

September 23, 2008

MANUEL ARGUELLO RIO GRANDE DISTRICT MANAGER

SUBJECT: Audit Report – Mail Processing Operations in the Rio Grande District (Report Number NO-AR-08-008)

This report presents the results of our self-initiated¹ audit of mail processing operations at selected facilities in the Rio Grande District (Project Number 08XG018NO000). Our objective was to determine if a favorable business case existed to consolidate mail processing operations at the Waco Processing and Distribution Facility (Waco P&DF) and Waco Annex (Annex) into one location. Click here to go to Appendix A for additional information about this audit.

Conclusion

There is a favorable business case to consolidate mail processing operations at the Waco P&DF and Annex into one location. This consolidation would provide opportunities to improve processing efficiency.

Opportunities Exist to Improve Efficiency in Mail Processing Operations at the Waco P&DF and Annex

Mail processing at the Waco P&DF and the Annex, located about 2 miles from the Waco P&DF, was inefficient because:

- Unnecessary transportation costs were incurred to transport mail between facilities.
- Managers, Distribution Operations and staff were frequently required to work at both facilities during the course of a single tour, incurring travel time between the two buildings.
- Shorter operational windows were necessary at the Waco P&DF to meet transfer and dispatch schedules at the Annex.
- Some mail processing and mail handling positions were duplicated between the two facilities.

¹ We performed this audit as a result of issues identified while reviewing the timeliness of mail processing at the Waco Processing and Distribution Facility, as reported in *Delayed Mail at the Waco Processing and Distribution Facility* (Report Number NO-AR-08-002, dated March 13, 2008).

• Mail required additional handling to facilitate its movement between the two facilities.

Click here to go to Appendix B for our detailed analysis of this topic.

This occurred because previous attempts to consolidate or streamline operations were unsuccessful, and frequent management turnover made it difficult for new managers to focus on consolidation efforts. As a result, the Postal Service used more resources than necessary to process mail at the Waco P&DF and Annex.

We recommend the District Manager, Rio Grande District:

1. Develop and execute a plan for consolidating Waco Processing and Distribution Facility and Annex operations into one location.

Management's Comments

Management agreed with the findings and recommendation in the report. Management agreed to develop a proposed consolidation plan for review. We have included management's comments in their entirety in Appendix F.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and management's corrective actions should resolve the issues identified in the report.

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

E-Signed by Robert Batta VERIFY authenticity with Approvelt KOKLA V. I ant

Robert J. Batta Deputy Assistant Inspector General for Mission Operations

Attachments

cc: Patrick R. Donahoe William P. Galligan, Jr. Anthony M. Pajunas Ellis A. Burgoyne Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Waco P&DF and Annex are located in the Rio Grande District in the Southwest Area. The Rio Grande District includes the following cities: Waco, Austin, Corpus Christi, San Antonio, El Paso, Midland, and McAllen. The Waco P&DF services ZIP Codes 765, 766, and 767. (Click here to go to Appendix C for a map of the Waco service area). Waco's Metropolitan Statistical Area population as of the 2000 U.S. Census was 213,517, and the projected population by 2010 is approximately 246,000.²

As of July 2008, the Waco P&DF processed mail at two separate facilities – the main, Postal Service-owned facility, which has approximately 45,000 square feet, and the leased Annex, located approximately 2 miles away, which has approximately 100,000 square feet. In general, letter mail is processed at the main facility; flat mail, parcels, and some standard letter trays are processed at the Annex. There are 248 employees at the two facilities. In fiscal year (FY) 2007, the Waco P&DF processed approximately 340 million First Handled Pieces (FHP)³ and used almost 395,000 workhours. The Waco P&DF's FY 2008 workload through June 2008 was over 280 million FHP processed, using approximately 287,000 workhours.

About 10 years ago, the Waco P&DF upgraded to automated mail processing equipment. This equipment required more floor space than could be accommodated in the Waco P&DF, and resulted in the leasing of the Annex to accommodate the new equipment. Waco, Texas, had been considered for a new mail processing plant, which would have consolidated all mail processing under one roof. However, approval for this facility was not granted due to budget constraints. Since that time, mail processing operations have continued at the two separate locations. Additionally, the Waco P&DF was considered for an Area Mail Processing (AMP)⁴ consolidation in March 2007. However, this AMP was canceled in July 2007 because there were not significant opportunities to improve efficiency and/or improve service. Our recommended consolidation of Waco's two mail processing facilities does not meet the criteria for an AMP study.⁵

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine if a favorable business case existed to consolidate mail processing operations at the Waco P&DF and Annex into one location.

We conducted this performance audit from January through September 2008 in accordance with generally accepted government auditing standards and included such

² We obtained this data from the Greater Waco Chamber of Commerce.

³ FHP is a letter, flat, or parcel that receives its initial distribution in a postal facility.

⁴ An AMP study is performed when the Postal Service is considering opening a new facility to consolidate two or more existing facilities.

⁵ The AMP plan was to consolidate some mail processing operations from the Waco P&DF into the Fort Worth and Austin, Texas Processing and Distribution Centers (P&DC).

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on March 11, 2008, and included their comments where appropriate. We did not test controls over these systems. However, we checked the reasonableness of results by confirming our analyses and results with Postal Service managers.

In order to execute this audit, we:

- Interviewed Postal Service officials in the Southwest Area, the Rio Grande District and Waco, Texas.
- Reviewed facility leases and associated costs with updating the Annex.
- Analyzed the consolidation of mail processing operations from the Waco P&DF and Annex into one location, to determine any impacts to employees, productivity, service, equipment, and transportation, where such information could be obtained.

PRIOR AUDIT COVERAGE

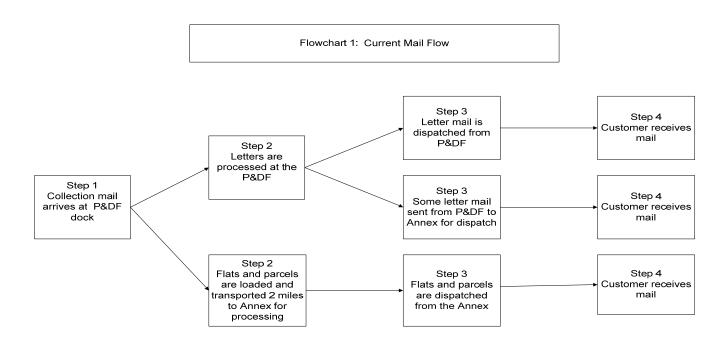
The table below lists two reports issued by the OIG related to this audit. The review of delayed mail at the Waco P&DC subsequently led to this review. The Jacksonville P&DC flat processing audit was a similar review.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Delayed Mail at the Waco Processing and Distribution Facility	NO-AR-08- 002	March 13, 2008	\$0	We recommended management ensure that supervisors oversee mail processing, monitor delayed mail regularly, and develop action plans, if necessary, to ensure the timely processing of Standard Mail; develop and implement a mail arrival profile; and relocate accumulated mail transport equipment to allow full use of the mail processing floor.
Jacksonville Processing and Distribution Center Flat Processing Operations	NO-AR-07- 002	March 20, 2007	\$3.1 million	We recommended management close the Tradeport Annex following the holiday mailing season and consolidate mail processing operations into the Jacksonville P&DC.

APPENDIX B: DETAILED ANALYSIS

Waco Mail Flows

As of July 2008, mail in Waco, Texas, was processed at two separate facilities. In general, letter mail was processed at the Waco P&DF and flat mail, parcels, and some standard letter trays were processed at the Annex, located approximately 2 miles away. The chart below shows the steps needed to move and process mail between the two facilities.



The Postal Service has a responsibility to maintain an efficient system of collecting, sorting and delivering mail nationwide.⁶ Additionally, facilities should ensure daily that the mail flow is fluid through all operations to meet scheduled critical entry times.⁷ The President's Commission on the U.S. Postal Service also envisions comprehensive postal network realignment ". . . for consolidating and closing unnecessary processing and other back-end postal facilities."⁸ In response to declining mail volume, the Postal Service's goal has been to create an efficient and flexible network that results in lower costs for both the Postal Service and its customers, improves the consistency of mail service, and reduces the Postal Service's overall "environmental footprint."⁹

This situation occurred because previous attempts to consolidate or streamline operations were unsuccessful, and frequent management turnover has made it difficult

⁶ 39 U.S.C., Part 1, Chapter 4, § 403(b) (1).

⁷ Handbook PO-420, Small Plant Best Practices Guidelines, November 1999.

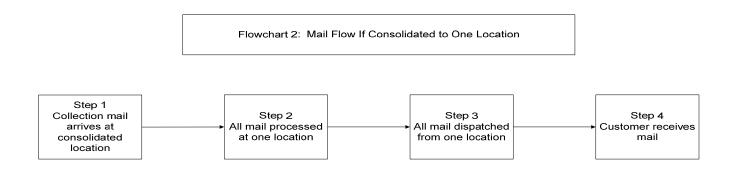
⁸ Report of the President's Commission on the Postal Service, July 2003.

⁹ June 2008 Network Plan required by the Postal Accountability and Enhancement Act § 302.

for new managers to focus on analyzing trends for consolidation efforts. As a result, the Postal Service used more resources than necessary to process mail at the Waco P&DF.

Favorable Business Case to Consolidate the Mail Operations from the Waco P&DF and Annex into One Location

Our analysis and observations showed the mail processing operations at the Waco P&DF and the Annex should be consolidated.¹⁰ The chart below illustrates how the mail flow would be simplified if the two facilities were consolidated.



If operations are consolidated, cost savings and service improvements may be realized in the following areas:

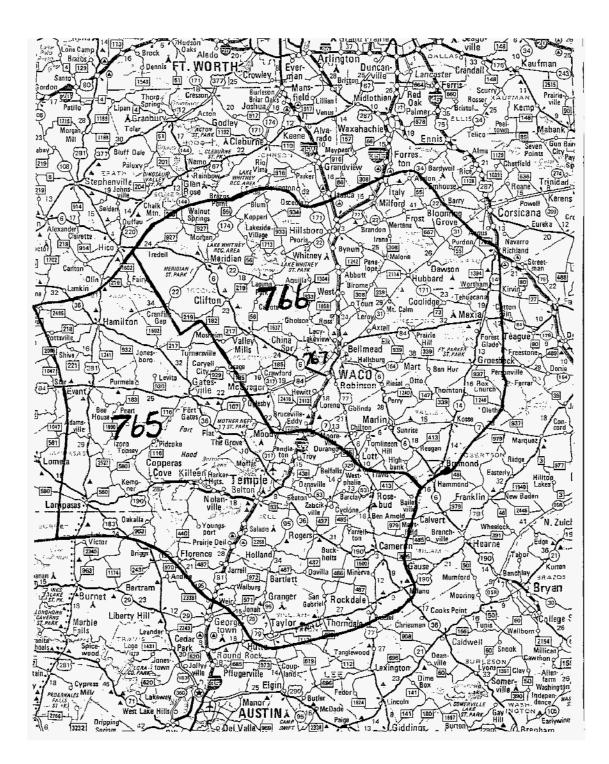
- Approximately 30 daily transportation trips, costing approximately \$217,000, • scheduled between the Waco P&DF and Annex may be eliminated.
- FHP productivity could be improved. Click here to go to Appendix D for • additional information.
- Operational windows could be expanded, moving machine end run times • closer to final dispatch times, potentially improving service scores.
- Waco P&DF management could better manage staff and operations when • located at one facility, reacting sooner to possible bottlenecks and mail processing delays. Additionally, mail handlers performing dock operations would be consolidated at one facility, which would allow management more flexibility to use these employees in other areas as needed. A consolidation should not have any impact on other career employees¹¹ as other iob functions are not duplicated.

¹⁰ Because there are various options for effecting this consolidation, final costs to consolidate have not been determined at this time.

Career employees include both management and craft employees.

• Consolidating processing operations at the Annex may allow the Waco P&DF to house some delivery operations, which could yield secondary lease cost savings.





APPENDIX D: FIRST HANDLING PIECE PRODUCTIVITY COMPARISION OF WACO P&DF TO SIMILAR-SIZED SITES IN SOUTHWEST AREA

The consolidation of the two facilities could improve productivity by reducing mail handlings and streamlining operations. Our analysis of Waco P&DF's FHP productivity shows that ample opportunities exist to improve efficiency.

- FHP productivity at the Waco P&DF has historically been below the average of similar-sized sites in the Southwest Area. Of the 19 similar-sized sites in the Southwest Area, Waco P&DF ranked no higher than 15th over the past 3 years with regard to FHP productivity.
- Waco P&DF's productivity declined at a higher rate than its counterparts. Average productivity at the Waco P&DF decreased 4.52 percent from FY 2005 to 2007, while average productivity at other Southwest Area sites declined just 1.69 percent.

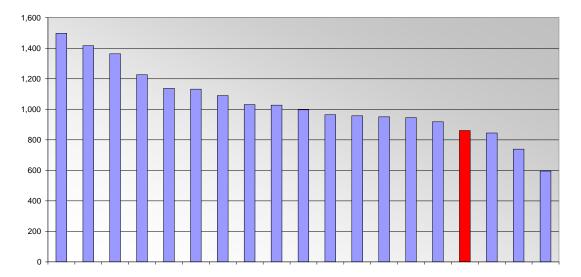
The chart below shows Waco P&DF's FHP and average FHP productivity for similarsized sites, and the change in productivity from FY 2005 to 2007.

FISCAL YEAR	WACO P&DF WITH ANNEX FHP PRODUCTIVITY	AVERAGE FHP PRODUCTIVITY ¹² OF SIMILAR-SIZED SITES IN SOUTHWEST AREA	WACO P&DF WITH ANNEX RANKING
2005	901	1,005	15
2006	877	990	18
2007	860	988	16
Percentage of change from FY 2005 to 2007	-4.52 percent	-1.69 percent	

*Productivity means the number of mailpieces a facility processes in a workhour.

¹² We computed FHP productivity by dividing FHP volume by workhours for similar-sized sites in the Southwest Area. The average does not include Waco P&DF data.

The graph¹³ below shows that in FY 2007, Waco P&DF ranked 16th out of 19 sites with regard to FHP productivity.



FY 2007 FHP PRODUCTIVITY OF SOUTHWEST AREA SITES SIMILAR TO WACO P&DF

 $[\]overline{}^{13}$ In the graph, Post Office is abbreviated PO.

APPENDIX E: WACO, TEXAS, PROCESSING AND DISTRIBUTION FACILITY AND ANNEX



Waco, Texas, Processing and Distribution Facility



Waco, Texas, Annex

APPENDIX F: MANAGEMENT'S COMMENTS

DISTRICT MANAGER RIO GRANDE DISTRICT



September 16, 2008

Lucine Willis Director, Audit Operations 1735 N. Lynn St. Arlington, VA 22209-2020

SUBJECT: Review of Mail Processing Operations in the Rio Grande District

This is in response to the Review of Mail Processing Operations in the Rio Grande District recommendation to the District Manager regarding to develop and execute a plan for consolidating the Waco P & DF and Annex operations into one location.

We agree with the recommendation and we will consider the consolidation of the Waco P&DC operations. We do consider this a viable alternative although additional opportunities are being considered, as well. We will develop a proposed plan for review by FY 2009 with approved funding.

If you require further information with regards to this, please contact Bruno Tristan, Sr. Plant Manager, Rio Grande District (210) 368-8580.

Manny Arguello Lieu-

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