



November 23, 2010

DREW T. ALIPERTO
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Marysville, CA Processing and Distribution Facility
Consolidation (Report Number NO-AR-11-002)

This report presents the results of our audit of the consolidation of mail processing operations from the Marysville, CA Processing and Distribution Facility (P&DF) to the Sacramento Processing and Distribution Center (P&DC) (Project Number 10XG050NO000). 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. This audit addresses operational risk. 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. The Postal Service fully implemented this consolidation on June 19, 2010.



Illustration 1: Marysville, CA P&DF

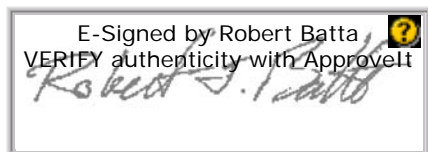
Conclusion

We assessed the operational impacts of the consolidation¹ and determined that a valid business case existed for consolidating mail processing operations from the Marysville P&DF into the Sacramento P&DC. Additionally, the Postal Service followed established AMP policies and guidelines. Our analysis showed:

- The Sacramento P&DC had the capacity to process Marysville P&DF volume.
- The consolidation increased efficiency.
- No career employees were laid off as a result of the consolidation.
- Service improved and mail delays were reduced.
- Agricultural inspections were reassigned to the Sacramento P&DC.
- Environmental impacts were minimized through transportation reductions.
- Contingency plans for emergencies were in place.

Because our findings support the consolidation, we are not making any recommendations. Management agreed with this report but chose not to comment since there were no recommendations. See [Appendix B](#) for our detailed analysis of this topic.

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.



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Deputy Assistant Inspector General
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Attachments

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¹ We compared workhour trends, delayed mail and External First Class Mail service scores for a three-month period after the consolidation to the same period last year (Quarter 4 of FY 2009 to Quarter 4 of FY 2010.)

Barbara Plunkett
Larry Munoz
Corporate Audit and Response Management

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 FY 2010, the volume decline was approximately 6.6 billion pieces and a net loss of \$5.4 billion.

Although the Postal Service reduced expenses by nearly \$6 billion in FY 2009, it has not been sufficient to offset the decline in mail volume revenue and the rising cost of workers' compensation and retirement costs. In testimony before Congress,² 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 underutilized facilities and to 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. . . .”

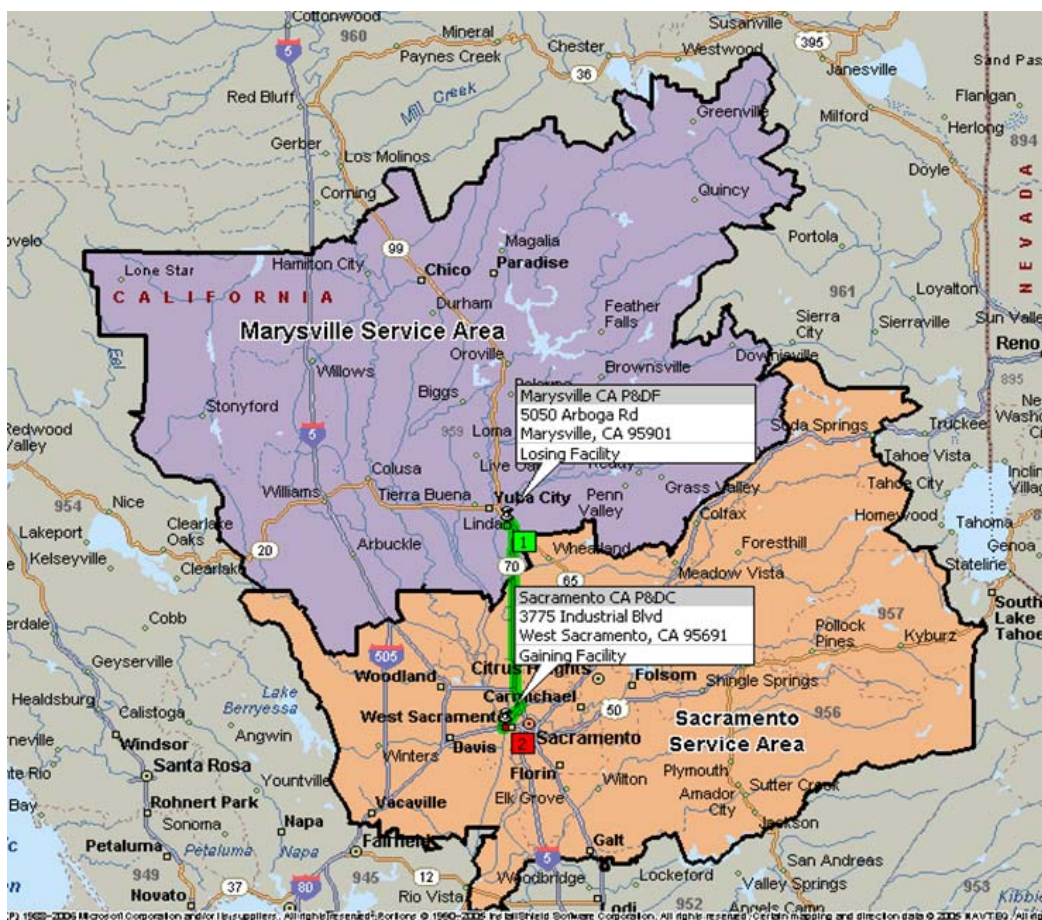
This audit report responds to a request from Dianne Feinstein, United States Senator (CA), to address concerns raised by the Boards of Supervisors of Yuba and Sutter counties. Concerns included the following:

- Ability of the Sacramento P&DC to handle the workload.
- Performance of the Sacramento P&DC.
- Employee layoffs.
- Continuation of agricultural inspections.
- Environmental impact of increased transportation.
- Operation continuity for natural disasters such as floods.

² 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.

The Marysville P&DF AMP involved consolidating both originating and destinating mail processing operations (ZIP Code 959) into the Sacramento P&DC (ZIP Codes 942 and 956 through 958). All of these facilities are located in the Sacramento District within the Pacific Area. The Postal Service fully implemented the consolidation on June 19, 2010. See Chart 1 for consolidation map.

Chart 1: Consolidation Map



OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess 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 Marysville P&DF and Sacramento P&DC from January 1, 2008, to December 31, 2008 to confirm data on the AMP worksheets. We also reviewed data from July 1, 2009, to September 30, 2010, to analyze mail processing operations and efficiencies before and after the consolidation. We visited the Marysville P&DF and Sacramento P&DC to conduct interviews and observations the

weeks of September 13 and 20, 2010. We interviewed Postal Service officials and employees and reviewed applicable guidelines, including Handbook PO-408.

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.
- Web Complement Information System.
- Customer Service Measurement System.
- Customer Experience Measurement 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 August through November 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 on October 28, 2010, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>Area Mail Processing Communication</i>	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.
<i>Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-09-011	9/22/2009	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.
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	2/1/2010	It was a prudent decision to consolidate the New Castle P&DF outgoing mail processing operations into the Pittsburgh P&DC. The Postal Service could save more than \$1.8 million annually. We made no recommendations.
<i>Lakeland Processing and Distribution Center Consolidation</i>	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.
<i>Manasota Processing and Distribution Center Consolidation</i>	EN-AR-10-003	2/12/2010	We concluded there was a business case for consolidating mail processing operations from the Manasota P&DC to the Tampa P&DC. The consolidation should increase efficiency, reduce processing costs, and improve service. We recommended the vice president, network operations, ensure the implementation of activities of P&DC consolidation begin immediately after area mail processing proposal approval and require headquarters' approval when implementation is delayed more that 3 months. We also recommended the vice president enable the automatic feed into the Web Management Operation Data System for Express Mail scanning operations.
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010	A business case existed to support the consolidation. There was sufficient capacity and the potential to improve both customer service and efficiency. The consolidation would affect a limited number of employees and the Postal Service could save \$114 million over a 10-year period. Management agreed with the recommendations.

Report Title	Report Number	Final Report Date	Report Results
<i>Consolidation of the Lima P&DF Mail Operations Into the Toledo P&DC</i>	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. Because 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.
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010	A valid business case existed for the consolidation. There was sufficient capacity as well as the potential to improve customer service and efficiency. No career employees were laid off as a result of the consolidation, and the Postal Service could save \$6.5 million annually. We made no recommendations.
<i>Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010	A valid business case existed for the consolidation. There was capacity as well as the potential to improve customer service and efficiency. No career employees were laid off as a result of the consolidation, and the Postal Service could save \$5.2 million annually. We made no recommendations.

APPENDIX B: DETAILED ANALYSIS

Capacity

Ample capacity exists at Sacramento P&DC to process mail volumes from the Marysville P&DF. We found that:

- The Sacramento P&DC has the annual capacity to process an additional 487 million mailpieces on its existing machinery.
- The increase in mail volume at the Sacramento P&DC from the Marysville P&DF would be about 247 million first-handled pieces (FHP)³ based on FY 2009 volumes or approximately 16 percent of the current volume handled by the Sacramento P&DC.
- The Sacramento P&DC experienced a decline of 216 million pieces (12 percent) from FYs 2007 to 2009. This decline in mail volume will assist in offsetting the increase in mail volume received because of the consolidation.

To help process this increased mail volume, after the consolidation, the Sacramento P&DC gained 69 craft positions, a 5 percent increase in staffing. In addition, the Sacramento P&DC acquired the following equipment:

- Four additional Delivery Barcode Sorters (DBCS).
- Two Delivery Input Output Sub-Systems.
- Two DBCSs with Output Sub-System capabilities.
- One Remote Input Output Sub-System.
- One Automated Flat Sorter Machine.

We found adequate floor space was available to accommodate this additional machinery at the Sacramento P&DC.

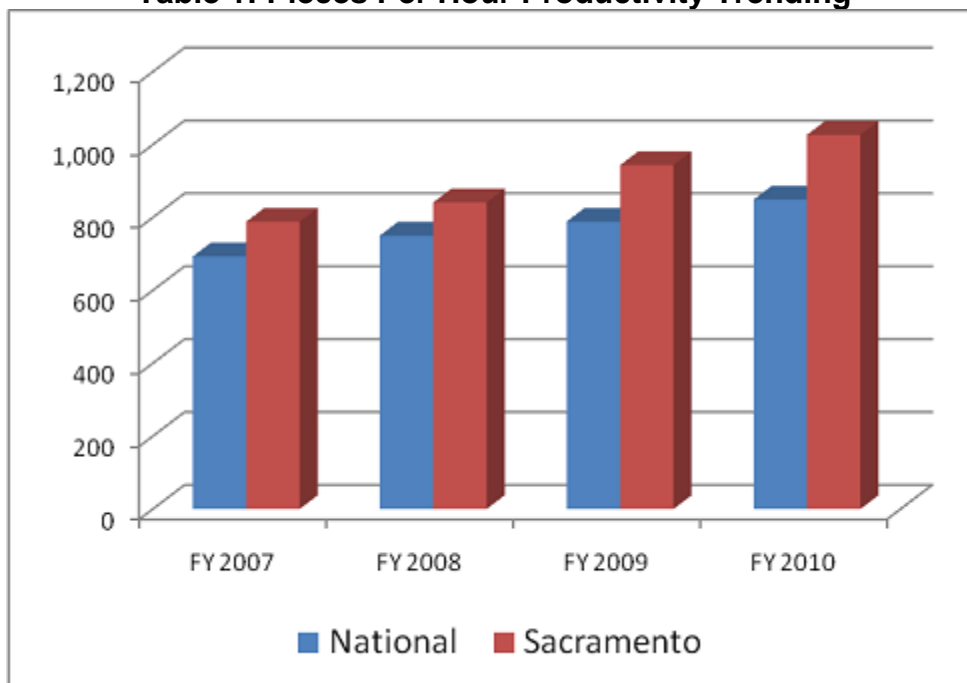
Efficiency

The Sacramento P&DC improved productivity from FY 2007 to FY 2010. Specifically, Sacramento's FHP productivity improved from 789 pieces per hour (PPH) to 1,027 PPH from FY 2007 to FY 2010.⁴ This increase represents an improvement of 30.24 percent as compared to the national average increase of 22.46 percent. See Table 1 for specific information.

³ Mail volume recorded into the operation where it receives its first handling.

⁴ Based on preliminary FY 2010 data

Table 1: Pieces Per Hour Productivity Trending



Based on Quarter 4 FY 2010 data, efficiency continued to improve. The Sacramento P&DC used 40,740 (or 9.3 percent) fewer total workhours to process combined mail volumes during Quarter 4, FY 2010 compared to the workhours used by both facilities in the same period last year. The Postal Service is on target to realize the workhour savings projections.

In addition, processing costs were also significantly reduced. The cost to process 1,000 mailpieces at the Sacramento P&DC before the consolidation, in Quarter 4, FY 2009, was \$85.59, and dropped to \$82.05 after the consolidation in Quarter 4, FY 2010. This represents a cost reduction of 4 percent.

Employee Impact

At the time of the consolidation of Marysville P&DF mail processing operations into the Sacramento P&DC, there were 114 craft and five management employees to reassign. Of these:

- Eight craft employees retired and two others left the Postal Service.
- Nine craft employees volunteered to transfer to other areas.
- Fifteen craft employees were reassigned to the Marysville Post Office.
- Management reassigned 46 craft and four management employees to the Sacramento P&DC.

- Management assigned 34 craft and one management employee to other local facilities.

Management followed procedures outlined in the national agreements between the Postal Service and the impacted unions, including notifying unions and employees. Employees impacted by the consolidation were reassigned, retired, or selected relocation. Consequently, no full-time employees lost jobs.

Customer Service

The consolidation of mail processing operations, which took place before Quarter 4, FY 2010, has not adversely affected service scores. We found that External First-Class Measurement (EXFC)⁵ scores for the Marysville and Sacramento service areas have improved since the consolidation. Both areas now served by the Sacramento P&DC have shown improvements in all three categories of EXFC testing.⁶ Service scores for Sacramento are comparable to Pacific Area and national results. See Table 2 for comparison.

Table 2: EXFC Scores

Overnight		
	FY2009 QTR 4	FY 2010 QTR 4
Marysville	93.15	93.24
Sacramento	96.06	96.31
Pacific Area	95.83	96.59
National	96.33	96.72
Two Day		
	FY2009 QTR 4	FY 2010 QTR 4
Marysville	91.64	94.94
Sacramento	95.58	95.59
Pacific Area	95.26	96.16
National	94.83	94.93
Three Day		
	FY2009 QTR 4	FY 2010 QTR 4
Marysville	88.59	91.65
Sacramento	92.01	94.10
Pacific Area	93.28	94.51
National	93.68	93.70

⁵ A test an independent contractor performs to measure the time it takes mail to go from mailbox to delivery point.

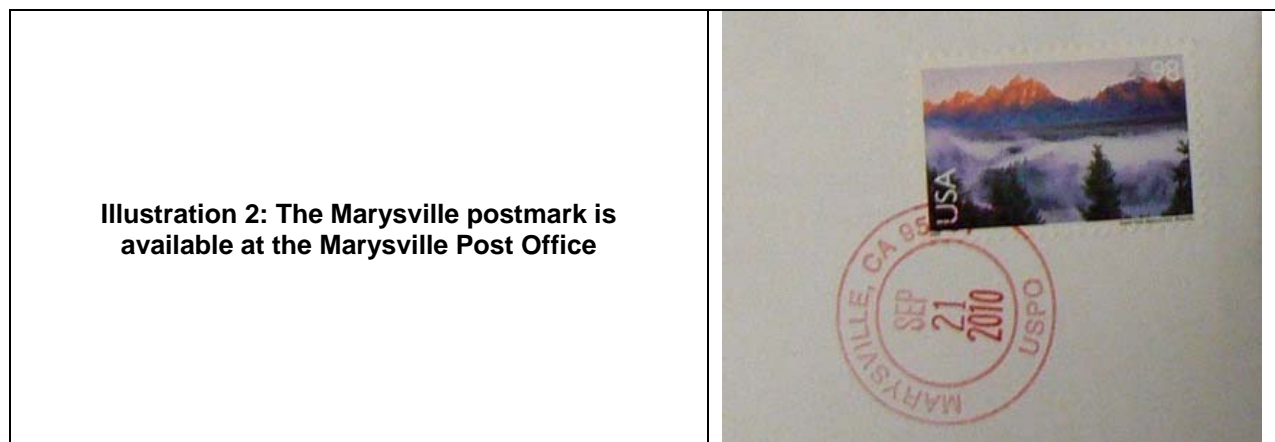
⁶ Changes are made to the EXFC testing only at the start of a quarter. The delivery standards changed for Marysville at the start of Quarter 1, FY 2011. In Quarter 4, FY 2010, the old delivery standards were still in place and EXFC testing continued as if the mail was being sorted in Marysville.

There were delivery service standards⁷ changes for all categories of mail. There were a total of 1,790 upgrades and no downgrades.⁸ In addition, concerning the Postal Service premier services of Priority Mail[®] and FCM, there were 69 upgrades with no downgrades. For example, FCM from Marysville to Oakland is delivered overnight, whereas the Postal Service provided 2-day service before the consolidation. Table 3 shows the number of service standard changes by class of mail.

Table 3: Service Standard Impacts

Service Standard Impacts			
	Upgrades	Downgrades	Net Change
Priority	56	0	56
FCM	13	0	13
Periodicals	791	0	791
Standard	922	0	922
Packages	8	0	8
Total	1,790	0	1,790

Additionally, there were no changes to local mailbox collection times or business mail entry unit operations because of the consolidation. The Marysville postmark remains available at the local post office upon request.



Delayed Mail

Despite an increase in FHP volume of more than 40 million pieces, Sacramento P&DC decreased their delayed processing volume. Specifically, during Quarter 4, FY 2009, the Sacramento P&DC had 9.4 million delayed mail pieces or 2.5 percent of FHP volume. Following the consolidation, delayed mail for Quarter 4, FY 2010, was 6.4 million pieces

⁷ Delivery service standards are the expectation of the Postal Service to deliver a mailpiece to its destination within a prescribed number of days following proper deposit by a customer.

⁸ An upgrade is a reduction in the number of days scheduled for delivery of a piece of mail, while a downgrade is an increase in the number of days scheduled for delivery of a piece of mail.

or 1.5 percent of FHP volume. This represents a decline in delayed processing volume of 32.3 percent. See Table 4 for additional information.

Table 4: Sacramento P&DC Delayed Volume

	Quarter 4, FY 2009	Quarter 4, FY 2010
Total FHP Volume	371,731,475	412,587,454
Total Delayed Volume	9,403,704	6,362,854
Total Delayed Mail as a Percentage of FHP	2.5%	1.5%

Overtime

Overtime remained consistently low at the Sacramento P&DC. Before the consolidation, during Quarter 4, FY 2009, the Sacramento P&DC used less than 1 percent overtime. During Quarter 4, FY 2010 overtime increased to 2.82 percent, still well below the national overtime rate of 6.13 percent.

Cost Savings

Cost savings from the consolidation result primarily from a reduction in workhours, offset by one-time costs associated with the elimination of the Marysville P&DF. In the Marysville P&DF AMP proposal, the Postal Service calculated cost savings using standard AMP worksheets. We reviewed the Postal Service’s AMP worksheets for accuracy and completeness and generally agreed with their calculations.

The workhour reduction of 55 craft and five management employees will result in a savings of \$4,076,264 annually. The Postal Service had predicted an increase in transportation costs of \$499,683. However, through consolidation of highway contract routes, renegotiating lower rates, and terminating high cost routes, transportation costs should decrease by \$800,137. These reductions also eliminated 859,324 miles from transportation, providing a positive environmental impact.

The Postal Service will incur three one-time costs during the first year of the consolidation:

- Employee Relocation – The cost to relocate employees that meet eligibility requirements, as outlined by the union contract, to new job assignments.
- Equipment Relocation – The cost of relocating additional mail processing equipment to the Sacramento P&DC to support the consolidation.
- Facility Cost – The cost associated with preparing the Marysville P&DF for sale.

See specific details of the costs and savings in Table 5:

Table 5: Cost Savings Breakdown

	AMP Projected Annual Savings	Current Projected Annual Savings
Mail Processing Craft Workhours	\$3,366,526	\$3,366,526
Non-Mail Processing Craft Workhours	\$202,611	\$202,611
PCES/EAS Savings ⁹	\$507,127	\$507,127
Subtotal – Employee Workhour Savings	\$4,076,264	\$4,076,264
Transportation	(\$499,683)	\$800,137
Maintenance	\$1,521,949	\$1,521,949
Employee Relocation *	(\$292,378)	(\$292,378)
Equipment Relocation *	(\$136,692)	(\$136,692)
Facility Costs *	(\$50,000)	(\$39,225)
Subtotal – Other Savings	\$543,196	\$1,853,791
Total Cost Savings	\$4,619,460	\$5,930,055

*One Time Costs

AMP Process

The Postal Service completed the AMP process within prescribed timeframes established in AMP guidelines. In addition, the Postal Service performed the notice of initiation of the feasibility study involving the Marysville P&DF, completion of the study, and approval of the consolidation in accordance with AMP guidelines and the AMP Communications Plan. Specifically:

- At the initiation of the feasibility study, the Postal Service notified employees (through *Newsbreaks*¹⁰ and service talks), local union officials, national unions and management associations, local state congressional offices, mailers, and local media. This was the first step in soliciting public comments.
- Upon completing the feasibility study and submitting it to the area vice president (AVP) for consideration, the Postal Service held a public meeting to explain the consolidation proposal and its findings and address public and employee concerns.

⁹ Postal Career and Executive Service (PCES) and Executive and Administrative Schedules (EAS) are management employees.

¹⁰ *Newsbreaks* are an internal channel of communications for employees.

- Concerns and comments were included with the transmittal of information to the area vice president for consideration. As Table 6 shows, the timeline of events supports that the process was inclusive and provided stakeholders a forum to voice concerns for consideration by the Postal Service.

Table 6: Timeline of Events

Timeline for Public Transparency	In Compliance with Handbook PO-408 and the Communication Plan
Notified AVP of intent to conduct a feasibility study.	Yes
Notified Senior Vice President (SVP), Operations of intent to conduct a feasibility study.	Yes
Notified stakeholders of the intent to proceed with study.	Yes
Completed feasibility study within 2 months ¹¹ of the notification of intent to conduct the study.	Yes
Area and Headquarters reviewed the feasibility during the 2 month period.	Yes
District manager completed feasibility study and submitted it to area vice president.	Yes
District held public meeting within 45 days after submitting study to AVP.	Yes
Gave the public 15 additional days to provide written comments.	Yes
When approved, the AVP signed the approval page and forwarded to the SVP, Operations within 2 weeks.	Yes
Office of Vice President and Consumer Advocate reviewed AMP.	Yes
SVP reviewed public input and costs and made final decision within 2 weeks of receipt.	Yes
Notified stakeholders of final decision.	Yes

Agricultural Inspections

Before consolidation, the Marysville P&DF provided for agricultural inspection of packages destined for eight counties in Northern California. Effective November 1, 2010, the Sacramento P&DC will provide space for these inspections. On average, these inspections involve approximately five packages per day containing plant matter. Inspection of these packages should not have an impact on timely delivery of the packages.

¹¹ The manager, network alignment implementation, granted a 2-week extension.

Flood Risks

The contingency plan covers risks of floods or any natural disaster for the Postal Service facility affected. The Sacramento P&DC contingency plan designated the Oakland P&DC as the primary back-up facility. If a natural disaster occurs, the area office would establish a command center and divert mail to the backup facility. The Postal Service demonstrated its ability to respond quickly to disasters in their response to Hurricane Katrina, which destroyed several Postal Service facilities.