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SUBJECT: Audit Report – Pasadena, California, Processing and Distribution Center Consolidation (Report Number EN-AR-06-001)

This report presents the results of our audit of the Pasadena, California, Processing and Distribution Center consolidation (Project Number 06XG020EN000). The audit was requested by U.S. Postal Service management and is the first in a series of audits of Area Mail Processing (AMP) consolidations.

We concluded the workhour cost analysis included in the AMP proposal was supported, and additional U.S. Postal Service Office of Inspector General (OIG) analyses provided confirming evidence for the consolidation. However, in the development, approval, and implementation of the Pasadena AMP proposal, Postal Service management did not always comply with the processes outlined in policy and some AMP proposal data was inaccurate, incomplete, or unsupported. We are making three recommendations in this report.

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.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Tammy L. Whitcomb, Director, Evolutionary Network Development, or me at (703) 248-2300.

E-Signed by Colleen McAntee
ERIFY authenticity with Approve

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EXECUTIVE SUMMARY

Introduction

At management's request, the U.S. Postal Service Office of Inspector General (OIG) reviewed the Area Mail Processing (AMP) proposal to consolidate outgoing mail processing operations from the Pasadena, California, Processing and Distribution Center (Pasadena P&DC) into the Santa Clarita, California, and Industry, California, Processing and Distribution Centers (Santa Clarita P&DC and Industry P&DC). U.S. Postal Service management projected the consolidation would result in cost savings of approximately $1.3 million during the first year. Our objective was to assess the justification and impact of the consolidation.

Results in Brief

The workhour cost analysis included in the AMP proposal was supported, and additional OIG analyses in the productivity and capacity areas provided confirming evidence for the consolidation. Specifically, the Postal Service determined that approximately 42,000 workhours could be eliminated if outgoing mail processing operations were transferred from the Pasadena P&DC to the Santa Clarita and Industry P&DCs.

In reviewing performance data for the three plants, we also found that there was excess mail processing capacity. The AMP proposal indicated that the plants will be able to eliminate two Advanced Facer Canceller Systems through this consolidation, and our analysis confirmed that the outgoing mail volume could be processed using less workhours and equipment.

However, in the development, approval, and implementation of this AMP, Postal Service management did not always comply with the processes outlined in Handbook PO-408,[1] and as a result, some AMP proposal data was inaccurate, incomplete, or unsupported. We found discrepancies with the AMP proposal in the areas of transportation costs, the number of employees affected, and changes in service standards.[2] Because of these discrepancies, the cost savings as projected in the AMP may be significantly

[1] Handbook PO-408, *Area Mail Processing (AMP) Guidelines*, dated May 1995, provided a framework for consolidating operations in the mail processing network.
[2] Service standards are an expectation by the Postal Service to deliver a piece of mail to its intended destination within a prescribed number of days, after proper deposit by the customer.

overstated,[3] and the service impacts are not fully described. Additionally, the approval process was not consistently followed, notifications to stakeholders were not issued in a timely manner, and implementation of the AMP differed from the proposal. Finally, supporting documentation for the AMP proposal was not always available.

Several factors contributed to the inaccuracies in the AMP data and problems with the approval process. First, the Postal Service made a significant effort to implement 10 AMP proposals, which included the Pasadena AMP, during the first part of fiscal year 2006, so that some early successes would be experienced to support future efforts. Thus, the AMP progressed through the approval process, even though some of the analysis had not been finalized. Additionally, the AMP process was unfamiliar to many Postal Service employees, especially those in the field locations. Lastly, although the AMP guidelines required reviews at various levels of detailed aspects of the AMP proposal, the reviews did not appear to be as thorough as required. Documentation of the reviews was limited and sometimes unavailable.

Producing accurate AMP data and following AMP processes are very important so that the decisions made by Postal Service executives are supported and stakeholders can have confidence that decisions are appropriate. Keeping stakeholders informed of actions that affect their constituents is important to gaining support for the Postal Service's efforts to consolidate the processing network.

Postal Service Actions	During our review, Postal Service management stated they established a cross-functional team to revise Handbook PO-408. They expect to have an initial draft of these updated guidelines completed in September 2006.
Summary of Recommendations	We recommended that Postal Service management revise the Pasadena AMP proposal to document all service standard changes and transportation costs. Additionally, we recommended that management establish central files for approved AMP proposals and supporting documentation to facilitate Post-Implementation Reviews (PIR). Finally, we recommended that management update AMP policy.

[3] During our review, transportation cost estimates increased by over $550,000 annually.

Summary of Management's Comments	Management generally agreed with the findings and recommendations in this report. Instead of revising the Pasadena AMP proposal, management plans to make the necessary changes as part of the PIR process. Management's comments in their entirety, are included in Appendix D.
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.

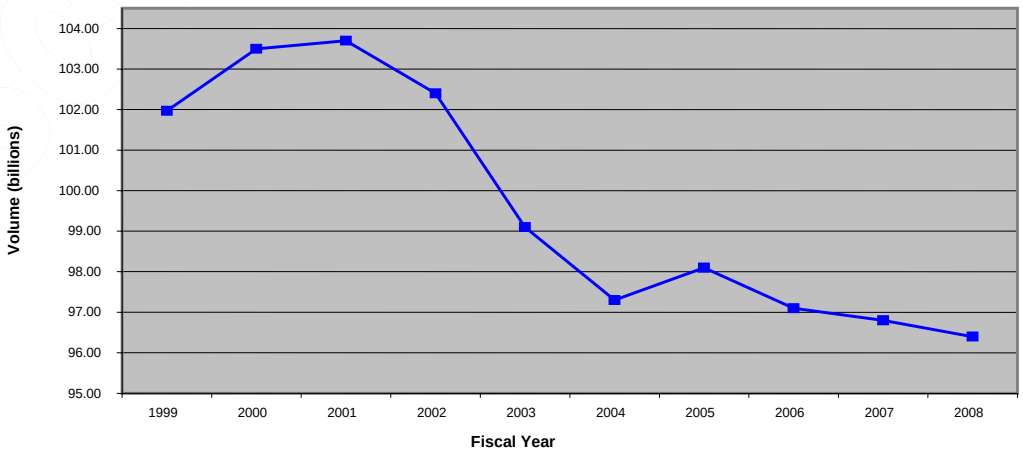
INTRODUCTION

Background

The Postal Service network is one of the largest in the world, with over 179,000 employees, 675 mail processing facilities, 16,750 highway network routes, 214,000 vehicles, and an operating cost of about $25 billion annually. The Postal Service has recognized the need for a comprehensive redesign of its processing and transportation network. The Postal Service's *Strategic Transformation Plan: 2006-2010* described this initiative as Evolutionary Network Development (END). The goal of END is to create a flexible logistics network that reduces costs, increases operational effectiveness, and improves consistency of service.

This realignment of the Postal Service's domestic network is being conducted in response to declines in First-Class Mail® volume, increased competition with traditional mail products from the private sector, increased automation and mail processing by mailers, and shifts in population demographics. Despite a recent increase in mail volume, the aggregate volume of First-Class Mail declined by 5 percent from fiscal years (FY) 2001 to 2005. In addition, the Postal Service projects that First-Class Mail volume will continue to decline. Chart 1 shows these trends.

Chart 1: First-Class Actual (FYs 1999-2005) and Projected (FYs 2006-2008)



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

The Pasadena, Industry and Santa Clarita Processing and Distribution Centers (P&DC) are located in the Pacific Area. (See Appendix A for a map of the three plants and affected ZIP Codes.) Management said they had considered consolidating outgoing mail processing from the Pasadena P&DC to the Santa Clarita[4] and Industry P&DCs in prior years. The proposal was reviewed and approved at the local level in June 2005, and it was approved by the Vice President, Pacific Area, on July 22, 2005. The proposal was approved by the Senior Vice President, Operations, on October 7, 2005. The implementation date for this AMP was subsequently set for April 9, 2006.

The AMP proposal was for consolidation of outgoing mail[5] only. Postal Service management projected that consolidating outgoing mail processing operations from the Pasadena P&DC to the Santa Clarita and Industry P&DCs would result in cost savings of nearly $1.3 million during the first year. These savings are primarily from labor cost reductions, which are estimated at slightly over $1.3 million annually. According to the proposal, service was projected to improve slightly.

Objective, Scope, and Methodology

At Postal Service management's request, we reviewed the AMP proposal to consolidate outgoing mail processing operations at the Pasadena P&DC into the Santa Clarita

[4] Santa Clarita P&DC is also known as the Van Nuys P&DC. For consistency, we use Santa Clarita P&DC throughout this report.
[5] Outgoing mail is sorted within a mail processing facility and dispatched to another facility for additional processing or delivery.

and Industry P&DCs. Our objective was to assess the justification and impact of the AMP proposal. We reviewed applicable network change guidelines, including Handbook PO-408, *Area Mail Processing (AMP) Guidelines*, and the *Area Mail Processing (AMP) Communications Plan*. We performed trend analyses of mail volume, workhours, and productivity for each facility and conducted other analytical procedures to determine the potential impacts of the consolidation.

We relied on Postal Service data systems, including the Breakthrough Productivity Initiative (BPI) website, the Management Operating Data System (MODS), the Web Enterprise Information System, and the Enterprise Data Warehouse (EDW) to analyze mail volumes and workhours.[6] We also used information from the Transportation Information Management Evaluation System and the Transportation Contract Support System to review transportation issues, and the Service Standards Directory and the Mail Condition Reporting System to review service implications of the AMP.

We verified key AMP data against Postal Service records and reports, including planned workhour reductions, transportation costs, number and positions of employees affected, and projected service implications to customers. Because of time constraints, we did not verify all the data used to support the AMP proposal, but we focused on those areas that were most likely to result in cost savings or have a significant impact on key stakeholders. We also checked the accuracy of data by confirming our analyses and results with Postal Service managers. Our review was focused primarily on pre-implementation data, but we also reviewed some data after implementation. Completing the consolidation may result in differences from initial projections for workhour reductions, service standards, transportation costs, and other projected costs.

We conducted this audit from February through September 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and

[6] We focused on FY 2004 data to be consistent with data in the AMP proposal, but we also used FY 2005 data in our analyses.

conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

We issued three prior reports, one on the *AMP Guidelines* and two reports on the efficiency of mail processing operations at the Main Post Office in Mansfield, Ohio, and at the Canton, Ohio, P&DC. The site-specific reviews included our assessment of pending AMPs. For details of prior audit coverage, see Appendix B.

Discussion Draft

AUDIT RESULTS

Workhour, Productivity, and Capacity Data Support the Consolidation

The workhour reductions and associated annual cost savings related to workhour reductions included in the AMP proposal were supported and provided adequate justification for the consolidation.

- As part of the AMP process, the Postal Service analyzed the workhours used to process outgoing mail at the Pasadena P&DC and determined that approximately 42,000 workhours could be eliminated if that mail was processed at the Santa Clarita and Industry P&DCs.

- To validate this analysis, we selected 15 of the 37 operations listed in the AMP proposal.[7] The workhour savings from these 15 operation numbers amounted to approximately $940,700 in annual cost savings, or 97 percent of the cost savings for craft employees. We matched the data in the AMP documents to Postal Service MODS and EDW data and found that Postal Service data adequately supported all 15 operations.

- From Postal Service Headquarters, we obtained an analysis conducted using END simulation models to determine the feasibility of the Pasadena AMP proposal. This analysis concluded that the AMP was a feasible solution for consolidating outgoing mail processing operations from the Pasadena P&DC to the Santa Clarita and Industry P&DCs.[8]

U.S. Postal Service Office of Inspector General (OIG) analyses on productivity and capacity provided additional support for the consolidation.

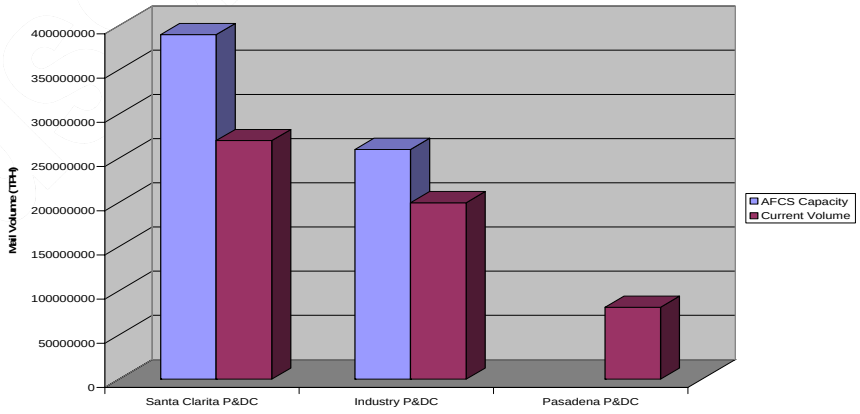
- We found that the Pasadena P&DC's outgoing mail was being transferred to more efficient plants. As of the end of FY 2004, the Santa Clarita P&DC achieved 77.4 percent of BPI target productivity, and was ranked

[7] These operation numbers included 010, 015, 018, 020, 030, 090C, 110, 110, 138, 210, 271, 320/321, 585, 881, and 891.
[8] We did not audit the END simulation model outputs or verify the analysis provided, nor did we assess how this specific AMP fit into the overall END strategy.

second out of 35 similar-sized plants. The Industry P&DC achieved 79.5 percent of BPI target productivity and was ranked third of 35 plants in its category. In contrast, the Pasadena P&DC achieved 63.6 percent of BPI target productivity and was ranked 31st of 47 plants in its category. (See Appendix C for charts comparing each plant with similar-sized plants for FY 2004.)

- We found that the plants had excess capacity for processing outgoing mail, and the consolidation was projected to reduce excess machine capacity and improve machine utilization. Among the three plants, there were 22 Automated Facer Canceller Systems (AFCS), which are used to face the mail in the proper direction and to cancel postage on outgoing letters. The AMP proposal indicated that the plants would be able to eliminate two AFCS through this consolidation, and our analysis confirmed that the outgoing mail volume could be processed using fewer systems. Chart 2 shows there is cancellation capacity to process Pasadena P&DC's outgoing mail at the gaining plants.

Chart 2: Capacity Analysis for the AFCS

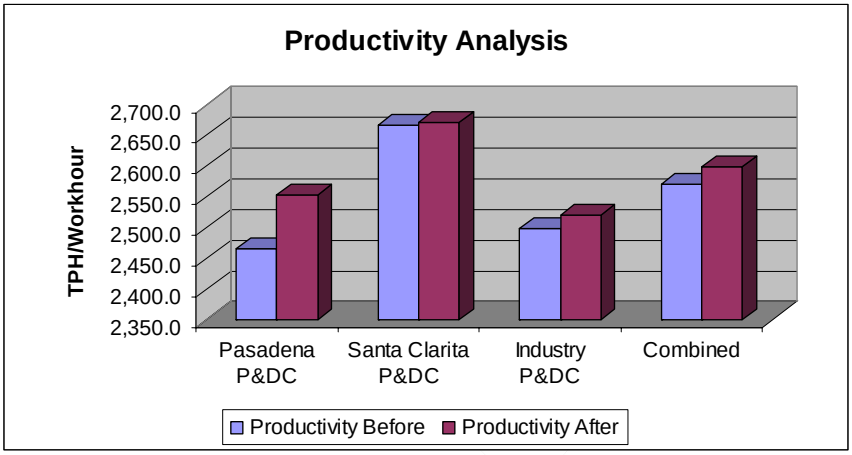


Note: Total Pieces Handled (TPH) refers to the number of handlings necessary to distribute each piece of mail from the time of receipt to dispatch, including multiple handlings of each piece.

- Moving the Pasadena P&DC's outgoing mail to the Santa Clarita and Industry P&DCs should improve overall productivity because mail volumes will be processed using fewer resources at more efficient

plants. Chart 3 shows the projected increase in combined productivity.

Chart 3: Analysis of Projected Productivity After the AMP Consolidation



Note: The productivity rates are computed using TPH for every mail processing workhour. Productivity rates after consolidation are based on FY 2004 mail volumes and workhour data included in the Pasadena AMP.

39 U.S.C. Chapter 4, § 403 (a) states, "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services . . . ." Further, Handbook PO-408 sets forth guidelines to consolidate mail processing operations.[9]

The consolidation should allow the Santa Clarita and Industry P&DCs to better use existing capacity as well as the additional capacity created by relocating processing equipment from the Pasadena P&DC. As a result, consolidating outgoing mail from the Pasadena P&DC to the Santa Clarita and Industry P&DCs should reduce workhours associated with processing the mail as well as improve productivity.

[9] Handbook PO-408 provides a framework for consolidating operations in the mail processing network. It states that changes should support the Postal Service's strategic objectives, make optimum use of available resources, and establish management's accountability for making decisions.

Area Mail Processing Processes Were Not Consistently Followed

Postal Service management did not always comply with the processes outlined in Handbook PO-408, and as a result, some data in the AMP proposal was inaccurate, incomplete, or unsupported. We found discrepancies with the data in the AMP proposal in the areas of transportation cost, number of employees affected, and service commitments.

Several factors contributed to the discrepancies in the AMP data and the issues we identified in the approval process.

- The Postal Service made a significant effort to implement 10 AMP consolidations, which included the Pasadena AMP, early in FY 2006, so that some early successes would be experienced to support future efforts. Thus, the AMP progressed through the approval process, even though some of the analysis had not been finalized.

- The district received pressure to complete the consolidation and had little experience with the AMP process. Although the AMP process has been in use for over 30 years, the Postal Service had only used this process 28 times since 1995. Only four of the 28 consolidations were in the Pacific Area. As a result, the process is unfamiliar to many Postal Service employees, especially in field locations.

- Although AMP guidelines require reviews at various levels of the AMP proposal, the reviews did not appear to be thorough. Documentation of these reviews was limited, and in some cases, unavailable.

Ensuring that AMP data is supported and the AMP process is followed is critical to adding credibility to the consolidation process.

Accuracy of Area Mail Processing Data

The following sections detail inaccuracies in the AMP proposal with transportation costs, employees affected, and changes in service standards.

Transportation Costs: District and area management had not finalized transportation costs at the time we conducted our review, but the costs included in the approved AMP proposal appeared to be significantly understated. The additional costs associated with implementation of the AMP proposal were projected at $12,500 annually. However, during our review, the estimated costs had increased by over $550,000 annually.

Management stated that at the time the AMP was approved, plant officials had not agreed on the transportation routes and costs were not finalized. Although we received supporting data for the initial $12,500 in the AMP, discussions with management and analysis of the current transportation routes showed that the transportation cost estimate did not match the routes required to transport the mail.

Employees Impacted: When the OIG validated employee impact figures in the AMP, we identified some discrepancies. Employee attrition and operational changes between AMP submission and approval, and the complexities of the National Collective Bargaining Agreement may have contributed to these discrepancies.

- More employees were impacted by the consolidation than were documented in the AMP proposal. The AMP listed 85 craft and six executive and administrative schedule employee losses, while the actual losses were 87 and seven, respectively.

- The complement reductions at the Pasadena P&DC were higher than the corresponding declines in workhours.

- The number of employees needed to process the mail transferred to the Industry P&DC may be understated. AMP documentation indicated that six additional employees were needed; however, the workhours transferred indicated that 13 full-time equivalents were needed to process this mail. As a result, the Industry P&DC could be understaffed for processing the mail it received.

Changes in Service Standards: When we validated the impact of the AMP consolidation on service standards, we found that

management did not completely document all changes in service standards resulting from the consolidation in the AMP proposal. Chart 4 summarizes changes in service standards.

Chart 4: Analysis of Changes in Service Standards

	AMP		Service Analysis	
MAIL CLASSES	**UPGRADES**	**DOWNGRADES**	**UPGRADES**	**DOWNGRADES**
First-Class	3	0	13	0
Priority	5	0	5	0
Periodicals	0	0	5	0
Standard	0	0	10	4
TOTAL	8	0	33	4

Note: We completed the service analysis with Postal Service officials using the Service Standard Directory, which contains service standards between three-digit ZIP Code Origin and Destination pairs for all classes of mail except Express Mail®. The Service Standard Directory is updated quarterly and used by internal and external service performance measurement systems.

- The AMP documented three service upgrades[10] for First-Class Mail (FCM) and five service upgrades for Priority Mail®. It also documented no anticipated downgrades in service standards for other classes of mail.

- The service analysis identified 33 service upgrades,[11] including 25 upgrades not documented in the AMP proposal, along with four service downgrades for Standard Mail® where delivery was changed from 3 to 4 days.

Although degradations to service standards were limited, management needs the correct data for making decisions as the AMP is approved. Additionally, external stakeholders are concerned about the effects of consolidations on service to customers, and accurate analysis in the area of service standards is critical to building effective stakeholder relations.

Adherence to Key Processes

The following sections detail processing issues with the approval of the AMP proposal, notification of stakeholders, implementation of the AMP, and maintenance of supporting

[10] Service standard upgrades are an expectation that the Postal Service will deliver mail to its intended destination more quickly.
[11] Current AMP policy only requires a narrative for any negative service standard impact to all classes of mail other than First-Class Mail and Priority Mail.

documentation. Handbook PO-408 provides guidance for preparing, approving, and implementing an AMP consolidation proposal. We used this guidance to determine whether key processes were followed in the Pasadena AMP consolidation.

Approval of the AMP Proposal: The signature page of the AMP proposal documents approvals by the initiating offices in June 2005, the Pacific Area Vice President on July 22, 2005, and headquarters on October 7, 2005. The AMP proposal was changed as it made its way through the approval process; however, we could not determine which changes had been reviewed and approved by various levels of management.

- The most significant change was in transportation costs. District and area officials stated that a transportation cost analysis supporting the $12,500 in the approved AMP was not developed until early October 2005, while the proposal was at headquarters awaiting approval. Earlier versions of the AMP proposal projected transportation costs to increase by over $500,000.

- Signatures of some key officials, including the Industry P&DC Manager, the District Manager, and the Senior Plant Manager, were missing from the AMP proposal, which the Senior Vice President, Operations, approved on October 7, 2005. Therefore, we could not determine if these officials had the opportunity to review details in the AMP proposal or the changes made to figures developed earlier. We also could not determine if these officials had the opportunity to review and approve changes before final approval by headquarters.

- The headquarters review and approval exceeded 70 days.

AMP Handbook PO-408 indicates that if an AMP proposal is not approved by any of the successive individuals, the reason must be noted at the bottom of the sheet and the proposal returned to the initiator. The proposal also requires headquarters review and approval within 30 days.

The Pasadena AMP proposal was changed without rejecting and reinitiating the process, and signatures of key officials were missing from the document. The AMP policy did not outline the

steps to be taken when changes are made during the approval process.

Notification to Stakeholders: Letters notifying key stakeholders of intent to conduct an AMP feasibility study were issued late. These included letters to members of Congress and union officials. The letters were sent in early September 2005, over 2 months after the AMP proposal had been approved by the district and over 1 month after it had been approved at the area level. At the time these notifications of intent were issued, the approval process of the AMP proposal was almost complete. The AMP was approved by headquarters on October 7, 2005, approximately 1 month after the notifications about the feasibility study.[12]

The delays in notifying key stakeholders occurred because on June 23, 2005, headquarters issued an e-mail to the field temporarily suspending notifications. The notifications of intent for the Pasadena AMP were eventually issued after headquarters issued a draft *AMP Communications Plan*. At that time, management used notification templates from the *AMP Communications Plan* showing that the Postal Service had initiated a review of mail processing operations in Pasadena and implied that the process was beginning.

Handbook PO-408 states that a vital aspect of implementing an AMP is timely, clear communication with all parties. The *AMP Communications Plan*, which was issued in September 2005 and again in February 2006, added communication requirements and provided templates to assist in notification.

Delays in issuing notifications and implying that the reviews were beginning when they had already been approved at the local level negatively impacted stakeholder relations. Although we understand that this occurred because the notifications used were taken directly from a guidance document, the templates should have been modified to more accurately reflect the state of the approval process for this AMP.

Implementation of the AMP: Implementation of the Pasadena AMP differed from approved plans and resulted in additional costs. The AMP proposal documented plans to move

[12] AMP policy indicated that a feasibility study could take up to 6 months.

approximately 71 percent of the outgoing mail from the Pasadena P&DC to the Santa Clarita P&DC and the remaining 29 percent to the Industry P&DC. However, in November 2005, when implementation began, a large new piece of equipment, the Automated Package Processing System (APPS), was also about to be installed in the Santa Clarita P&DC. This installation required significant changes to the workroom floor and interruptions in the normal flow of the mail at that plant. As a result, rather than place the implementation on hold until the Santa Clarita P&DC was ready to receive the mail, area management transferred most outgoing mail from the Pasadena P&DC to the Industry P&DC on an interim basis. The transfer occurred in November 2005.

Movement of the mail to the Industry P&DC on an interim basis resulted in additional transportation and labor costs.

- Moving collection mail by direct routes to the Industry P&DC was projected to increase transportation costs by over $400,000 annually.

- The Industry P&DC incurred additional staffing costs as approximately 50 casual employees were hired to process mail transferred from the Pasadena P&DC. It is difficult to predict the share of these costs that would not have been incurred had the mail stayed at the Pasadena P&DC, but we are certain that some additional costs can be directly attributed to moving the mail to the Industry P&DC on an interim basis.

The AMP proposal did not reflect any of the costs associated with operational changes to AMP implementation. Because these interim costs were directly related to the AMP, we believe an addendum to the AMP should have been prepared and submitted to headquarters, and the costs should have been tracked in the AMP files for future analysis as part of the Post-Implementation Review (PIR) of the AMP.

In discussions with management, we learned that they temporarily moved the mail from the Pasadena P&DC to the Industry P&DC in an attempt to save processing costs. Although we understand it was important to implement the AMP proposals in a timely manner, we believe that extenuating circumstances such as the installation of the APPS machine in

the Santa Clarita P&DC should be considered when establishing implementation dates.

Supporting Documentation: Some supporting data for the AMP was not available during our review, and other data was not centrally located.

- Data and analyses supporting changes in service standards, average daily volumes of mail affected, and workhour changes were not available.

- Other documentation that we were able to obtain was held by various employees in multiple locations and was not kept in a central file for future use.

Handbook PO-408 requires that supporting documentation be kept on file until after the PIR is complete, but did not specify the location for this data.

Maintenance of documentation is important because the required PIR to determine whether the AMP consolidation achieved expectations relies heavily on the documentation from the initial proposal. Without this supporting documentation, the PIR may be difficult to complete. Additionally, supporting documentation should be centrally maintained so the Postal Service can address questions raised by internal and external stakeholders and oversight officials.

Postal Service Actions	During our review, Postal Service management stated they established a cross-functional team to revise Handbook PO-408. They expect to have an initial draft of these updated guidelines completed in September 2006.

Recommendations

We recommend that the Manager, Van Nuys District, in conjunction with the Acting Vice President, Pacific Area:

1. Revise the Area Mail Processing proposal to accurately document all service standard changes and transportation costs.

2. Establish central files for approved Area Mail Processing proposals and supporting documentation to facilitate Post-Implementation Reviews.

We recommend that the Vice President, Network Operations Management:

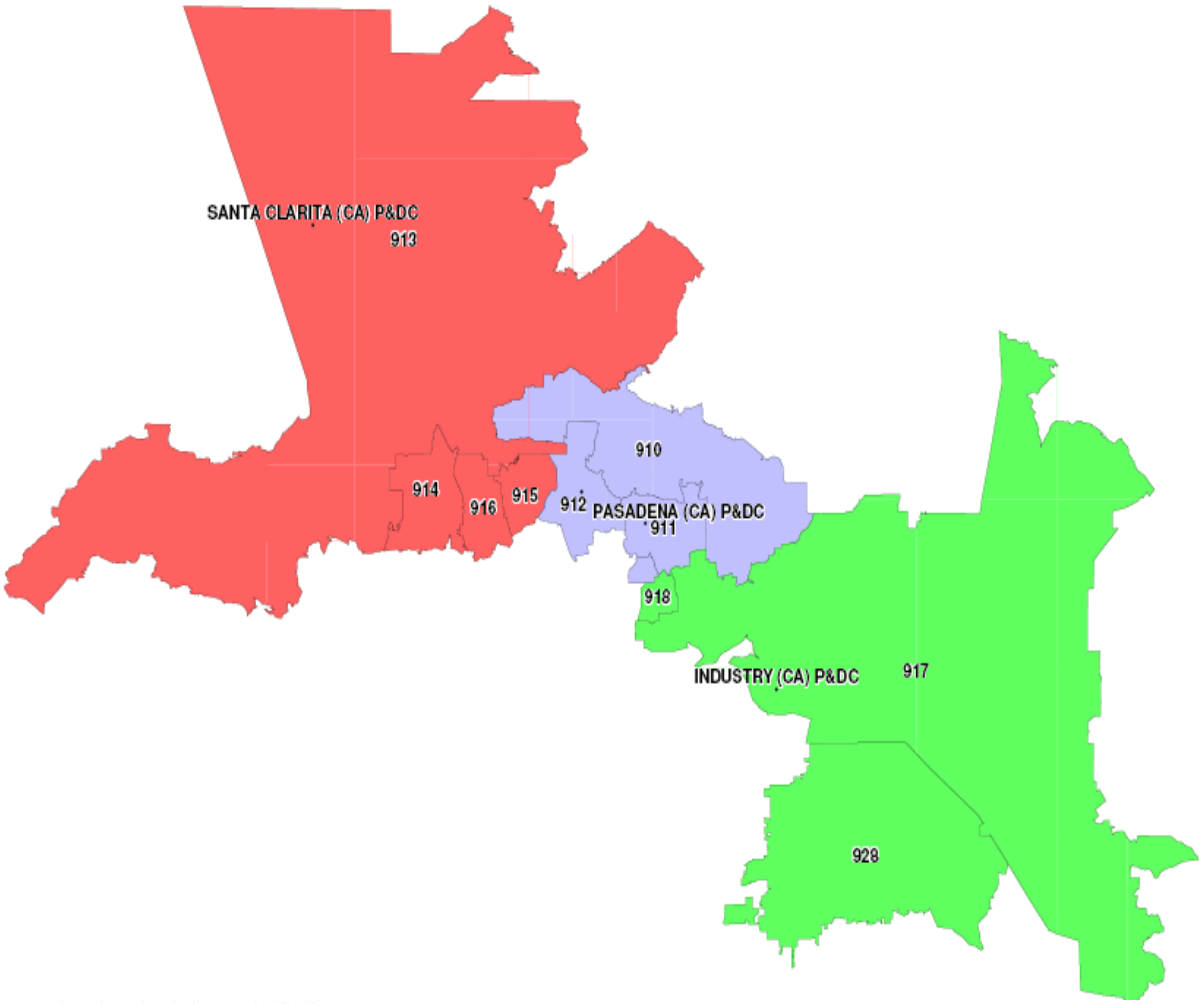
3. Update *Area Mail Processing (AMP) Guidelines* to address:

- Requirements for documenting service standard changes for all mail classes in an Area Mail Processing proposal.
- Requirements and methodology for reviewing Area Mail Processing proposals at the headquarters level to ensure compliance with policy prior to approval.
- Requirements and methodology for reviewing Area Mail Processing proposals at the area level.
- Requirements for maintaining Area Mail Processing proposals and supporting documentation.
- Documentation of local and area approvals when changes are made to an Area Mail Processing proposal.
- Process for revising cost estimates when substantive changes occur during implementation of an Area Mail Processing proposal.

Management's Comments	Management generally agreed with the finding and recommendations in this report. Instead of revising the Pasadena AMP proposal, management plans to make the necessary changes as part of the PIR process. Pacific Area management will also collect supporting AMP documentation during the PIRs and maintain a central file. In addition, the AMP Guidelines will be revised to reflect changes to the AMP process, and several of these changes have already been implemented.
Evaluation of Management's Comments	Management's comments are responsive to the audit finding and recommendations. Management's actions, taken or planned, should correct the issues identified in the report.

APPENDIX A

PLANT BOUNDARY MAP



APPENDIX B

PRIOR AUDIT COVERAGE

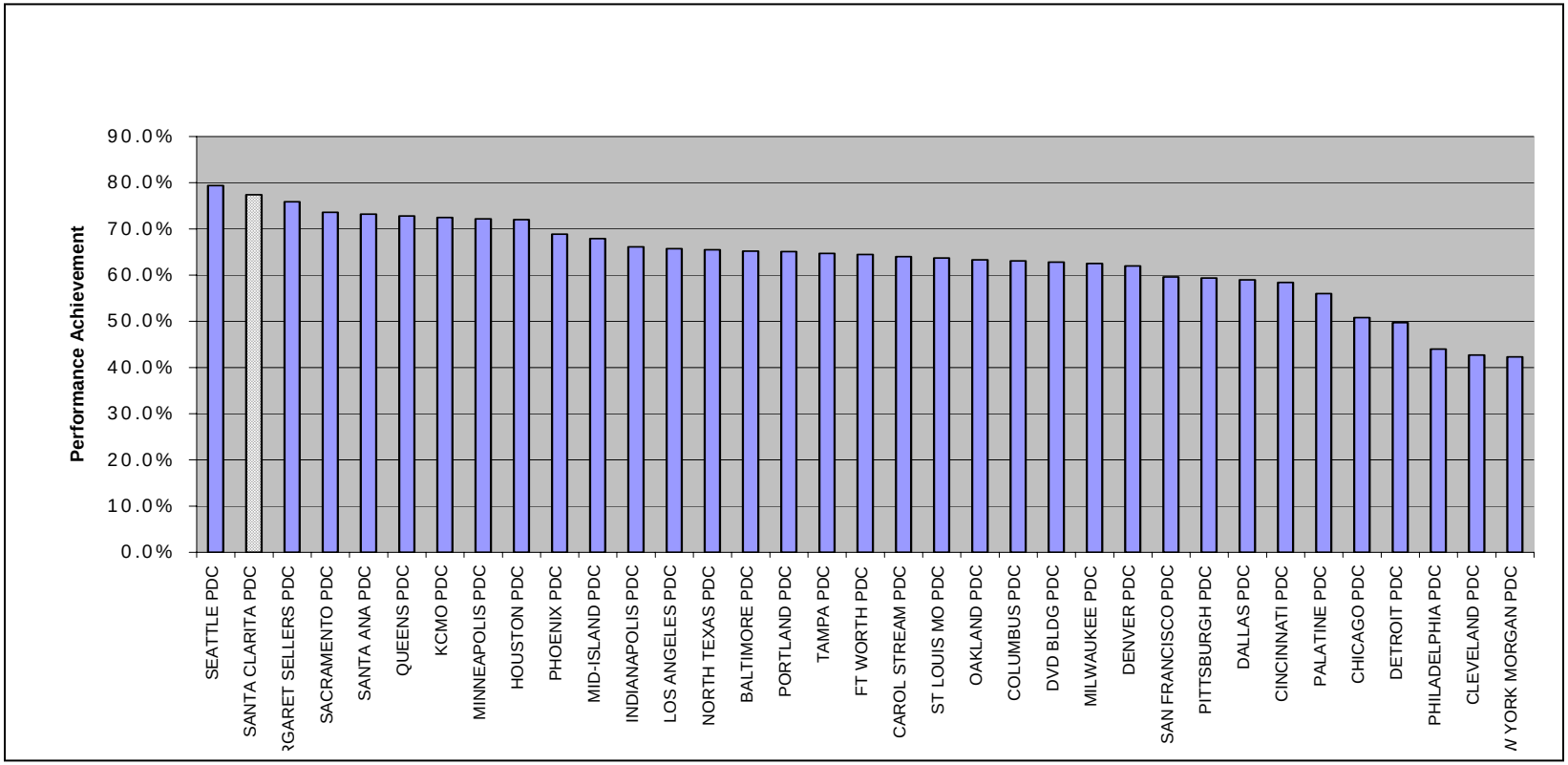
OIG, *Area Mail Processing Guidelines* (Report Number NO-AR-06-001, December 21, 2005) found the AMP process was fundamentally sound, appeared credible, and provided a PIR process to assess results from mail processing consolidations. However, management of the AMP process and guidance could be improved. AMPs were not processed or approved in a timely manner, PIRs were not always conducted, and stakeholders' resistance affected the approval process. The report recommended the Postal Service update AMP guidance, comply with policy, and address stakeholder resistance. Management agreed with the findings and recommendations.

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 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 P&DF by reducing mail processing workhours by 202,000. 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 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.

APPENDIX C

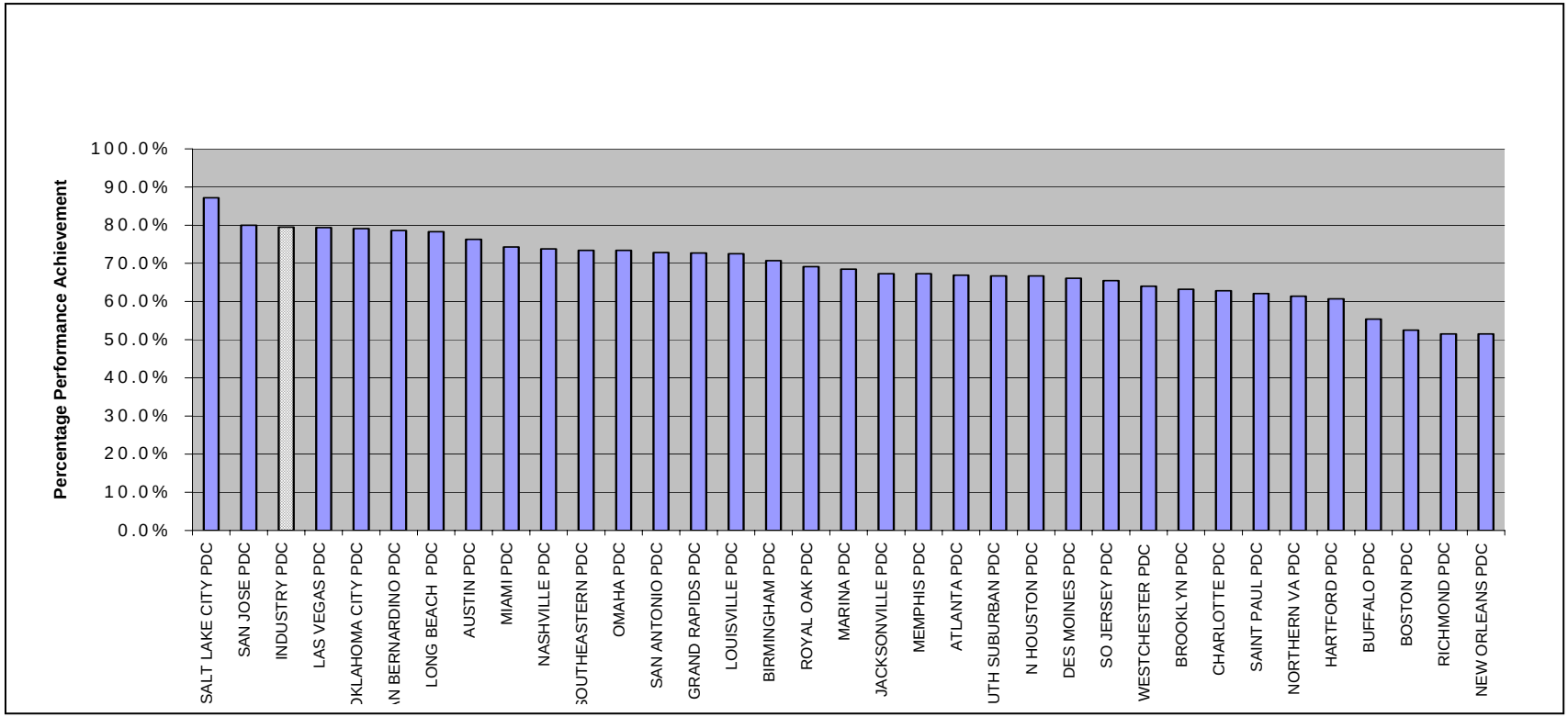
FISCAL YEAR 2004 GROUP ONE PLANTS PERCENTAGE PERFORMANCE ACHIEVEMENT



Note: Mail processing facilities are divided into seven groups according to mail volume; with Group One plants being the largest and Group Seven plants being the smallest. Santa Clarita P&DC ranked 2nd out of 35 Group One plants in performance achievement to BPI target.
Source: Enterprise Data Warehouse

APPENDIX C - continued

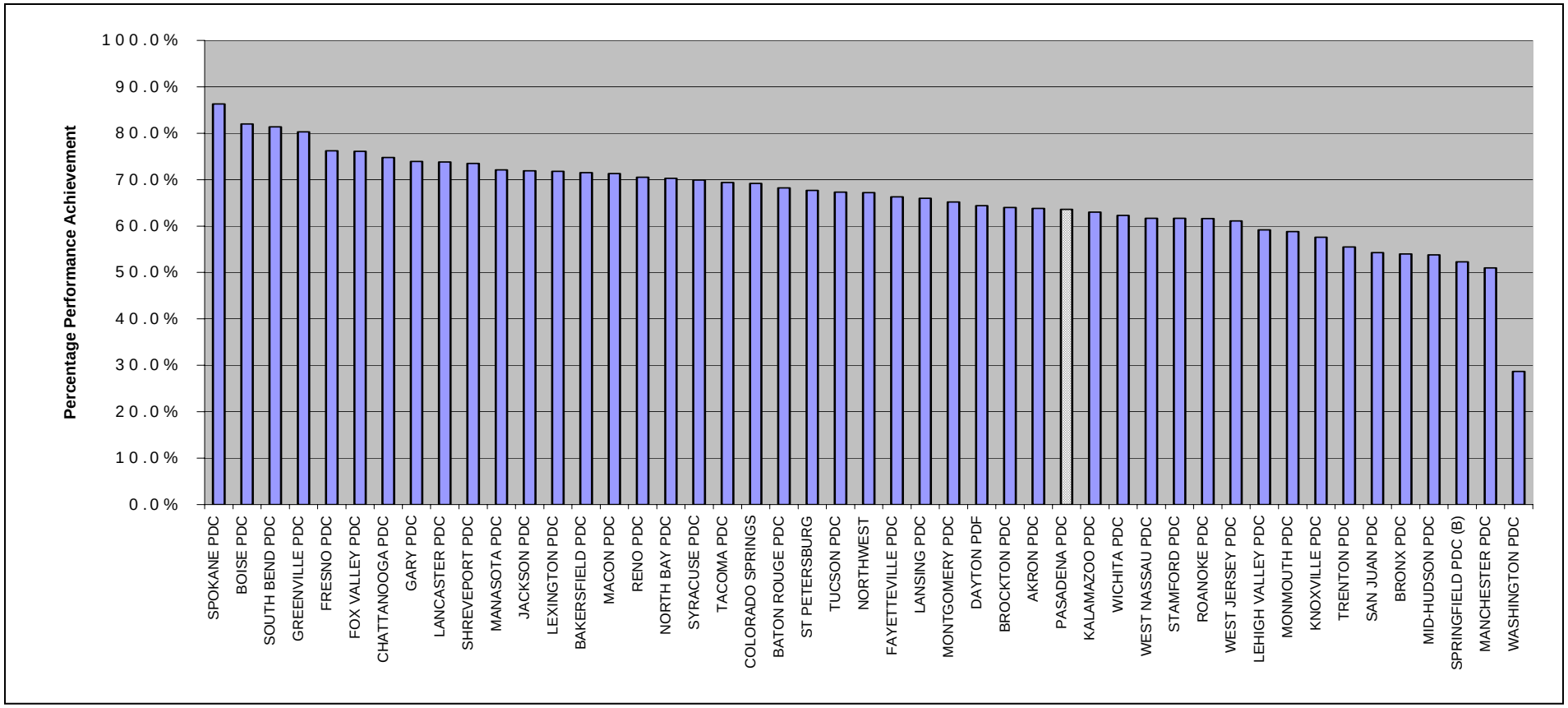
FISCAL YEAR 2004 GROUP TWO PLANTS PERCENTAGE PERFORMANCE ACHIEVEMENT



Note: Industry P&DC is classified as a Group Two plant; the second largest plant category based on mail volume. It ranked third out of 35 Group Two plants in performance achievement to BPI target.
Source: Enterprise Data Warehouse

APPENDIX C – continued

FISCAL YEAR 2004 GROUP FOUR PLANTS PERCENTAGE PERFORMANCE ACHIEVEMENT



Note: Pasadena P&DC is classified as a Group Four or medium-sized plant. It ranked 31st out of 47 Group Four plants in performance achievement of BPI target.
Source: Enterprise Data Warehouse

APPENDIX D. MANAGEMENT'S COMMENTS

TONY PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

UNITED STATES POSTAL SERVICE

August 31, 2006

COLLEEN A. MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL

RE: Draft Audit Report - Review of the Pasadena, California Processing and Distribution Center Consolidation (Report Number EN-AR-06-Draft)

This provides management's response to the above referenced draft audit report recommendation #3. The report also contained two recommendations specific to the Van Nuys District and Pacific Area which will be addressed by Pacific Area management.

Recommendation

We recommend that the vice president, Network Operations update Area Mail Processing Guidelines to address:

- Requirements for documenting service standard changes for all mail classes in an Area Mail Processing proposal.
- Requirements and methodology for reviewing Area Mail Processing proposals at the headquarters level to ensure compliance with policy prior to approval.
- Requirements and methodology for reviewing Area Mail Processing proposals at the Area level.
- Requirements for maintaining Area Mail Processing proposals and supporting documentation.
- Documentation of local and area approvals when changes are made to an Area Mail Processing proposal.
- Process for revising cost estimates when substantive changes occur during implementation of an Area Mail Processing proposal.

Response

We agree that the Area Mail Processing (AMP) Guidelines, specifically the Handbook PO-408 requires updating. In May, we initiated a work group to evaluate the AMP guidelines and recommend revisions. A draft of the revised guidelines should be completed for review by the end of September.

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Several of the recommendations in your audit report have already been implemented in the AMP process, and the AMP Guidelines handbook will be revised to reflect those changes. As recommended in your report, the revised AMP guidelines will include in the process the following:

- Documentation of service standard changes for all classes of mail.
- A headquarters AMP study review process to ensure policy compliance.
- An Area level AMP study review process.
- AMP document maintenance and retention requirements.
- A documentation and approval process for substantive changes to the AMP study at the local and area level.
- An AMP proposal revision process should there be substantive changes to documented costs or savings during the implementation period.

If you have any questions or require additional information, please contact David Williams, Manager, Processing Operations at 202-268-4305.

Tony Frajunas

cc: Mr. Galligan
Mr. Williams
Mr. Field

MICHAEL J. DALEY
(A) VICE PRESIDENT, PACIFIC AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

September 7, 2006

COLLEEN A. MCANTEE
DEPUTY ASSISTANT INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report - Review of the Pasadena, California Processing and Distribution Center Consolidation (Report Number EN-AR-06-Draft)

This provides the management response to the above referenced draft audit report. The Pacific Area thanks the audit team for their efforts in reviewing the AMP process in Pasadena and confirmation that excess capacity in more efficient plants was being properly pursued. The report contained two recommendations specific to the Van Nuys District and Pacific Area.

Recommendation

We recommend that the District Manager, Van Nuys District, in conjunction with the Area Vice President, Pacific Area, revise the Area Mail Processing proposal to accurately document all service standard changes and transportation costs.

Response

Management agrees that a formal process for revising cost estimates, or other data, when substantive changes occur during implementation of an Area Mail Processing proposal, other than the Post Implementation Review (PIR), needs to be established at the HQ level.

The FCM and Priority service standard changes listed in the original AMP package reflected ADC to destinating pair data. Additionally, service changes to Standard product lines have not routinely been included by the field in AMP submissions according to HQ. However, service standard changes for all classes of mail will be re-reviewed and summarized, with updated submissions of worksheet 7, 7A and 8 sent to HQ Processing Operations, as part of the Post Implementation Review (PIR) process.

As noted in the report, Transportation costs related to the AMP were temporarily increased due to the APPs disruption in the Santa Clarita P&DC. Those temporary costs are being verified and summarized and will be forwarded to HQ Processing Operations as part of the Post Implementation Review (PIR) process. Although not noted in the draft report, the final post-disruption realignment of all outgoing processing, consistent with the AMP, was completed in April.

Regarding the referenced change in complement impact from that originally identified in the AMP package, there are three factors contributing to that deviation.

The AMP package only reflects changes to staffing at the Plant. However, the National Agreement requires that complement based changes, resulting from actions such as an AMP, be implemented by staffing the losing installation first. The Pasadena bid installation is comprised of the Pasadena P&DC as well as the stations and branches of the Pasadena Post Office. Before employees can be reassigned from the bid installation, staffing at the stations and branches had to be brought into alignment. This reduced the number of clerks that could be reassigned. As a part of the AMP process redesign being undertaken by HQ Network Operations Management, we are suggesting the addition of forms to the AMP package that reflect reductions against total complement by craft and category (FT/PTF/Casual) for the bid installation.

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Attrition and other operational changes occurred between the time the package was originally submitted and finally implemented. This is normal and will occur with any AMP package. As a part of the AMP process redesign being undertaken by HQ Network Operations Management, we are suggesting the addition of an attrition calculation to the AMP package that factors reductions resulting from attrition into the total complement impact by craft and category (FT/PTF/Casual) for the bid installation.

A decision was made to move the AADC operations to the Pasadena P&DC which required additional clerks and mail handlers to process the mail at the Pasadena plant. Suggestion: As a part of the AMP process redesign being undertaken by HQ Network Operations Management, we are suggesting a communication process for updating the AMP proposal without impacting the timeline when changes of this nature occur.

As specified in the AMP, additional Clerk complement was not provided to the Industry P&DC, even though they were a recipient of the mail based on discussions between the Area and the Industry plant leadership (Mail Handler staffing was provided). The bulk of the mail that the Industry P&DC received could be processed on existing automation and did not require additional staffing. Industry P&DC did require a complement increase, but that need was based on pre-existing non-AMP related staffing conditions and was addressed after the AMP implementation.

A summary of all service standard changes and transportation costs will be updated as part of the required Post Implementation Review (PIR) process.

Recommendation

We recommend that the District Manager, Van Nuys District, in conjunction with the Area Vice President, Pacific Area, establish central files for approved Area Mail Processing proposals and supporting documentation to facilitate post-implementation reviews.

Response

Management agrees that maintenance of AMP related documentation is important because the required PIR to determine whether the AMP consolidation achieved expectations relies heavily on the documentation from the initial proposal.

A central file of all AMP submissions, and related supporting data and communications, was established at the Area office in 2005, prior to the submission of the Pasadena AMP. However, additional local documentation, related to the AMP, but not provided as part of the original AMP submission and subsequent communications, exists in the field. The Area AMP coordinator will be reviewing local files at each Plant and collecting additional supporting files as part of the upcoming Post Implementation Review (PIR).

Michael J. Daley

cc: Anthony M. Pajunas
Kerry Wolny
Executive Board