the future. We will continue our evaluations and strategic analysis for additional economies of scales that render increased efficiencies and cost savings.

Listed below are management's responses to the four (4) recommendations cited in the report.

Recommendation #1:

Develop a comprehensive strategic plan to guide future area and district field structure decisions. The plan should address environmental factors, mail volumes, technological advancements, operational considerations and other issues impacting Postal Service strategic goals.

Management Response

We agree to develop a comprehensive strategic plan. We have contracted with industry experts to conduct a comprehensive evaluation and analysis and provide recommendations for future area and district field structures. In addition, we will assess the methodology employed by the contracted experts for potential use in our periodic reviews of area and district structures. Anticipated completion is targeted for end of FY 2011.

Recommendation #2:

Implement one or more of the three options, or combinations of portions of these options, for consolidating the area and district field structure:

- Consolidate district offices that are within 50 miles of one another.
- Consolidate area and district offices that have less than the mean mail volume and work-hours.
- Relocate area offices to headquarters.

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Management Response

While we understand the intent of your recommendation, before considering these and/or other variations of consolidation, we must assess and evaluate a variety of key operational factors; such as, total deliveries, volume, revenue, costs, number of large post offices, total employees, and transportation and logistics (to name a few). With that in mind, and without the developed comprehensive strategic plan, we disagree with this recommendation as it would be premature to speculate on the most appropriate consolidation methods. As stated above, we agree to develop a comprehensive plan, however it's worth noting that our current structure was responsible for achieving record levels of excellent service to the American public while capturing \$6 billion of operating cost savings during FY 2009.

We would also like to take this opportunity to address a portion of the report (page 15) that inaccurately assumes Area Vice-President's (AVP) are not consistently involved in the Postal Service's strategic and tactical direction. On the contrary, AVP's and functional Vice Presidents collaborate on a regular basis and coordinate with other functional groups (such as budget, finance, accounting, etc.). Given present day communication technology and the Deputy Postmaster General/Chief Operating Officer's (DPMG/COO) strong communication strategy, the AVP's are more aligned with headquarters and the development of corporate strategic plans than ever before. Additionally if we were to implement recommendation #2 bullet 3 in your report and relocate area offices to headquarters, it would cost the postal service approximately \$61 million in expense. We would also risk losing critical oversight for a large and dispersed geographic operation.

In summary, we believe we must first develop a comprehensive strategic plan, which will include a thorough assessment and analysis of all areas and district field structures. Hence, at this juncture we cannot describe what actions will be taken to put the projected funds of \$289 million to better use.

Recommendation #3:

Develop a policy and process for performing a comprehensive evaluation of the area and district office structure at least every 5 years.

Management Response

We agree to develop a policy and process for implementing evaluations of area and district office structures, with appropriate review intervals to be determined. Currently, when plans are proposed to evaluate and/or consolidate districts or areas, a staffing model is developed using logical and objective organizational design methodologies. Criteria such as volume of work, functional purpose, roles and responsibilities, governance, management processes and performance metrics are all reviewed and considered to develop effective structures. Further, based on these workload factors, we carefully assess management's span of control and productivity levels. As noted above, we will also reassess and augment as appropriate, our current process based upon what we learn from the industry experts assisting us with the comprehensive review. Anticipated completion is targeted for March 31, 2012.

Recommendation #4:

Develop a policy and procedures to maintain adequate supporting documentation for all area and district consolidations or expansions as part of a comprehensive strategic plan.

Management Response

We agree with outlining how documentation will be maintained to support policies and procedures for area and district consolidations, expansions, and major cost-saving initiatives. We have documented processes in place for analyzing, standardizing, and maintaining records of

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organization restructure/consolidations. These procedures enable us to document and support area and district restructures/consolidations from time of request to implementation, with an analysis of results. A thorough evaluation and assessment is performed that includes current and future business needs and external business requirements, performance metrics, analysis of cost savings, staffing changes, and operational efficiencies. We will continue to assess our processes for documenting organizational changes and cost saving initiatives. Anticipated completion is targeted for March 31, 2012.

Review of Final Report

In reviewing the final report, we want to clarify the statement made on page 5, second paragraph, and first sentence. While documentation of the 2009 consolidations was not readily available, the decisions were based on criterion driven by a set of factors that enabled these consolidations to occur with minimal risk, and without disruption to operations and service performance. With that in mind, we ask that the statement on page 5 be revised to reflect the facts on which the decisions were based. Please see below the current statement and our recommended language.

Page 5 - Second Paragraph - First Sentence


Current

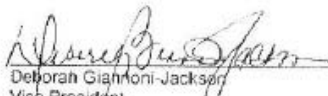
Postal Service personnel stated that the 2009 consolidation decisions were made by senior management and no documentation was available other than the factors they stated were used to make the decisions. In some cases, the individuals responsible for the calculations are no longer with the organization....

Proposed

Postal Service personnel stated that the 2009 consolidation decisions were made by senior management. The criterion used was driven by a set of factors¹ that enabled the consolidations to occur with minimal risk and without disruption to operations and service performance. In some cases, the individuals responsible for the calculations are no longer with the organization.....

This report contains no FOIA exempt information.


Steven J. Forte
Senior Vice President
Operations


Deborah Gianfroni-Jackson
Vice President
Employee Resource Management

¹ Factors used to make the decisions included the ability to recruit, proximity to other districts, distance to travel within a district, ability to combine smaller districts with larger ones, and workload.

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cc: Patrick Donahoe
Joseph Corbett
Anthony J. Vegliante
Stephen Masse
Linda J. Welch
Corporate Audit Response Management