



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Oshkosh, WI Processing and Distribution Facility Consolidation

Audit Report

July 29, 2011

Report Number NO-AR-11-006



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

July 29, 2011

Oshkosh, WI Processing and Distribution Facility Consolidation

Report Number NO-AR-11-006

IMPACT ON:

Mail processing operations in the Lakeland District in the Great Lakes Area.

WHY THE OIG DID THE AUDIT:

We performed this review as a result of a congressional request on the consolidation of mail processing operations from Oshkosh, WI Processing and Distribution Facility (P&DF) into the Green Bay, WI Processing and Distribution Center (P&DC). The objectives were to determine whether a business case exists to support the consolidation and to assess compliance with established area mail processing (AMP) guidelines.

WHAT THE OIG FOUND:

Although the consolidation would result in cost savings, adequate facility and machine capacity does not exist at the Green Bay P&DC to process the additional mail volume and service could be negatively impacted. Our analysis also indicated that: (1) No career employees will lose their jobs at either location although there may be some reassignments; (2) Oshkosh P&DF is more efficient and processes its mail volumes at a lower cost than Green Bay P&DC; (3) Mail processing cost savings were overestimated, but significant savings still should be achieved; and (4) Some AMP guidelines were not followed, but had no impact on the business case.

WHAT THE OIG RECOMMENDED:

We recommend the vice president, Operations, Great Lakes Area, and

Lakeland District manager, with input from the senior plant manager re-evaluate capacity in the Green Bay Processing and Distribution Center to determine if sufficient work floor and dock space is available; and reassess machine capacity, especially with regards to the flat volumes.

WHAT MANAGEMENT SAID:

Management agreed with both recommendations, saying they will re-evaluate the workroom floor space/layout and dock space and reassess letter and flat processing machine capacity at the Green Bay P&DC. However, they disagreed with the logic used in our analysis of floor space needs, asserting the analysis was too high level. Also, management did not feel there is an issue with the letter processing capacity, and felt the equipment set was sufficient.

AUDITOR'S COMMENT:

We believe our methodology of benchmarking with sites that process similar mail volumes and using data from management to make projections for minimum space needs provides a reasonable basis to assess floor space requirements. We agree with management's comments that changes made to the proposed equipment set should address the letter processing capacity shortfall, but flat processing capacity could remain challenging.

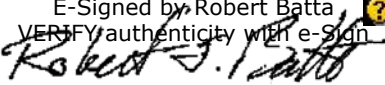
[Link to review the entire report](#)



July 29, 2011

MEMORANDUM FOR: JO ANN FEINDT
VICE PRESIDENT, OPERATIONS GREAT LAKES AREA

CHARLES J. MILLER
ACTING DISTRICT MANAGER, LAKELAND DISTRICT

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Draft Audit Report – Oshkosh, WI Processing and
Distribution Facility Consolidation
(Report Number NO-AR-11-006)

This report presents the results of our audit of the Oshkosh, WI Processing and Distribution Facility (P&DF) consolidation into the Green Bay, WI Processing and Distribution Center (P&DC) (Project Number 11XG024NO000). The report responds to a congressional request. Our objectives were to determine whether a business case exists to support the consolidation and assess compliance with established area mail processing (AMP) guidelines.

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.

Attachments

cc: Patrick R. Donahoe
Megan J. Brennan
David E. Williams, Jr.
Frank Neri
Karen E. Schenck
Steven E. Wenzel
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the Oshkosh, WI Processing and Distribution Facility (P&DF) mail consolidation into the Green Bay, WI Processing and Distribution (P&DC) (Project Number 11XG024NO000). The report responds to a congressional request. Our objectives were to determine whether a business case exists to support the consolidation and assess compliance with established AMP policies and guidelines. The audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

Conclusion

Although the consolidation would result in cost savings, adequate facility and machine capacity does not exist as of June 2011 at the Green Bay P&DC to process the additional mail volume and service could be negatively impacted. Our analysis also indicated that:

- No career employees will lose their jobs at either location, although there may be some reassignments.
- Oshkosh P&DF is more efficient and processes its mail volumes at a lower cost than Green Bay P&DC.
- Mail processing cost savings were overestimated, but significant savings still should be achieved.¹
- Some AMP policies and guidelines were not followed, but had no impact on the business case.

Capacity

As of June 2011, we concluded that adequate facility and machine capacity does not exist at the Green Bay P&DC to process all mail volumes coming from the Oshkosh P&DF.

- Floor Space. The Green Bay P&DC will not have sufficient floor space to accommodate the additional equipment and staging areas needed to process the additional mail volume. The Green Bay P&DC has 107,000 square feet of interior floor space, whereas our calculations show they need at least 147,000 square feet (see Chart 1).

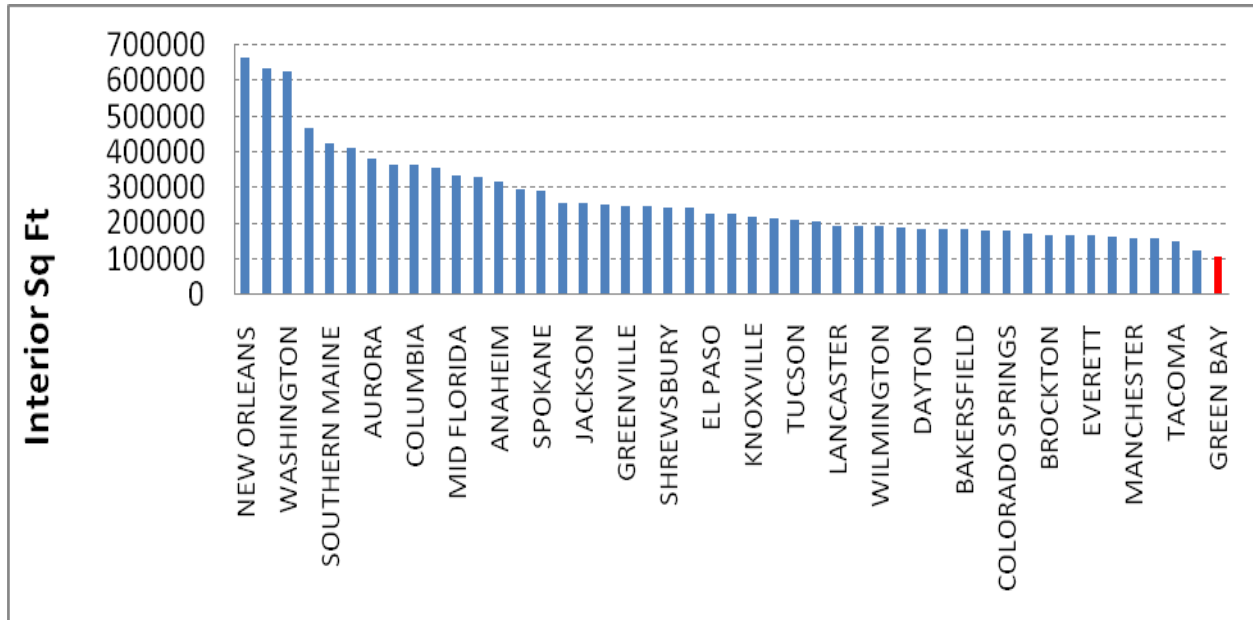
¹ First year savings were estimated by the Postal Service to be \$2,094,773 as compared to the OIG savings estimate of \$668,919. Total annual savings estimated by the Postal Service were \$4,654,584 as compared to the OIG savings estimated at \$3,477,469.

**Chart 1: Interior Square Footage Shortage
Green Bay P&DC**

Current Interior Workfloor Space	107,000
Minimum Floor Space Requirements (Additional Mail Processing Equipment, Staging Areas, and Aisles)	40,075
Required Interior Workfloor Space	147,075
Available Floor Space (carrier annex relocation)	13,000
Workfloor Capacity Shortfall	(27,075)

A comparison to other facilities shows that this shortfall estimate is conservative and additional space may be required. For example, the average square footage for facilities with similar mail volumes is 269,000 square feet, indicating that the Green Bay P&DC would need an additional 162,000 square feet in work space to process its mail volumes.² See Chart 2.

**Chart 2: Green Bay P&DC and Facilities with Similar Mail Volumes
Interior Square Footage**



² This comparison to facilities with similar volumes serves as a high end estimate for floor space requirements since the majority of these facilities have experience significant mail declines resulting in excess work space. See our report on the *Assessment of Overall Efficiency 2011* (Report Number NO-MA-11-004), May 20, 2011.

- **Dock Capacity.** The Green Bay P&DC does not have adequate dock door capacity for the morning delivery point sequence (DPS)³ dispatches to the stations. We estimate they need at a minimum of 25 dock doors. The Green Bay P&DC has 22 dock doors, resulting in a shortage of three dock doors. This estimate may be conservative based on a comparison to facilities with similar mail volume that have an average of 37 dock doors. Insufficient dock doors could result in delays of morning dispatches.

Additionally, some of the Green Bay P&DC docks have trailers parked at them and are used to store empty equipment and Standard Mail[®] before dispatch. If the consolidation is implemented, these dock doors will be needed for dispatches. Consequently, this empty equipment would need to be stored in an already crowded plant that would further reduce work space (see Illustrations 1 and 2).

Illustration 1: Empty Mail Equipment Stored in a Trailer on the Dock at the Green Bay P&DC.



Source: OIG Photograph taken on March 15, 2011

³ DPS provides the Postal Service with a more cost efficient way of preparing the carrier's mail into delivery sequence using automated processing equipment.

Illustration 2: Standard Mail Stored in Trailer on Dock at Green Bay P&DC.



Source: OIG Photograph taken on March 17, 2011

- **Machine Capacity.** The Green Bay P&DC will not have sufficient machine capacity to process all the combined letter volume on the Delivery Barcode Input Output Sub System (DIOSS).⁴ The machine capacity shortfall on the DIOSS will occur in outgoing primary letter processing. As of June 2011, the two DIOSS machines (one at Oshkosh P&DF and one at Green Bay P&DC) process a combined daily volume of approximately 165,000 outgoing primary letters. The proposed consolidation plans to process the combined volume on one DIOSS in Green Bay P&DC. Approximately 117,000 pieces have to be processed in 4 hours (6 to 10 p.m.) to meet the outgoing clearance time.

However, the maximum capacity on the machine is only 90,000 letter pieces over that period. Therefore, the outgoing processing on the DIOSS will not meet the daily outgoing clearance time of 10 p.m. without adjusting schedules to start the DPS processing later. This will have a negative ripple effect as a late clearance time will impact the machine availability for DPS letter mail (see Chart 3) for DIOSS capacity shortfall.

⁴ A delivery barcode sorter with the additional capability of spraying barcodes on mailpieces.

**Chart 3: DIOSS Machine Capacity Shortfall
For Outgoing Primary Letters**

Average Combined Daily Volume (Feb 2011 Web End of Run)	165,177
Percentage Volume After 6 p.m.	71%
Projected Volume After 6 p.m.	117,440
Maximum Capacity (Pieces)	90,000
Outgoing Clearance Time	10 p.m.
Actual Clearance Time (Without Pull-Ddown Time)	11:15 p.m.

Although the AMP study did not call for adding an additional DIOSS, we discussed our concerns with local management. Management agreed to bring an additional DIOSS kit from Oshkosh P&DF to Green Bay P&DC to address this shortfall.

More significantly, the Green Bay P&DC will experience a shortfall in flats processing capacity following the consolidation. Specifically, Green Bay P&DC will not be able to process more than 15 million, or 23 percent, of the annual combined flat volumes on one Automated Flats Sorting Machine 100 (AFSM 100). This shortfall will occur with carrier route volumes. As of June 2011, two AFSM 100 machines (one at Oshkosh P&DF and one at Green Bay P&DC) are used to carrier route these flats. According to the AMP study, the combined volume will be processed on one machine. The AMP study did not call for moving an additional AFSM 100 into Green Bay P&DC. Furthermore, Green Bay P&DC does not have sufficient floor space to accommodate an additional AFSM 100.

We concluded that one AFSM 100 will not maintain the current carrier route level for both plants, resulting in the shortfall in capacity. This shortfall will result in additional manual processing costs at the delivery units estimated cost of approximately \$320,000 per year (see Chart 4).

**Chart 4: AFSM Machine Capacity Shortfall
For Carrier Route Flats
Cost Impact to Delivery Units**

Maximum Machine Capacity (Pieces)	101,250
Combined Daily Carrier Route Processed (Pieces)	132,235
Shortfall (Pieces)	(30,985)
Maximum Available Processing Time (Hours)	6.75
AFSM Decision Analysis Report Target Throughput	15,000
Estimated Annual Cost to the Delivery Units (310 days)	(\$320,551)

According to the AMP study, plans are to process carrier route Standard Mail volumes for the Green Bay P&DC and Oshkosh P&DF on AFSMs at the Milwaukee P&DC to help alleviate the shortfall with flat capacity. However, the Milwaukee P&DC delayed flat volume increased from 33 percent in FY 2010 to 47 percent in FY 2011 through May 15. Therefore, a significant risk of mail delays and increases in overtime hours may be encountered by processing mail in Milwaukee P&DC.

Customer Service

We reviewed three measures of customer service: the External First-Class measurement system (EXFC),⁵ the Customer Experience Measurement System (CEMS),⁶ and the projected service standard upgrades and downgrades.⁷ Our review indicated customer service may be adversely impacted based on historical performance especially for overnight and 3-day scores.

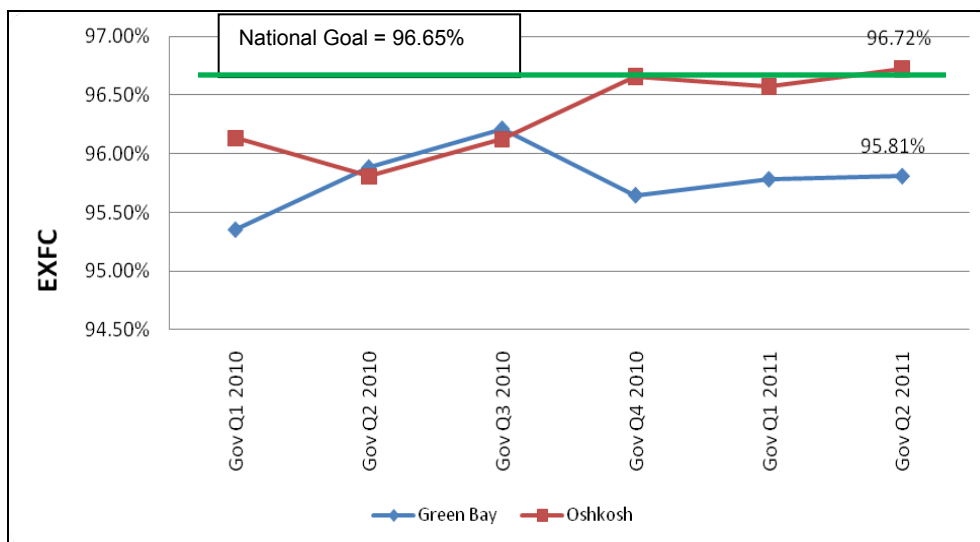
- In FY 2010 through Quarter 2 FY 2011, Oshkosh P&DC outperformed Green Bay P&DC in the cumulative overnight EXFC service for the last six postal quarters. The cumulative service performance through Quarter 2 FY 2011 is 96.72 percent for Oshkosh P&DF and 95.81 percent for Green Bay P&DC (see Chart 5).

⁵ The EXFC is “a system whereby a contractor performs independent service performance tests on certain types of First-Class Mail “that is, (letters, flats, postcards) deposited in collection boxes and business mail chutes. It provides national, area, performance cluster, and city estimates, which are compared with USPS service goals. The results are released to the public quarterly by the consumer advocate.” *Small Plant Best Practices Guidelines* (Handbook PO-420), November 1999, Appendix D, Page 40

⁶ Customer Experience Measurement provides an end-to-end approach to assessing experience with the Postal Service from the customers’ perspective, including quality of service received

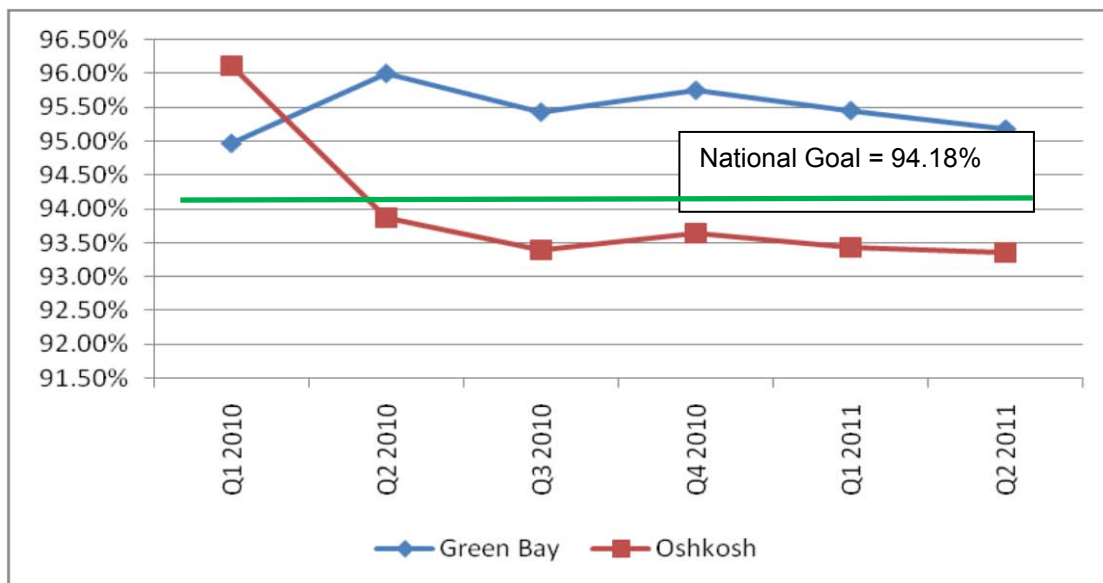
⁷ Service standards are stated delivery performance goals for each mail class and product that are usually measured in days for the period of time taken by USPS to handle the mail from end-to-end (that is, from the point of entry into the mail stream to delivery to the final destination). Upgrades to the service standards after a consolidation indicates end to end mail handling occurs in less time than the current established standard. Downgrades to the service standards after a consolidation indicate end to end mail handling occurs in more time than the current established standard.

**Chart 5: Oshkosh P&DF vs. Green Bay P&DC
Overnight EXFC Service Scores
FY 2010 – Quarter 2 FY 2011**

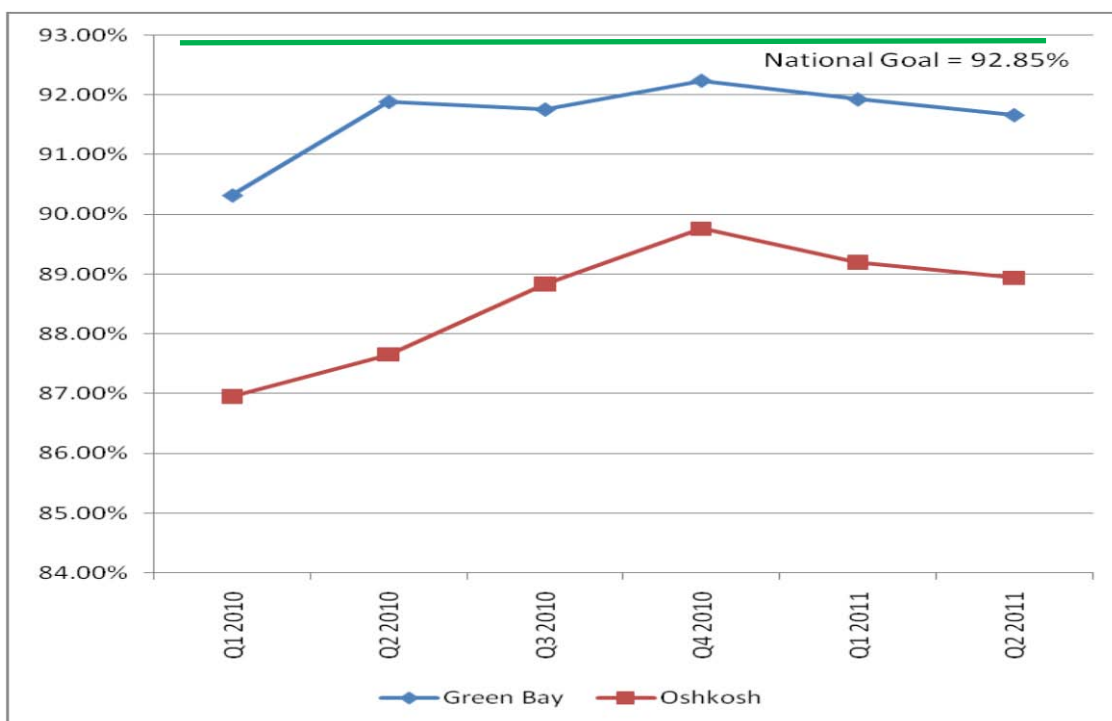


- The Green Bay P&DC performed better than Oshkosh P&DF in the 2 and 3 day service scores. For 2-day service standards, Green Bay P&DC was consistently above the national goal of 94.18 percent, while Oshkosh P&DF was below the national goal 5 of the 6 postal quarters. For 3-day service standards, both Oshkosh P&DF and Green Bay P&DC were below the national goal of 92.85 percent (see Charts 6 and 7). If the consolidation occurs, increased management attention will be necessary in some categories to improve service and meet national service goals.

**Chart 6: Oshkosh P&DF versus Green Bay P&DC
2-Day EXFC Service Scores
FY 2010 – Quarter 2 FY 2011**

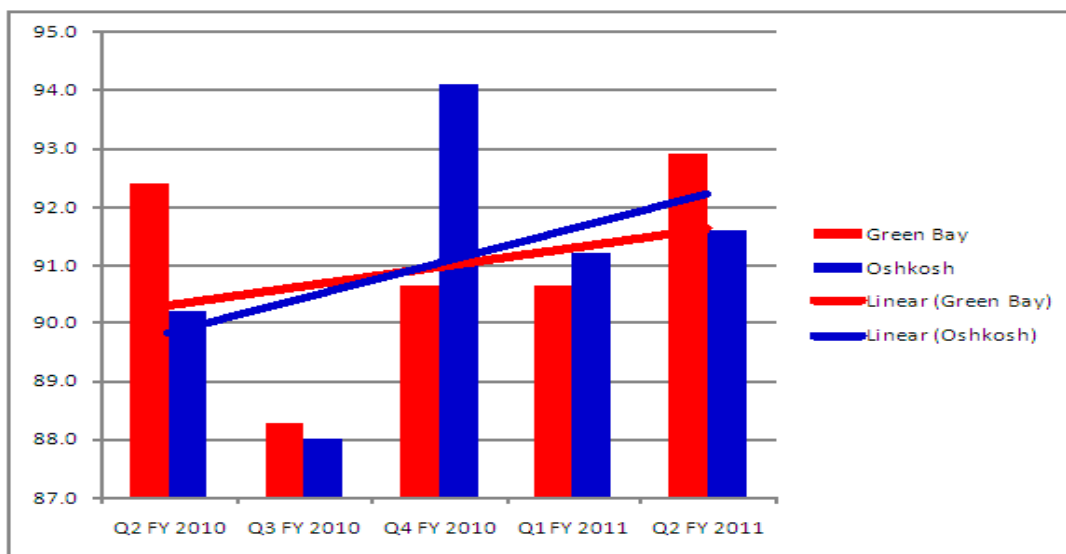


**Chart 7: Oshkosh P&DF versus Green Bay P&DC
3 Day EXFC Service Scores
FY 2010 – Quarter 2 FY 2011**



The CEMS residential scores⁸ for the Oshkosh P&DF and Green Bay P&DC fluctuated over the five quarters reviewed but trended gradually upwards. Oshkosh P&DF trended slightly higher than Green Bay P&DC, but the scores were comparable (see Chart 8).

**Chart 8: Quarter 2 FY 2010 through Quarter 2 FY 2011
Customer Experience Measurement Program**



The AMP study identifies a net of 247 downgrades that will impact customer service. Specifically:

- There are 118 downgrades in First-Class Mail[®]. However only one of these downgrades is in overnight service. These downgrades impact approximately 1.8 percent of average daily volume or 28,000 mailpieces per day.
- There is one downgrade in Priority Mail[®] service and 142 net service downgrades in Periodicals.

⁸ CEM residential scores measure the experience with the Postal Service from a residential customers' perspective.

Chart 9 shows the number of service standard changes by class of mail.

Chart 9: Impact on Service Standards on All Mail Classes

Mail Class	Upgrades	Downgrades	Net Change	Volume and Percent of Mail Volume Affected
First-Class Mail	0	118	(118)	1,594,670 / 1.79
Priority Mail	0	1	(1)	16,275 / .18
Periodicals	11	153	(142)	N/A ⁹
Standard Mail	9	1	8	N/A
Package Services	6	0	6	23,665 / 1.56
Total	26	273	(247)	1,634,611 / 1.76

The projected implementation timeframe for this consolidation is July through September 30, 2011. This is during the fall mailing season,¹⁰ which is followed by the Christmas mailing season. This period has historically been the busiest time of the year for the U.S. Postal Service.¹¹ Nationally delayed mail volumes have increased from 5 percent in the first quarter of FY 2010 to 7 percent in the first quarter of FY 2011. Implementing a consolidation during this period will increase the risk of mail delays and adversely impact customer service.

Finally, the last pick up from the collection boxes at Oshkosh P&DF would be changed from 8:00 to 6:30 p.m. and the closing time for the business mail entry unit (BMEU) would change from 6:00 to 5 p.m. to meet service standards. However, operating times for the retail unit at the Oshkosh P&DF would not change. The BMEU and the retail unit will remain at the Oshkosh P&DF until it is sold.

Employee Impact

The consolidation of the Oshkosh P&DF into the Green Bay P&DC will have an impact on employees.

⁹ Periodicals and Standard Mail downgrades do not show any service standard impact on mail volume because this volume is not captured in the Originating-Destinating Information System (ODIS). ODIS does not sample these pieces and estimates from various systems have shown this volume to be less than 1 percent of total volume entered at that facility.

¹⁰ The fall mailing season runs from mid-August through Thanksgiving.

¹¹ Mail volume increased 10 percent in Quarter 1 of FY 2009 and 13 percent in Quarter 1 of FY 2010.

Specifically:

- There will be a reduction of 138 full-time equivalent (FTE) craft positions and 10 Executive and Administrative Schedule (EAS) positions at Oshkosh P&DF.
- The Green Bay P&DC will gain 86 FTE craft positions and 8 EAS positions.
- The consolidation would result in a net decrease of 52 FTE craft positions and 2 EAS positions. However, there are currently 97 employees eligible to retire¹² at the Oshkosh P&DF and Green Bay P&DC. With the number of employees already eligible for retirement, the number of positions impacted by a consolidation could be significantly minimized.

Efficiency

The Oshkosh P&DF is more efficient and processes its mail volumes at a lower cost than Green Bay P&DC. For example, in FY 2010, the Oshkosh P&DF's First Handling Pieces (FHP) productivity was 1,479 pieces per workhour as compared with the Green Bay P&DC's productivity of 1,219 pieces per workhour. Even though both facilities improved FHP productivity for FY 2011,¹³ with Oshkosh P&DF's FHP productivity of 1,622 and Green Bay P&DC's FHP productivity of 1,359, Oshkosh P&DF was still more efficient.

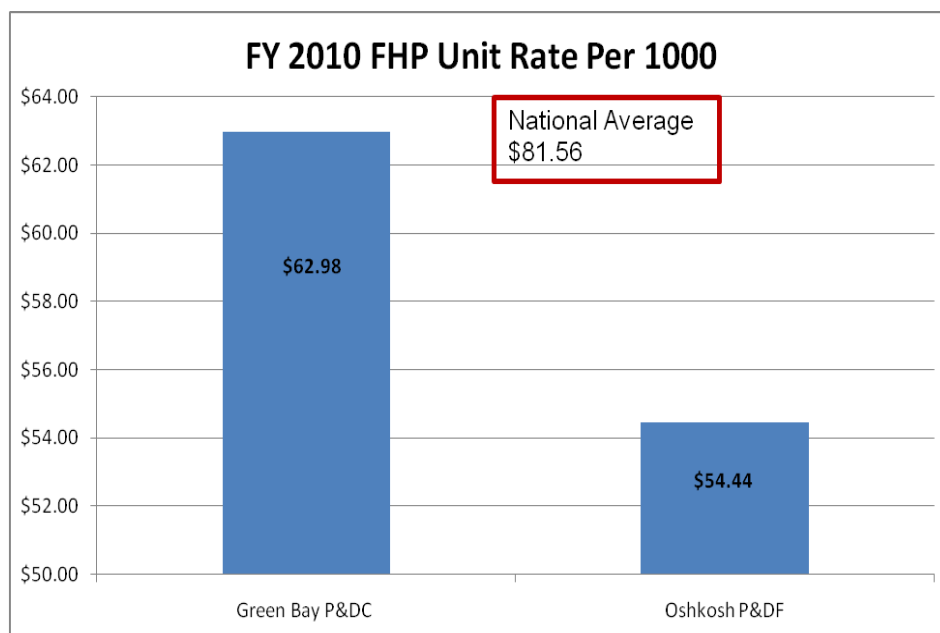
When compared to similar sized facilities, Oshkosh P&DF achieved productivity levels above the average for their respective group, while Green Bay P&DC was below the average. For example, the Oshkosh P&DF's FHP productivity of 1,479 was above the average of 1,258 pieces per workhour, while Green Bay P&DC's FHP productivity of 1,219 was below the average of 1,222 pieces per workhour.

Mail processing costs at the Oshkosh P&DF are also lower than the Green Bay P&DC. The cost to process 1,000 mailpieces at Oshkosh P&DF is \$54.44 while the cost is \$62.98 for Green Bay P&DC see Chart 10.

¹² Employees eligible to retire as of March 29, 2011.

¹³ FY 2011 is through May 15, 2011.

Chart 10: FY 2010 Productivity Costs



Cost Savings

Cost savings will primarily be the result of workhour reductions. The Postal Service estimated the annual cost savings from the consolidation to be approximately \$4.7 million taking into account workhours, maintenance, transportation, and equipment costs. However, U.S. Postal Service Office of Inspector General (OIG) estimated annual cost savings of \$3.5 million from the consolidation. This difference is due to the Postal Service using a higher efficiency achievement percentage when calculating the projected increase in productivity and not including some employee relocation costs. Chart 11 provides a breakdown and comparison of cost savings in the first year.

Chart 11: Cost Savings Breakdown and Comparison

Savings/Cost	AMP Study	OIG Analysis
Mail Processing Craft Workhour Savings	\$1,732,700	\$875,696
Non-Mail Processing/Management + Shared Labor Distribution Codes Workhours Savings (Less Maintenance and Transportation)	239,900	239,900
Management ¹⁴ Workhour Savings	602,191	602,191
Transportation Costs	(171,781)	(171,781)
Maintenance Savings	2,351,574	2,351,574
Space Costs	(100,000)	(100,000)
Additional Cost of Workhours Needed to Process Flats at Delivery Units	0	(320,111)
Total Annual Savings	4,654,584	3,477,469
Total One-Time Costs	(2,559,881)	(2,808,550)
Total First Year Savings	\$2,094,773	\$668,919

Note: Red numbers in the chart mean a cost.

AMP Guidelines

The Postal Service complied with stakeholder communication policies; however, some procedures in the AMP guidelines were not followed. Specifically:

- Business rule criteria for AMP studies assume a 5-percent increase in Total Piece Handling¹⁵ productivity. However, this AMP study used 10-percent increase in its calculations. As a result, mail processing workhours and projected cost savings were overstated by approximately \$857,000.
- Employee relocation costs of \$494,200 were not included for some employees.
 - The Postal Service estimates for relocation costs at \$5,000 per craft employee. At most, 19 mail handler craft employees could be relocated and entitled to relocation costs totaling \$95,000.

¹⁴ EAS.

¹⁵ Total Piece Handling is first handling pieces plus subsequent handlings.

- The Postal Service estimates for relocation costs of \$49,900 per EAS employee. The AMP study includes eight EAS employees who could be relocated and entitled to relocation costs totaling \$399,200.
- Some of the AMP study steps were not completed within established timeframes. Not meeting these timeframes did not adversely affect the consolidation determination process. See Chart 12 for a timeline of events.

Chart 12: AMP Timeline of Events

Event	Date	Was Step Accomplished ?	Accomplished Within Timeframe?
Area vice president (AVP) notified district manager or district manager notified AVP of intent to conduct study.	7/31/2010	Yes	Yes
Stakeholders notified on the intent to conduct study.	8/2/2010	Yes ¹⁶	Yes
District manager completed feasibility study and submitted to AVP within 2 months of notification to conduct study.	9/11/2010	Yes	No (1)
District manager held public input meeting within 45 days after study submitted to AVP.	11/23/2010	Yes	No (2)
District manager summarized information from public meeting and written comments within 15 days after meeting.	2/1/2011	Yes	No (3)
AVP and headquarters vice president reviewed the feasibility study within 60 days from the time the study is submitted to the AVP.	2/28/2011	Yes	No (4)
AVP approved study after finalized worksheets were approved by area and headquarters and submitted study to senior vice president (SVP), Operations.	3/21/2011	Yes	Yes
SVP approved study within 2 weeks of receipt from AVP.	4/4/2011	Yes	No (5)

(1) 8 days late.

(2) 7 days late.

(3) 2 months late (11/23/2010).

(4) 5 months late (9/11/2010 -2/28/2011).

(5) 1 month late.

¹⁶ Two hundred and forty-two stakeholders were notified of intent to conduct AMP feasibility study on August 2, 2010. The same 242 stakeholders were notified on November 8, 2010, of the intent to conduct the public input meeting.

Recommendations

We recommend the vice president, Operations, Great Lakes Area, and Lakeland District manager:

1. Re-evaluate the capacity in Green Bay Processing and Distribution Center to determine whether sufficient work floor and dock space is available.
2. Reassess machine capacity, especially with regards to the flat volumes.

Management's Comments

Management agreed with recommendation 1, stating they will re-evaluate the workroom floor space/layout and dock space to ensure maximum efficiency is achieved in the future state of operation at the Green Bay P&DC. However, they disagreed with the logic used in our analysis of floor space needs, asserting the analysis was too high level.

Management agreed with recommendation 2, stating they will reassess letter and flat processing machine capacity at the Green Bay P&DC. While management agreed flat processing would be a challenge with only one AFSM 100, they reiterated they will have contingency plans in place for high volume periods. Management did not feel there is an issue with the letter processing capacity, stating that 16 DBCSs will support automated letter processing services. See [Appendix B](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

We believe our methodology of benchmarking with sites that process similar mail volumes allows for a reasonable basis to assess floor space requirements. Additionally, our minimum work floor capacity shortfall calculation, as shown in the report, was calculated using data provided by the Postal Service as to existing available space and minimum required space for the addition of equipment as outlined in the AMP package. While we acknowledge that management can be innovative with regards to floor space utilization and may be successful with accommodating the additional mail volumes, our work highlights that work space is a challenge and needs to be re-examined.

We discussed the issue of the additional DIOSS with management during the audit; as a result of this discussion, they agreed to move the DIOSS in Oshkosh P&DF to Green Bay P&DC. This change to the initial equipment set outlined in the AMP proposal was included in the report and should address the letter processing shortfall. Both the OIG and management agreed that flat processing will be a challenge. Management has

provided assurances that they are aware of the reported shortfall and will have contingency plans in place to address this shortfall during periods of high flat volumes.

Appendix A: Additional Information

Background

The financial outlook of the Postal Service is in question as it ended the second quarter of this fiscal year (January 1 – March 31, 2011) with a net loss of \$2.2 billion, compared to a net loss of \$1.6 billion for the same period in FY 2010. Mailing Services revenue of \$14.0 billion decreased \$568 million, or 3.9 percent, in the second quarter of 2011, compared to the same period a year ago. Mailing Services volume of 40.7 billion pieces represents a 3.1 percent decline from the same period a year earlier. The modest increase in revenue from Standard Mail did not offset the loss of revenue from the reduced volume of First-Class Mail.

Despite workhour reductions and organizational redesign initiatives projected in FY 2011 to save \$1.2 billion to \$1.6 billion, the slow economic growth, electronic alternatives, rising fuel prices, have continued to cause record losses, creating a cash shortfall. Postal Service is expected to reach its statutory borrowing limit by the end of the fiscal year.¹⁷

In testimony before Congress,¹⁸ the U.S. Government Accountability Office (GAO) stated action is urgently needed to facilitate the Postal Service's financial viability as it cannot support its current level of service and operations. Congress, the Postal Service, the administration, and stakeholders need to reach agreement on a package of actions to restore the Postal Service's financial viability and take steps to modernize and restructure it. The Postal Service needs to become a leaner, more flexible organization, so that it can operate more efficiently, control costs, keep rates affordable, and meet customers' changing needs. Postal Service operations, networks, and workforce need to be realigned with the changes in mail usage and customer behavior, as the Postal Service now has costly excess capacity.

Title 39 U.S.C., § 101, Part 1, Chapter 1, 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, Title II, dated December 20, 2006, 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 Congressman Thomas E. Petri, who represents the 8th District of Wisconsin, to independently review the consolidation of

¹⁷ *Postal News* Release, May 10, 2011. www.usps.com/communications/newsroom/2011/pr11_048.

¹⁸ GAO-11-428T, Testimony before the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, Committee on Oversight and Government Reform, House of Representatives, dated March 2, 2011.

mail processing operations from the Oshkosh P&DF into the Green Bay P&DC. The representative's concerns included whether:

- Adequate communication was provided to all stakeholders.
- Costs of consolidation were considered.
- AMP guidelines were followed.

This AMP is the third in a series of AMP studies for Oshkosh P&DF and Green Bay P&DC.

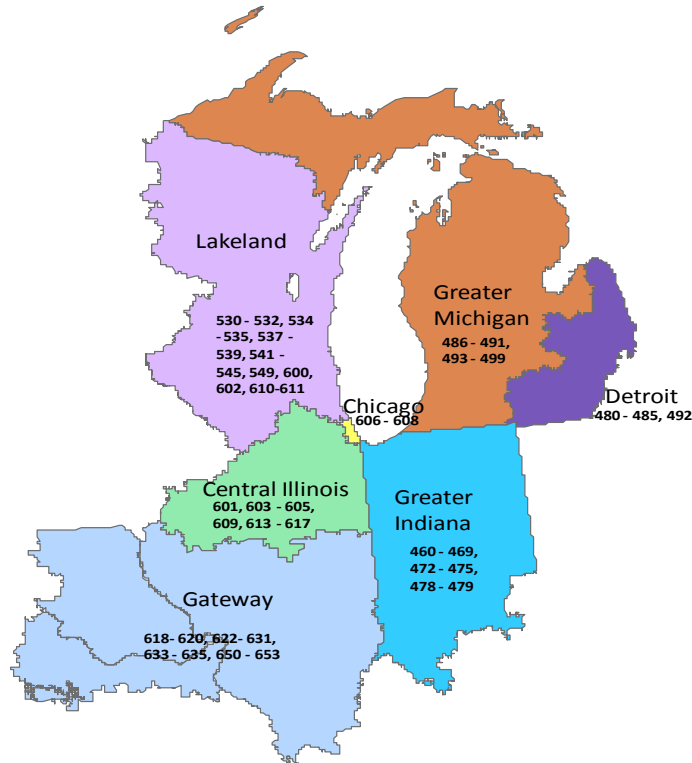
Specifically:

- December 1, 2005, an AMP study was started to move only the outgoing mail operations from Oshkosh P&DF to Green Bay P&DC. However, on July 18, 2007, this study was ended, because no significant savings identified by consolidating only the outgoing mail.
- September 2, 2009, an AMP study was started to move only the outgoing mail operations from Green Bay P&DC to Oshkosh P&DF. However, on August 2, 2010, because of Postal Service budget concerns and the downturn in economy this AMP study was stopped to consider a more effective plan.
- August 2, 2010, an AMP study was started to move all mail operations from Oshkosh P&DF to Green Bay P&DC. Moving mail operations into Green Bay P&DC was chosen primarily due to physical location. This AMP study was approved on April 4, 2011.

This consolidation would move all of the Oshkosh P&DF's mail processing operations to the Green Bay P&DC.¹⁹ According to AMP study, approximately 291 million originating and destinating mailpieces would be transferred to the Green Bay P&DC for processing. The Oshkosh P&DF and the Green Bay P&DC are 55 miles apart and are in the Lakeland District in the Great Lakes Area (see Map 1).

¹⁹ Oshkosh P&DF (2005) and Green Bay P&DC (2008) send their outgoing mail to Milwaukee P&DC for processing on Saturdays.

Map 1: Districts Within the Postal Service Great Lakes Area



Objectives, Scope, and Methodology

Our audit objectives were to determine whether a business case exists to support the consolidation of the mail processing operations from the Oshkosh P&DF into the Green Bay P&DC and whether AMP guidelines were followed. We reviewed data from July 1, 2009, to June 30, 2010, to analyze current and potential efficiencies for both plants as well as capacity at the Green Bay P&DC. Additionally, we reviewed service scores from Quarter 1, FY 2010 through Quarter 2, FY 2011. We also estimated the costs and savings from this analysis. We conducted observations at both sites during March and April 2011 and interviewed Postal Service management and employees.

We used computer-processed data from the following systems.

- Activity Based Costing System.
- Customer Experience Measurement System.
- Electronic Facilities Management System.
- Enterprise Data Warehouse.
- Web Complement Information System.
- Web End of Run.

We conducted this performance audit from February through July 2011 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 May 17, 2011, and included their comments where appropriate.

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

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Area Mail Processing Communication</i>	EN-AR-09-001	2/4/2009	N/A	Postal Service management agreed with our recommendation to add employee input notifications but disagreed with the 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	N/A	No recommendations were made.
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	2/1/2010	N/A	No recommendations were made.
<i>Manasota Processing and Distribution Center</i>	EN-AR-10-003	2/12/2010	N/A	Management agreed with our recommendations.
<i>Lakeland Processing and Distribution Center Consolidation</i>	EN-AR-10-004	2/12/2010	N/A	No recommendations were made.
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010	\$114,000,000	Management agreed with monetary impact and the recommendations.

<i>Consolidation of the Lima P&DF Mail Operations Into the Toledo P&DC</i>	NO-AR-10-007	7/2/2010	N/A	Management agreed with the recommendations.
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010	N/A	No recommendations were made.
<i>Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010	N/A	No recommendations were made.
<i>Marysville, CA Processing and Distribution Facility Consolidation</i>	NO-AR-11-002	11/23/2010	N/A	No recommendations were made.
<i>Houston Processing and Distribution Center Consolidation</i>	NO-AR-11-004	12/14/2010	\$189,744,682	Management agreed with the recommendations.
<i>Columbus, GA Customer Service Mail Processing Center Originating Mail Consolidation</i>	NO-AR-11-005	2/14/2011	N/A	No recommendations were made.
<i>Lima, OH to Toledo, OH Area Mail Processing Consolidation</i>	EN-AR-11-004	3/31/2011	\$105,125	Management agreed with the recommendations.
<i>Assessment of Overall Plant Efficiency 2011</i>	NO-MA-11-004	5/17/2011	\$647,586,823	Management agreed they could improve operational efficiency by reducing more than 14 million workhours by the end of FY 2013. This would allow the Postal Service to achieve at least median productivity levels in the network and avoid costs of more than \$647.5 million based on workhour savings for 1 year.

Appendix B: Management's Comments

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



July 21, 2011

Shirian Holland
Acting Director, Audit Operations

Subject: Audit Report – Oshkosh, WI Processing and Processing Facility
Consolidation (Report Number NO-AR-11-DRAFT)

The Great Lakes Area reviewed the audit performed by the Office of Inspector General on the consolidation of mail processing operations from Oshkosh, WI Processing and Distribution Facility (P&DF) into the Green Bay, WI Processing and Distribution Center (P&DC). We appreciate the courtesy throughout the process and the opportunity to provide feedback on your findings. The consolidation of the Oshkosh facility into Green Bay has a projected savings of over \$4.5 million dollars per year and will have minimal service impacts to First Class mail - only one overnight downgrade. The AMP proposal was carefully analyzed and all stakeholders' comments were considered before making the final determination. The District and the Area will provide the resources necessary to ensure the successful implementation of this AMP.

Recommendation #1:

Re-evaluate the capacity in Green Bay Processing and Distribution Center to determine if sufficient work floor and dock space is available.

Management Response/Action Plan: Management does not agree with the logic used by the OIG as the foundation for this finding. Management however, does agree to re-evaluate the workroom floor space/layout and dock space to ensure maximum efficiency is achieved in the future state operation. An AMP Implementation/Review team will review the equipment sets, processing plans/schedules, and transportation. HQ, Area, and District personnel will be leveraged to independently assess the space needs and will collaboratively determine the optimal (service and cost) layout.

Target Completion Date: August 15, 2011

Responsible Official: Charley J. Miller, A/District Manager

The OIG completed a high level workroom floor space analysis to calculate a shortfall of square footage. Further data compared Green Bay to facilities that currently process volumes comparable to the future state volume for Green Bay. Based on this comparison, the OIG asserted that the facility may be 27,000 -

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162,000 square feet deficient in space. We do not agree with the logic/approach in the baseline assessment, nor in the comparative analysis. As has been cited in several OIG audits, there is underutilized space in many facilities. To evaluate the space adequacy, the entire building and each operation needs to be assessed to determine the optimal layout. As the required operations and their complexities vary by facility, we do not agree that the high level, volume to square footage comparison is valid. A more detailed analysis is needed to determine the adequacy of space. As part of the AMP evaluation, Lakeland district had developed floor layouts based on planned equipment sets, operations required, and operational processing windows to determine the adequacy of space in the Green Bay for the full AMP of Oshkosh.

As was stated in the narrative of the 408 study, we are evaluating the lowest cost alternative to accommodate the AMP. The Area and District have been working in conjunction with HQ Facilities to determine the lowest cost alternative - either moving the carriers to a stand alone facility or expanding the existing plant to accommodate the plant and delivery operations. Efficient and detailed layouts have been developed to support both alternatives.

Recommendation #2:

Reassess machine capacity, especially with regards to the flat volumes.

Management Response/Action Plan:

Management agrees to reassess the machine capacity for this facility – letter and flat processing. We do however disagree that there is a letter processing capacity issue. An AMP Implementation/Review team will review the equipment sets in conjunction with the processing plans/schedules and transportation. HQ, Area, and District personnel will be leveraged to independently assess the equipment needs and will collaboratively determine the optimal equipment set.

Target Implementation Date: August 15, 2011

Responsible Official: Charley J. Miller, A/District Manager

As had been shared with the OIG during the audit it was agreed that the Oshkosh DIOSS kit would be moved to Green Bay and the number of DBCSs to support the full AMP is 16, an addition of 7 DBCSs to Green Bay's equipment set. We are confident that the automated letter equipment will support service.

We acknowledge that flat processing will be challenging on one AFSM100 and have developed contingencies for high flat volume seasons. As part of the 408 evaluation, plans were developed to leverage Milwaukee's five AFSM100s to handle Green Bay's volume during peak season. As the ADC, all FCM volume for Green Bay currently flows through Milwaukee. During high volume periods, Milwaukee will perform carrier route processing for Green Bay. In today's

environment, neither Milwaukee nor Green Bay process flats on Tour 2. If necessary, we can further leverage Tour 2 to add processing capacity.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

As stated, Great Lakes Area and Lakeland District will re-evaluate: 1) the workroom space and docks needs; and 2) equipment sets required to ensure the Oshkosh AMP will result in the savings and service stated in the AMP package.



Jo Ann Feindt

Cc: Charley Miller, A/District Mgr., Lakeland
Steve Wenzel, Sr Plant Mgr., Lakeland
Frank Neri, Mgr., Processing Operations, HQ
Jacqueline Krage Strako, Mgr. Operations Support, Great Lakes
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