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USPS Office of the Inspector General Audit Report – NO-AR-06-001
Area Mail Processing Guidelines
(December 2005)



December 21, 2005

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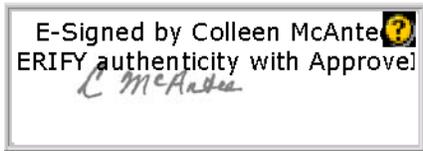
SUBJECT: Audit Report – *Area Mail Processing Guidelines*
(Report Number NO-AR-06-001)

This report presents the results of our audit of the *Area Mail Processing (AMP) Guidelines* (Project Number 05WG015NO000). This review was self-initiated and is part of an ongoing series of audits of the Evolutionary Network Development (END) project. Our objective was to assess the Postal Service's *AMP Guidelines* for consolidating mail operations.

The AMP process is fundamentally sound and appears credible. It also provides a post-implementation review to assess results from mail processing consolidations. However, management of the AMP process and guidance could be improved. Without clear guidance, the ability to implement AMPs with minimal disruption is impacted, and inconsistencies in the process may result. We recommended the Postal Service develop a process for addressing resistance to network changes, ensure AMPs are approved or disapproved in a timely manner, ensure post-implementation reviews are conducted, and update *AMP Guidelines* or supporting policies.

Management generally agreed with our recommendations and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Robert J. Batta, Director, Network Operations – Processing, or me at (703) 248-2300.



Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: William P. Galligan
David E. Williams
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TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	2
Prior Audit Coverage	3
Part II	
Audit Results	4
Assessment of AMP Process	4
Limited Use of AMP Process	5
Postal Service's Planned Actions	7
Recommendations	7
Management's Comments	7
Evaluation of Management's Comments	7
Policy Could Be Improved	8
Postal Service Actions	9
Recommendation	9
Management's Comments	9
Evaluation of Management's Comments	9
Lessons Learned From Marina/Los Angeles Processing and Distribution Center AMP Consolidation	10
Appendix A. Sample Timeline for Completion of an AMP	12
Appendix B. Prior Audit Coverage	13
Appendix C. Flowchart of the AMP Process	14
Appendix D. Management's Comments	15

EXECUTIVE SUMMARY

Introduction

We conducted a self-initiated review of the Postal Service's *Area Mail Processing (AMP) Guidelines*. Our objective was to assess the *AMP Guidelines* for consolidating mail processing operations.

Results in Brief

The AMP process is fundamentally sound, appears credible,¹ and provides a post-implementation review process to assess results from mail processing consolidations. However, management of the AMP process and guidance could be improved. We concluded:

- Network changes using the AMP process have been few and minor compared to the network's size.²
- AMPs were not processed or approved at headquarters within the 30-day requirement.
- Post-implementation reviews were not always conducted.
- AMP guidance did not address how excess capacity is impacted.
- AMP communications and the process for addressing resistance could be improved.

These conditions occurred because stakeholder resistance and the development of the Evolutionary Network Development models affected the approval and implementation of AMPs. In addition, some detailed procedures for addressing AMP issues were not contained or referenced in AMP policy, and the Postal Service has not updated the *AMP Guidelines* since 1995.

Consequently, limited use of AMPs to change the network has prolonged plant inefficiencies and excess capacity, resulting in higher than necessary network costs. Without clear guidance, the ability to implement AMPs with minimal

¹ Two prior Office of Inspector General reviews showed a favorable business case to support pending AMP proposals in Mansfield, Ohio, and Canton, Ohio.

² During fiscal years 2000-2004, the Postal Service reduced over 187 million workhours; however, the AMP process accounted for less than 1 percent of the total workhour reduction.

disruption is impacted, and inconsistencies in the process may result.

Postal Service Actions	During our review, Postal Service management stated they plan to increase the use of AMPs in the future. They have conducted training sessions on the process and are developing tools to improve management of AMPs. In addition, they are creating an AMP communications plan to target key messages to internal and external audiences. Finally, they have documented lessons learned from closing the Marina Processing and Distribution Center to facilitate facility closures in future AMP projects.
Summary of Recommendations	We recommended the Postal Service ensure compliance with policy requirements, develop a process for addressing stakeholder resistance, and update the AMP guidance.
Summary of Management's Comments	Management generally agreed with the findings and recommendations in this report. Management's comments, in their entirety, are included in Appendix D of this report.
Overall Evaluation of Management's Comments	Management's actions taken or planned are responsive to the recommendations and should correct the issues identified in the findings.

INTRODUCTION

Background

Declines in First-Class Mail volume,³ increased competition from the private sector against traditional mail products, increased automation and mail processing by mailers, and shifts in population demographics have resulted in excess capacity in the Postal Service's mail processing infrastructure. These factors, coupled with an aging processing infrastructure and network redundancies, make operating efficiently difficult. Postal Service management has recognized the need for a comprehensive redesign of its distribution and transportation network.

As part of the Postal Service's *Strategic Transformation Plan 2006-2010*, the Postal Service articulated an Evolutionary Network Development (END) initiative to improve its processing and transportation network.⁴ END is a set of processes and tools used to analyze the optimal number, location, and functions of mail processing and transportation facilities. The charter of the initiative is to create a flexible logistics network that reduces Postal Service and customers' costs, increases operational effectiveness, and improves consistency of service.

In 2003, the President's Commission on the Postal Service (the Commission) found the Postal Service had more facilities than it needed and many of these were not used efficiently. The Commission said these inefficient operations and an antiquated network cost the Postal Service billions of dollars in unnecessary expenses. The Commission also noted that the Postal Service faced political resistance to closing or consolidating postal facilities, along with restrictive statutory requirements.

The Postal Service uses Area Mail Processing (AMP) policy to consolidate mail processing functions and to eliminate excess capacity, increase efficiency, and better use resources. The Postal Service defines AMP as the consolidation of all originating and/or destinating distribution operations from one or more post offices into another automated or mechanized facility to improve operational efficiency and/or service. This process has been refined

³ In fiscal year (FY) 2004, First-Class Mail volume was 5.7 billion pieces below the peak volume in FY 2001.

⁴ The Postal Service has referred to its network redesign as Network Integration and Alignment, Network Rationalization, and END. For consistency, we use END throughout this report.

over 3 decades as mail processing has evolved from a manual and mechanized to automated processing.

The Postal Service issued Handbook PO-408, *Area Mail Processing (AMP) Guidelines*, in 1984 and reissued it in April 1995. The guidelines ensure AMP consolidations support the strategic objectives of the Postal Service, make optimum use of available resources, and establish management's accountability for the AMP decision. In September 2004, the Postal Service distributed updates to the AMP worksheets. See Appendix A for a sample timeline for completing an AMP.

Objective, Scope, and Methodology

The objective of this review was to assess the Postal Service's *AMP Guidelines* for consolidating mail processing operations.

The audit covered program operations at Postal Service Headquarters, area offices, and sites with ongoing AMP projects. We reviewed current and prior AMP guidance and AMP proposals submitted to Postal Service Headquarters from 1995 through May 2005. We interviewed Postal Service managers and employees at various levels to learn about the AMP program. We reviewed handbooks, instructions, and other documentation, as well as prior audit reports on AMP. We toured the Marina del Rey and Los Angeles Processing and Distribution Centers (P&DCs) that were being consolidated at the time of our visit. We performed analytical procedures as necessary.

We conducted this audit from March through December 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We could not account for all AMP studies for the period of review.⁵ We discussed our observations and conclusions with management officials and included their comments where appropriate.

⁵ In November 2004, Postal Service management improved oversight and controls over the AMP process.

Prior Audit Coverage

We issued two prior reports on the efficiency of mail processing operations at the Main Post Office in Mansfield, Ohio, and the Canton, Ohio, P&DC. These reviews included our assessment of pending AMPs. In addition, the Government Accountability Office (GAO) reviewed the Postal Service's mail processing infrastructure. For details of prior audit coverage, see Appendix B.

AUDIT RESULTS

Assessment of AMP Process	The AMP process is fundamentally sound, appears credible, and provides a post-implementation review process to assess the results of mail processing consolidations.
Methodology Sound	AMP uses a bottom-up approach to develop network consolidations based on evaluation of mail processing functions for specific facilities. The process begins at the local level, with the facilities involved in the consolidation preparing a study to analyze the feasibility of relocating mail processing operations from one location to another. If the study shows the consolidation will improve efficiency and/or service, local management prepares an AMP proposal. Area and headquarters management then review the AMP proposals to ensure they conform to <i>AMP Guidelines</i> . See Appendix C for a flowchart of the AMP process.
Standardized Worksheets	The <i>AMP Guidelines</i> clearly identify the factors that should be analyzed in an AMP proposal and provide standardized worksheets to collect pertinent data. These worksheets show how savings are calculated, the impact on service, and transportation costs. We previously conducted two reviews of pending AMPs and found favorable business cases to support the proposed consolidations. ⁶
Review Process	The <i>AMP Guidelines</i> include a process for evaluating and measuring the results of AMP decisions. ⁷ The review process ensures management's accountability for implementing an AMP and compares projected and actual results. All AMP plans should be reviewed twice during the first year after implementation to assess whether planned savings, workhours, and levels of service are attained. In addition, if an AMP does not work, there are provisions for reversing the action.

⁶ Two Office of Inspector General (OIG) reviews showed favorable business cases to support pending AMP proposals in Mansfield, Ohio, and Canton, Ohio.

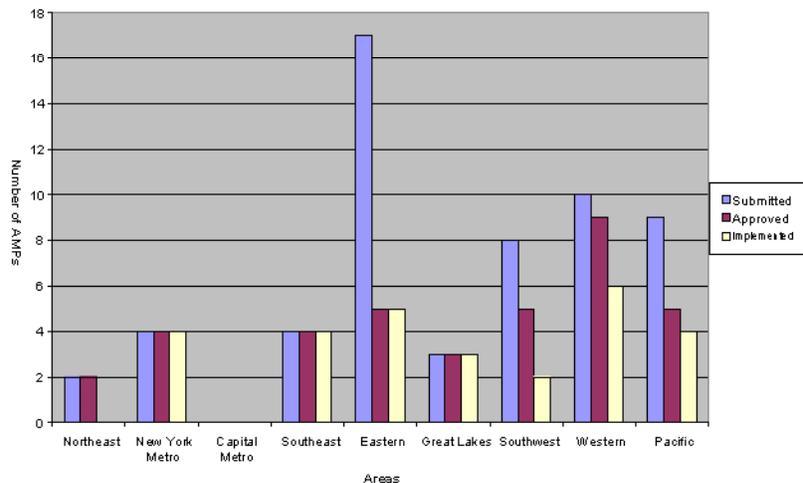
⁷ In a future audit, the OIG plans to review the results achieved from implemented AMPs.

Limited Use of AMP Process

During FYs 2000-2004, the Postal Service reduced over 187 million workhours and continues to reduce workhours. The Postal Service has also eliminated more than 80,000 career positions and closed more than 80 facilities, including remote encoding centers and annexes. However, in consolidating mail processing operations, the Postal Service has not fully used the AMP process. AMPs resulted in less than 1 percent of the total workhour reductions for that period. Changes to the mail processing network have been relatively few and minor compared to the network's size.

- Since 1995, the Postal Service has implemented 28 AMP proposals to consolidate mail operations. This averages less than three implemented AMPs per year. The chart below summarizes AMPs submitted, approved, and implemented in each area since 1995.

Chart 1. AMPs Submitted, Approved, and Implemented 1995-2005



- In 2004, the Postal Service initiated a major AMP.⁸ This involved moving mail processing operations from the Marina del Rey Processing and Distribution Center (Marina P&DC) to the Los Angeles and Long Beach P&DCs. The Postal Service will close the Marina P&DC.

⁸ A major AMP consists of a facility with more than 400 employees and results in a facility closure.

The Commission found the Postal Service has more infrastructure than needed and should accelerate plans to reduce the excess capacity. Handbook PO-408 establishes the Postal Service criteria for processing, approving, and implementing AMPs.

We reviewed AMPs submitted from FYs 2001 through 2005 and found that headquarters did not process or approve AMPs within the 30-day requirement.⁹ We identified 18 AMPs submitted between 2001 and 2005 that had not been acted upon at the time of our review.

Further, post-implementation reviews (PIRs) were not always conducted for completed AMPs. PIR documentation was available for only 5 of the 28 implemented AMPs since 1995. Of those five, only three included both an interim and full-year PIR.¹⁰ These reviews are conducted to ensure the AMP has achieved the projected savings, improved operational efficiency, and established management accountability for decision-making.

These conditions occurred for several reasons.

- Developing END models to analyze network alternatives slowed the processing of AMP proposals because the Postal Service delayed action pending the modeling results.
- Resistance to consolidations affected the approval and implementation of AMP proposals. For example, the proposed AMP to move mail processing operations from Pendleton, Oregon, to Pasco, Washington, was terminated after a member of Congress made inquiries. The Postal Service also postponed the proposed AMP to move outgoing mail processing operations from Mansfield, Ohio, to Akron, Ohio, because of congressional opposition.

Limited use of AMPs to make changes to the mail processing network has prolonged plant inefficiencies and excess capacity. This has resulted in higher than necessary

⁹ Handbook PO-408, Chapter 3, states that both the area and headquarters have up to 30 days to approve a submitted AMP proposal.

¹⁰ Handbook PO-408, Chapter 5, states that PIRs are to be conducted within 30 days after the second full quarter following implementation of the AMP, and again after the first full year following implementation.

network costs. Also, without PIRs, management has no assurance the implemented AMPs achieved projected results.

Postal Service's Planned Actions	During the review, the Postal Service stated they plan to implement at least ten AMPs in the near future. The Postal Service conducted training sessions on the AMP process during March and April 2005. In addition, the Postal Service is developing tools to improve management of AMPs.
Recommendations	<p>We recommend the vice president, Network Operations Management, in coordination with the senior vice president, Government Relations:</p> <ol style="list-style-type: none"> 1. Develop a process for addressing resistance to mail processing consolidations and facility closures. <p>We recommend the vice president, Network Operations Management:</p> <ol style="list-style-type: none"> 2. Process and approve or disapprove Area Mail Processing proposals in a timely manner. 3. Ensure post-implementation reviews are conducted according to established guidance.
Management's Comments	Management agreed with the recommendations. A cross-functional team developed an AMP Communications Plan to improve communications with stakeholders. In addition, the Processing Operations Group implemented an AMP tracking system to improve oversight and management of AMP proposals, including the approval and post-implementation review processes.
Evaluation of Management's Comments	Management's comments are responsive to the recommendations and actions taken or planned should address the issues identified in the finding.

Policy Could Be Improved

The Postal Service's *AMP Guidelines* were incomplete, and some detailed procedures for addressing AMP issues were not contained or referenced in AMP policy. The AMP process has been refined over the last 3 decades as mail processing has evolved from a manual and mechanized process into an automated process. With the passage of time, some procedures outlined in the guidelines have become outdated or require additional guidance. For example, guidance did not:

- Discuss how to address resistance that may be encountered when completing an AMP study or implementing an AMP proposal. This resistance includes unions, affected communities, and other stakeholders.
- Adequately address what should be communicated with stakeholders, by whom, when, or how.
- Fully address the criteria that are used to evaluate proposals and how the proposals are implemented.¹¹
- Address the use of excess capacity in the losing facility after the processing operations have been removed.
- Address the process for closing a facility and managing excess equipment after the processing operations have been moved.

These conditions occurred because the *AMP Guidelines* have not been updated since 1995. Postal Service management was hesitant to make changes to the guidelines because they indicated they would be required to coordinate revisions with the unions.

Without clear guidance, the ability to implement AMPs with minimal disruption is affected and may cause inconsistencies in using the process. Further, without specific guidance, delays in the disposition of facilities and equipment could occur.

¹¹ GAO report: *The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (Report Number GAO-05-261, dated April 2005).

Postal Service Actions	During our review, Postal Service management stated they were creating an AMP communications plan to target key messages on consolidations and closures to internal and external audiences.
Recommendation	<p>We recommend the vice president, Network Operations Management:</p> <p>4. Update <i>Area Mail Processing Guidelines</i> or supporting policies to address:</p> <ul style="list-style-type: none"> • What should be communicated with stakeholders, by whom, when, and how. • The criteria used by Postal Service Headquarters to evaluate the AMP proposals. • The use of excess capacity at the losing facility after the consolidation. • The process for closing a facility and managing excess equipment.
Management's Comments	Management agreed with the recommendations. The AMP Communication Plan provides guidance on communicating with stakeholders. Management stated the factors in the AMP worksheets provide the criteria to evaluate AMP proposals. In addition, management has developed an AMP proposal worksheet that evaluates the intended use of excess capacity at the consolidated facility. Finally, management referenced policies for managing facilities and excess equipment.
Evaluation of Management's Comments	Management's comments are generally responsive to the recommendations and actions taken or planned should address the issues identified in the finding.

**Lessons Learned
from Marina/Los
Angeles P&DC AMP
Consolidation**

At the time of our review, the consolidation of the Marina P&DC with the Los Angeles and Long Beach P&DCs¹² was progressing well, with few problems. Best practices were documented and included:

- Three separate, dedicated teams managed the AMP implementation.
 - The Pacific Area created an area cross-functional team to oversee the consolidation. The team included a leader with experience in consolidations and members from Human Resources, Maintenance, Operations, In-Plant Support, Facilities, Transportation, and Retail.
 - A Marina P&DC team and a Los Angeles P&DC team were formed from each plant and oversaw actions at their respective facilities.
- The teams used Microsoft project management software adapted for the consolidation. A project management program with 400 tasks was expanded to approximately 1,200 tasks to cover all aspects of the project. Using this software allowed constant monitoring of consolidation progress.



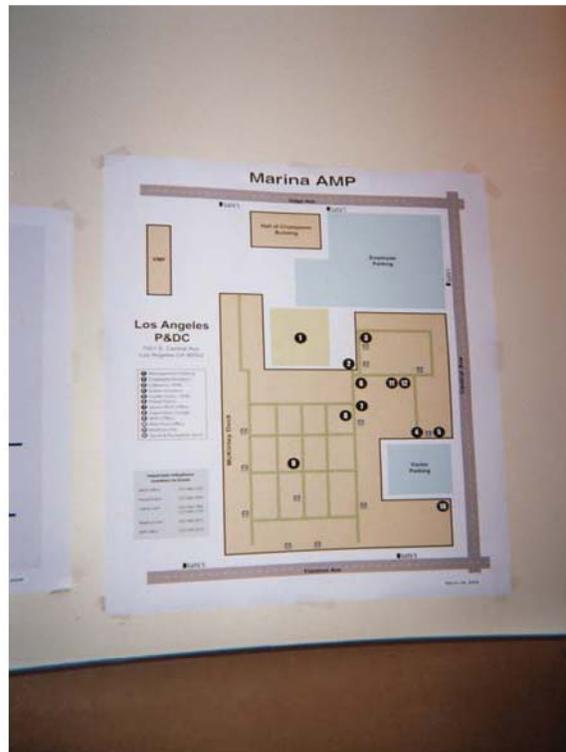
Photograph 1. Marina P&DC

¹² The Marina P&DC AMP was the pilot project for implementing a major AMP, which will reduce excess capacity in the infrastructure. The Postal Service transferred the bulk of the mail from the Marina P&DC to the Los Angeles P&DC for processing. The Los Angeles P&DC had excess processing capacity and also absorbed equipment from the Marina P&DC.

The AMP teams also used lessons learned from previous consolidations. These included:

- Focusing on capturing savings and maintaining service.
- Developing proposed employee schedules early in the process.
- Using Microsoft project management software.
- Creating visual aids.
- Frequent meetings to facilitate communication.

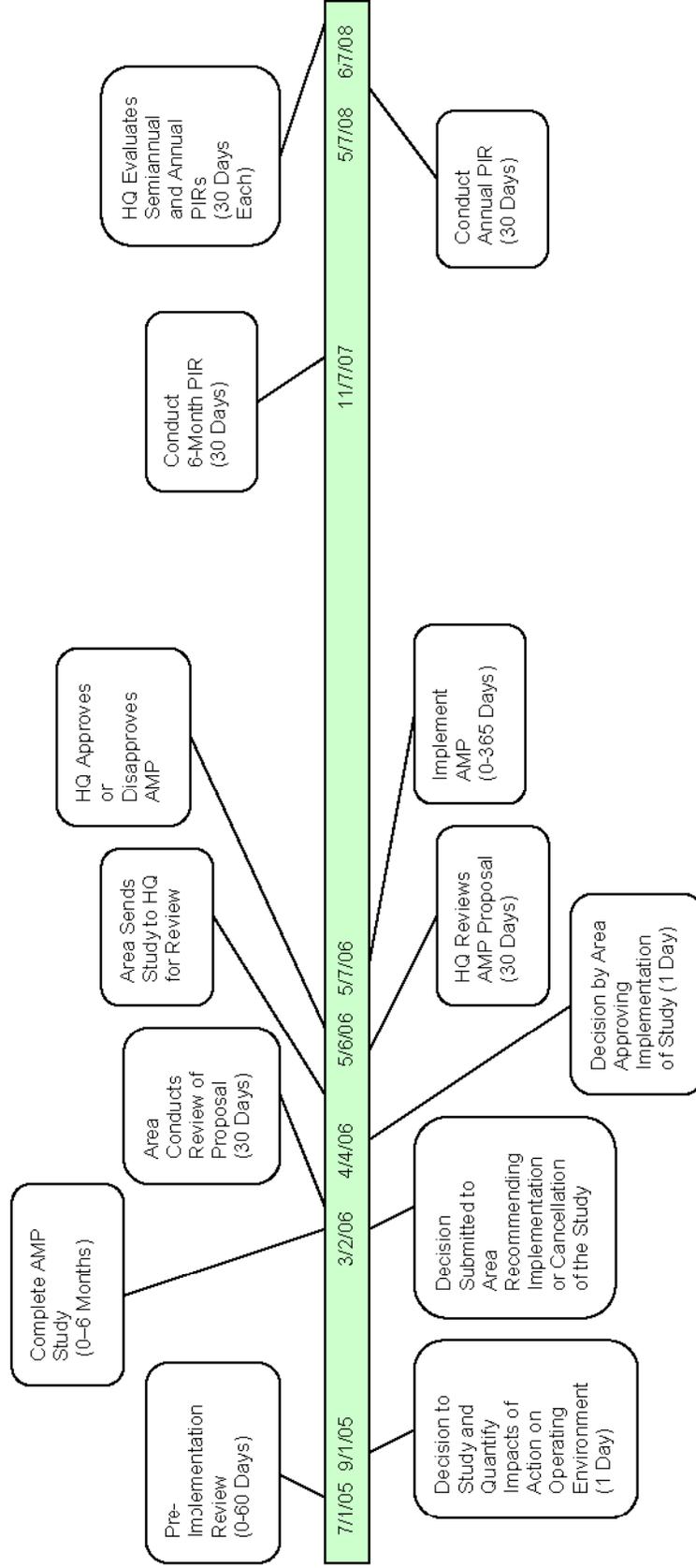
As an example, the teams provided visual aids to show employees and other stakeholders the layout of the Los Angeles P&DC.



Photograph 2. Layout of Los Angeles P&DC

Postal Service management plans to share lessons learned at the Marina P&DC with other areas to facilitate consolidations and closures in future AMP projects.

APPENDIX A. SAMPLE TIMELINE FOR COMPLETION OF AN AMP



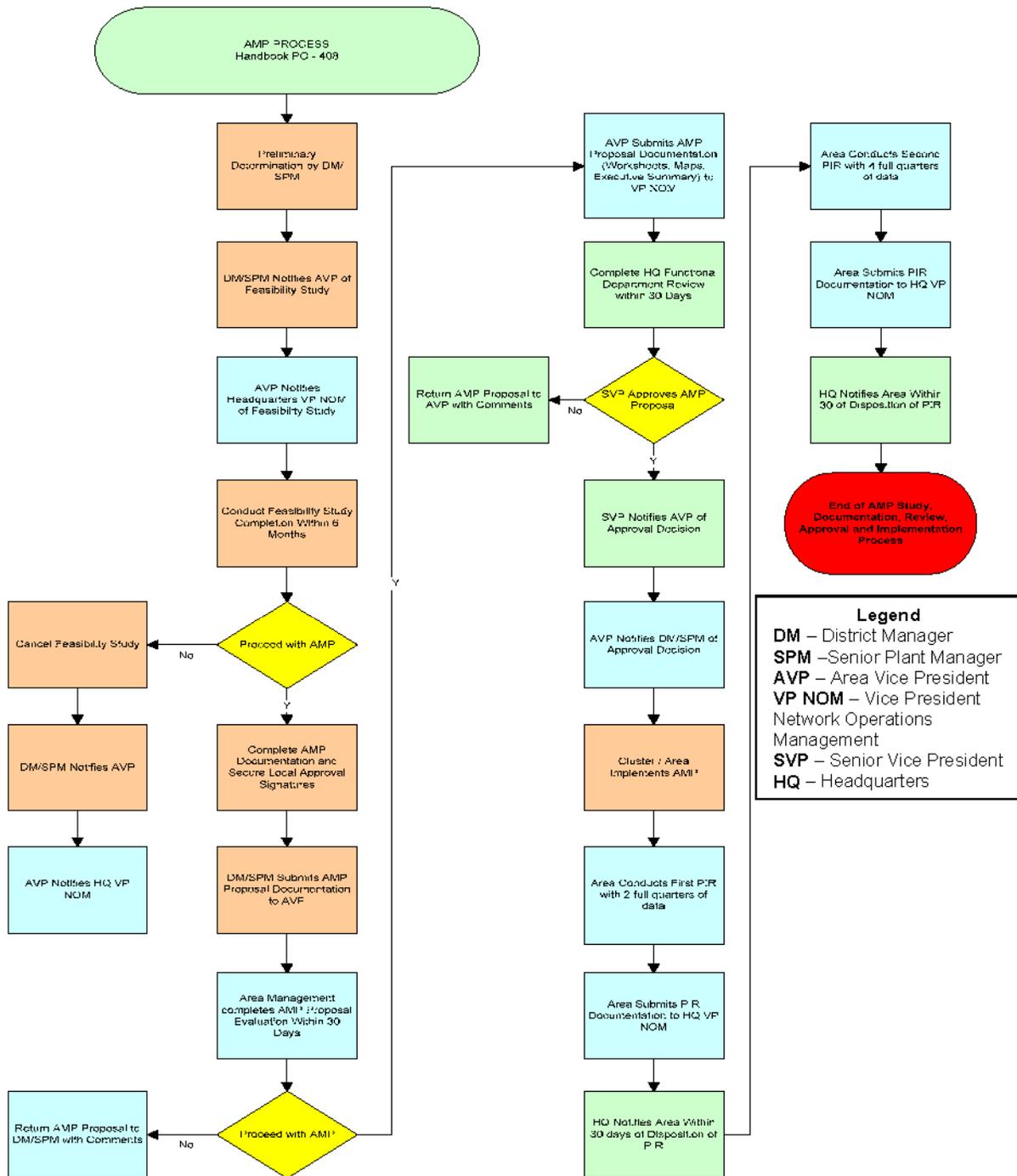
APPENDIX B. PRIOR AUDIT COVERAGE

OIG, *Efficiency Review of the Mansfield, Ohio, Main Post Office* (Report Number NO-AR-05-004, December 8, 2004), found the Postal Service could increase operational efficiency at the Mansfield Main Post Office (MPO) by reducing 24,000 mail processing workhours, which would allow the Mansfield MPO to achieve 90 percent of targeted goals. This reduction is based on the assumption that mail volume will not significantly change from FY 2003 levels and could produce a cost avoidance of approximately \$7.6 million based on a labor savings over 10 years. We recommended the manager, Northern Ohio District, reduce mail processing operations at the Mansfield MPO by 52,000 workhours based on FY 2003 workhour usage. We also recommended consolidating outgoing mail operations into the Akron P&DC, as the Eastern Area AMP study recommended. Management agreed, and the actions planned were responsive to the issues identified.

OIG, *Efficiency Review of the Canton, Ohio, Processing and Distribution Facility* (Report Number NO-AR-05-013, September 22, 2005), found the Postal Service could increase operational efficiency at the Canton Processing and Distribution Facility (P&DF) by reducing 202,000 mail processing workhours. This reduction is based on the assumption that mail volume will not significantly change from FY 2004 levels and could produce a cost avoidance of approximately \$64 million based on a labor savings over 10 years. We recommended the manager, Northern Ohio District, reduce mail processing operations at the Canton P&DF by 93,000 workhours based on FY 2004 workhour usage. We also recommended consolidating outgoing mail operations into the Akron P&DC, thereby saving an additional 109,000 workhours. Management agreed, and the actions planned were responsive to the issues identified.

GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (Report Number GAO-05-261, April 2005), found that with declining mail volumes, increasing compensation costs, and a more competitive marketplace, the Postal Service's need to increase efficiency and reduce expenses is an increasing concern. The Postal Service has said it can become more efficient in its mail processing and distribution infrastructure. The GAO recommended the Postal Service establish criteria for evaluating realignment decisions and a mechanism for informing stakeholders about decisions. The GAO also recommended the Postal Service develop a process for implementing those decisions that includes evaluating and measuring the results, as well as the actual costs and savings resulting from the decisions. The Postal Service responded that they are making great strides in both service improvement and cost control. AMP is one of the tools they are using to implement the goals of END.

APPENDIX C. FLOWCHART OF THE AMP PROCESS



APPENDIX D. MANAGEMENT'S COMMENTS



December 1, 2005

Colleen A. McAntee
Deputy Assistant Inspector General for Core Operations
Office of the U.S. Postal Service Inspector General
1735 N. Lynn Street
Arlington, VA 22209-2020

Dear Ms. McAntee:

This is in response to the Inspector General's draft audit report on the U.S. Postal Service's Area Mail Processing (AMP) guidelines. The Postal Service is pleased that the Office of the Inspector General (OIG) has determined that the AMP process is fundamentally sound. We agree that, as with any process, management of and guidance on the AMP process could be improved.

We are in agreement with the OIG's recommendations. Our comments include actions that we have implemented to address the recommendations in the draft report as follows:

Recommendation 1: The vice president, Network Operations Management, in coordination with the senior vice president, Government Relations, develop a process to address resistance to mail processing consolidations and facility closures.

Processing Operations has established a Postal Headquarters multi-functional AMP Communications Group, which includes representatives from Public Affairs & Communications, Government Relations, Labor Relations, Human Resources, Marketing, and the Law Department. The AMP Communications Group has developed and implemented an AMP Communications Plan that informs interested stakeholders, at the local, district, area, and national levels, about our AMP plans.

Recommendation 2: The vice president, Network Operations Management, process and approve or disapprove Area Mail Processing (AMP) proposals in a timely manner.

Postal Service Processing Operations has implemented a new AMP Proposal Tracking System to manage the AMP process and milestones nationally. The entire AMP approval procedures are a significant portion of the tracking process. Exception reports will assist in the management of all AMP process milestones.

Recommendation 3: The vice president, Network Operations Management, ensure post-implementation reviews are conducted according to established guidance.

The AMP Proposal Tracking System described above includes the requirements and milestones for conducting two AMP post-implementation reviews within the first year following the AMP implementation. The exception reports will be used to ensure timely completion of AMP post-implementation reviews.

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Recommendation 4: The vice president, Network Operations Management, update the *AMP Guidelines* or supporting policies to address the following factors:

- What should be communicated with stakeholders, by whom, when, and how.

The AMP Communication Plan, implemented in September 2005, provides a standardized approach to the communication requirements of the AMP process. The AMP Communications Plan provides communication templates that Postal Service officials use to notify stakeholders that the Postal Service intends to conduct an AMP feasibility study; the templates are also used to issue the approval announcement should the study prove that the AMP is feasible. The Communication Plan includes a checklist that lists which stakeholders must be notified, including employees; employee organizations; members of Congress and other political leaders; customers; news media; major mailers; and others. The Plan also identifies the office that has the responsibility for the notifications.

- The criteria used by Postal Service to evaluate the AMP proposals.

To determine if implementation of an AMP is feasible, standardized data worksheets that evaluate the expected impacts are completed. The AMP feasibility study includes worksheets that assess impacts, such as costs and/or savings; annual work hours; First-Class Mail service commitments; Priority Mail service commitments; other mail class service commitments; anticipated Domestic Mail Manual (DMM) labeling list changes; annual associated costs (maintenance, training, energy, space related costs, etc); one-time associated costs; transportation; equipment relocation; remote encoding center (REC) operations; and the plans for space made available from the consolidation of operations.

- The use of excess capacity at the losing facility after the consolidations.

We have developed a new worksheet that evaluates the intended use of vacant work-floor space at the consolidated facility due to the movement of the mail processing operations. Training on the completion of this worksheet has been provided to the area AMP coordinators; the work sheet is a requirement of the AMP proposal documentation.

- The process for closing a facility and managing excess equipment.

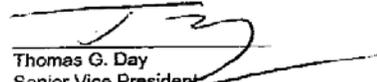
The AMP worksheet # 10a provides an explanation of equipment impacts at both the consolidated site and the gaining site. Comments on the worksheet must include the redeployment of equipment to another area office, the availability of excess equipment, and the AMP impacts on scheduled new deployments. In addition, Chapter 6, *Asset Recovery: Redistribution, Recycling, and Disposal*, of *Handbook AS 701 Material Management*, governs the process for managing excess equipment.

The *Administrative Support Manual*, Chapter 5, *Facilities and Equipment*, outlines the Facilities organization's responsibilities regarding its mission to provide real estate and other services to meet the present and future needs of Postal Service operations. Those requirements include the disposal of facilities that are no longer required. Handbook F-66, on investment policies and procedures, includes information on approval authority for the disposal of equipment, leased facilities, and Postal Service owned land and buildings.

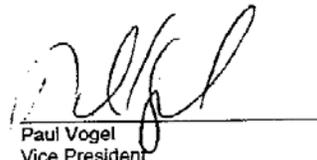
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We thank you for your review of our AMP process and look forward to working with you in the future. If we may be of assistance with other matters, please let us know.

Sincerely,



Thomas G. Day
Senior Vice President
Government Relations



Paul Vogel
Vice President
Network Operations Management