OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Frederick, MD to Baltimore, MD Area Mail Processing Consolidation

Audit Report

July 3, 2012

Report Number NO-AR-12-006

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

July 3, 2012

Frederick, MD to Baltimore, MD Area Mail Processing Consolidation

Report Number NO-AR-12-006

BACKGROUND:

The U.S. Postal Service is facing one of the most difficult challenges in its history. Mail volumes peaked at 213 billion pieces in 2006. In 2011, mail volume had declined to 168 billion pieces, a 25 percent decline over the past 5 years. The Postal Service implemented Area Mail Processing to consolidate mail processing operations, eliminate excess capacity, increase efficiency, and better use resources. Consolidations provide opportunities for the Postal Service to reduce costs, improve service, and operate as a leaner, more efficient organization.

This audit responds to a request from Congresswoman Shelley Moore Capito, 2nd District, West Virginia on consolidation of destinating mail processing operations from the Frederick, MD Processing and Distribution Facility (P&DF) into the Baltimore Processing and Distribution Center (P&DC). Our objectives were to assess the October 2011 through January 2012 consolidation and examine stakeholder concerns.

WHAT THE OIG FOUND:

Consolidation of the Frederick P&DF destinating mail processing operations into the Baltimore P&DC initially resulted in significant delayed mail and declines in service and customer experience scores. In addition, transportation costs increased by about $558,000 over the period. These conditions occurred because:

- The consolidation took place during the heaviest volume period of the year.
- Significant turnover occurred in key management positions during the consolidation period.
- Management did not adequately plan for consolidation transportation needs.

Management acknowledged there were challenges and mail delays during initial implementation of the consolidation and service and customer experience scores declined. However, management has addressed many of the problems experienced during the consolidation and operating conditions have improved as of February 2012.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Capital Metro Area, avoid implementing consolidations during the fall and Christmas mailing seasons, as appropriate, ensure it meets customer service commitments, and complete transportation schedule adjustments to avoid late and extra trips.

Link to review the entire report

July 3, 2012

MEMORANDUM FOR: DAVID C. FIELDS
VICE PRESIDENT, CAPITAL METRO AREA

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

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

SUBJECT: Audit Report – Frederick, MD to Baltimore, MD Area Mail Processing Consolidation
(Report Number NO-AR-12-006)

This report presents the results of our audit of the Frederick, MD Processing and Distribution Facility Area Mail Processing consolidation into the Baltimore, MD Processing and Distribution Center (Project Number 12YG017NO000).

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

Attachments

cc: David E. Williams, Jr.
Kevin L. McAdams
Darrell C. Young
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the Frederick, MD Processing and Distribution Facility (P&DF) Area Mail Processing (AMP) consolidation into the Baltimore, MD Processing and Distribution Center (P&DC) (Project Number 12YG017NO000). The report responds to a request from Congresswoman Shelley Moore Capito, 2nd District, West Virginia, and addresses operational risk. Our objectives were to assess consolidation of the Frederick P&DF destinating[1] mail into the Baltimore P&DC and examine stakeholder concerns. See Appendix A for additional information about this audit.

The U.S. Postal Service began consolidating destinating mail processing operations from the Frederick P&DF into the Baltimore P&DC in October 2011. The consolidation involved Frederick's ZIP Code 217 destinating mail and the average daily volume transferred to Baltimore was 860,841 pieces. Consolidation was completed in January 2012. The Frederick P&DF's originating mail processing operations were previously consolidated into the Suburban, MD P&DC in July 2010.

Conclusion

Consolidation of the Frederick P&DF destinating mail into the Baltimore P&DC resulted in significant increases of delayed mail as well as declines in service and customer experience scores.[2] These conditions occurred because:

- The consolidation took place during the heaviest volume period of the year.[3]
- There was significant turnover in key management positions during the consolidation period.
- Management did not adequately plan for post-consolidation transportation needs.

Management acknowledged there were challenges and mail delays during the initial implementation of the consolidation and that service and customer experience scores declined. However, local management has addressed many of the problems experienced during the consolidation and operating conditions have improved as of February 2012.

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[1] Destinating mail is incoming mail arriving for its point of final delivery (destination) through a processing facility.
[2] Customer Experience Measurement (CEM) provides an end-to-end approach to assessing experience with the Postal Service from the customers' perspective, including quality of service received.
[3] The consolidation took place between October 2011 and January 2012. This period includes the fall and Christmas mailing seasons.

Delayed Mail

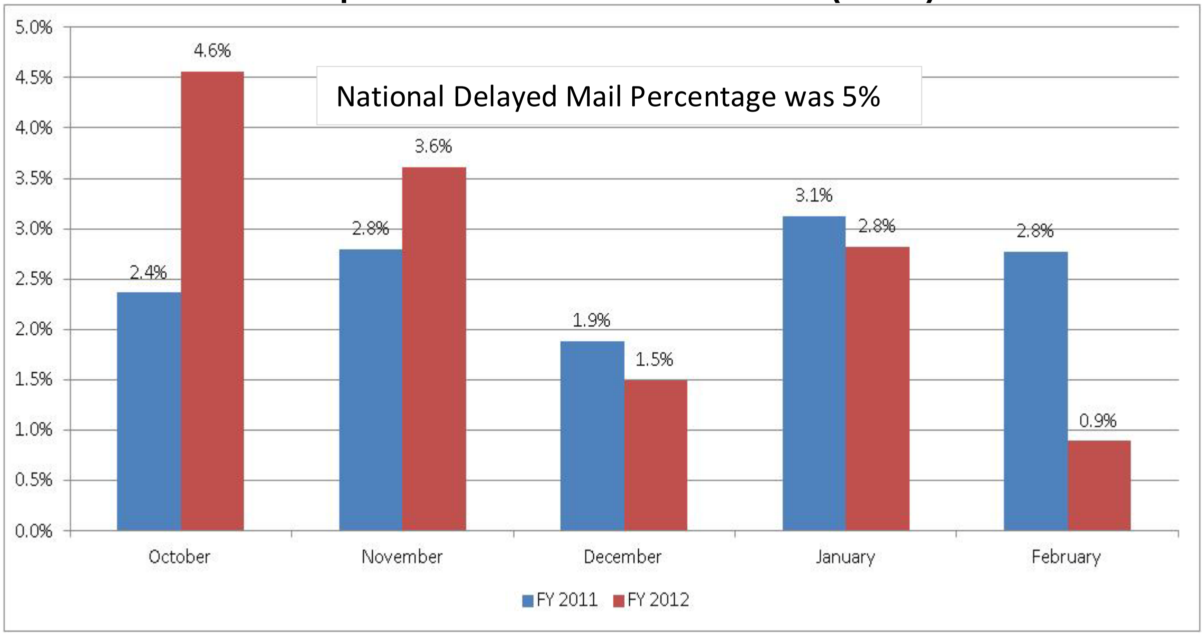
Delayed mail significantly increased as a result of the consolidation but has shown improvement since February 2012. For example, delayed mail increased from 2,814,610 pieces (2.4 percent of total mail volume) in October 2010 to 5,221,092 pieces (4.6 percent of total mail volume) in October 2011, an increase of nearly 200 percent. Delayed mail occurred despite sufficient floor space and machine capacity at the Baltimore P&DC (see Table 1). Conditions began to improve in subsequent months, and in February 2012 delayed mail decreased to 937,024 pieces, or just .9 percent of total mail volume (see Chart 1).

Table 1: Baltimore Machine Capacity

Equipment	Maximum Annual Capacity (Mailpieces)	Combined Current Volume (Mailpieces)	Capacity Remaining (Mailpieces)	Percentage of Capacity Being Used
Advanced Facer Canceller System	601,757,987	232,794,895	368,963,092	39%
Automated Flat Sorter Machine100	251,100,000	148,217,429	102,882,571	59%
Combined Input Output Subsystem	195,300,000	140,785,756	54,514,244	72%
Delivery Bar Code Sorter	2,555,439,152	1,858,718,305	696,720,847	73%
Automated Package Processing System	35,672,630	32,237,270	3,435,360	90%
Delivery Bar Code Sorter Output Subsystem	499,710,493	410,407,449	89,303,044	82%
Low Cost Tray Sorter	4,671,401	2,478,139	2,193,262	53%
Automated Parcel and Bundle Sorter	21,130,065	5,623,364	15,506,701	27%

Source: Web End of Run (WebEOR) data extracted March 28, 2012.

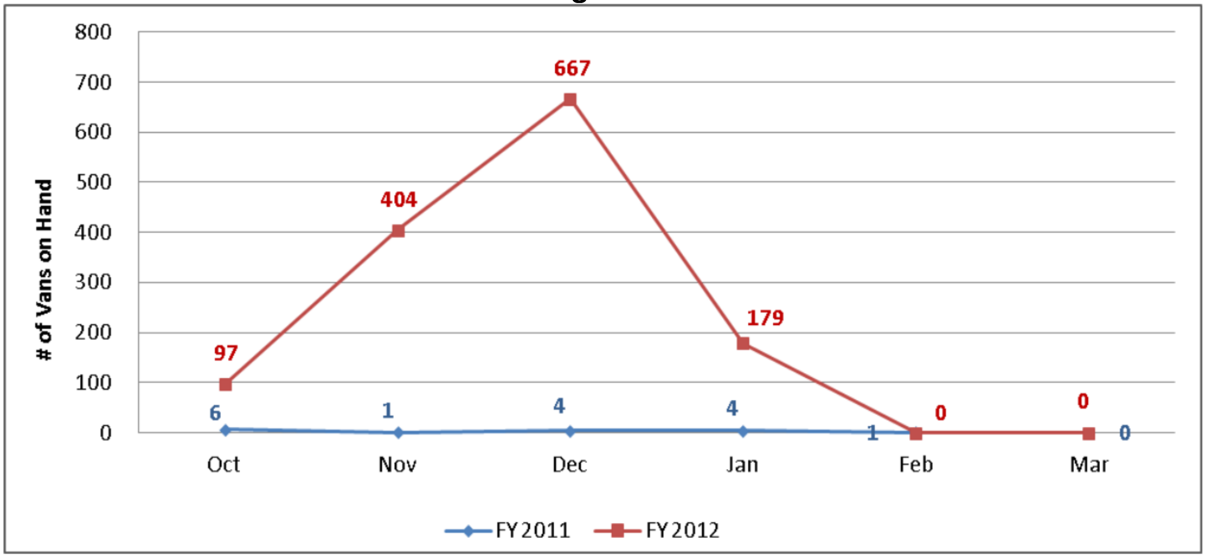
Chart 1: Delayed Mail Baltimore P&DC Compared to Same Period Last Year (SPLY)



Source: Mail Condition Reporting System (MCRS) data extracted March 21, 2012.

Similarly, the number of trucks at the Baltimore P&DC — referred to as vans on-hand — significantly increased as a result of the consolidation. These vans on-hand contained mail and were waiting to be unloaded and processed. The number of vans on-hand rose from 97 in October 2011 to 667 in December 2011. Management addressed this problem and, as of March 2012, there were no reported vans on-hand (see Chart 2).

Chart 2: Vans On-Hand Baltimore P&DC October 2011 Through March 2012 vs. SPLY

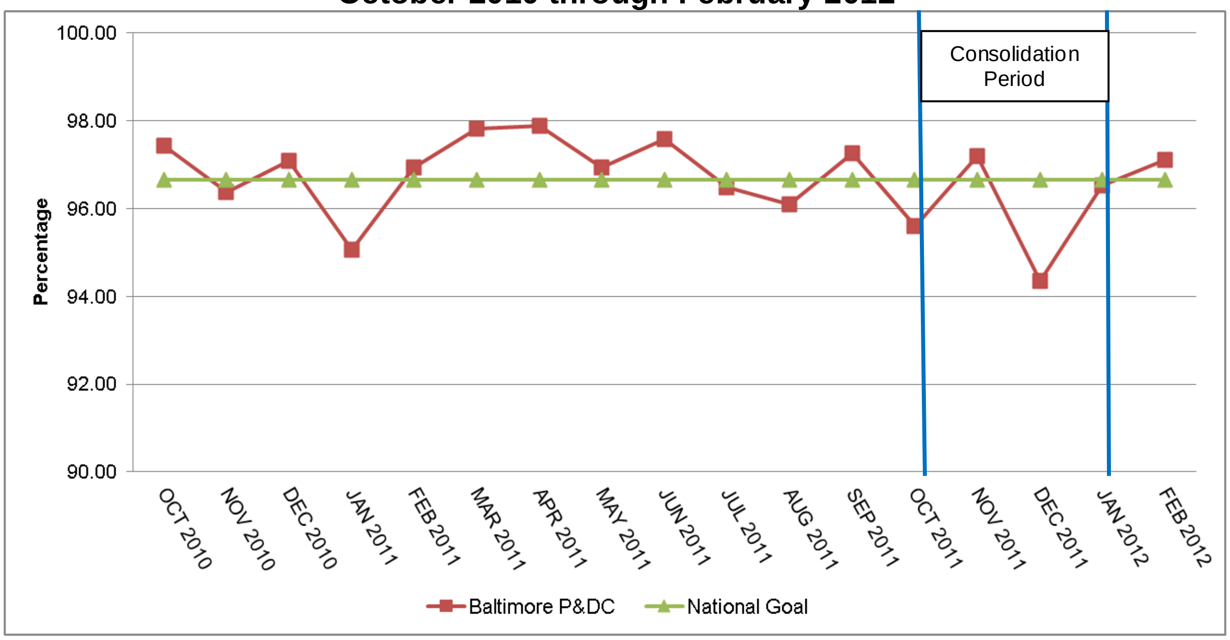


Source: MCRS data extracted April 19, 2012.

External First-Class Scores

External First-Class (EXFC)[4] measurement system scores were adversely impacted by the consolidation but have begun to rebound. For example, since October 2011 when the consolidation occurred, EXFC scores generally declined for all service standards, reaching their lowest point in December of 2011. However, in January 2012 overnight scores rose to national levels and 2-day and 3-day scores rebounded in February 2012 (see Charts 3, 4, and 5). This is an indicator that management has addressed many of the issues that impacted operations during the consolidation to ensure the timely processing of mail.

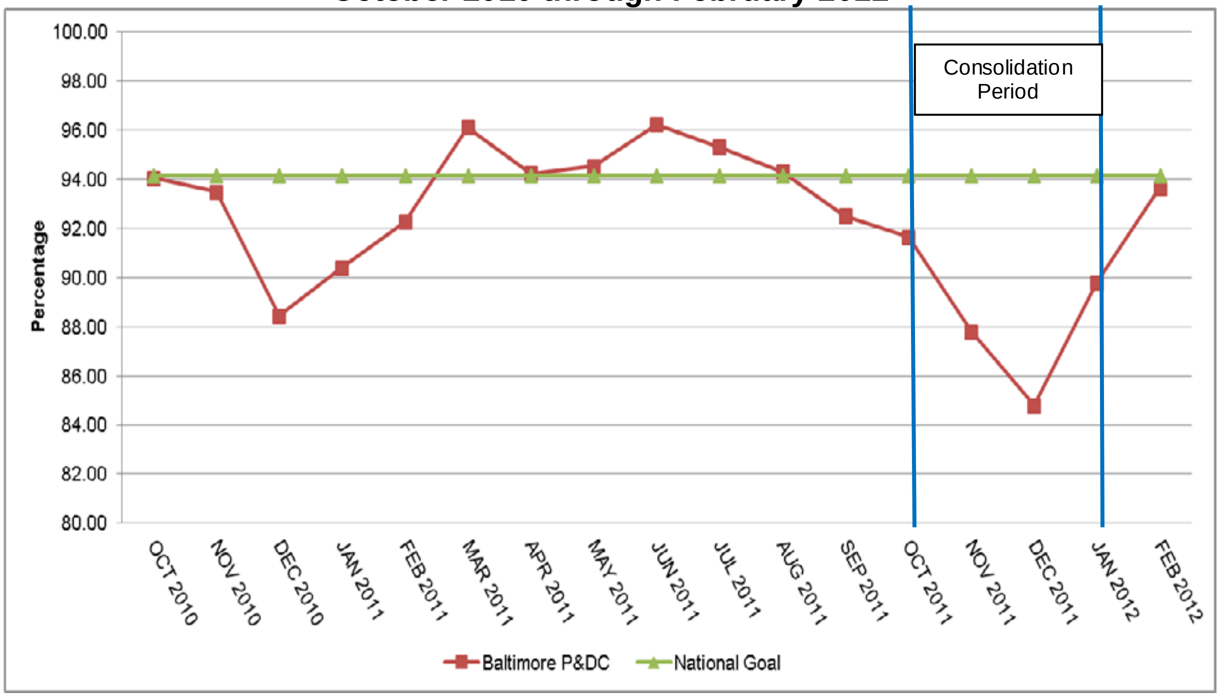
Chart 3: Baltimore P&DC and National Goal Overnight EXFC Service Scores October 2010 through February 2012



Source: Postal Service, Enterprise Data Warehouse (EDW) data extracted on March 17, 2012.

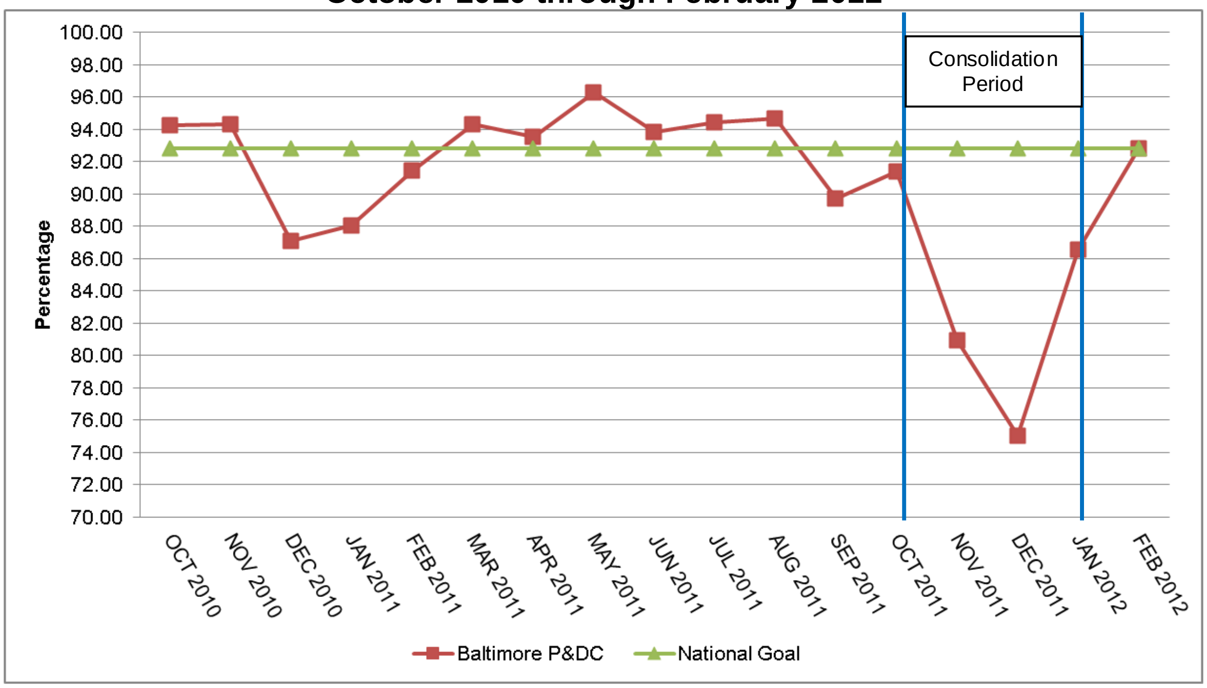
[4] A system whereby a contractor performs independent service performance tests on certain types of First-Class Mail "that is, (letters, flats, postcards) deposited in collection boxes and business mail chutes." It provides national, area, performance cluster, and city estimates, which are compared with Postal Service goals. The consumer advocate releases the results to the public quarterly.

Chart 4: Baltimore P&DC and National Goal
2-Day EXFC Service Scores
October 2010 through February 2012



Source: Postal Service, EDW data extracted on March 17, 2012.

Chart 5: Baltimore P&DC and National Goal
3-Day EXFC Service Scores
October 2010 through February 2012



Source: Postal Service, EDW data extracted on March 17, 2012.

Customer Experience Measurement Scores

Some CEM[5] scores declined during the consolidation and still require management's attention. For example, during the consolidation (Quarter 1, fiscal year (FY) 2012), the CEM residential score for Frederick's 217 ZIP Code fell 2.1 percent compared to SPLY. After the consolidation was complete (Quarter 2, FY 2012), the CEM score continued to decline and fell 17.2 percent compared to SPLY.

Furthermore, scores for Baltimore ZIP Codes 212 and 219 increased 0.4 percent and 9.7 percent, respectively, in Quarter 1, FY 2012. In the Quarter 2, FY 2012 scores for ZIP Code 212 increased 1.5 percent; however, the score for ZIP Code 219 decreased by 12.2 percent. Although Baltimore's 212 ZIP Code increases in both quarters, the scores were below the national averages (see Table 2).

Table 2: CEM Scores
FY 2012 Quarters 1 and 2 Compared to SPLY

Residential Scores	**FY 2011**		**FY 2012**			
3-Digit ZIP Code	**Quarter 1**	**Quarter 2**	**Quarter 1**	**Quarter 2**	**Percentage Change Quarter 1, 2011 vs. Quarter 1, 2012**	**Percentage Change Quarter 2, 2011 vs. Quarter 2, 2012**
Frederick (217)	91.14	91.61	89.26	75.88	-2.1%	-17.2%
Baltimore (212)	82.59	80.30	82.95	81.53	0.4%	1.5%
Baltimore (219)	91.18	100.00	100.00	87.80	9.7%	-12.2%
National Averages	**86.55**	**86.80**	**88.59**	**87.63**	**2.4%**	**0.96%**

Source: Postal Service data received May 8, 2012.

Causes

These conditions occurred because:

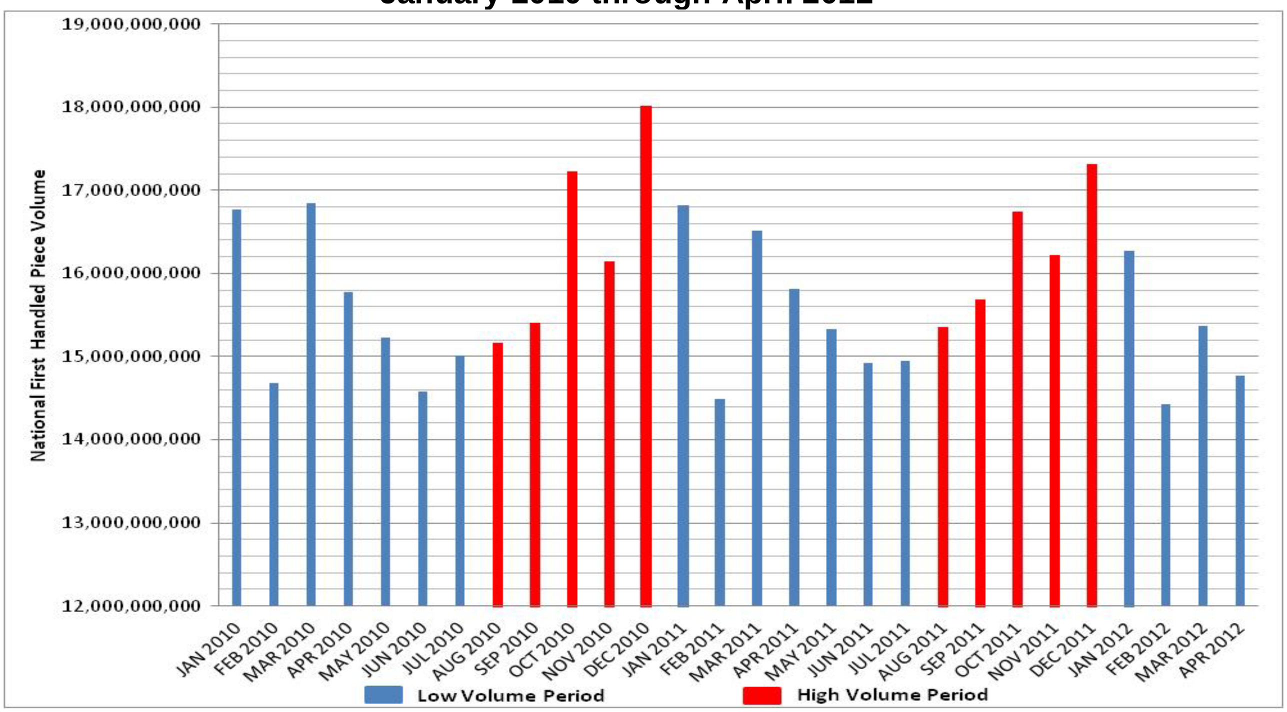
[5] CEM provides an end-to-end approach to assessing experience with the Postal Service from the customers' perspective, including quality of service received.

- The consolidation took place during the heaviest volume period of the year.[6]
- Significant turnover occurred in key management positions.
- Management did not adequately plan for consolidation transportation needs, resulting in extra transportation cost of $558,000.

Consolidation Implementation Period

The consolidation occurred between October 2011 and January 2012, during the fall mailing season,[7] followed by the Christmas mailing season,[8] which is historically the busiest time of the year for the Postal Service. This compounded the difficulty of implementing the consolidation successfully (see Chart 6).

Chart 6: National Monthly First-Handled Piece Volume January 2010 through April 2012



Source: Postal Service, EDW data extracted on May 2, 2012.

Implementing a consolidation during this high-volume period increased delayed mail and adversely impacted customer service.

[6] The consolidation took place between October 2011 and January 2012. This period includes the fall and Christmas mailing seasons.
[7] The fall mailing season runs from mid-August through Thanksgiving.
[8] The domestic Christmas holiday mailing season lasts from Thanksgiving through December.

Employee Reassignments

The consolidation of destinating mail from the Frederick P&DF to the Baltimore P&DC resulted in reassigning 210 of 211[9] Frederick P&DF employees. Of these 210 employees, 109 were reassigned to the Baltimore P&DC, 14 were reassigned to the Baltimore Incoming Mail Facility (IMF), and 87 were reassigned to other offices.

While the Frederick P&DF did not process any mail after October 29, 2011, the majority of employees (about 80 percent) were not moved to the Baltimore P&DC until November 19, 2011, 20 days after the mail was moved to the plant (see Table 3). This was due to provisions in the American Postal Workers Union (APWU) Labor Agreement, which limits reassignments to once every 3 months and mandates that all impacted employees are reassigned on the same date.[10] In order to meet the requirements of the APWU agreement, fully staff the mail processing equipment, and keep the impacted employees productive, the Postal Service bused about 40 employees[11] from the Frederick P&DF to the Baltimore P&DC daily from November 1-18, 2011.

Table 3: Frederick P&DF Employee Report Dates

Craft	Oct. 15	Oct. 22	Oct. 29	Nov. 5	Nov. 12	Nov. 19	Nov. 22	Nov. 29	Total
Clerk						70			70
Mail Handler.	3	4	5	5	3	12	1	1	34
Maintenance						5			5
Totals	3	4	5	5	3	87	1	1	109
Percentage of Employees	**2.75**	**3.67**	**4.59**	**4.59**	**2.75**	**79.8**	**.92**	**.92**	**100%**

Source: Postal Service data received March 9, 2012.

Management Turnover

Several key management positions were vacated during the consolidation, including the senior plant manager, Transportation manager, and Human Resources manager. Understaffing and a lack of continuity in key management positions contributed to the issues that impacted operations during the consolidation.

[9] One maintenance employee remained at the Frederick P&DF to prepare the facility for sale.
[10] Article 12, Section 4, B.1 of *Collective Bargaining Agreement Between American Postal Workers Union, AFL-CIO, and U.S. Postal Service November 21, 2010 through May 20, 2015* states that "dislocation and inconvenience to full-time and part-time flexible employees shall be kept to the minimum consistent with the needs of the service. When the reassignment of employee(s) represented by the APWU is to withhold vacancies outside of the employee's present installation, the date on which the reassignment will occur will be the same for all impacted employees within the same Postal Area in which the excessing is occurring. Excessing of APWU employees within the same postal area cannot occur more than once in any 3 calendar month period, except by mutual agreement of the parties."
[11] The Frederick P&DF employees who were not bused to the Baltimore P&DC remained at the Frederick P&DF to work flat bundles and Priority Mail manually until their November 19 report date to the Baltimore P&DC.

Transportation Needs

Management did not adequately plan for post-consolidation transportation needs before implementing the consolidation and did not adjust transportation schedules during the consolidation. Additionally, the Transportation manager's position was vacated during the consolidation.

Improper planning and oversight of transportation needs resulted in increased costs and underutilized trailers. We reviewed trailer utilization rates,[12] extra trips, and late payments[13] and found that:

- The cost for extra trips and late payments increased by $558,000 during the period of review.
- During the consolidation, most of the trailers were only 30 to 50 percent full when they left the dock.

The 24-hour clock indicator for "trips on time" showed the Baltimore P&DC had difficulty meeting this goal since the consolidation. From October 1, 2011, through March 31, 2012, the Baltimore P&DC met this goal only 42 percent of the time. Meeting this goal helps ensure timely delivery of mail and maintains customer satisfaction. Management indicated they are updating the dispatch times and working on a proposal to create five hubs[14] that will significantly reduce extra trips and late payments.

Other Matters

Safety

During the consolidation, Baltimore P&DC employees filed three complaints with the Occupational Safety and Health Administration (OSHA) that were unsubstantiated. One additional complaint was filed shortly after the consolidation was completed. OSHA officials investigated these complaints but found no compliance issues and closed the cases without issuing fines (see Table 4).

**Table 4: OSHA Complaints
October 2011 Through February 2012**

Complaint Date	Complaint	Status
10/24/2011	Congestion in the Plant	Closed/No Fine
10/31/2011	Wire Containers Overfilled	Closed/No Fine
11/30/2011	Trash around Elevators	Closed/No Fine
2/6/2012	Asbestos Concern[15] and	Closed/No Fine

[12] For the period October 1, 2011, through February 29, 2012.
[13] For the period October 1, 2011, through March 31, 2012.
[14] Centralized transportation sites to load and unload mail.
[15] A similar complaint filed on June 1, 2011 (before the consolidation) resulted in a fine of $5,000.

	Exits Blocked	

Source: OSHA data received March 23, 2012.

Linthicum Baltimore Incoming Mail Facility

During the consolidation, management diverted Priority Mail to the Linthicum Baltimore IMF for processing. However, it is standard procedure to process this mail at a facility other than the Baltimore P&DC during the Christmas mailing season. Some Priority Mail still continues to be processed at the IMF.

Area Mail Processing Process (Timeline)

The Postal Service complied with stakeholder communication policies and AMP study events were completed within established timeframes (see Table 5).

Table 5: Timeline of Events

Event	Date	Conducted Within AMP Timeframe
Area vice president (AVP) notified district or district notified AVP of intent to conduct study.	1/24/2011	Yes
Stakeholders notified of the intent to conduct study.	2/1/2011	Yes
District manager completed feasibility study and submitted to AVP within 2 months of notification to conduct study.	3/25/2011	Yes
District held public input meeting within 45 days after submitting study to AVP.	5/10/2011	Yes
District summarized information from public meeting and written comments within 15 days after meeting.	5/27/2011	Yes
Area and headquarters reviewed the feasibility study within 60 days from the time the study was submitted to the AVP.	7/19/2011	Yes
AVP approved the study after finalized worksheets were approved by area and headquarters and submitted study to senior vice president (SVP), Operations.	7/19/2011	Yes
SVP approved study within 2 weeks of receipt from AVP.	7/22/2011	Yes

Source: Postal Service data received April 13, 2012.

Recommendations

We recommend the vice president, Capital Metro Area:

1. Avoid implementing consolidations during the fall and Holiday peak mailing seasons as appropriate.

2. Ensure customer service commitments are met.

3. Complete transportation schedule adjustments to ensure timely processing of mail and avoid late and extra trips that resulted in $558,000 in additional cost.

Management's Comments

Management concurred with the finding and recommendation 1, acknowledging it was advantageous to avoid implementing consolidations during peak mailing seasons. However, there may be some low-risk situations where financial considerations dictate the consolidation moving forward even during peak mailing seasons.

Management concurred with the finding and recommendation 2. While service for Sectional Center Facility 217 declined during the consolidation, it has shown steady and sustained improvement during Quarter 3. Operations have now stabilized and service levels above national targets are being achieved.

Management concurred with the finding, the monetary impact and recommendation 3. Based on a schedule review, management stated the Postal Service was paying a contractor for services no longer required since the consolidation. They are working to ensure reimbursement of payments for services not performed and expect this to be completed by the end of the calendar year. See Appendix C for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to the recommendations and corrective actions should resolve the issues in identified in the report.

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 mail volume since peaking at 213 billion pieces in 2006. In 2011, mail volume had declined by 45 billion pieces to 168 billion pieces — a 25 percent decline over the past 5 years — resulting in $25 billion in net losses. Quarter 1, FY 2012 shows a loss of $3.3 billion.[16] This decline can be attributed to the recent recession, continuing economic pressures, and the use of electronic media (electronic diversion), as well as additional expenses associated with retirement health benefit prefunding requirements and increased workers' compensation expenses. These factors have had a significant adverse impact on both operating expenses and mail volume in recent years.

The Postal Service implemented the AMP process to consolidate mail processing operations. AMP guidelines[17] are used to consolidate mail processing functions, eliminate excess capacity, increase efficiency, and better use resources. Consolidations provide opportunities for the Postal Service to reduce costs, improve service, and operate as a leaner, more efficient organization.

In October 2011, the Postal Service created a portfolio of 36 strategic initiatives to meet ambitious performance and financial goals. Included in these initiatives is network optimization through reducing plants, adjusting the workforce, and increasing the use of processing equipment.

In June 2011 testimony before Congress, the U.S. Government Accountability Office said the Postal Service urgently needs to restructure its networks and operations as its financial condition and outlook are becoming a crisis. Financial problems exist because of declining mail volume brought on by customers' shift to electronic alternatives and the Postal Service's difficulty in reducing costs and eliminating excess network capacity.

Title 39 U.S.C. § 101, Part 1, Chapter 1, states that the Postal Service ". . . shall provide prompt, reliable, and efficient services to patrons in all areas." Further, the September 2005 Postal Service *Strategic Transformation Plan* states, "The Postal Service will continue to provide timely, reliable delivery to every address at reasonable rates." The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20, 2006, highlights ". . . the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services. . . "

This audit report responds to a request from Congresswoman Shelley Moore Capito, 2nd District, West Virginia, to independently review the consolidation of mail processing

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[16] This loss includes accruals of over $3.3 billion for retiree health benefits prefunding due in 2012.
[17] *Area Mail Processing Guidelines* (Handbook PO-408), March 2008.

operations from the Frederick P&DF into the Baltimore P&DC. The congressional request identified several concerns, including:

- Delayed mail.
- Significant increase in vans on-hand.
- Mail diverted to the Linthicum Baltimore IMF because the Baltimore P&DC could not process it.
- Potential safety violations.

Objectives, Scope, and Methodology

Our objectives were to assess consolidation of the Frederick, MD P&DF destinating mail into the Baltimore, MD P&DC and examine stakeholder concerns. We reviewed data from October 1, 2010, through March 31 2012, to analyze mail trends and efficiencies at the Baltimore P&DC. Additionally, we reviewed service scores, conducted observations at the Baltimore P&DC and Frederick post offices, and interviewed management.

We used computer-processed data from the following Postal Service systems:

- CEM System.
- EDW.[18]
- WebEOR.[19]

We conducted this performance audit from February through July 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 7, 2012, 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.

[18] EDW is an online source for the statistical files of Postal Service financial and operating systems.
[19] WebEOR stores end of run data from mail processing equipment.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Canton Processing and Distribution Facility Outgoing Mail Consolidation	NO-AR-09-011	9/22/2009	None	A business case existed to support the consolidation. No recommendations were made.
New Castle Processing and Distribution Facility Outgoing Mail Consolidation	NO-AR-10-002	2/1/2010	$1,813,643	A business case existed to support the consolidation. No recommendations were made.
Manasota Processing and Distribution Center Consolidation	EN-AR-10-003	2/12/2010	None	A business case existed to support the consolidation. Management agreed with the recommendation.
Lakeland Processing and Distribution Center Consolidation	EN-AR-10-004	2/12/2010	None	A business case existed to support the consolidation. No recommendations were made.
Dallas Processing and Distribution Center Outgoing Mail Consolidation	NO-AR-10-003	2/24/2010	$11,997,208	A business case existed to support the consolidation. Management agreed with the monetary impact and the recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Consolidation of Lima Processing and Distribution Facility Mail Operations into the Toledo Processing and Distribution Center	NO-AR-10-007	7/2/2010	None	A business case existed to support the consolidation. Management agreed with the recommendations.
Charlottesville Processing and Distribution Facility Consolidation	NO-AR-10-008	8/3/2010	None	A business case existed to support the consolidation. No recommendations were made.
Review of Wilkes-Barre, PA Processing and Distribution Facility Consolidation	NO-AR-11-001	10/4/2010	None	A business case existed to support the consolidation. No recommendations were made.
Marysville, CA Processing and Distribution Facility Consolidation	NO-AR-11-002	11/23/2010	None	A business case existed to support the consolidation. No recommendations were made.
Houston, TX Processing and Distribution Center Mail Consolidation	NO-AR-11-004	12/14/2010	$18,974,468	A business case existed to support the consolidation. Management agreed with the monetary impact and the recommendations.
Columbus, GA Customer Service Mail Processing Center Originating Mail Consolidation	NO-AR-11-005	2/14/2011	None	A business case existed to support the consolidation. No recommendations were made.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation	EN-AR-11-004	3/31/2011	$105,125	A business case existed to support the consolidation. Management agreed with the monetary impact and the recommendations.
Oshkosh, WI Processing and Distribution Facility Consolidation	NO-AR-11-006	7/29/2011	$3,477,469	A business case existed to support the consolidation with the exception of sufficient floor space and machine capacity. Management agreed with the recommendations but disagreed with our analysis of floor space and letter processing capacity.
Industry CA Processing and Distribution Center Mail Consolidation	NO-AR-12-002	10/17/2011	$1,321,651	A business case existed to support the consolidation. No recommendations were made.
Oxnard, CA Processing and Distribution Facility Destinating Mail Consolidation	NO-AR-12-004	3/6/2012	None	A business case existed to support the consolidation. Management agreed with our recommendations.

Appendix B: Monetary Impact

Finding	Impact Category	Amount
Transportation	Funds Put to Better Use[20]	$558,021

[20] Funds that could be used more efficiently by implementing recommended actions.

Appendix C: Management's Comments

AREA VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

June 20, 2012

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

SUBJECT: OIG Draft Audit Report – Frederick, MD to Baltimore, MD
Area Mail Processing Consolidation – (Report Number NO-AR-12-DRAFT)

The Capital Metro Area has reviewed the OIG Draft Audit Report – Frederick, MD to Baltimore, MD Area Mail Processing Consolidation – (Report Number NO-AR-12-DRAFT) and concurs with the general deficiencies of the OIG audit team. We agree in principle that a monetary impact exists and commit to capturing potential savings through implemented efficiencies. Additionally, this report and management's response do not contain information that may be exempt from disclosure under the FOIA (Freedom of Information Act).

Recommendation #1: Avoid implementing consolidations during the fall and Holiday peak mailing seasons as appropriate.
Management Response: Capital Metro Area concurs with the findings and recommendation. While we generally agree it is advantageous to avoid implementing consolidations during the fall and Holiday peak mailing seasons, there may be situations evaluated as low risk where savings potential and current financial situations may dictate moving forward. With employee moves being restricted to 3-month intervals, it may be necessary to schedule operational moves during this time period.

Recommendation #2: Ensure customer service expectations are met.
Management Response: Capital Metro Area concurs with the findings and recommendation. The service in the SCF 217 slipped slightly during the initial consolidation. As noted in the below chart however, the Baltimore District (and SCF 217 service area) have shown steady and sustained improvement and are achieving a national ranking of #11 in the current Postal Quarter 3 for on-time delivery of Overnight First Class Mail as measured by EXFC. Operations have stabilized and are achieving service levels above national target.

	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun MTD
Baltimore	97.66	94.16	96.30	96.67	96.21	96.65	97.28	98.62
SCF 217	96.53	93.62	96.08	96.69	96.41	96.92	98.55	100.00

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Recommendation #3: Complete transportation schedule adjustments to ensure timely processing of mail and avoid late and extra trips that result in $558,000 in additional costs.
Management Response: Capital Metro Area concurs with the findings and recommendation. After conducting a review of Extra trip payments on HCR 21017, Baltimore to Frederick, Hagerstown, and Northern Station it was determined that a payment discrepancy existed based on the amount being paid for "Prior Agreed" upon service. Since November 18, 2011, the contractor was being paid for services that were no longer being performed due to the closure/AMP of the Frederick P&DF. This consisted of scheduled service between the Baltimore P&DC and the Frederick P&DF. At the same time the contractor was receiving duplicate payment for extra service that replaced this prior agreed upon service.

As of April 1, 2012 the overpayment to this contractor that has been validated by the Area Contracting Office. The difference in payments for the period of November 2011 through March 2012 for this service was $97,000 per month, or $485,000. The Area Distribution Network Operations office is working to ensure overpayments made to the contractor for services not performed are reimbursed.

Thank you for your assistance during this audit. Should you have any questions regarding this response, please contact James Nemec, Capital Metro Area Manager Operations Support at 301-548-1412.

David C. Fields

cc: Sally K. Haring, Manager, Corporate Audit and Response Management