



December 14, 2010

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SUBJECT: Audit Report – Houston, TX Processing and Distribution Center Mail Consolidation (Report Number NO-AR-11-004)

This report presents the results of our audit of the Houston, TX Processing and Distribution Center's (P&DC) proposed consolidation of mail processing operations into the North Houston, TX P&DC (Project Number 10XG046NO000). The report responds to a request from the U.S. Postal Service senior vice president, operations. Our audit objective was to determine whether a business case exists to support the consolidation. This audit addresses operational risk. See [Appendix A](#) for additional information about this audit.



**Illustration 1: Houston P&DC**

## Conclusion

A business case exists to consolidate the Houston P&DC's mail processing operations into the North Houston P&DC. This conclusion<sup>1</sup> is based on the premise that the North Houston P&DC is expanded. Based on our analysis:

- Adequate capacity does not exist to process combined mail volumes at the North Houston P&DC. However, the proposed North Houston P&DC building expansion, along with additional staffing, new equipment, and equipment from the Houston P&DC would be more than adequate to process combined mail volumes.
- Customer service scores should be maintained or improved.
- No career employee should lose their job, although there may be some reassignments.
- Efficiency should improve.
- Significant cost savings should be realized.

As a result of this consolidation and after the expansion completion, the Postal Service could save approximately \$35 million annually or \$189,744,682 over 10 years. See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our monetary impact calculation.

We recommend the senior vice president, operations:

1. Pursue expansion of the North Houston Processing and Distribution Center and consolidate the Houston Processing and Distribution Center's mail processing operations into the expanded facility by the end of fiscal year (FY) 2013.

We recommend the vice president, Southwest Area:

2. Postmark outgoing letter mail cancelled at the North Houston Processing and Distribution Center with a combined postmark.
3. Update employees on the consolidation process as it moves forward.
4. Monitor service scores during implementation to ensure customer service is not negatively impacted.

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<sup>1</sup> Our conclusion is based on projected events; however, actual results may differ materially from these projections. Our assumptions include a successful expansion of the North Houston P&DC by FY 2013 and no significant increase in mail volume.

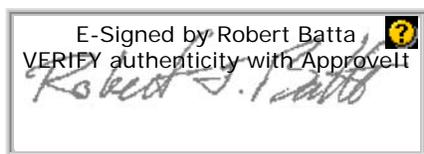
## Management's Comments

Management agreed with the recommendations and will pursue the expansion of the North Houston P&DC and consolidate the Houston P&DC's mail processing operation. The expansion and consolidation is expected to be completed by the end of FY 2013, pending an economic analysis study and approval of capital funding by the Capital Investment Committee. Management also agreed to modify the postmark, update employees on the consolidation, and monitor service during implementation of the consolidation process. See [Appendix D](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The U.S Postal Service Office of Inspector General (OIG) considers management's comments responsive to all the recommendations. The OIG considers recommendation 1 significant and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact James L. Ballard, director, Network Processing or me at (703) 248-2100.



E-Signed by Robert Batta  
VERIFY authenticity with ApproveIt  
*Robert J. Batta*

Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

## Attachments

cc: Patrick R. Donahoe  
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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service is facing one of the most difficult challenges in its history. There has been a continual decline in First-Class Mail® (FCM) volume over the past decade. This has resulted in a decline in mail volume of more than 25 billion pieces during 2009, resulting in a net loss of \$3.8 billion. In the first 3 quarters of FY 2010, the volume decline was approximately 6.6 billion pieces, with a net loss of approximately \$5.4 billion.

While the Postal Service reduced expenses by nearly \$6 billion in FY 2009 and by almost \$658 million during the first 3 quarters of FY 2010, the reduction in expenses has not been sufficient to offset fully the decline in mail volume and the rising cost of compensation and benefits.

In recent testimony before Congress,<sup>2</sup> the U.S. Government Accountability Office (GAO) found that deteriorating financial conditions and declining mail volume have reinforced the Postal Service's need to increase operational efficiency and reduce expenses in its mail processing network. Of the initiatives listed, the GAO states that Area Mail Processing (AMP) proposals are intended to reduce costs and increase efficiency by making better use of excess capacity or underused resources, primarily at Postal Service P&DCs. In conclusion, the GAO assessed the overall status and results of the Postal Service's efforts to realign its mail processing network. This assessment found the agency has implemented 23 AMP proposals to consolidate operations and facilities and approved six AMP consolidation proposals since 2009, for an annual cost savings of about \$98.5 million. The GAO further concluded that moving forward on these initiatives is challenging due to complexities involved in consolidating operations.

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. . . ."

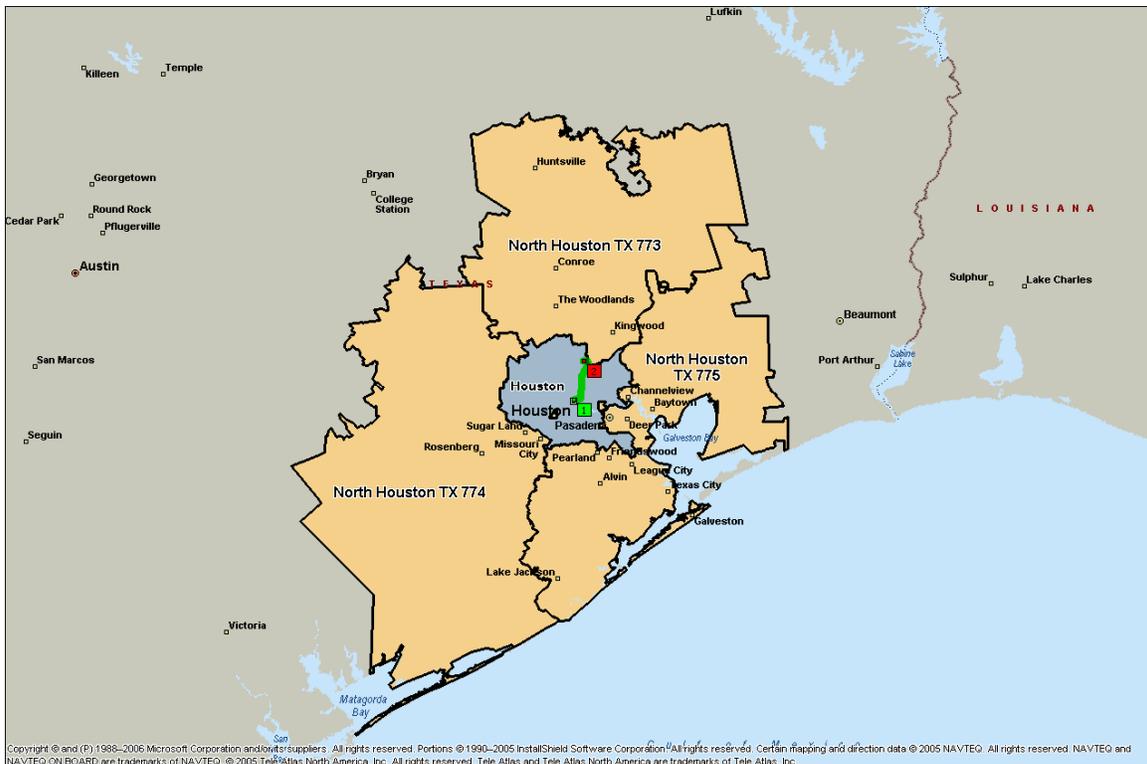
This audit report responds to a request from the Postal Service senior vice president, operations, to examine the feasibility of consolidating the Houston P&DC into the North Houston P&DC.

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<sup>2</sup> Testimony to the Congressional Committees: *Mail Processing Network Initiatives Progressing and Guidance for Consolidating Area Mail Processing Operations Being Followed*, (GAO-10-731, dated June 2010).

The two facilities are 15 miles apart. The proposed consolidation would move all of the Houston P&DC's mail processing operations to the North Houston P&DC. There would be a transfer of approximately 1.8 billion originating and destinating mailpieces to the North Houston P&DC for processing. Additionally, the proposal includes moving the Houston Destination Delivery Center (DDC) and the Houston District Office from leased space to the North Houston P&DC.

**Map: Houston P&DC (1) and North Houston P&DC (2)**



## OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether a business case exists to support the consolidation of mail processing operations from the Houston P&DC to the North Houston P&DC. We reviewed data from October 1, 2007, to September 30, 2009, to analyze current and potential efficiencies for both plants as well as capacity at the North Houston P&DC. Additionally, we reviewed service scores from FYs 2009 and 2010 and estimated the costs and savings from this analysis. We conducted observations at both sites during August and September 2010 and interviewed Postal Service management and employees.

We used computer processed data from the following systems:

- Enterprise Data Warehouse.
- Customer Satisfaction Measurement (CSM) System.
- Web Complement Information System.
- Activity Based Costing System.
- Web End of Run.

We conducted this performance audit from July through December 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on October 27, 2010, 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	Report Results
<i>Area Mail Processing Communication</i>	EN-AR-09-001	2/4/2009	The Postal Service improved communication and management has generally addressed prior audit recommendations. We recommended several methods of further increasing stakeholder notification, including exploring electronic methods. Management agreed with our recommendation to add employee input notifications, but disagreed with our recommendation to explore additional communication channels.
<i>Canton Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-09-011	9/22/2009	It was a prudent decision to consolidate the Canton P&DF's outgoing mail processing operation into the Akron P&DC. We made no recommendations.
<i>New Castle Processing and Distribution Facility Outgoing Mail Processing Operation Consolidation</i>	NO-AR-10-002	2/1/2010	It was a prudent decision to consolidate the New Castle P&DF outgoing mail processing operations into the Pittsburgh P&DC. The Postal Service could save more than \$1.8 million annually. We made no recommendations.

Report Title	Report Number	Final Report Date	Report Results
<i>Lakeland Processing and Distribution Center Consolidation</i>	EN-AR-10-004	2/12/2010	There was a valid business case for the consolidation. It will increase efficiency, reduce processing costs, and improve service. We made no recommendations.
<i>Manasota Processing and Distribution Center Consolidation</i>	EN-AR-10-003	2/12/2010	We concluded there was a business case for consolidating mail processing operations from the Manasota P&DC into the Tampa P&DC. The consolidation should increase efficiency, reduce processing costs, and improve service. We recommended the vice president, Network Operations, ensure that P&DC consolidation begin immediately after AMP proposal approval and require headquarters' approval when implementation is delayed more than 3 months. We also recommended the vice president enable the automatic feed into the Web Management Operation Data System for Express Mail® scanning operations. Management agreed with our recommendations.
<i>Dallas Processing and Distribution Center Outgoing Mail Consolidation</i>	NO-AR-10-003	2/24/2010	A business case existed to support the consolidation. There was capacity, the potential to improve customer service and efficiency, impact a limited number of employees, and the Postal Service could save \$114 million over a 10-year period. Management agreed with the recommendations.
<i>Consolidation of the Lima P&amp;DF Mail Operations Into the Toledo P&amp;DC</i>	NO-AR-10-007	7/2/2010	A business case existed to support consolidating the Lima P&DF's mail operations into the Toledo P&DC. As a result of this consolidation, the Postal Service will save \$1.8 million during the first year and \$2.3 million during subsequent years. Management agreed with the recommendations.
<i>Charlottesville Processing and Distribution Facility Consolidation</i>	NO-AR-10-008	8/3/2010	There was a valid business case for the consolidation. There was capacity and the potential to improve customer service and efficiency. No employee will lose their job and the Postal Service could save \$6.5 million annually. We made no recommendations.

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Report Results</b>
<i>Wilkes-Barre, PA Processing and Distribution Facility Consolidation</i>	NO-AR-11-001	10/4/2010	There was a valid business case for consolidating mail processing operations. Both the Scranton P&DF and the Lehigh Valley P&DC had the capacity to process Wilkes-Barre P&DF volume. However, the Postal Service overstated savings by more than \$929,000 because the summary page for AMP projections was not protected from manual changes. We made no recommendations because the Postal Service took action during the audit by implementing a new procedure to password-protect this type of data in the future.

## APPENDIX B: DETAILED ANALYSIS

### Capacity

As of October 2010, mail processing capacity at the North Houston P&DC is not sufficient to absorb the Houston P&DC's mail volume. Specifically, using FY 2009 idle time, the North Houston P&DC could only process, as a percentage of the Houston P&DC's automated mail volumes, the following:

- 27 percent of the Automated Facer Cancellor System (AFCS)<sup>3</sup> volume.
- 4.45 percent of the Advanced Flat Sorting Machine (AFSM)<sup>4</sup> volume.
- 20.44 percent of the Automated Package Processing System (APPS)<sup>5</sup> volume.
- 27.60 percent of the Delivery Bar Code Sorters (DBCS)<sup>6</sup> volume.
- 38.61 percent of the DBCS with Input/Output Subsystem (DIOSS)<sup>7</sup> pieces fed at the Houston P&DC and Houston DDC.

Based on FY 2009 volumes, the Houston P&DC would transfer approximately 1.8 billion first-handling pieces (FHP).<sup>8</sup> This represents a 109 percent increase in volume for the North Houston P&DC. However, FHP mail volume decreased by 10.36 percent from FYs 2008 to 2009 at the Houston P&DC and by 1.74 percent at the North Houston P&DC, indicating that mail volume resulting from the consolidation may be less than anticipated especially if mail volume continues to decline.

The proposed expansion at the North Houston P&DC, additional staffing, new equipment, and transfer of mail processing equipment should provide sufficient capacity to process the combined mail volumes at the gaining facility. For example, it is proposed that:

- The Postal Service add twelve AFCS machines<sup>9</sup> to the North Houston P&DC. This new equipment will provide capacity to process approximately 352 million

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<sup>3</sup> Equipment used in the first step of mail processing to face, cancel, and separate the optical character-readable mail and the pre-barcoded mail from the non-readable mail.

<sup>4</sup> The AFSM is equipped with a bar code reader to process bar coded flat mail. A Flat Sequencing System (FSS) will be deployed to the North Houston P&DC, supplementing the AFSM capacity.

<sup>5</sup> APPS is an automated parcel and bundle sorting system which includes automatic package singulation, parcel address recognition, and online remote video coding.

<sup>6</sup> The DBCS sorts mail to a carrier's delivery sequence using the 2-digit delivery point sequence code.

<sup>7</sup> The DIOSS kits are enhancements to the Delivery Barcode Sorters that provide expanded processing capability. These enhancements lift images from letters, allow more in-depth sortation, and reduce secondary and manual handlings.

<sup>8</sup> Letter, flat or parcel mail that receives its initial distribution at Postal Service facilities.

<sup>9</sup> AFCS 200s have the capacity to process 15 percent more than the current AFCS. We assumed the 15 percent increase in North Houston's AFCS productivity and an increase of approximately 30 minutes of AFCS machine run time.

letters. This is more than enough capacity to cancel the combined 342 million letters processed at both facilities.

- One APPS machine from the Houston P&DC will be added to existing APPS machines at the North Houston P&DC, providing sufficient capacity to run the combined mail volume after the consolidation. FY 2009 combined APPS volume processed on both APPS machines was approximately 67.8 million pieces.
- Four AFSM machines and one FSS machine will be added to the five AFSMs already at the North Houston P&DC. This new equipment capacity and existing AFSMs provide capacity of approximately 413.6 million flat mailpieces.<sup>10</sup> This is more than enough capacity to process the expected 412.8 million flats that could result from the consolidation.
- The 37 DBCS machines at the North Houston P&DC will increase to 79 after the transfer of existing machines from the Houston P&DC and Houston DDC. Therefore, the North Houston P&DC will have sufficient equipment to process the approximately five billion letter pieces fed on the DBCS machines in FY 2009.
- The addition of six DIOSS kits from the Houston P&DC<sup>11</sup> added to the existing five at the North Houston P&DC will provide more than enough capacity to process the 736.2 million letter pieces processed in FY 2009.

Additionally, the North Houston P&DC has more available space and docks.

- The North Houston P&DC has 687,562 square feet (SF) as compared to the Houston P&DC, which has 516,978 SF. The North Houston P&DC will be expanded to 1,127,562 SF, providing adequate floor space to support combined mail processing operations.
- The Houston P&DC has limited space to expand or add additional machines. See Illustrations 2 and 3.

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<sup>10</sup> Report Number DA-AR-10-007, Flats Sequencing System: Program Status and Projected Cash Flow, states 9,958 pieces per hour throughput.

<sup>11</sup> In FY 2009 the Houston P&DC had eight DIOSS kits; however, by June 2010 this number had been reduced to six due to the changes in mail volumes.

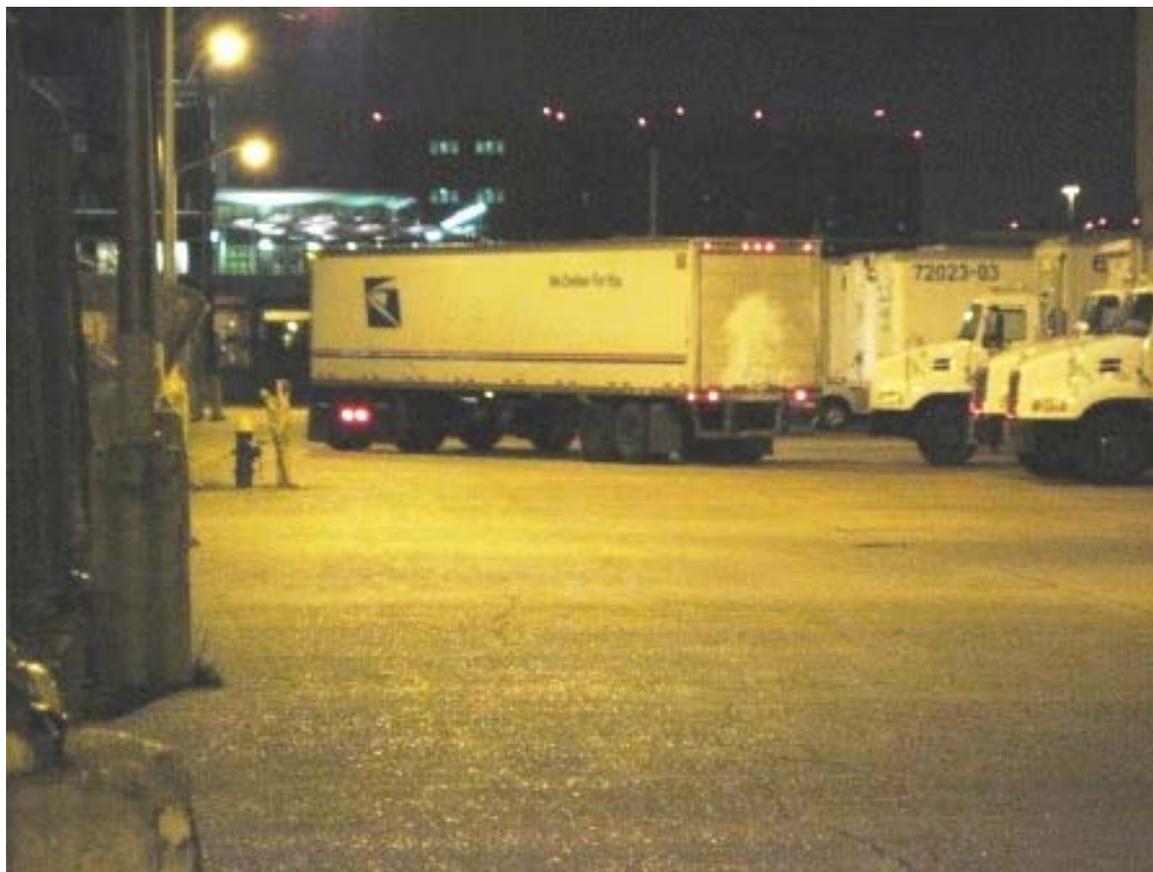


**Illustration 2: First floor at the Houston P&DC**



**Illustration 3: Houston P&DC Second Floor Congestion**

- The North Houston P&DC has 105 dock doors as compared to 78 dock doors at the Houston P&DC. Plans for the proposed expansion at the North Houston P&DC will add 54 new dock doors to the facility. Additional dock doors will allow for efficient loading, unloading, and dispatch of mail trucks by minimizing wait time in the dock areas.
- The Houston P&DC has only 90 feet from the dock to the fenced property line for truck drivers to navigate into and out of the dock doors. Tractor trailers normally require 120 feet as a turning radius. Because of these tight operating parameters, contract drivers with lengthy tractors are often forced to drop their trailers at the Houston P&DC for a Postal Vehicle Service driver to pick up and back into the dock area. The North Houston P&DC has sufficient room to allow for normal truck navigation in and out of its docks. See Illustrations 4 and 5.



**Illustration 4: Truck backing into dock at the Houston P&DC.**



**Illustration 5: Truck backing into dock at the North Houston P&DC.**

## Customer Service

The consolidation should not impact customer service. We reviewed three measures of customer service: the External First-Class measurement system (EXFC),<sup>12</sup> the CSM,<sup>13</sup> and the projected service standard upgrades and downgrades. During FYs 2009 and 2010, the North Houston P&DC consistently had higher EXFC overnight scores than the Houston P&DC except for Q4, FY 2010. The lower overnight score in the Q4, FY2010 was the result of the North Houston P&DC experiencing two Zero Bundles in their EXFC testing.<sup>14</sup> If the consolidation occurs, a combined mail processing operation should allow management to focus more specifically on problems with meeting national goals and allow them to improve performance in this area. See Chart 1.

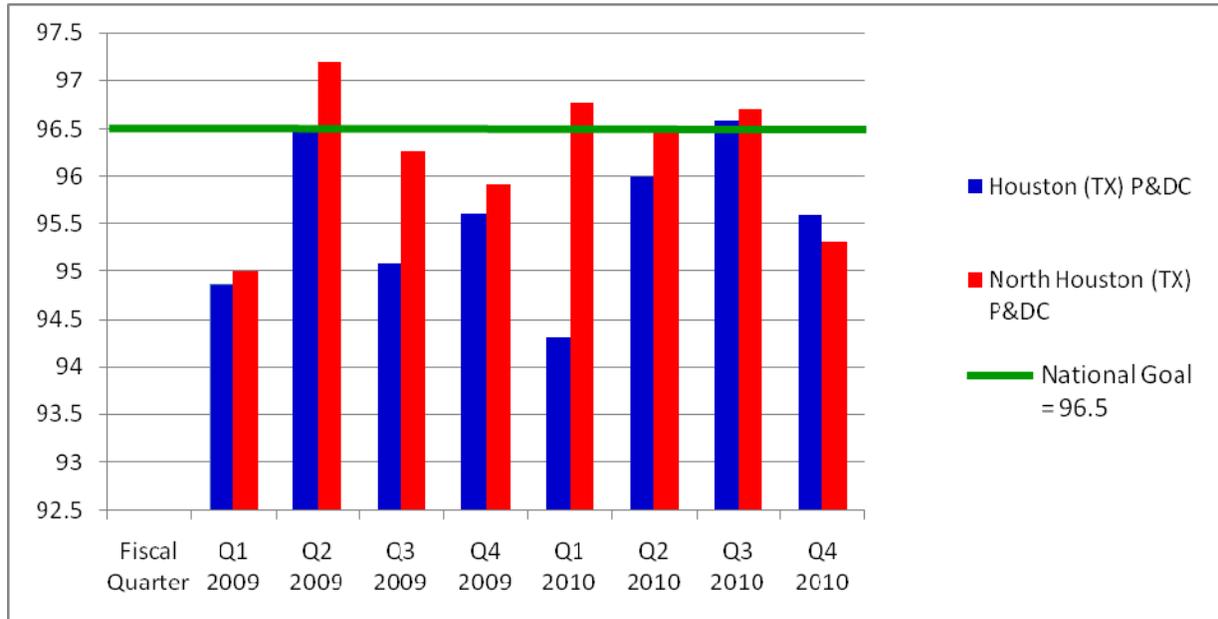
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<sup>12</sup> The EXFC is “a system whereby a contractor performs independent service performance tests on certain types of First-Class Mail (that is, letters, flats, postcards) deposited in collection boxes and business mail chutes. It provides national, 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.

<sup>13</sup> A survey of randomly selected residential postal customers, the results of which, along with unsolicited consumer complaints, offer feedback on consumer services conducted by the Gallup Organization, and survey results are analyzed by International Business Machines (IBM). According to the Postal Service’s *Consumer Advocate*, the CSM was retired in favor of the new Customer Experience Measurement (CEM) program being launched in FY 2010.

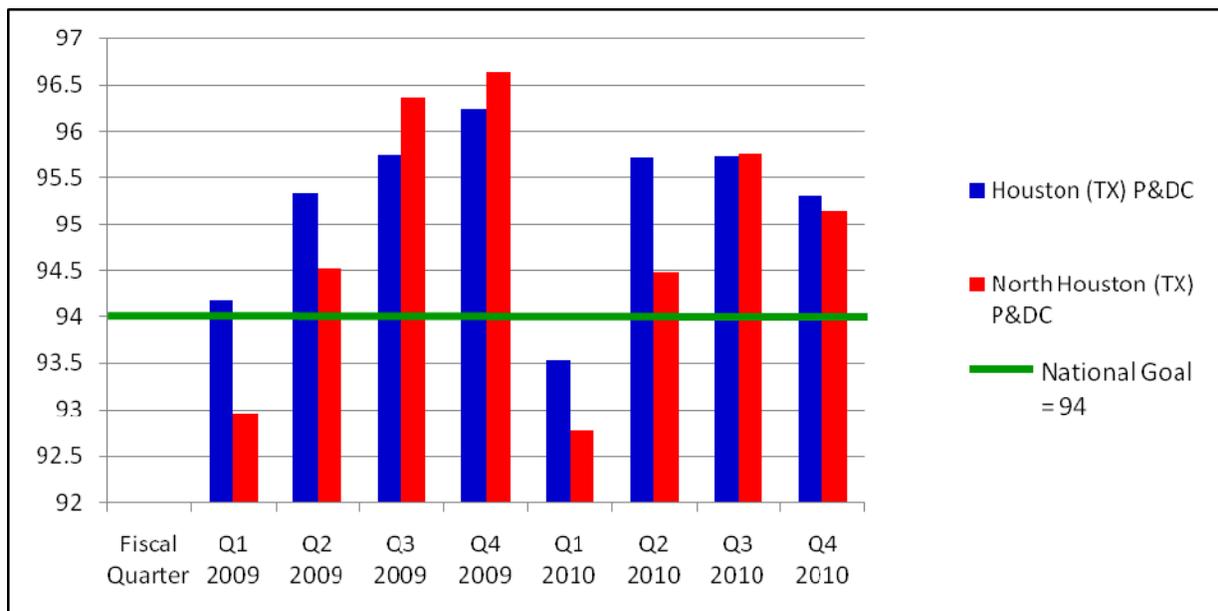
<sup>14</sup> A “Zero Bundle” is a bundle in which all the overnight test mailpieces fail. This can occur when mailpieces in a collection box are not picked up by the carrier.

**Chart 1: Houston P&DC vs. North Houston P&DC Overnight EXFC Service Scores  
FYs 2009 and 2010, by Quarter**

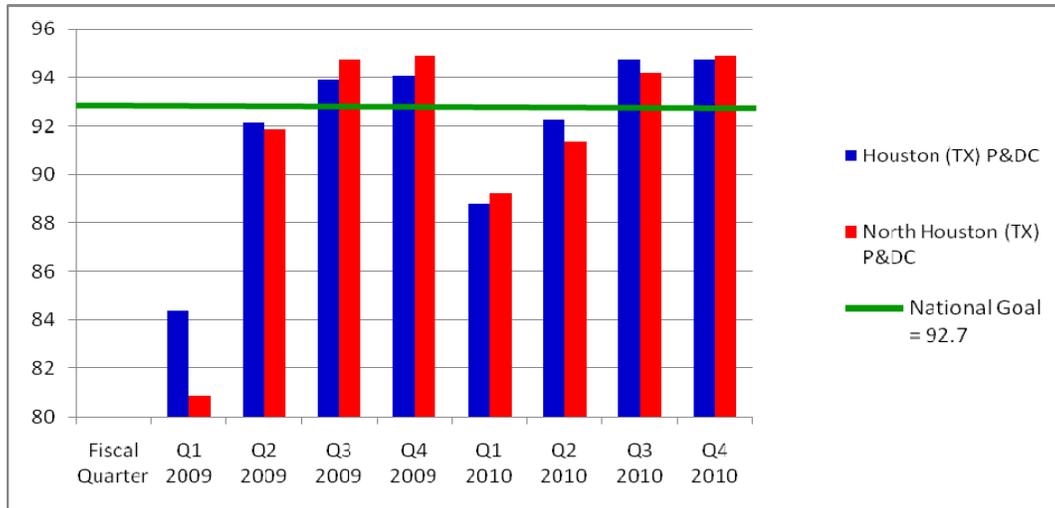


For 2-day and 3-day service standards, the two plants had comparable scores and were generally at or above national goals. See Charts 2 and 3.

**Chart 2: Houston P&DC vs. North Houston P&DC 2-Day EXFC Service Scores  
FYs 2009 and 2010, by Quarter**

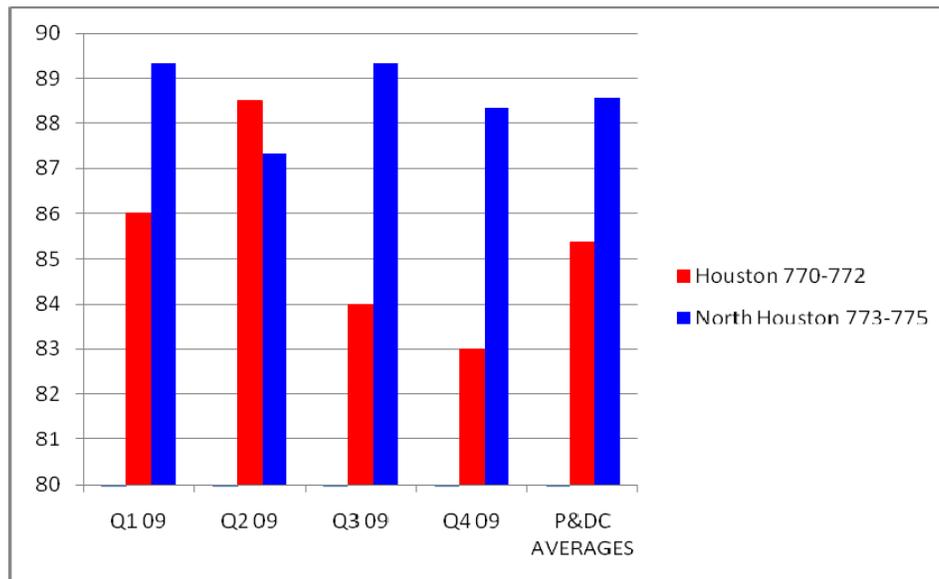


**Chart 3: Houston P&DC vs. North Houston P&DC 3-Day EXFC Service Scores  
FYs 2009 and 2010, by Quarter**



CSM scores for the North Houston P&DC generally exceeded the Houston P&DC's scores. The Houston P&DC's average CSM score for the two 3-digit ZIP Codes served was 85.38 and the North Houston P&DC's average score for the three 3-digit ZIP Codes served was 88.58. See Chart 4.

**Chart 4: Customer Satisfaction Measurement Scores  
Houston P&DC vs. North Houston P&DC, FY 2009\***



\*Based on the percent of customers rating their residential service as excellent, very good or good

The overall impact on service standards<sup>15</sup> for all mail classes will be positive. There are 42 downgrades affecting 5,928 First-Class mailpieces. The number of downgraded mailpieces represents only approximately one-tenth of 1 percent (.12 percent) of average daily volume of about 4.9 million mailpieces resulting in little service impact. See Table 1.

**Table 1: Upgrades/Downgrades in Service Standards by Mail Class and Percentage of Mail Volume Affected**

Mail Class	Upgrades	Downgrades	Net Change	Mail Volume Negatively Affected	% of Mail Volume Negatively Affected
First-Class <sup>®</sup>	3	21	-18	5,928	0.12%
Priority Mail <sup>®</sup>	3	0	3	0	0%
Periodicals	1,488	21	1,467	N/A <sup>16</sup>	N/A
Standard Mail	2,757	0	2,757	N/A	N/A
Package Services	18	0	18	0	0%
All Classes	4,269	42	4,227	5,928	0.12%

The North Houston P&DC is located within 5 miles of the Houston Intercontinental Airport, while the Houston P&DC is 22 miles from the airport. Closer proximity to the airport allows for more reliability in meeting airline dispatches and reduces the time necessary to transport the mail to the airport, thereby increasing the processing operational window. Longer operating windows and shorter transportation trips typically result in improved service scores. Additionally, the North Houston P&DC is located in a

<sup>15</sup> Service standards are defined as "A stated goal for service achievement for each mail class." Service standards represent the level of service the Postal Service strives to provide to customers and are considered one of the primary operational goals against which service performance is measured. Service standards by mail class are as follows: Priority Mail: 1-3 Days, First-Class Mail: 1-3 Days, Periodicals: 1-9 Days, Package Services, 2-8 Days, and Standard Mail: 3-10 Days. An upgrade or downgrade means that service between two ZIP Codes is one or more days faster or slower than it was before a change.

<sup>16</sup> Periodical 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% of total volume entered at that facility.

suburban area, adjacent to major highways; while the Houston P&DC is in downtown Houston, an area frequently subject to traffic congestion.

To maintain the identity of stamped mail inducted in the Houston ZIP Codes and enhance community support of the consolidation, we recommend a combined postmark showing both Houston and North Houston as in previous consolidations. The potential revenue at risk is estimated at \$835,048 (see [Appendix C](#)).

We identified additional customer service-related issues that would be impacted by a consolidation. Operations at the Bulk Mail Entry Unit at the Houston P&DC will be moved to the North Houston P&DC where customers will receive the same discounts as if they were at the Houston facility, although some will have to travel farther to drop off their mail. Management will transfer all retail window operations at the Houston P&DC to other locations in the downtown Houston Area.

### Employee Impact

Consolidation of the Houston P&DC's mail into the North Houston P&DC will understandably have an impact on employees, although no career employee should lose their job, some may be reassigned.<sup>17</sup> The proposed consolidation should result in a net decrease of 394 full-time equivalent (FTE) craft positions and 15 Executive and Administrative Schedule (EAS) positions.<sup>18</sup> Specifically:

- There will be a reduction of 1,429 FTE craft positions and 95 EAS positions at Houston P&DC.
- The North Houston P&DC will gain 1,035 FTE craft positions and 80 EAS positions.
- The remaining 409 employees will have opportunities for other vacancies in the Houston District.<sup>19</sup> The number of employees eligible for retirement could reduce the number of positions that would have to be accommodated in the Houston District.

### Efficiency

Efficiency should improve as a result of the consolidation. The North Houston P&DC is more efficient and processes its mail volume at a lower cost than its Houston P&DC counterpart. For example, in FY 2009, the North Houston P&DC's FHP productivity was 1,062 pieces per workhour as compared with the Houston P&DC's productivity of 904 pieces per workhour. This could be due, in part, to mail being processed on two

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<sup>17</sup> Based on labor/management agreements.

<sup>18</sup> The FTE decrease is from the Postal Service's consolidation analysis.

<sup>19</sup> Some employees may be entitled to relocation benefits.

separate floors at the Houston P&DC, requiring the use of elevators to move the mail between floors. See Illustrations 6 and 7.



**Illustration 6: Houston P&DC elevators used to transfer mail between floors.**

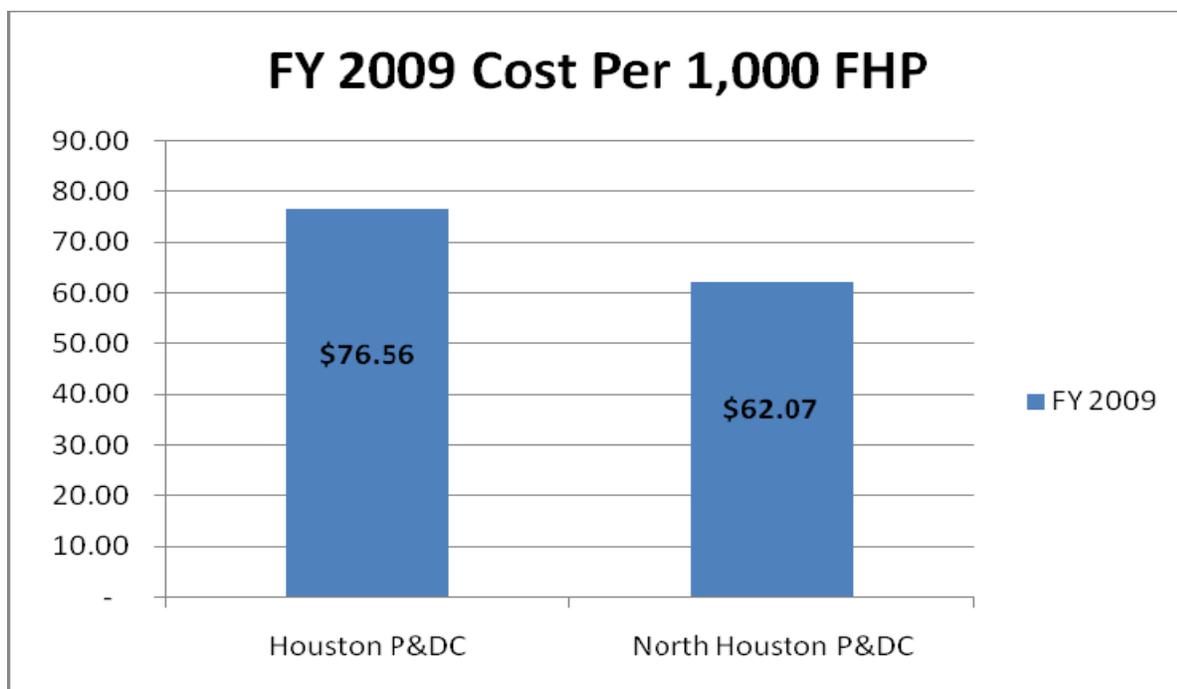


**Illustration 7: Houston P&DC elevator full of mail moving to second level to process.**

When compared to similar sized facilities, both the Houston P&DC and the North Houston P&DC achieved productivity levels above the median for their respective groups.<sup>20</sup> For example, the Houston P&DC's FHP productivity of 904 was above the Group 1 median of 841 pieces per workhour, while the North Houston P&DC's FHP productivity of 1,062 was above the Group 2 median of 958 pieces per workhour. However, the North Houston P&DC has had higher FHP and TPH productivity than the Houston P&DC for FYs 2007, 2008, and 2009.

Mail processing costs at the North Houston P&DC are also lower than the Houston P&DC. The average cost to process 1,000 mailpieces at the Houston P&DC is \$76.56, whereas at the North Houston P&DC the average cost is \$62.07. See Chart 6.

**Chart 6: FY 2009 Cost per 1,000 FHP**



Based on FY 2009 data, the Postal Service paid approximately \$141.6 million to process 1.8 billion FHPs at the Houston P&DC, compared to \$105.1 million to process 1.7 billion FHPs at the North Houston P&DC. The transfer of mail volume to the North Houston P&DC should further reduce processing costs per 1,000 mailpieces due to more efficient use of machinery. This translates into approximately \$26.8 million of savings the Postal Service could achieve based solely on the difference in processing costs between the two sites.

<sup>20</sup> The North Houston P&DC was at or above the median FHP productivity of Group 2 plants for both FYs 2008 and 2009. The Houston P&DC was above the median FHP productivity of Group 1 plants for both FYs 2008 and 2009.

## Cost Savings/Loss

Cost savings from the consolidation will primarily be the result of workhour reductions, transportation adjustments in Highway Contract Route (HCR) and PVS schedules, and lease terminations. Chart 7 shows our estimated annual cost savings of \$35 million<sup>21</sup> from the consolidation taking into account workhours, maintenance, transportation, and equipment costs.

**Chart 7: Cost Savings/Loss Breakdown**

Annual Savings/Loss			
	First Year Savings/Loss	Second Year Savings/Loss	Third and Subsequent Year Savings <sup>22</sup>
<b>Mail Processing Craft Workhours</b>	\$0	\$0	\$27,381,400
<b>Non-Mail Processing Craft Workhours</b>	0	0	214,806
<b>PCES/EAS<sup>23</sup></b>	0	0	1,817,808
<b>Transportation</b>	0	0	4,112,485
<b>Maintenance</b>	0	0	1,383,470
<b>One-Time Costs<sup>24</sup></b>	(31,178,332)	(31,178,332)	0
<b>Annual Savings/Loss</b>	<b>\$(31,178,332)</b>	<b>\$(31,178,332)</b>	<b>\$34,909,969</b>

## One-Time Costs

The one-time cost of the consolidation is estimated at approximately \$62.4 million. This includes approximately \$50 million to build-out about 440,000 SF of additional interior space, \$4.1 million for other building modifications,<sup>25</sup> and \$3.7 million for additional mail processing equipment.<sup>26</sup>

<sup>21</sup> The proposed expansion is expected to take 2 years, so the Postal Service will not realize annual savings until after the expansion is completed.

<sup>22</sup> Third and subsequent year savings are based on net present value and, as such, will change slightly each year.

<sup>23</sup> Postal career executive service/ Executive Administrative Schedule.

<sup>24</sup> One-time costs include expansion and modification of the North Houston P&DC, purchase of new equipment, relocation of furniture and equipment, adding P.O. boxes, and depostalization of the Houston DDC.

<sup>25</sup> Building modifications include (1) Building out the River Oaks Station to accommodate additional P.O. boxes and parking for relocated customers from the Houston Post Office; (2) Depostalization of the Houston DDC; (3)

We compared costs associated with the build-out of the North Houston P&DC (\$114 per net square foot) to costs associated with building the Oklahoma City P&DC which was occupied in 2008 (\$106 per net square foot), and the building of the Michigan Metroplex P&DC which was also occupied in 2008 (\$138 per net square foot). Based on these comparisons, the estimated expansion cost are reasonable.

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Relocation/Build out of the Image Processing Subsystem (IPSS) room; (4) Expansion of the Battery Room and Retrofit; (5) Expansion of the Registry Room; and (6) Relocation of the Computerized Forwarding Service (CFS) unit.  
<sup>26</sup> Additional equipment includes replacing four small low-cost tray sorters with two high-speed tray sorters (HSTS); and adding one tray depalletizer required to feed into the HSTS, six forklifts, and 12 tow motors.

**APPENDIX C: MONETARY AND NON-MONETARY IMPACTS**

**Monetary Impact**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
Mail Processing Efficiency	Funds Put to Better Use <sup>27</sup>	\$189,744,682

We calculated *Funds Put to Better Use* using the workhour savings and other cost savings multiplied by the escalated labor rate of 1.7 percent, energy related cost escalation rate of 3.10 percent, and a discount rate of 3.875 percent over a 10-year period. We reduced the savings figure by the one-time costs related to the consolidation. As a result of the consolidation and after the expansion completion, the Postal Service could save approximately \$35 million annually or \$189,744,682 over 10 years.

**Other Impacts**

<b>Finding</b>	<b>Impact Category</b>	<b>Amount</b>
Customer Service – Postmark Preservation	Revenue at Risk <sup>28</sup>	\$835,048 <sup>29</sup>

<sup>27</sup> Funds Put to Better Use Funds that could be used more efficiently by implementing recommended actions

<sup>28</sup> Revenue at Risk is revenue that the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

<sup>29</sup> 189,783,565 FCM letters were cancelled at the Houston P&DC during FY 2009. One percent of the revenue from this volume is approximately \$835,048. (189,783,565 x \$0.44 x 1 percent).

## APPENDIX D: MANAGEMENT'S COMMENTS

STEVEN J. FORTE  
SENIOR VICE PRESIDENT  
OPERATIONS



December 6, 2010

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Transmittal of Draft Audit Report – Houston, TX Processing and Distribution  
Center Mail Consolidation (Report Number NO-AR-11-DRAFT)

We have reviewed the Transmittal of Draft Audit Report – Houston, TX Processing and  
Distribution Center Mail Consolidation (Report Number NO-AR-11-DRAFT) and provide  
the following response.

**Recommendation 1:**

Pursue expansion of the North Houston Processing and Distribution Center and  
consolidate the Houston Processing and Distribution Center's mail processing  
operations into the expanded facility by fiscal year (FY) 2013.

**Management Response/Action Plan:**

Management agrees with this recommendation in principle pending the completion of an  
economic analysis as well as the availability and approval of capital funding for the  
expansion of the North Houston Processing and Distribution Center.

**Target Implementation Date:** Subject to Capital Investment Committee approval of  
capital funding and any delays that may occur in process timelines for approval,  
expansion construction, and relocation of consolidated operations, recommended action  
will be targeted for completion by FY2013.

**Responsible Official:** Vice President, Facilities

This report and management's response do not contain information that may be exempt  
from disclosure under the Freedom of Information Act. If you have any questions,  
please contact David E. Williams, Vice President, Network Operations at 202-268-3250.

Steven J. Forte

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ELLIS A. BURGOYNE  
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



November 19, 2010

LUCINE M. WILLIS  
OFFICE OF INSPECTOR GENERAL

SUBJECT: Transmittal of Draft Audit Report – Houston, TX Processing and Distribution  
Center Mail Consolidation (Report Number NO-AR-11-DRAFT)

I have reviewed your December 2, 2010, letter regarding consolidation of the Houston P&DC and agree with the recommendations and associated monetary impact provided. The Southwest Area has submitted the Area Mail Processing proposal for this consolidation to Headquarters, and it has been placed on hold pending Corporate Investment Committee approval of capital funds. Additionally, I agree with the recommendations to:

- Utilize a combined postmark
- Update employees on the consolidation process
- Monitor service during the implementation

If you have any questions, please contact Cliff Rucker at 214-819-8600.

A handwritten signature in cursive script that reads "Ellis A. Burgoyne".

Ellis A. Burgoyne

cc: Steve Forte, Senior Vice President, Operations  
Cliff Rucker, Manager, Operations Support  
Garry Gilmore, District Manager, Houston, Texas

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