



September 26, 2007

CARL T. JANUARY
DISTRICT MANAGER, DALLAS DISTRICT

SUBJECT: Audit Report – Priority Mail Hub Operations in Plano, Texas
(Report Number NO-AR-07-011)

This report presents the results of our review of Priority Mail® Hub (Hub) operations at the Plano, Texas Downtown Station in the Dallas Customer Service District (Project Number 07XG035NO000). The U.S. Postal Service Office of Inspector General (OIG) began a review of mail processing operations at the North Texas Processing and Distribution Center (P&DC) [REDACTED]. In April 2007, while conducting our review, the OIG identified potentially overlapping operations at the Hub. We conducted this review in cooperation with Southwest Area officials and the District Manager, Dallas District.

Background

The North Texas P&DC is located in the Dallas District of the Southwest Area. The P&DC processed over 1.6 billion mailpieces in fiscal year (FY) 2006 and serves 34 cities and towns in the metropolitan Dallas area. The North Texas P&DC began operating the Hub in Plano, Texas on May 12, 2006. The Hub¹ was a designated location where carriers met daily to exchange missent Priority Mail² and receive additional Priority Mail³ shipped daily directly to the Hub from the North Texas P&DC. Between May 2006 and June 2007 the Hub processed over 183,000 pieces of Priority Mail.

The Hub helped to ensure the Postal Service met delivery standards and delivered Priority Mail without delay. The U.S. Postal Service considers mail to be delayed when it is not processed or dispatched to meet its scheduled delivery date. Priority Mail should reach its destination anywhere in the continental United States within 2 business days.

¹ The Postal Service closed the Hub in June 2007.

² Priority Mail is First-Class Mail® that weighs more than 13 ounces and, at the mailer's option, any other mail matter weighing 13 ounces or less. Priority Mail provides expedited delivery.

³ This additional Priority Mail is known as the Hub-run.

Objective, Scope, and Methodology

Our objective was to assess the Hub's impact on Priority Mail® processing and service. To achieve this objective, we observed Hub operations, interviewed Postal Service officials and employees, identified the costs of operating the Hub, and assessed the effects of continuing the Hub operation. We also sampled Priority Mail pieces and identified mail acceptance dates and anticipated delivery dates to determine whether they met the 2-day delivery standard. We relied on data and documentation the Postal Service provided and verified results with Postal Service managers. Nothing came to our attention to suggest the data was unreliable.

We conducted this audit from April through September 2007 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 the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 23, 2007, and included their comments where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to this audit.

Results

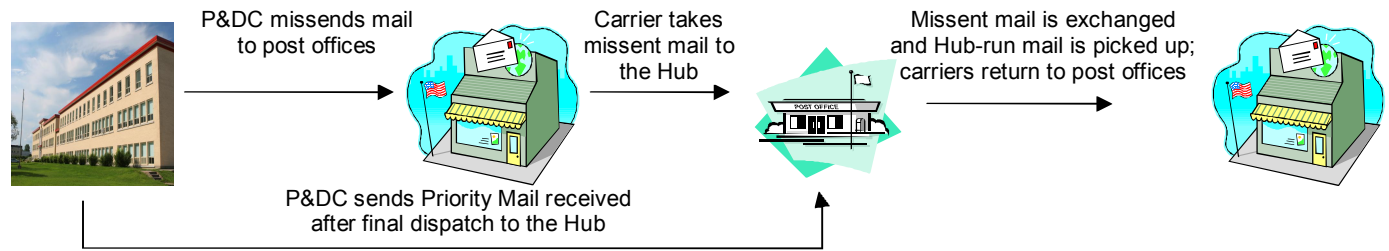
The Postal Service established the Hub at the Plano, Texas Downtown Station to ensure the timely and accurate processing and delivery of Priority Mail. We concluded the Hub operation was unnecessary because it:

- Modified existing processes, and
- Did not materially affect service.

Process Modification – Carriers from 11 post offices⁴ met at the Hub 6 days a week to exchange Priority Mail pieces erroneously sent from the North Texas P&DC. The carriers manually sorted the missent mail and gave it to the correct carriers for delivery. The carriers then returned to their respective post offices and delivered the Priority Mail. In addition to the missent mail, some Priority Mail that arrived at the P&DC too late to make the final dispatch to the post offices was sent to the Hub for distribution to the carriers. (See Flowchart 1.)

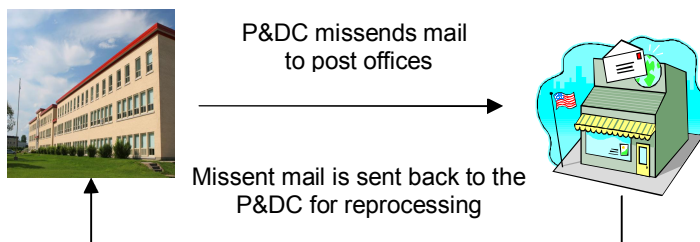
⁴ The 11 post offices participating in the Priority Mail Hub were located in the following Texas cities: Allen, Carrollton, Coppell, Frisco, Garland, Grand Prairie, Irving, Lewisville, McKinney, Plano, and Richardson.

Flowchart 1: Priority Mail® Hub Operations



The Hub operation overlapped with the normal process of returning missent mail to the North Texas P&DC for reprocessing and distribution to carriers on scheduled transportation the following day. The Hub-run from the North Texas P&DC was also unnecessary and would not have occurred had the Hub not already been in operation. (Flowchart 2 shows the normal process of returning missent mail.)

Flowchart 2: Normal Processing of Missent Mail



Impact on Service –Hub operations did not materially affect service.

The North Texas P&DC processed over 13.7 million pieces of incoming Priority Mail in FY 2006. We estimated the Hub exchanged 27,180 pieces of missent mail that same year, or about 90 mailpieces daily. For mail arriving from the North Texas P&DC, we estimated the Hub exchanged 156,436 pieces of additional mail that year, or about 518 mailpieces daily. (See Appendix A.)

A further examination of the Hub’s Priority Mail showed that service was even less of a factor because of the small mail volume. In 1 year, the Hub handled over 183,000 mailpieces. We concluded that:

- 110,000 mailpieces (60 percent) could have been processed normally and distributed to meet established delivery standards.
- 18,000 mailpieces (10 percent) would not have met delivery standards regardless of the processes in place.

- 55,000 mailpieces (30 percent) would not have met standards without the Hub operation. We concluded this amount (0.4 percent of the total Priority Mail® volume) would have little impact on overall service standards. (See Appendix B.)

Criteria for an efficient and effective Postal Service are well established. Title 39, U.S.C., Part 1, Chapter 4, § 403(b)(1) states, “It shall be the responsibility of the Postal Service to maintain an efficient system of collecting, sorting and delivery of the mail nationwide. . .” The Report of the President’s Commission on the U.S. Postal Service states, “Toward that end, the Commission envisions a comprehensive postal network realignment . . . for consolidating and closing unnecessary processing and other back-end postal facilities. . . .” Finally, in the current financial environment, Postal Service officials must be aware of the challenge of maintaining the balance between service and costs.

The Postal Service established the Hub operations on a temporary basis to collect and analyze data on missent Priority Mail in an effort to improve service. These improvements came at a high cost. We estimated the Postal Service incurred \$736,543 in unnecessary operating costs from May 12, 2006, through June 19, 2007. We also estimate the Postal Service could realize an additional cost avoidance of \$687,536 in labor and transportation costs over the next year by closing the Hub. (See Appendix C.)

Based on concerns raised during the audit, management closed the Hub in June 2007. Because management closed the Hub during the audit, we are not making any recommendations in this report. However, we question \$1,424,079 in economic impact associated with the Hub. This amount represents \$736,543 in questioned costs and \$687,536 in funds to be put to better use and we will report this in our *Semiannual Report to Congress*. When we review the North Texas P&DC, we will review Priority Mail operations and work with management to identify cost-effective methods for ensuring that Priority Mail meets service standards.

Management’s Comments

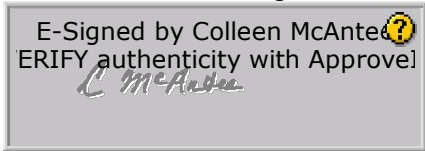
Management stated the OIG review assisted them in their decision to close the Hub and agreed with the \$736,543 in questioned costs. We have included management’s comments in their entirety in Appendix D.

Evaluation of Management’s Comments

Management’s comments are responsive to our finding. We did not make a recommendation since management closed the Hub during the audit. Management agreed with the \$736,543 in questioned costs. While management did not comment on the \$687,536 in funds put to better use, we believe these funds are valid. The methodology we used to calculate these funds was identical to the one we used to calculate the questioned cost amount. We believe this provided a reasonable 1-year

cost avoidance estimate following the Hub closure. Therefore, we will report \$1,424,079 monetary impact in our *Semiannual Report to Congress*.

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



Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

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APPENDIX A. NUMBER OF PRIORITY MAIL® PIECES EXCHANGED AT THE HUB

Hub Date	Number of Daily Missent Priority Mail Pieces	Number of Daily Priority Mail Pieces Received from the Plant
April 26, 2007	95	424
April 27, 2007	109	551
April 30, 2007	105	31
May 1, 2007	84	388
May 2, 2007	200	481
May 3, 2007	104	484
May 4, 2007	114	473
May 8, 2007	46	452
May 9, 2007	163	767
May 10, 2007	150	927
May 11, 2007	131	423
May 12, 2007	64	702
May 14, 2007	122	82
May 15, 2007	54	518
May 16, 2007	92	594
May 17, 2007	107	726
May 18, 2007	50	580
May 19, 2007	79	727
May 21, 2007	70	34
May 22, 2007	26	536
May 23, 2007	77	861
May 24, 2007	71	734
May 25, 2007	50	531
June 4, 2007	88	61
June 5, 2007	23	455
June 6, 2007	57	635
June 7, 2007	92	729
June 8, 2007	95	748
June 11, 2007	162	55
June 12, 2007	26	553
June 13, 2007	92	800
Total Pieces for 31 Days	2,798	16,062
Daily Average	90	518
Days of Operation Annually (52 weeks*, 6 days weekly, less 10 holidays)	302	302
Average Hub Volume Annually	27,180	156,436

APPENDIX B. HUB PERFORMANCE COMPARED TO 2-DAY DELIVERY STANDARD⁵

Sampled Missent Mailpieces

Date of Visit	Number of Missent Mailpieces	Number of Mailpieces With Date of Mailing	Number of Sample Mailpieces Overnighted	Percentage of Sample Mailpieces Overnighted	No. of Sample Mailpieces That Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Meet 2-day Delivery Standard	No. of Sample Mailpieces That Will Not Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Will Not Meet 2-day Delivery Standard
April 27	109	60	11	18	36	60	13	22
May 3	104	50	10	20	37	74	3	6
May 15	54	17	8	47	0	0	9	53
Totals		127	29		73		25	
Percentage			22.83		57.48		19.69	

Sampled Hub-Run Mailpieces from the Plant

Date of Visit	Number of Hub-Run Mailpieces	Sample Size	Number of Sample Mailpieces Overnighted	Percentage of Sample Mailpieces Overnighted	No. of Sample Mailpieces That Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Meet 2-day Delivery Standard	No. of Sample Mailpieces That Will Not Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Will Not Meet 2-day Delivery Standard
April 27	551	50	38	76	3	6	9	18
May 3	484	110	71	65	38	35	1	Less than 1
May 15	518	99	92	93	2	2	5	5
Total		259	201		43		15	
Percentage			77.61		16.60		5.79	

Combined Missent and Hub-Run Mailpieces

	Sample Size	Number of Sample Mailpieces Overnighted	Percentage of Sample Mailpieces Overnighted	No. of Sample Mailpieces That Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Meet 2-day Delivery Standard	No. of Sample Mailpieces That Will Not Meet 2-day Delivery Standard	Percentage of Sample Mailpieces That Will Not Meet 2-day Delivery Standard
Missent Pieces	127	29	23	73	57	25	20
Plant Run	259	201	77	43	17	15	6
Total	386	230		116		40	
Percentage		60		30		10	

⁵ Priority Mail® should reach its destination anywhere in the continental U.S. within 2 business days.

**APPENDIX C. QUESTIONED COSTS AND COST AVOIDANCE
AT THE PLANO, TEXAS PRIORITY MAIL® HUB**

	Questioned Costs	Funds Put to Better Use	Total Questioned Costs and Cost Avoidance
Carrier Salary and Benefits	\$637,201	\$597,980	\$1,235,181
Vehicle Use	99,342	89,556	188,898
Total Economic Impact	\$736,543	\$687,536	\$1,424,079⁶

⁶ Questioned costs totaled \$736,543 for the period of Hub operation, May 12, 2006, to June 19, 2007. Cost avoidance totaled \$687,536 for the next 1-year period, June 20, 2007, to June 20, 2008.

APPENDIX D. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
DALLAS PERFORMANCE CLUSTER



September 20, 2007

KIM H. STROUD
DIRECTOR, AUDIT REPORTING
1735 NORTH LYNN STREET
ARLINGTON, VA 22209-2020

SUBJECT: Draft Audit Report - Priority Mail Hub Operations in Plano, Texas
(Report Number NO-AR-07-DRAFT)

The report does not make recommendations since the Priority Mail Hub was closed June, 2007. This is management's response to the concerns raised during the audit. Dallas District established a temporary priority mail hub operation at Plano, Texas for the purpose of identifying systemic processing issues, and to fix them to improve priority mail service to Postal customers. Dallas Management agrees the OIG review assisted us in our decision to close down the Priority Mail Hub. We are in agreement with the monetary impact of \$736,543, questioned costs.

If you have any questions regarding our response, please contact me at 972-393-6787.

A handwritten signature in black ink, appearing to read "Carl T. January, Jr.", written over a circular scribble.

Carl T. January, Jr.

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