

June 2010

U.S. POSTAL  
SERVICE

Mail Processing  
Network Initiatives  
Progressing, and  
Guidance for  
Consolidating Area  
Mail Processing  
Operations Being  
Followed



GAO

Accountability \* Integrity \* Reliability



Highlights of [GAO-10-731](#), a report to congressional committees

## Why GAO Did This Study

Deteriorating financial conditions and declining mail volume have reinforced the need for the U.S. Postal Service (USPS) to increase operational efficiency and reduce expenses in its mail processing network. This network consists of interdependent functions in nearly 600 facilities. USPS developed several initiatives to reduce costs and increase efficiency; however, moving forward on some initiatives has been challenging because of the complexities involved in consolidating operations. In response to a conference report directive, GAO assessed (1) the overall status and results of USPS's efforts to realign its mail processing network and (2) the extent to which USPS has consistently followed its guidance and applied these criteria in reviewing Area Mail Processing (AMP) proposals for consolidation since the beginning of fiscal year 2009. To conduct this assessment, GAO reviewed USPS's Network Plan, area mail processing consolidation guidance and proposals as well as other documents; compared USPS's actions related to consolidation of area mail processing facilities with its guidance, and interviewed officials from USPS, the USPS Office of Inspector General, and employee organizations.

GAO provided USPS with a draft of this report for comment. In response, USPS provided technical comments that were incorporated where appropriate.

View [GAO-10-731](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

## U.S. POSTAL SERVICE

### Mail Processing Network Initiatives Progressing, and Guidance for Consolidating Area Mail Processing Operations Being Followed

#### What GAO Found

USPS has realigned parts of its mail processing network since the beginning of fiscal year 2009 and continues to seek additional opportunities to achieve its goal of creating an efficient and flexible network and realize cost savings. Specifically, USPS:

- eliminated all functions of the Airport Mail Centers, closed 9 of these facilities, and now uses the remaining 12 for other purposes, resulting in a realized cost savings of about \$12.2 million in fiscal year 2009;
- reorganized the functions of the 21 Bulk Mail Centers into newly developed Network Distribution Centers, resulting in a realized cost savings of about \$17.7 million in fiscal year 2009; and
- implemented 23 proposals to consolidate AMP operations and facilities and approved another 6 AMP consolidation proposals. USPS estimated an annual cost savings of about \$98.5 million for the 29 approved and implemented AMP proposals.

Additionally, USPS officials stated that they plan to integrate the Surface Transfer Center functions into the Network Distribution Center network to further eliminate redundancy in transporting mail. USPS has developed specific program targets for the ongoing reorganization efforts of the Network Distribution Centers and estimated a cost savings of about \$233.8 million for fiscal years 2010 and 2011 from reduction in work hours and transportation costs.

On the basis of GAO's analysis of 32 AMP proposals that were implemented, approved, or not approved since the beginning of fiscal year 2009, USPS has followed its realignment guidance by completing each step of the process and consistently applying its criteria in its reviews. GAO's analysis found that it took about 6 months on average—a month more than USPS's target of 5 months—to complete the review process from initiating an AMP proposal to making a decision. USPS officials noted the importance of the AMP decisions and the need to sometimes take longer than what the guidance suggests to ensure the correct decision. GAO also found that USPS consistently notified stakeholders when key steps of the AMP process were completed, such as when an AMP proposal was initiated, or public meetings were held. For each of the AMP proposals that GAO reviewed, USPS also consistently evaluated its four criteria related to AMP consolidations: (1) impacts on the service standards for all classes of mail, (2) issues important to local customers, (3) impacts to USPS staffing, and (4) savings and costs associated with moving mail processing operations.

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## Abbreviations

AMC	Airport Mail Center
AMP	Area Mail Processing
BMC	Bulk Mail Center
CSMPC	Customer Service Mail Processing Center
MPA	Mail Processing Annex
NDC	Network Distribution Center
OIG	Office of Inspector General
P&DC	Processing and Distribution Center
P&DF	Processing and Distribution Facility
PIR	postimplementation review
PO	Post Office
SCF	Sectional Center Facility
STC	Surface Transfer Center
SVP	Senior Vice President
USPS	United States Postal Service

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United States Government Accountability Office  
Washington, DC 20548

June 16, 2010

The Honorable Richard J. Durbin  
Chairman  
The Honorable Susan M. Collins  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
United States Senate

The Honorable José E. Serrano  
Chairman  
The Honorable Jo Ann Emerson  
Ranking Member  
Subcommittee on Financial Services and General Government  
Committee on Appropriations  
House of Representatives

While the U.S. Postal Service (USPS) generated \$68.1 billion in revenue in fiscal year 2009, deteriorating financial conditions and declining mail volume have reinforced the need to increase operational efficiency and reduce expenses in its mail processing network. The network consists of interdependent functions and operations in nearly 600 facilities with various equipment that sorts mail and prepares it for transportation and delivery. From fiscal years 2007 through 2009, the economic downturn and changing uses of the mail contributed to decreasing USPS mail volumes of 36 billion pieces (about 17 percent), which amounted to a loss of \$12 billion. During that time, USPS also eliminated about \$1.3 billion in FY 2008 and \$6 billion in FY 2009 in operating expenses through actions such as instituting a nationwide hiring freeze, cutting work hours, and halting construction of new postal facilities. Most recently, total mail volume for the first quarter of fiscal year 2010 was down almost 4.5 billion pieces—a decrease of almost 9 percent over last year—and USPS does not expect total mail volume to return to its former level when the economy recovers from the recent downturn.

USPS has made realigning its mail processing network an ongoing effort and has developed several initiatives to reduce costs and increase efficiency. One such initiative, Area Mail Processing (AMP), was designed to consolidate operations at facilities with excess machine capacity to improve operational efficiency and service. However, moving forward on the AMP initiative has been challenging because of the complexities

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involved in consolidating operations, as well as stakeholder resistance to consolidating operations and closing facilities. In 2005 and 2007, we issued reports that evaluated USPS's network plans and included recommendations for improvement.<sup>1</sup> In 2008, we reported on the progress USPS had made toward implementing our previous recommendations on realigning its mail processing network.<sup>2</sup> This report responds to a directive in a conference report for GAO to report to the House and Senate Committees on Appropriations and assesses (1) the overall status and results of USPS's efforts to realign its mail processing network and (2) the extent to which the USPS has consistently followed its guidance and applied these criteria in reviewing its AMP facilities for consolidation since the beginning of fiscal year 2009.

To determine the status and results of USPS's efforts to realign its mail processing network, we reviewed the USPS Office of Inspector General (OIG) January 2010 report on network initiatives,<sup>3</sup> USPS's updated 2009 Network Plan, other USPS documents, and prior GAO reports. We also interviewed officials from USPS and its OIG to discuss overall progress in USPS's mail processing initiatives. To assess the extent to which USPS has consistently followed its guidance and applied criteria in consolidating its AMP operations and facilities since the beginning of fiscal year 2009, we reviewed USPS's AMP Handbook PO-408 and its updated December 2009 AMP Communication Plan. We focused on the AMP initiative because its total number of facilities and mail processing operations are considerably larger and more extensive than the operations of USPS's other network initiatives. We reviewed files maintained in USPS headquarters for 32 AMP proposals that were approved, implemented, or not approved from October 2008 to March 2010 to determine whether the USPS had consistently followed its established process and criteria in reviewing AMP proposals for consolidation. We did not include AMP proposals that

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<sup>1</sup>GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, [GAO-05-261](#) (Washington, D.C.: Apr. 8, 2005) and GAO, *U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation*, [GAO-07-717](#) (Washington, D.C.: June 21, 2007).

<sup>2</sup>GAO, *U.S. Postal Service: Progress Made Toward Implementing GAO's Recommendations to Strengthen Network Realignment Planning and Accountability and Improve Communication*, [GAO-08-1134R](#) (Washington, D.C.: Sept. 25, 2008).

<sup>3</sup>Office of Inspector General, U.S. Postal Service, *Status Report on the Postal Service's Network Rationalization Initiatives (Report Number EN-AR-10-001)* (Washington, D.C.: Jan. 7, 2010).

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were terminated or put on hold since they did not fully go through the process. We collected key data from the AMP files maintained in USPS headquarters and analyzed the extent to which USPS followed the decision-making phase of the process—that is, the period from when a study of the potential for consolidation is initiated to when the final decision is made as to whether a consolidation will occur. We also determined whether USPS achieved its timeliness goal for completing the decision-making process in 5 months, as established in the AMP Handbook PO-408. It was outside the scope of this work to assess the timeliness of the interim steps of the process that are completed by local and regional management.<sup>4</sup> We also interviewed representatives from the American Postal Workers Union and National Mail Handlers Union to obtain their perspective on the AMP process. We conducted this performance audit from March 2010 to June 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>4</sup>The USPS manages its mail processing operations in eight areas (Capital Metro, Eastern, Great Lakes, Northeast, Pacific, Southwest, Southeast, and Western) with local district offices nationwide. This report refers to USPS's eight areas as regional management and local district offices as local management.

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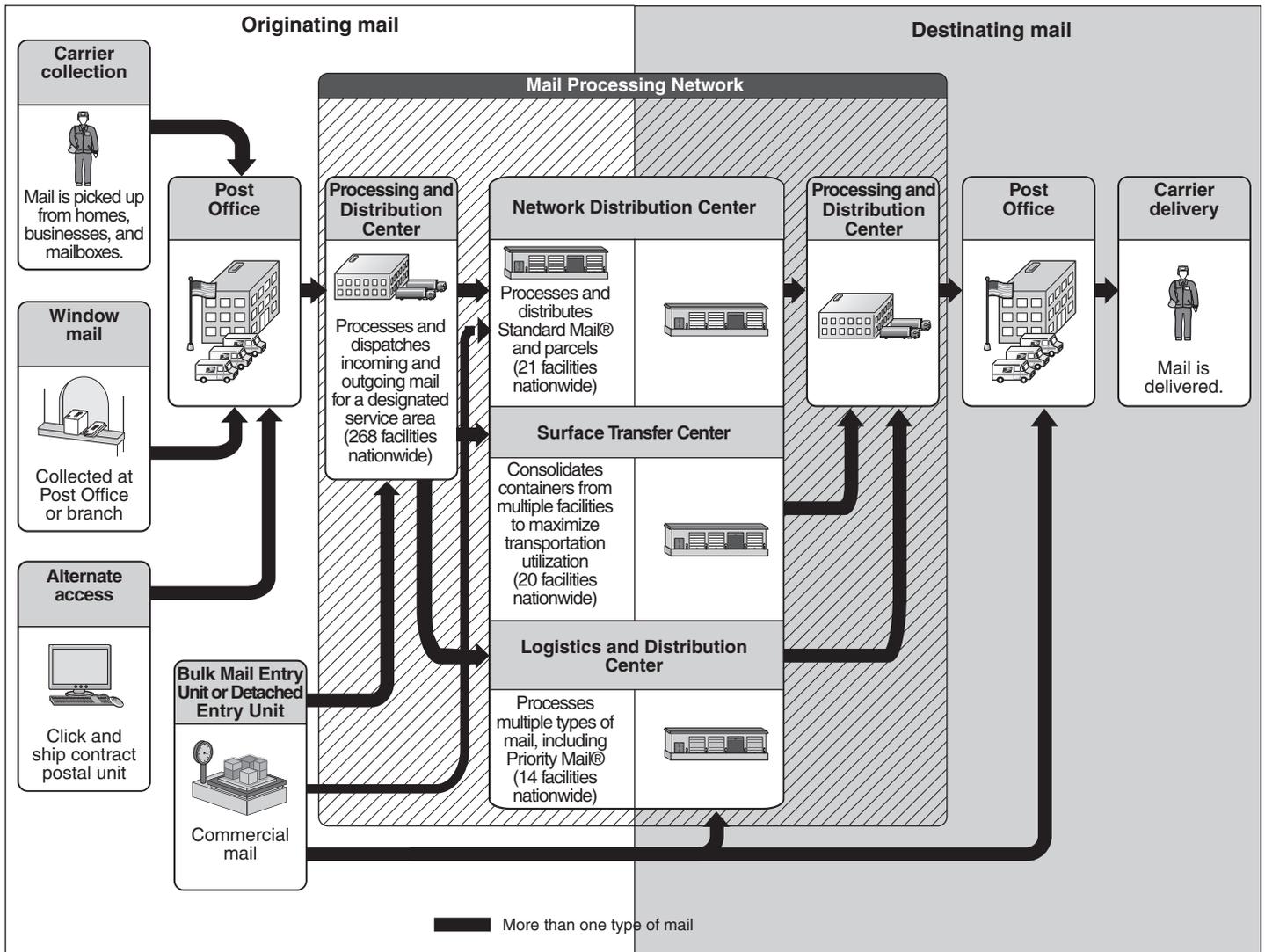
## Background

USPS's mail processing network consists of multiple facilities with different functions, as shown in a simplified version of this complex network in figure 1. USPS can receive mail into its processing network from different sources such as mail carriers, post offices, and mailing companies. Once USPS receives mail from the public and commercial entities, it processes and distributes the mail on automated equipment that cancels stamps and sorts bar coded mail. Once mail distribution has been completed by other operations, the mail is transported between processing and distribution facilities. Depending on the mail shape and classification, USPS processes the mail through different types of facilities that perform various functions.<sup>5</sup> While mail is processed mainly through these facilities, mail processing operations also occur in other facilities, such as at annexes that are temporary facilities used as overflow for mail processing.

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<sup>5</sup>USPS process three basic mail shapes—letters (includes postcards), flats (includes large envelopes, magazines, and catalogs) and parcels (or packages)—through six classes of mail—Express Mail®, Priority Mail®, First-Class Mail®, Standard Mail®, Periodicals, and Package Services.

**Figure 1: Simplified Mail Flow through the National Infrastructure**



Sources: GAO and USPS.

Note: Originating mail refers to outgoing and local mail that enters the point of origin for mail processing. Local mail remains within the facility and is combined with destinating mail from other origin facilities. Destinating mail refers to mail arriving at point of entry for distribution and dispatch to a post office for delivery.

In its June 2008 Network Plan, USPS determined that it will reexamine its mail processing network on an ongoing basis given changes in mail volume and outlined several initiatives to improve management of its mail processing operations, retail operations, and workforce to increase

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efficiency and reduce costs. With regard to its mail processing operations specifically, USPS identified three major initiatives to improve efficiency: (1) closing Airport Mail Center (AMC) operations, (2) transforming the Bulk Mail Center (BMC) network, and (3) consolidating AMP operations. USPS's Network Plan also included criteria for evaluating decisions, the three most important of which were cost, service, and capacity. In September 2008, we reported that USPS took steps to address our prior recommendations to strengthen planning and accountability for its network initiatives, which was important as USPS began implementing them.<sup>6</sup> However, we also found limited information on performance targets or on the costs and savings attributable to USPS's various mail processing network initiatives.

In the case of consolidating AMP operations, USPS revised its guidance on the process for AMP consolidations in March 2008. The revised guidance included key steps and time frames associated with them, as well as criteria to consider when making a decision to consolidate operations. The AMP Handbook does not provide guidance regarding how to identify potential opportunities for consolidation. In January 2010, the USPS OIG recommended that the Vice President of Network Operations develop and document specific criteria to identify consolidation opportunities, and USPS management agreed with this recommendation. In December 2009, USPS also updated the AMP Communication Plan, which supplements the AMP guidelines and provides specific guidance on communicating with stakeholders.

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## USPS Has Realigned Part of Its Mail Processing Network and Has Estimated Cost Savings

USPS has realigned parts of its mail processing network and continues to seek additional opportunities to achieve its goal of creating an efficient and flexible network. For fiscal year 2009, USPS realized a cost savings of almost \$30 million from eliminating all AMC operating functions and closing nine of these facilities and reorganizing the functions of the BMC to the Network Distribution Centers (NDC). Table 1 shows the status of USPS's three major processing network initiatives intended to lower costs and achieve savings by reducing excess capacity and fuel consumption.

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<sup>6</sup>See [GAO-08-1134R](#).

**Table 1: Status and Results of USPS Mail Processing Network Initiatives from October 2008 through March 2010**

Network initiatives	Status	Results
Elimination of AMC operating functions	<ul style="list-style-type: none"> <li>Eliminated all functions of AMC.</li> <li>Closed 9 AMC facilities.</li> <li>12 AMC facilities remain open and perform other functions.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2009, about \$12.2 million realized in cost savings.</li> <li>\$113.9 million in total cost savings from fiscal year 2007 through fiscal year 2009.</li> </ul>
Reorganization of BMC functions to NDC	<ul style="list-style-type: none"> <li>Reorganized functions of BMC network, including renaming it, into NDC network to reflect the type of operations at the facilities.</li> <li>21 NDCs in operation.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2009, about \$17.7 million realized in cost savings.</li> <li>USPS projects \$233.8 million in cost savings in fiscal years 2010 and 2011.</li> </ul>
Consolidation of AMP operations and facilities	<ul style="list-style-type: none"> <li>23 AMP consolidations implemented, including 1 Processing &amp; Distribution Center closed (Kansas City, KS).</li> <li>6 AMP approved for consolidation, but not yet fully implemented.</li> <li>3 AMP consolidations not approved.</li> <li>9 AMP consolidations on hold or study halted.</li> </ul>	<ul style="list-style-type: none"> <li>USPS expects an annual cost savings of about \$98.5 million for the 29 approved and implemented AMP consolidations.</li> </ul>

Source: GAO analysis of USPS data.

Specific steps taken on the three major mail processing network initiatives are as follows:

- Elimination of AMC operating functions.* Of its three major network initiatives, USPS has taken the most action by eliminating the AMC function and closing 9 AMC facilities. In the past decade, USPS has closed 68 of 80 AMC facilities. Located on airport property, AMC facilities primarily processed mail to expedite its transfer, to and from, up to 55 different commercial passenger airlines. Over time, USPS reduced the number of commercial airlines transporting mail from 55 to 7 and, from 2001 to 2007, the volume of mail transported by commercial airlines decreased by over 87 percent. At the same time, USPS contracted with air freight carriers to transport most of the mail requiring air transfer. In response, many AMC facilities made use of the available processing space by taking on additional processing functions typically handled by local processing and distribution centers (P&DCs), such as carrier and retail operations. In 2006, in an effort to eliminate redundancy and reduce costs, USPS began transferring functions performed at AMCs to nearby P&DCs or outsourcing these operations and, in September 2008, we reported that USPS estimated a targeted total savings of \$117 million for closing these AMC facilities. Since our 2008 report, USPS has closed 9 AMC facilities, avoiding an estimated \$12.2 million in costs. It has also revised the total cost savings to \$113 million resulting from eliminating the AMC function

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and closing facilities, from fiscal year 2007 to fiscal year 2009. USPS officials told us that they plan to reclassify the 12 remaining facilities and determine whether some of them can be closed.

- *Reorganization of BMC functions into NDC Network.* USPS has reorganized the functions of its 21 BMCs into an NDC network with expanded functions that more efficiently use long-haul transportation and better align work hours with workload, according to the 2009 Updated Network Plan. Before the reorganization, all BMCs performed the same functions of processing local, destinating, and originating mail (e.g., Standard Mail®, Periodicals, and Package Services).<sup>7</sup> In fiscal year 2009, USPS reorganized the BMC network, including renaming the facilities as NDC, to reflect the type of operations that are occurring at the facilities, according to USPS officials. The NDC network is divided into three tiers of facilities with different distribution and processing roles:
  - Tier 1 NDC facilities process local and destinating mail;
  - Tier 2 facilities process local, destinating, and originating mail; and
  - Tier 3 facilities handle Tier 2 functions and consolidate less-than-truckload volumes of mail from Tier 2 facilities.

As a result of the reorganization, USPS reduced the number of facilities processing originating mail from 21 to 10; the remaining 11 facilities continue to process local and destinating mail.

According to officials, USPS completed the reorganization of the BMC functions to NDC in March 2010 and plans to further integrate other mail processing operations to NDC. USPS realized a cost savings of about \$17.7 million for fiscal year 2009, with a projected cost savings of about \$233.8 million from additional reorganization in fiscal years 2010 and 2011. According to officials, USPS also plans to integrate its Surface Transfer Center (STC) functions into the NDC network to further eliminate redundancy and move all mail traveling the same route through the same

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<sup>7</sup>Originating mail refers to outgoing and local mail that enters the point of origin for mail processing. Local mail remains within the facility and is combined with destinating mail from other origin facilities. Destinating mail refers to mail arriving at point of entry for distribution and dispatch to a post office for delivery.

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facilities.<sup>8</sup> USPS officials told us they are currently identifying and assessing opportunities for consolidating STC functions into the NDC network; however, USPS has not established a definitive timeline as to when the functions of the STC are to be integrated into the NDC network because such integration depends on future mail volumes, space requirements and space availability, and necessary equipment.

- *Consolidation of AMP operations and facilities.* As shown in table 1, USPS has continued to initiate, review, and make decisions on AMP proposals to consolidate its operations and facilities. AMP proposals are intended to reduce costs and increase efficiency by making better use of excess capacity or underused resources, primarily at USPS's P&DC facilities; the AMP proposals consist of consolidating all originating, destinating, or both types of operations, from one mail processing facility that downsizes its mail processing operations to other facilities nearby that gains the processing operations. While local and regional USPS management is responsible for conducting a feasibility study and developing an AMP proposal, USPS headquarters approves or disapproves the AMP proposal. Upon an approval from USPS headquarters, local and regional USPS management implements the consolidation of processing operations identified in an AMP proposal. According to USPS officials, the AMP initiative is an ongoing effort to identify opportunities to achieve efficiencies and, as such, USPS has not developed a program target for annual savings from AMP consolidations. As of March 2010, USPS was studying or reviewing 24 additional AMP proposals. (See app. I for a list of the AMP proposals under review.)

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<sup>8</sup>At the STCs, USPS consolidates containers from multiple facilities to maximize the use of transportation.

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## USPS Has Followed Its Guidance and Consistently Applied Criteria in Consolidating Its AMP Facilities

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### USPS Has Followed Its Process for Consolidating Area Mail Facilities

On the basis of our analysis of 32 AMP proposals that were implemented, approved, or not approved since October 2008, USPS has followed the key steps in the AMP process. (See app. I for a list of the AMP proposals we reviewed.) As shown in figure 2, USPS has developed key steps for the AMP process, and it has established an overall goal of making an AMP decision within 5 months of the study being initiated. Our analysis found that USPS completed each step of the AMP process. It took about 6 months on average to complete the review process from initiating an AMP proposal to making a decision on 27 AMP proposals we analyzed.<sup>9</sup>

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<sup>9</sup>We did not include 5 of the 32 AMP proposals (Canton, OH; Flint, MI; Kansas City, KS; Detroit, MI; and Zanesville, OH) in our analysis of the processing time because the AMP feasibility study began prior to the USPS's revision of its AMP guidance in March 2008. According to USPS officials, these proposals were delayed while the revisions to the AMP guidance were made and then evaluated again based on the revised guidance.

**Figure 2: Keys Steps of USPS’s AMP Process**

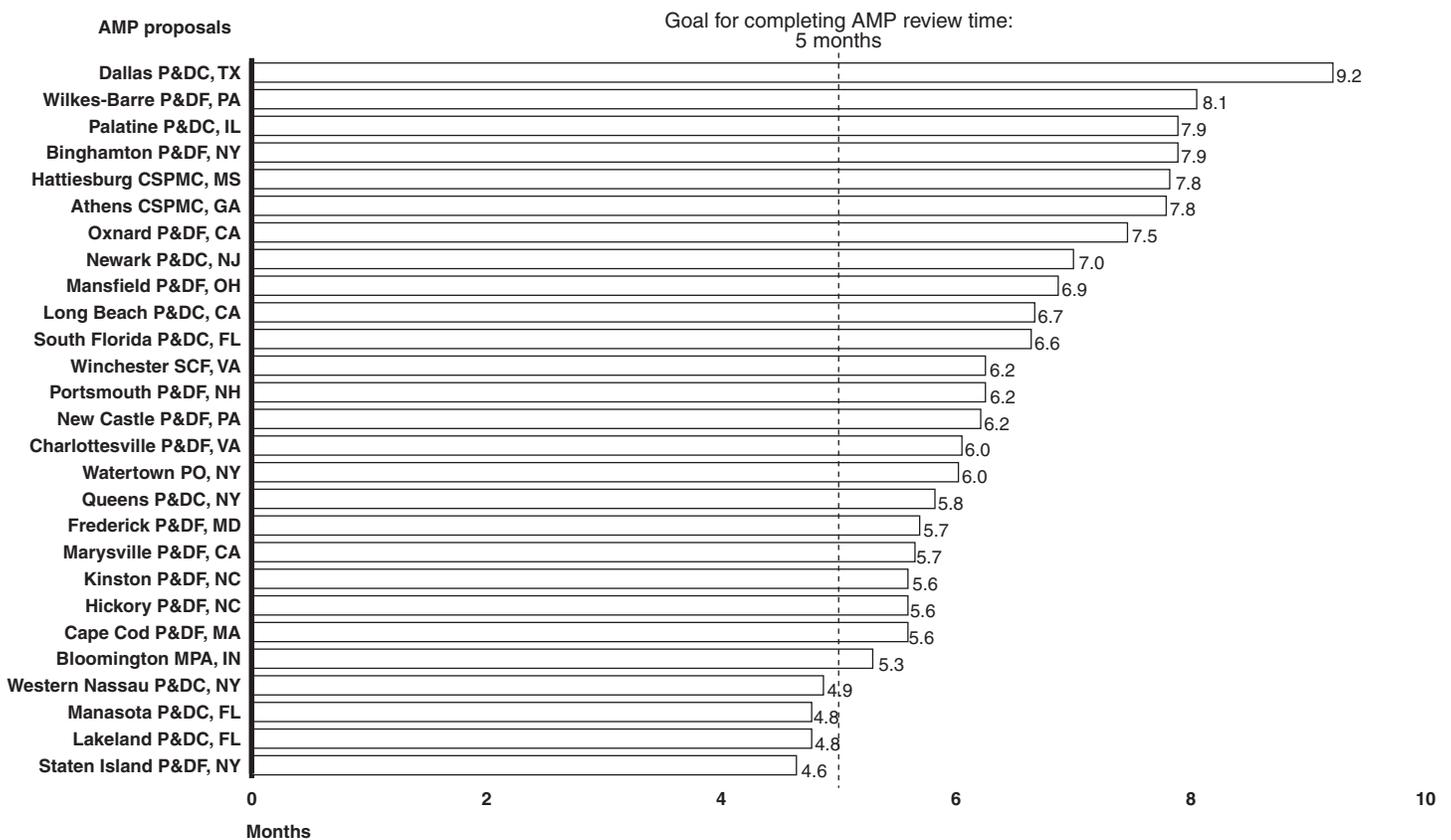
Key steps			
Feasibility study	Public input and management review	AMP proposal and approval	Postimplementation review
<ul style="list-style-type: none"> <li>Regional USPS management notifies Senior Vice President (SVP) of Operations in USPS headquarters about intention to conduct a feasibility study of an AMP proposal.</li> <li>Stakeholders are notified of the intent to conduct a feasibility study of an AMP proposal.</li> <li>Within 2 months, local USPS management completes the feasibility study of an AMP proposal and submits it to the regional USPS management, along with required documentation.</li> </ul>	<ul style="list-style-type: none"> <li>Within 45 days after completing and submitting a feasibility study, local USPS management must conduct a public input meeting.</li> <li>After the public input meeting, 15 days are provided to the public to submit additional written comments and for the local USPS management to summarize the meeting.</li> <li>Concurrently, after the feasibility study of an AMP proposal is submitted, regional and headquarters management conducts a 60-day review.</li> </ul>	<ul style="list-style-type: none"> <li>After the receipt of public comments and the feasibility study, regional management decides on an AMP proposal and submits it to headquarters. Generally, this step should be completed within 2 weeks.</li> <li>SVP Operations in USPS headquarters makes final decision to approve or disapprove an AMP proposal within 2 weeks of receiving it from regional management.</li> <li>Stakeholders are notified of the decision prior to implementation of an approved AMP.</li> </ul>	<ul style="list-style-type: none"> <li>Regional management must conduct two postimplementation reviews (PIRs) to assess whether planned savings, work hours, and levels of services are met. The first PIR covers the first 6 months after implementation, and the final PIR covers the first year after implementation.</li> </ul>
<b>Goal for completion time:</b> 2 months	<b>Goal for completion time:</b> 2 months	<b>Goal for completion time:</b> 1 month	

Source: GAO analysis of USPS data.

As shown in figure 3, 4 of the 27 AMP proposals we reviewed were completed in less than 5 months, while others took longer because of various factors, such as resolving conflicting interests from stakeholders and staffing issues. According to USPS officials, the time frames are goals to ensure the process moves forward, but USPS will take the time necessary to ensure that any issues that arise from an AMP proposal are resolved and appropriate decisions are made, even if doing so means going beyond the targeted 5-month time frame. For example, while USPS headquarters completed its review in June 2009 of consolidating the Dallas, TX, P&DC into the North Texas P&DC, the AMP proposal was not approved until December 2009 partially because the OIG was concurrently reviewing the AMP proposal in response to a congressional request. Many of the interim steps in the process conducted by the local and regional management also have time frames associated with them, such as studying the feasibility of an AMP proposal within a 2-month period. However, according to officials, USPS does not centrally track all the dates associated with the interim steps in the process because reviewing AMP proposals is an ongoing, iterative process with some steps occurring

concurrently among local and regional USPS management and headquarters.

**Figure 3: Processing Time for AMP Proposals We Reviewed (October 2008–March 2010)**



- CSPMC** - Customer Service Mail Processing Center
- MPA** - Mail Processing Annex
- P&DC** - Processing and Distribution Center
- P&DF** - Processing and Distribution Facility
- PO** - Post Office
- SCF** - Sectional Center Facility

Source: GAO analysis of USPS data.

Note: The processing time was calculated using 30 days in a month; as a result, the calculation above includes portions of the days in months it took USPS to complete processing an AMP proposal. For example, 7.5 months above translates to 7 months and 15 days for USPS to complete processing the Oxnard P&DF proposal.

An important part of the process is notifying and communicating with stakeholders, and USPS completed these steps as called for in its guidance. USPS is required to notify stakeholders, including employees,

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employee organizations, appropriate individuals at various levels of government, local mailers, community organizations, and the local media, as to when a feasibility study is initiated and when a final decision is made on the AMP proposal. According to its guidance, USPS must also provide stakeholders with available information about any service changes that may be affected from the proposed AMP consolidation and give ample opportunities for stakeholders to provide input on the AMP proposals. USPS is also required to conduct a public meeting after the local USPS management completes and forwards the feasibility study to regional and headquarters management for their review. We reported in 2008 that USPS had improved communication with stakeholders with regard to AMP proposals. In our analysis, we found that USPS consistently notified the stakeholders when a feasibility study was initiated and when a final decision was made; we also found that USPS consistently held public meetings and summarized public input for each AMP proposal we reviewed. Representatives of the postal unions we spoke with also commented that the USPS has been following the process and communicating with them and that the local union representatives generally attended the public meetings and were involved with the process.

The last step in the AMP process is completion of two postimplementation reviews to assess the results of the consolidation. USPS has completed two reviews of the 32 AMP proposals we reviewed and is in the process of completing five more. The postimplementation reviews are intended to evaluate and measure the actual results of consolidation decisions, including realized savings in work hours, transportation, maintenance, and facility costs. In the first postimplementation review of the consolidation of the Kansas City P&DC in Kansas into the Kansas City P&DC in Missouri, USPS identified cost savings of about \$22.3 million after the consolidation—\$13 million more than its original projected savings of \$9.3 million.<sup>10</sup> USPS officials commented that several factors unrelated to the consolidation, such as the use of in-house maintenance employees rather than outsourced labor for facility projects and incentives for retirement in the fall of 2009, contributed to the larger than expected savings. Similarly, USPS identified cost savings of about \$6.3 million in the first postimplementation review of the Canton P&DC consolidation with the

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<sup>10</sup>USPS fully implemented the consolidation of Kansas City P&DC in Kansas into the Kansas City P&DC in Missouri on July 1, 2009. USPS did not renew the lease of the Kansas City P&DC in Kansas, and it was closed in January 2010.

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Akron P&DC in Ohio—\$4.1 million more than its original projected savings of \$2.2 million. According to USPS officials, the original projections were made based on expected savings resulting from the consolidation. For both postimplementation reviews, additional savings have been realized in part because mail volume has continued to decline resulting in further reductions in work hours and transportation costs.

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### USPS Has Consistently Considered Its Criteria in the Decision-Making Process

Based on our analysis of 32 AMP proposals that USPS had decided on since October 2008, USPS consistently considered the criteria in its guidance when making its decisions. According to the AMP guidance, USPS must consider the following four criteria:

- impacts on the service standards for all classes of mail,
- issues important to local customers,
- impacts to USPS staffing, and
- savings and costs associated with moving mail processing operations.

We also found that USPS has standardized its AMP data sources and analytical methodologies to achieve more consistent analysis when evaluating the criteria during the decision-making process. In addition, the OIG independently reviews data and the criteria USPS has used to validate the business cases for some AMP proposals. For instance, the OIG validated the business case for some of the AMP proposals we reviewed, including the consolidations of operations at Dallas P&DC into North Texas P&DC in Texas and New Castle processing and distribution facility (P&DF) into Pittsburgh P&DC in Pennsylvania.<sup>11</sup> Additionally, the OIG concurred with the business decisions for consolidating mail processing operations at the Canton P&DC with the Akron P&DC in Ohio and Lakeland P&DC and Manasota P&DC with the Tampa P&DC in Florida. While USPS consistently evaluated these criteria, a stakeholder we spoke with commented that USPS does not provide a complete set of data it uses to make its decisions. Although USPS is not required to provide complete data that are used to consider AMP proposals under the AMP guidance,

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<sup>11</sup>Office of Inspector General, U.S. Postal Service, *Dallas Processing and Distribution Center Outgoing Mail Consolidation (Report Number NO-AR-10-003)* (Washington, D.C.: Feb. 24, 2010) and *New Castle Processing and Distribution Facility Outgoing Mail Consolidation (Report Number NO-AR-10-002)* (Washington, D.C.: Feb. 1, 2010).

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the stakeholder believed that more data transparency is needed to permit validation of USPS's AMP decisions. According to USPS officials and USPS guidance, AMP proposals contain commercially sensitive information, and public disclosure of the information could cause competitive harm to USPS. Accordingly, sensitive data contained in AMP proposals is redacted.

For the proposals we reviewed, we found that USPS assessed the impact that a consolidation would have on the service standards for all classes of mail and considered issues important to local customers.<sup>12</sup> Two of the AMP proposals we reviewed—the consolidation of operations at Mansfield P&DF into Akron P&DC in Ohio and Zanesville Post Office into Columbus P&DC in Ohio—were not approved due to a potential downgrade in the delivery services for First-Class Mail®, despite potential cost savings for consolidating those facilities. In other instances, the AMP proposal was approved even though a downgrade in service for a particular class of mail was identified, such as Package Services, because an upgrade in delivery services of other mail classes was also identified, such as First-Class Mail®. According to USPS officials, it is the overall net effect of changes in delivery services that are considered in the decision-making process. In the case of considering issues important to local customers, USPS assessed whether the AMP proposal would impact customer service, such as any changes in mail pickup times, hours for business mail acceptance, and hours of retail operations. In many of the AMP proposals we reviewed, USPS forecasted that there would be no adverse impact on local customer service. USPS also forecasted that many of the retail hours at bulk mail entry units covered in the AMP proposals would not be changed.

The impact that an AMP proposal would have on USPS staffing and estimating savings and costs associated with the consolidation are also important criteria in the AMP decision process. When considering the impact on staffing, USPS examined and estimated the potential number of positions that would be reduced or transferred to gaining facilities. This is a reduction in the number of positions that are allotted to a facility and not necessarily a loss of employees. Employees, who are impacted by the consolidation, are given positions in the gaining facility, or other facilities,

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<sup>12</sup>Service standards are USPS's goal that directs how many days it should take mail to reach its destination, depending on its origin and mail class. For instance, First-Class Mail® has service standards of overnight, 2 and 3 days depending on the distance it has to travel.

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in accordance to their respective collective bargaining agreements.<sup>13</sup> USPS estimated a total reduction of 1,263 allotted positions for the AMPs we reviewed. In estimating potential costs and savings, USPS assessed work hour savings from staffing changes, savings associated with transportation and maintenance, as well as savings associated with space and leasing facilities. USPS also examined one-time costs associated with relocating staff, moving mail processing equipment, and changing facilities. If overall estimated cost savings were not identified, then the AMP proposal would not proceed. For example, while cost savings were identified in the AMP proposal to consolidate operations at Hattiesburg Customer Service Mail Processing Center with Gulfport P&DF in Mississippi, the proposal was not approved because one-time costs associated with moving mail processing equipment were not identified, and thus, the estimated total annual savings were insufficient. USPS estimated a total annualized cost savings of about \$98.5 million for the 29 approved and implemented AMP proposals we reviewed.<sup>14</sup>

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## USPS Implementation of 2005 Recommendation

In 2005, we reported that because USPS did not have criteria to consider, or a process to follow, when making mail processing consolidation decisions, it was not clear whether the decisions would be made in a manner that is fair to all stakeholders or that is efficient and effective.<sup>15</sup> As such, we recommended that USPS establish a set of criteria for evaluating consolidation decisions, develop a process for implementing these decisions that includes evaluating and measuring the results, and develop a mechanism for informing stakeholders as decisions are made. In 2008, we reported that USPS had made progress on implementing our prior recommendations: USPS established criteria for evaluating consolidation decisions, developed a process for evaluating and measuring the results of its AMP decisions, modified its AMP Communication Plan to improve public notification, engagement, and transparency, and clarified its process for addressing public comments.<sup>16</sup> As stated earlier, we found that

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<sup>13</sup>According to its Network Plan, USPS's first step in minimizing the impact of network initiatives on employees is to explore internally reassigning career employees affected by organizational change.

<sup>14</sup>Although we reviewed 32 AMP proposals, 3 of them were not approved and, therefore, we did not include the estimated cost savings in our analysis.

<sup>15</sup>[GAO-05-261](#).

<sup>16</sup>[GAO-08-1134R](#).

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USPS followed its AMP process and consistently applied its criteria for evaluating AMP proposals that we reviewed.

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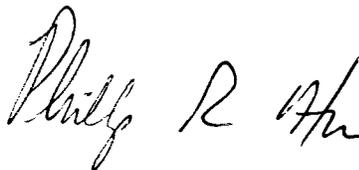
## Agency Comments

We provided a draft of this report to USPS for official review and comment. In response, USPS provided technical comments that we incorporated where appropriate.

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We are sending copies of this report to the Postmaster General, appropriate congressional committees, and other interested parties. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions concerning this report, please contact me at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.



Phillip R. Herr  
Director, Physical Infrastructure Issues

# Appendix I: Area Mail Processing Proposals

Table 2 below lists Area Mail Processing (AMP) proposals under review by USPS, while Table 3 lists AMP proposals that we reviewed.

**Table 2: Facilities Involved in AMP Proposals Under Review by USPS as of March 2010**

Location of AMP proposal	Facility downsizing operations <sup>a</sup>	Facility gaining operations
California	Industry P&DC	Santa Ana P&DC
	Mojave P&DC	Bakersfield P&DC
Florida	Daytona Beach P&DF	Mid-Florida P&DC
	Panama City P&DF	Pensacola P&DC
Georgia	Atlanta P&DC	North Metro P&DC
	Columbus CSMPC	Macon P&DC
Illinois	Fox Valley P&DC	South Suburban P&DC
Indiana	Lafayette P&DF	Indianapolis P&DC
Kentucky	London P&DF	Lexington P&DC
Kentucky/ Tennessee	Bowling Green P&DF	Nashville P&DC
Maryland	Easton P&DF	Baltimore P&DC
Michigan	Kalamazoo P&DC	Grand Rapids P&DC
	Saginaw P&DC	Lansing P&DC
Mississippi	Grenada CSMPC	Jackson P&DC
Mississippi/ Tennessee	Tupelo CSMPC	Memphis P&DC
New Jersey	Kilmer P&DC	Dominick V. Daniels P&DC/ Trenton P&DC
	West Jersey P&DC	Northern Metro P&DC/ Kilmer P&DC
Ohio	Lima P&DF	Toledo P&DC
Pennsylvania	Southeastern P&DC	Philadelphia P&DC
Tennessee	Jackson CSMPC	Memphis P&DC
Virginia	Dulles P&DC	Merrifield P&DC
Virginia/ Tennessee	Bristol P&DF	Johnson City P&DC
West Virginia/ Pennsylvania	Wheeling P&DF	Pittsburgh P&DC
Wisconsin	Green Bay P&DC	Oshkosh P&DC

Source: USPS.

<sup>a</sup>The types of facilities involved include: Customer Service Mail Processing Center (CSMPC); Mail Processing Annex (MPA); Post Office (PO); Processing and Distribution Center (P&DC); Processing and Distribution Facility (P&DF); Sectional Center Facility (SCF).

**Appendix I: Area Mail Processing Proposals**

**Table 3: Facilities Involved in AMP Proposals USPS Approved from October 2008 through March 2010**

Dollars in millions

<b>AMP proposal location</b>	<b>Facility downsizing operations<sup>a</sup></b>	<b>Facility gaining operations</b>	<b>Estimated annual savings as a result of consolidation</b>
California	Long Beach P&DC	Santa Ana P&DC	\$3.2
	Marysville P&DF	Sacramento P&DC	\$5.1
	Oxnard P&DF	Santa Clarita (Van Nuys) P&DC	\$1.8
Florida	Lakeland P&DC	Tampa P&DC	\$1.5
	Manasota P&DC	Tampa P&DC	\$3.2
	South Florida P&DC	Fort Lauderdale P&DC/ Miami P&DC	\$2.8
Georgia	Athens CSMPC	North Metro P&DC	\$2.4
Illinois	Palatine P&DC	Carol Stream P&DC	\$9.5
Indiana	Bloomington MPA	Indianapolis P&DC	\$1.1
Kansas/ Missouri	Kansas City P&DC	Kansas City P&DC	\$9.3
Maryland	Frederick P&DF	Suburban P&DC	\$1.1
Massachusetts	Cape Cod P&DF	Brockton P&DC	\$1.9
Michigan	Detroit P&DC	MI MetroPlex P&DC	\$4.4
	Flint P&DC	MI MetroPlex P&DC	\$1.4
Mississippi	Hattiesburg CSMPC	Gulfport P&DF	Data not applicable <sup>b</sup>
New Hampshire	Portsmouth P&DF	Manchester P&DC	\$1.2
New Jersey	Newark P&DC	Dominick V. Daniels P&DC	\$3.5
New York	Binghamton P&DF	Syracuse P&DC	\$1.2
	Queens P&DC	Brooklyn P&DC	\$6.6
	Staten Island P&DF	Brooklyn P&DC	\$1.9
	Watertown PO	Syracuse P&DC	\$2.7
	Western Nassau P&DC	Mid-Island P&DC	\$2.9
North Carolina	Hickory P&DF	Greensboro P&DC	\$1.3
	Kinston P&DF	Fayetteville P&DC	\$1.1
Ohio	Canton P&DF	Akron P&DC	\$2.2
	Mansfield P&DF	Akron P&DC	Data not applicable <sup>b</sup>
	Zanesville PO	Columbus P&DC	Data not applicable <sup>b</sup>
Pennsylvania	New Castle P&DF	Pittsburgh P&DC	\$1.5
	Wilkes-Barre P&DF	Lehigh Valley P&DC/ Scranton P&DC	\$6.1
Texas	Dallas P&DC	North Texas P&DC	\$9.4

**Appendix I: Area Mail Processing Proposals**

Dollars in millions			
<b>AMP proposal location</b>	<b>Facility downsizing operations<sup>a</sup></b>	<b>Facility gaining operations</b>	<b>Estimated annual savings as a result of consolidation</b>
Virginia	Charlottesville P&DF	Richmond P&DC	\$6.5
	Winchester SCF	Dulles P&DC	\$1.6
<b>Total estimated annual savings</b>			<b>\$98.5</b>

Source: GAO analysis of USPS data.

<sup>a</sup>The types of facilities involved include: P&DC, P&DF, PO, CSMPC, SCF, and MPA.

<sup>b</sup>Although we reviewed 32 AMP proposals, 3 of them were not approved and, therefore, we did not include the estimated cost savings in our analysis.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

In addition to the individual named above, Maria Edelstein, Assistant Director; Colin Fallon; Brandon Haller; Jennifer Kim; Jaclyn Nelson; and Crystal Wesco made key contributions to this report.

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