OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

October 4, 2010

MEGAN BRENNAN
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation (Report Number NO-AR-11-001)

This report presents the results of our audit of the consolidation of mail processing operations from the Wilkes-Barre, PA Processing and Distribution Facility (P&DF) to the Scranton P&DF and Lehigh Valley Processing and Distribution Center (P&DC) (Project Number 10XG040NO000). The report responds to a congressional request. Our objectives were to assess the operational impacts of the consolidation and compliance with established Area Mail Processing (AMP) policies. The audit addresses operational risk. The consolidation was fully implemented at the Lehigh Valley P&DC on October 24, 2009 and at the Scranton P&DF on January 17, 2010. See Appendix A for additional information about this audit.

An AMP consolidation involves moving all originating and/or destinating mail from one or more facilities into other processing facilities to improve operational efficiency and/or service. This consolidation was unique because it was the first time the Postal Service split both outgoing and incoming mail operations from one losing facility into two different gaining facilities.

Illustration: The Wilkes-Barre Post Office, former location of the Wilkes-Barre P&DF.

Conclusion

We assessed the operational impacts of the consolidation and determined that a valid business case existed for consolidating mail processing operations from the Wilkes-Barre P&DF into the Scranton P&DF and the Lehigh Valley P&DC. Additionally, the Postal Service followed established AMP policies and guidelines. Our analysis showed:

- The Scranton P&DF and the Lehigh Valley P&DC had the capacity to process Wilkes-Barre P&DF volume.
- The consolidation increased efficiency.
- No career employee lost their job.
- Service has generally been maintained.
- Delayed mail had increased in the gaining facilities but was trending downwards.

As a result of the consolidation, the Postal Service projected savings of approximately $6.1 million per year after the first year. However, we estimate the net cost savings at $5.2 million as the Postal Service overstated savings by more than $929,000. This cost savings was still positive and would not have impacted the decision to consolidate mail processing. We will report this amount as non-monetary impact in the "Predicted Savings Shortfall" category. We are not making a recommendation on this finding because management took immediate action during the audit to implement a new procedure to password-protect this type of data in the future.

See Appendix B for our detailed analysis of this topic and see Appendix C for our non monetary impact calculation.

Management's Comments

Management agreed with the findings and provided an update indicating that actual savings will exceed projections. See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the findings contained 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 ApproveIt

Robert J. Batta
Deputy Assistant Inspector General
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Attachments

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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in First-Class Mail® (FCM) volume over the past decade. Mail volume declined by more than 25 billion pieces during 2009, resulting in a net loss of $3.8 billion. In the first three quarters of fiscal year (FY) 2010, the volume decline was approximately 6.6 billion pieces with a net loss of $5.4 billion. The mail volume decline in Q3, FY 2010 marked the fourteenth consecutive quarter of accelerating volume declines.

Although the Postal Service reduced expenses by nearly $6 billion in FY 2009, it has not been sufficient to fully offset the decline in mail volume revenue and the rising cost of workers' compensation and retirement costs. In testimony before Congress,[1] the U.S. Government Accountability Office (GAO) recommended that the Postal Service take urgent action to streamline the mail processing and retail networks, as it no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. The GAO also stated it was necessary for the Postal Service to consider whether it was cost-effective to retain underused facilities and take action to right-size its network.

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

This report responds to requests from U.S. Senators representing Pennsylvania and Congressional Representatives of the 10th and 11th Districts of Pennsylvania to independently examine consolidation of the Wilkes-Barre P&DF into the Scranton P&DF and the Lehigh Valley P&DC. Congressional concerns included the following.

- Was the savings estimate of $6 million accurate?
- Did the consolidation impact service?
- Did the Postal Service follow AMP guidelines?

[1] GAO-09-475T, Testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives, dated March 25, 2009.

- Was there an increase in delayed mail and overtime, resulting in poor customer service and increased costs?

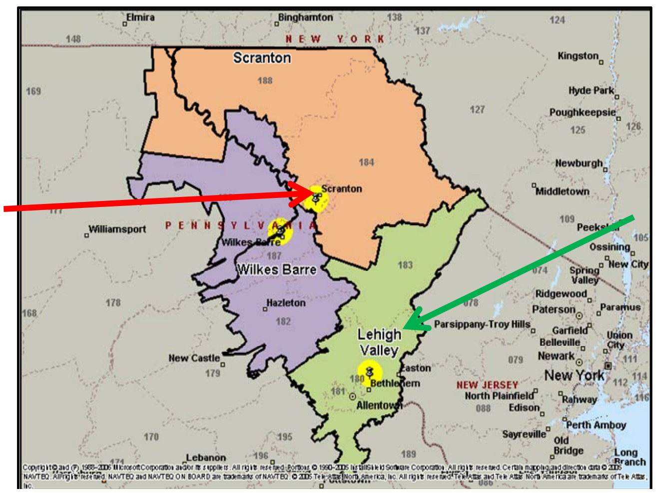
The Wilkes-Barre P&DF AMP involved consolidating both originating and destinating mail processing operations (ZIP Codes 182, 186 and 187) into the Scranton P&DF (Zip codes 184, 185, and 188) and the Lehigh Valley P&DC (ZIP Codes 180, 181, and 183). All of these facilities are located in the Central Pennsylvania District in the Eastern Area. The consolidation was fully implemented at Lehigh Valley P&DC on October 24, 2009 and at the Scranton P&DF on January 17, 2010. See Chart 1 for basic background information on this consolidation.

Chart 1: Background and Map

Scranton P&DF
- **17 miles from Wilkes-Barre P&DF**
- **Prior to Consolidation processed mail for ZIP Codes 184, 185, 188**
- **After Consolidation; added 3 digit ZIP Codes 186, 187 from Wilkes-Barre P&DF**

Lehigh Valley P&DC
- **71 miles from Wilkes-Barre P&DF**
- **Prior to Consolidation processed mail for ZIP Codes 180, 181, 183**
- **After Consolidation; added 3 digit ZIP Code 182 from Wilkes-Barre P&DF**

Scranton gained 69% of Wilkes-Barre mail



Lehigh Valley gained 31% of Wilkes-Barre mail

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess the operational impacts of the consolidation and compliance with established AMP policies. We evaluated efficiency gains, capacity, and impact on employees, customer service, transportation, cost savings and the AMP processes.

We reviewed historical data for the Wilkes-Barre P&DF, the Scranton P&DF, and the Lehigh Valley P&DC from January 1 to December 31, 2008 to confirm data on the AMP worksheets. We also reviewed data from October 1, 2008 to July 20, 2010 to analyze mail processing operations and efficiencies both before and after the consolidation. We visited both the Scranton P&DF and the Lehigh Valley P&DC to conduct interviews and observations the week of July 12, 2010 and the week of

August 16, 2010. We interviewed Postal Service officials and employees and reviewed applicable guidelines, including Handbook PO-408[2].

We used computer-generated data from the following systems to analyze workhours, mail volume, staffing, service, transportation, and maintenance.

- Activity-Based Costing.
- Enterprise Data Warehouse.
- Web End of Run Application.
- Service Standard Directory.
- Transportation Contracting Support System.
- Web Complement Information System.

We assessed the reliability of computer-generated data by interviewing Postal Service officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from June through October 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on September 2 and 10, 2010 and included their comments where appropriate.

[2] Handbook PO-408-Area Mail Processing guidelines March 2008- AMP feasibility study determines whether there is a business case for relocating processing and distribution operations from one location to another. An AMP feasibility study must be conducted when a new facility project incorporates operations from two or more offices.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
Area Mail Processing Communication	EN-AR-09-001	2/4/2009	The Postal Service improved communication and management has generally addressed prior audit recommendations. We recommended several methods of further increasing stakeholder notification, including exploring electronic methods. Management agreed with our recommendation to add employee input notifications, but disagreed with our recommendation to explore additional communication channels.
Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation	NO-AR-09-011	9/22/2009	The report determined it was a prudent decision to consolidate the Canton P&DF's outgoing mail processing operation into the Akron P&DC. We made no recommendations.
New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation	NO-AR-10-002	2/1/2010	The report determined it was a prudent decision to consolidate the New Castle P&DF's outgoing mail processing operations into the Pittsburgh P&DC. The Postal Service could save more than $1.8 million annually. We made no recommendations.
Lakeland Processing and Distribution Center Consolidation	EN-AR-10-004	2/12/2010	There was a valid business case for the consolidation. It will increase efficiency, reduce processing costs, and improve service. We made no recommendations.
Manasota Processing and Distribution Center Consolidation	EN-AR-10-003	2/12/2010	We concluded there was a business case for consolidating mail processing operations from the Manasota P&DC into the Tampa P&DC. The consolidation should increase efficiency, reduce processing costs, and improve service. We recommended the vice president, Network Operations, ensure the beginning of P&DC consoldiation immediately after area mail processing proposal approval and require headquarters' approval when implementation is delayed more than 3 months. We also recommended the vice president enable the automatic feed into the Web Management Operation Data System for Express Mail scanning operations.

Report Title	Report Number	Final Report Date	Report Results
Dallas Processing and Distribution Center Outgoing Mail Consolidation	NO-AR-10-003	2/24/2010	A business case existed to support the consolidation. There was capacity, the potential to improve customer service and efficiency, impact a limited number of employees, and the Postal Service could save $114 million over a 10-year period. Management agreed with the recommendations.
Consolidation of the Lima P&DF Mail Operations Into the Toledo P&DC	NO-AR-10-007	7/2/2010	A business case existed to support consolidating the Lima P&DF's mail operations into the Toledo P&DC. As a result of this consolidation, the Postal Service will save $1.8 million during the first year and $2.3 million during subsequent years. Management agreed with the recommendations.
Charlottesville Processing and Distribution Facility Consolidation	NO-AR-10-008	8/3/2010	There was a valid business case for the consolidation. There was capacity, the potential to improve customer service, and efficiency. No employee will lose their job and the Postal Service could save $6.5 million annually. We made no recommendations.

APPENDIX B: DETAILED ANALYSIS

Capacity

Adequate capacity exists at both facilities to process increased mail volume as a result of the consolidation.

- The increase in mail volume at the Lehigh Valley P&DC would be about 10 percent, or approximately 74 million First-Handled Pieces (FHP)[3] over calendar year (CY) 2009 levels. However, the Lehigh Valley P&DC experienced an 11 percent decline in mail volume between CYs 2008 and 2009, effectively offsetting the increase in mail volume received as a result of the consolidation.

- The increase in mail volume at the Scranton P&DF was more significant and represents a 55 percent increase, or approximately 165 million FHP over CY 2009 levels. Between CY 2008 and 2009, the Scranton P&DF experienced a decline of approximately 6 percent in FHP mail volume, resulting in a net increase of 49 percent after the consolidation. However, to help process this increased mail volume, the Scranton P&DF gained 103 craft positions, an increase of 48 percent.

In addition, sufficient machine capacity exists at the Scranton P&DF and the Lehigh Valley P&DC to process all the mail from the Wilkes-Barre P&DF. Our analysis showed that, after the consolidation, both facilities still have additional mail processing capacity. The Scranton P&DF, after consolidation, has the capacity to process an additional 21,993,416 pieces of mail, or 5 percent of Total Pieces Handled (TPH)[4] volume. Likewise, the Lehigh Valley P&DC, after consolidation, has the capacity to process an additional 29,988,689 pieces of mail, or 4 percent of TPH volume.

This excess capacity resulted, in part, from a transfer of equipment from Wilkes-Barre P&DF. For example, the Scranton P&DF acquired one Advanced Facer Canceller System,[5] one Delivery Barcode Sorter (DBCS) with input/output subsystem kit, and four DBCS machines.[6] The Lehigh Valley P&DC acquired two additional DBCS machines.

[3] Mail volume recorded into the operation where it receives its first handling.
[4] The number of handlings necessary to distribute each piece of mail from receipt to dispatch.
[5] Equipment used in the first step of mail processing to face, cancel, and separate the optical character-readable mail and the pre-barcoded mail from the non-readable mail.
[6] Equipment that sorts letter-size mail by using a barcode reader to interpret an imprinted barcode. It consists of a mail feed and transport unit, barcode reader, stacker module, and associated electronic equipment that can sort into a large number of separations.

The additional mail volume should pose no problem at either facility because increased staffing, new equipment, and efficiency gains will provide sufficient capacity to process all mail volume.

Efficiency

Following the consolidation, efficiency improved at both the Scranton P&DF and the Lehigh Valley P&DC. Specifically:

- The Scranton P&DF's Breakthrough Productivity Initiative (BPI)[7] achievement improved by 1 percent and FHP productivity improved by 20 percent.

- The Lehigh Valley P&DC's BPI achievement improved 6 percent and FHP productivity[8] improved by 4 percent.

Moreover, the Scranton P&DF and the Lehigh Valley P&DC used 53,876 (or 8 percent) fewer workhours to process combined mail volumes compared to the same period last year.[9] This workhour savings represents 78 percent of the 69,154[10] workhour savings projected in the AMP Study. The Postal Service is on target for meeting its workhour savings projection.

In addition to the increased efficiency as a result of the consolidation, processing costs were also significantly reduced. Specifically:

- The cost to process 1,000 mailpieces at the Scranton P&DF before the consolidation in January 2009 was $25.02, and it dropped to $17.87 after the consolidation as of January 2010.

- The cost to process 1,000 mailpieces at the Lehigh Valley P&DC before the consolidation in January 2009 was $26.74, and it dropped to $24.16 after the consolidation as of January 2010.

- The cost to process 1,000 mailpieces at the Wilkes-Barre P&DF before the consolidation in September 2009 was $26.10, which was higher than the cost to process 1,000 mailpieces at the Scranton P&DF and the Lehigh Valley P&DC after the consolidation.

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[7] A consistent integrated approach to analyze data to drive productivity improvements based on established targets for every operation. Productivity is measured in relation to these targets.
[8] We calculated FHP productivity by dividing FHP volume by total Function 1 workhours including standby time.
[9] We compared the period January 17 to July 20, 2009 before the consolidation to the period of January 17 to July 20, 2010 after the consolidation.
[10] These workhours do not include the 94,500 workhour overstatement the OIG identified.

Employee Impact

The consolidation of the Wilkes-Barre P&DF into the Scranton P&DF and the Lehigh Valley P&DC required the reassignment of all 194 Wilkes-Barre P&DF employees. Initially the AMP Study projected that management would move 80 craft positions to the Scranton P&DF and 38 positions to the Lehigh Valley P&DC, while the remaining 76 positions would be lost. See Chart 2 for employee projections.

Chart 2: Craft Employee AMP Study Projections

	Before AMP	After AMP	Difference
Wilkes-Barre P&DF	194	0	(194)
Scranton P&DF	214	294	80
Lehigh Valley P&DC	542	580	38
Projected Position Loss	0	76	76

The actual employee impact was different from the original projections in the AMP Study because of the early retirement incentive offered[11] before the consolidation was implemented and a local APWU agreement to reassign employees within close proximity of Wilkes-Barre. As a result, the Scranton P&DF received more employees than listed in the AMP Study and the Lehigh Valley P&DC received fewer. Specifically:

- The Scranton P&DF acquired 103 craft positions and seven management positions from the Wilkes-Barre P&DF, more positions than projected in the AMP (80 craft and four EAS);
- The Lehigh Valley P&DC acquired 12 craft positions from the Wilkes-Barre P&DF, fewer positions than projected in the AMP (38 craft and four EAS);
- Management reassigned 59 craft positions positions to the Wilkes-Barre Post Office; and
- Management assigned 11 craft positions and five management positions to other local facilities.

Employees impacted by the consolidation were reassigned, accepted the early retirement incentive or resigned. Consequently, no career employees lost their job.

The early retirement incentive had a significant impact on the three facilities involved in the AMP consolidation. The three facilities lost a total of 97 employees, or 9 percent of their complement to retirement. Specifically:

[11] October 31, 2009 was the retirement date for employees who accepted the early retirement incentive.

- The Scranton P&DF lost 20 craft employees to retirement.
- The Lehigh Valley P&DC lost 47 craft employees to retirement.
- The Wilkes- Barre P&DF lost 29 craft employees to retirement.

Customer Service

The consolidation generally did not impact service scores. We found that External First-Class Measurement (EXFC)[12] scores[13] for the Wilkes-Barre P&DF (before consolidation), Scranton P&DF and the Lehigh Valley P&DC were comparable both to Eastern Area EXFC scores and each other prior to the consolidation.

- Before the consolidation, all three facilities' overnight scores were below the Eastern Area average. After the consolidation, overnight scores increased at both Scranton P&DF and Lehigh Valley P&DC and, as of the date of the audit, the Lehigh Valley P&DC's score was above the Eastern Area average while the Scranton P&DF's score was slightly below.
- Before the consolidation, two-day scores at all three facilities were slightly below the Eastern Area average. After the consolidation, the Lehigh Valley P&DC two-day score was slightly above the Eastern Area average, while Scranton P&DF was slightly below.
- Before the consolidation, three-day scores at all three facilities were below the Eastern Area average. After the consolidation, Scranton P&DF and Lehigh Valley P&DC three-day score declined slightly following the consolidation as did the three-day scores for the Eastern Area during the same period. See Chart 3 and Chart 4 for EXFC scores.

[12] A test an independent contractor performs to measure the time it takes mail to go from mailbox to delivery.
[13] We compared EXFC scores from Q2, Q3, and Q4 of 2009 to EXFC scores from Q2, Q3, and Q4 of 2010.

Chart 3: Overnight EXFC Scores

	Overnight			
	Lehigh Valley P&DC	Scranton P&DF	Wilkes Barre P&DF	Eastern Area
Before Consolidation Q2, Q3, Q4 2009	95.85	94.6	95.12	96.07
After Consolidation Q2, Q3, Q4[14] 2010	96.68	95.34	N/A	96.06
Increase/ Decrease	0.83	0.74	N/A	-0.01

Chart 4: Two and Three Day EXFC Scores

	2–Day				3-Day			
	Lehigh Valley P&DC	Scranton P&DF	Wilkes Barre P&DF	Eastern Area	Lehigh Valley P&DC	Scranton P&DF	Wilkes Barre P&DF	Eastern Area
Before Consolidation Q2, Q3, Q4 2009	93.4	92.47	93.31	93.57	92.03	90.78	91.31	92.65
After Consolidation Q2, Q3, Q4[15] 2010	93.46	92.41	N/A	93.24	91.61	90.46	N/A	92.46
Increase/ Decrease	0.06	-0.06	0	-0.33	-0.42	-0.32	0	-0.19

The number of net service delivery standards[16] will improve for all categories of mail which would effectively increase service. Between the two gaining facilities, there are a total of 1,473 upgrades and 24 downgrades resulting in an overall net impact of 1,449 upgrades. In addition, with regard to the Postal Service's premier services of Priority Mail and First-Class Mail, there were a total of 63 upgrades with no downgrades. Chart 5 shows the number of service standard changes by class of mail.

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[14] Available data for Q4 2010 pulled as of September 14, 2010.
[15] Available data for Q4 2010 pulled as of September 14, 2010.
[16] An expectation of the Postal Service to deliver a mailpiece to its destination within a prescribed number of days following proper deposit by a customer.

Chart 5: Service Standard Impacts

Scranton P&DF				Lehigh Valley P&DC			
Service Standard Impacts				Service Standard Impacts			
	Upgrades	Downgrades	Net Change		Upgrades	Downgrades	Net Change
Priority	39	0	39	Priority	24	0	24
FCM	39	0	39	FCM	24	0	24
Periodicals	51	4	47	Periodicals	348	4	344
Standard	12	4	8	Standard	918	4	914
Packages	12	4	8	Packages	6	4	2
Total	**153**	**12**	**141**	**Total**	**1,320**	**12**	**1,308**

Additionally, there were no changes to local mail box collection times or business mail entry unit operations as a result of the consolidation. Although most mail will receive either the Scranton P&DF or Lehigh Valley P&DC postmark, the Wilkes-Barre postmark remains available at the local retail unit upon request.

Delayed Mail

Before the consolidation, all three facilities had delayed mail. For example, from January 17 through July 20, 2009, Wilkes Barre P&DF, had delayed mail of 4.4 percent of total FHP volume, while Scranton P&DF had 3.3 percent and Lehigh Valley P&DC had 9.4 percent of the total FHP volume. Although the Scranton P&DF received a significant increase in mail volume as a result of the consolidation, the facility has shown a decline in delayed mail as a percentage of total FHP volume. However, the Lehigh Valley P&DC experienced an initial increase in delayed mail after the consolidation.

Moreover, beginning in July and continuing through August 2010, delayed mail volume declined significantly. For example, for July and August 2010, the amount of delayed mail at the Lehigh Valley P&DC fell from an earlier high of 12.3 percent of total mail volume to 4.2 percent of total mail volume. See Chart 6 for a breakdown of delayed mail at both facilities.

Chart 6: Delayed Mail

	Scranton P&DF			Lehigh P&DC		
	January 17-July 20, 2009	January 17-July 20, 2010	July 1 - August 31, 2010	January 17-July 20, 2009	January 17-July 20, 2010	July 1 - August 31, 2010
Total FHP Volume	144,601,994	262,575,770	80,513,606	372,151,350	387,350,828	118,748,920
Total Delayed Mail	4,742,609	7,211,839	375,842	35,045,003	47,476,630	5,044,997
Total Delayed Mail as a Percentage of FHP	**3.3%**	**2.7%**	**0.5%**	**9.4%**	**12.3%**	**4.2%**

The Scranton P&DF was able to process the increase in mail volume efficiently because they received more employees than the number projected in the AMP Study. However, the Lehigh Valley P&DC experienced difficulty with the timely processing of mail following the consolidation. Several factors contributed to the increase in delayed mail. Specifically, the Lehigh Valley P&DC:

- Gained 12 of 38 employees projected in the AMP Study.
- Lost 47 employees due to the early retirement.
- Closed 3 days due to snowstorms.[17]

Overtime

During the implementation phase of the consolidation (September through December 2009), overtime at both the Scranton P&DF and the Lehigh Valley P&DC increased. Overtime at the Scranton P&DF increased from 9 percent to 14 percent, while overtime at the Lehigh Valley P&DC increased from 8 percent to 17 percent. Factors that contributed to the increase were:

- Employees taking advantage of the early retirement incentive.
- Management at the two facilities not fully adjusting to the increase in workload.

[17] The Lehigh Valley P&DC was closed on February 10, 25, and 26, 2010 due to a significant snowfall. Furthermore, turnpikes and highways were closed to traffic which impacted transportation to and from the plant.

Although both facilities experienced an initial increase in overtime, other facilities experience the same issue in the period following a consolidation. After the consolidation was fully implemented, overtime decreased at both facilities and, as of June 30, 2010, was at 7 percent. The year-to-date national average for overtime is also 7 percent.

Cost Savings

Cost savings from the consolidation resulted primarily from a reduction in workhours, offset by one-time costs associated with the elimination of the Wilkes-Barre P&DF. Our analysis found that the net annual savings projected in the AMP Study were overstated by more than $929,000. See Chart 7 for a breakdown of cost savings.

Chart 7: Cost Savings Breakdown

	Postal Service Calculations		OIG Calculations	
	First Year Savings	**Annual Savings**	**First Year Savings**	**Annual Savings**
Mail Processing Craft Workhours	$3,780,000	$3,780,000	$2,778,608	$2,778,608[18]
Non-Mail Processing Craft Workhours	67,790	67,790	67,495	67,495
PCES/EAS Savings	1,143,539	1,143,539	1,143,538	1,143,538
Transportation Costs	(474,267)	(474,267)	(401,851)	(401,851)[19]
Maintenance Savings	1,578,911	1,578,911	1,578,911	1,578,911
One-Time Costs	(197,775)		(111,215)	
Net Cost Savings	**$5,898,198**	**$6,095,973**	**$ 5,055,486**	**$5,166,701**

Craft Workhours

Craft workhour savings projected in the AMP Study were overstated by 94,500. This occurred because controls were not in place to ensure that data used in the manual summary page for AMP projections was protected from changes. There was no criteria in place because manual adjustments to the AMP worksheets were not addressed in Handbook PO-408. The use of inaccurate data on the AMP worksheet could affect the business case for the consolidation. However, in this case, the overall savings of approximately $5.2 million per year after the first year is still more than

[18] We calculated the craft workhour savings by multiplying 69,154 workhours times labor rate of $40.18.
[19] The data used to calculate the transportation cost was as of March 1, 2009 and March 1, 2010.

sufficient to justify the consolidation. We are not making a recommendation on this finding because management took immediate action during the audit to implement a new procedure to password-protect this type of data in the future.

Potential Additional Cost Savings

After the consolidation, the Wilkes-Barre P&DF was repurposed for carrier operations which were formerly housed at the Kingston Branch and Wilkes-Barre Annex.[20] Going forward, the Postal Service plans to sell the Wilkes-Barre Annex and the Kingston Branch.

AMP Process

The Postal Service followed AMP guidelines even though some steps were not completed within established timeframes. According to management, they did not always meet established timeframes because of the complexity of the AMP Study where there were multiple gaining facilities. Not meeting these timeframes did not adversely affect the consolidation. See Chart 8 for a timeline of events.

[20] 107 city routes, two collection routes, 25 rural routes, and one highway contract delivery route were relocated from the Wilkes-Barre Annex and Kingston Branch.

Chart 8: Timeline of Events

Event	Date	Conducted Within AMP Timeframe
The area vice president (AVP) notified the district or the district notified AVP of the intent to conduct a study.	1/7/2009	N/A
Stakeholders were notified of the intent to conduct a study.	1/7/2009	Yes
The district manager completed the feasibility study and submitted it to the AVP within 2 months of notification to conduct study.	6/4/2009	No[21]
The district held a public hearing within 45 days after study was submitted to the AVP.	4/7/2009	No[22]
The district summarized information from the public meeting and written comments within 15 days after the meeting.	4/22/2009	Yes
Area and headquarters reviewed the feasibility study within 60 days from the time the study was submitted to the AVP.	6/8/2009	Yes
The AVP approved the study after finalized worksheets were approved by area and headquarters and submitted it to the senior vice president (SVP), Operations.	7/13/2009	Yes
SVP approved the study within 2 weeks of receipt from the AVP.	8/21/2009	No[23]

[21] The actual completion time was 4 months, 28 days. According to management, this was due to the complexity of the study, multiple gaining sites, and preparation of the manual summarizer which resulted in the need for additional time for the district to complete the study.
[22] The public meeting was held before the study was submitted to AVP, not after. The public meeting was scheduled in anticipation of study submission and to ensure adequate time for public feedback.
[23] The actual time was 1 month and 8 days.

APPENDIX C: NON-MONETARY IMPACT

Non-Monetary Impact

Finding	Impact Category	Amount
Net Cost Savings Projection Overstated	Predicted Savings Shortfall[24]	$929,272

Note

We based this non-monetary impact on the overstatement of net projected savings in the AMP Study submitted by the Eastern Area. The AMP Study predicted savings of approximately $6.1 million and we calculated savings of approximately $5.2 million.

[24] The difference between the savings predicted by the Postal Service for a consolidation and the OIG estimate of savngs which will be realized.

APPENDIX D: MANAGEMENT COMMENTS

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA

UNITED STATES POSTAL SERVICE

September 29, 2010

MEMORANDUM FOR: Lucine M. Willis
Director, Audit Operations

SUBJECT: Wilkes-Barre, PA Processing and Distribution Facility Consolidation (Report Number NO-AR-10-FINAL)

The Eastern Area has reviewed the subject report and is in agreement with the findings that a valid business case existed for consolidating mail processing operations from the Wilkes-Barre P&DF into the Scranton P&DF and Lehigh Valley P&DC, and that the Postal Service followed established AMP policies and guidelines.

We do have concerns with the language concerning the overstatement of savings. In the initial AMP submission, the Postal Service projected savings of approximately $6.1 million per year after the first year.

The planned savings should have been projected at $5.2 million as the Postal Service overstated work hour savings by over $929,000 due to a data error in the AMP worksheets. As stated in the report, the planned cost savings was still positive and would not have impacted the decision to consolidate mail processing.

Additionally, based on actual savings to date since the AMP implementation the Postal Service expects to exceed the savings identified in the initial AMP package of $6.5 million. Actual savings will be updated in the first Post Implementation Review on October 31, 2010 and final Post Implementation review on April 30, 2011.

If you have any questions or require further information, please contact Kristin A. Seaver, Manager Operations Support at 412-494-2653.

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