

July 31, 2003

WILLIAM ALMARAZ
MANAGER, LOS ANGELES DISTRICT

SUBJECT: Audit Report –Efficiency of Work Performed by Business Mail Entry Clerks
Within the Los Angeles District (Report Number AO-AR-03-001)

This report presents the results of our audit of work performed by business mail entry employees within the Los Angeles District (Project Number 03WG001AO000). This self-initiated audit was conducted jointly with Pacific Area Finance and Marketing managers in response to analytical observations we made during recent audits of business mail entry employees in Denver and the Western Area.

Our audit disclosed that workhours necessary to accept business mailings at the facilities we reviewed should be reduced. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 28,800 hours by the end of fiscal year 2005. We calculated that the financial impact of this reduction in workhours could produce an estimated cost avoidance of approximately \$9.26 million over 10 years. We recommended the manager of the Los Angeles District reduce hours and reevaluate staffing needs periodically. Management agreed with our recommendations and has initiatives in progress addressing the issues identified in this report. Management's comments and our evaluation of these comments are included in the report.

The Office of Inspector General's (OIG) considers recommendations 1 and 2 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action(s) are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information please contact Kim H. Stroud, director, Audit Operations and Follow-up, at (703) 248-2100 or me at (703) 248-2300.

John M. Seeba
Assistant Inspector General
for Audit

Attachment

cc: John A. Rapp
Alfred Iniguez
Winifred G. Groux
Marco F. Lari
Earl L. Self
Susan M. Duchek

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	2
Prior Audit Coverage	3
Part II	
Audit Results	5
Assessment of Employees' Workhours	5
Management's Actions	6
Recommendations	6
Management's Comments	7
Evaluation of Management's Comments	7
Appendix A. Fiscal Years 2001 and 2002 Mailings per Workhour Comparison for Los Angeles Business Mail Entry Units	8
Appendix B. Fiscal Years 2001 and 2002 Employee Complement Comparison for Los Angeles Business Mail Entry Units	9
Appendix C. Los Angeles Bulk Mail Entry Unit Cost Avoidance	10
Appendix D. Management's Comments	11

EXECUTIVE SUMMARY

Introduction	<p>The Office of Inspector General assessed the efficiency of work performed by business mail entry employees within the Los Angeles District. This self-initiated audit was conducted jointly with Pacific Area Finance and Marketing managers in response to analytical observations we made during recent audits of business mail entry employees in Denver and the Western Area.</p>
Results in Brief	<p>Our review disclosed that workhours at Los Angeles Business Mail Entry Units were excessive and could be reduced significantly. Although Postal Service policies require the efficient use of workhours, management did not periodically evaluate staffing levels to improve productivity.</p> <p>As a result of our audit, Postal Service management agreed to reduce business mail entry workhours within the Los Angeles District by at least 28,800 hours by the end of fiscal year 2005. This will be done through employee attrition and would raise productivity closer to benchmarked averages for comparable business mail entry units. The financial impact of this workhour reduction could also produce a cost avoidance for the Postal Service of approximately \$9.26 million over 10 years, based on Postal Service cash flow methodology.</p>
Summary of Recommendations	<p>We recommended the Los Angeles District manager reduce workhours as planned, and periodically evaluate staffing needs.</p>
Summary of Management's Comments	<p>Management agreed with our finding and recommendations and anticipated that future workhour savings may be realized prior to target dates as a result of attrition. In general, management asserted that our proposal to reduce workhours was fair and objective. Management's comments, in their entirety, are included in Appendix D of this report.</p>
Overall Evaluation of Management's Comments	<p>Management's actions, taken and planned, should correct the issues identified in the report.</p>

INTRODUCTION

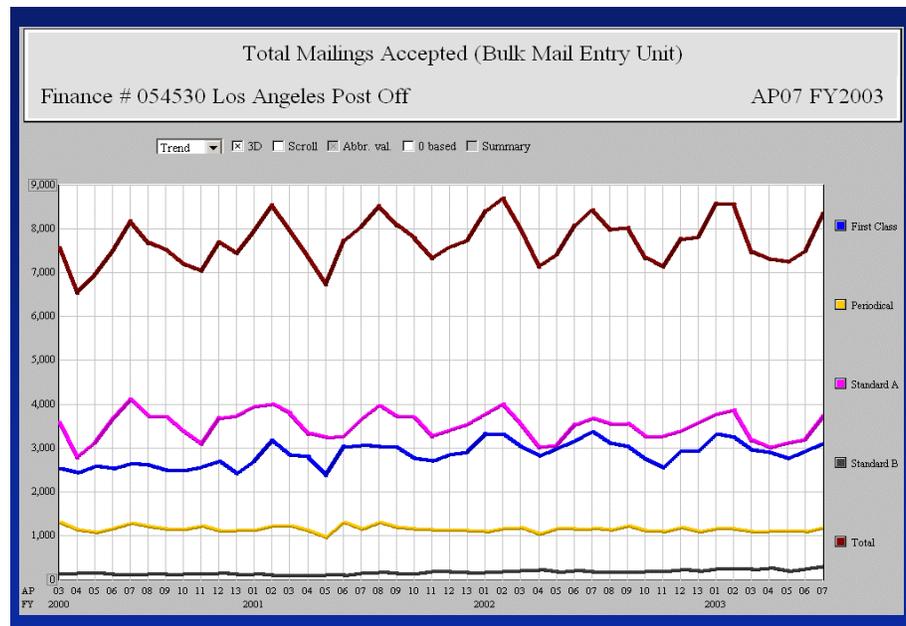
Background

Business mail entry units are located in Postal Service facilities nationwide. Business mail entry unit clerks receive business mailers' bulk, presorted, and permit mail for acceptance. Business mail is accepted using dedicated platform space, office space, and a staging area on the workroom floor. A business mail entry clerk, using prescribed acceptance procedures, typically performs mailing verifications. Verification procedures include verifying fees and funds on deposit, reviewing contents of mailpieces, checking of labels and mail make up, and completing postage verification.

Business mail entry clerks are primarily located at a general mail facility. However, some clerks are located at the bulk mail centers, detached mail units, and satellite offices. These secondary facilities provide limited acceptance and verification of business mail in support of the central business mail entry unit located at the general mail facility.

As shown in Diagram A,¹ the Los Angeles business mailings have remained fairly steady, on average, since fiscal year (FY) 2000.

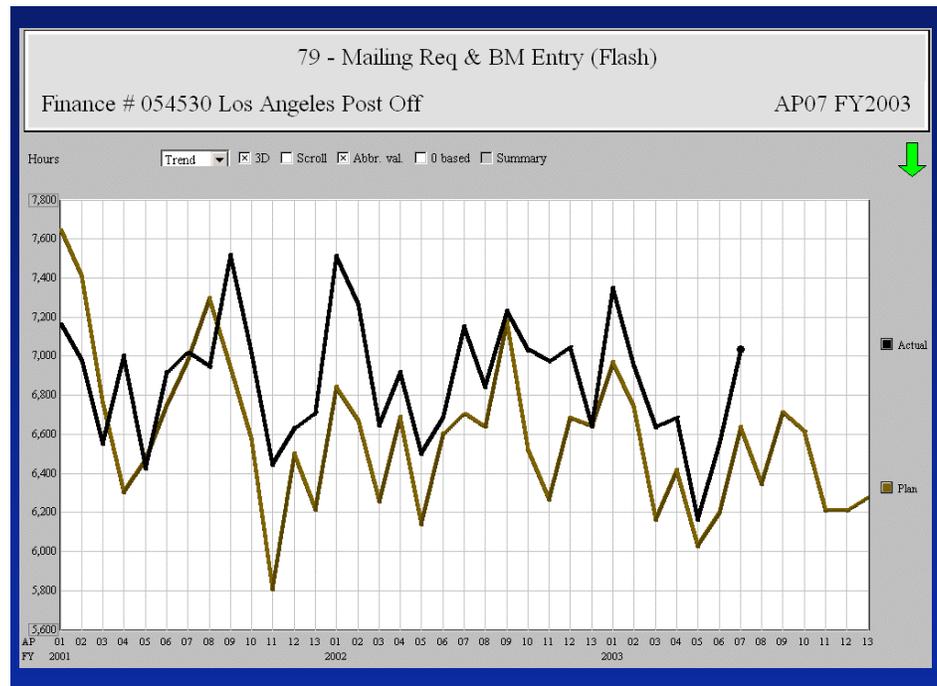
Diagram A. Total Mailings Accepted.



¹ Web Enterprise Information System as of accounting period 7, FY 2003.

As shown in Diagram B, actual workhours have remained close to planned workhours for the Los Angeles District despite significant fluctuations over time.

Diagram B. Actual and Planned Business Mail Entry (Labor Distribution Code 79) Workhours.



Objective, Scope, and Methodology

The objective of our audit was to assess the efficiency of work performed by business mail entry clerks within the Los Angeles District. To assess the efficiency of work performed, we observed business mail entry unit operations and analyzed business mail volumes and workhours. In addition, we benchmarked the Los Angeles units' revenues and mailings with comparable business mail entry units.

Business mail entry units in Los Angeles are located at a central acceptance site in the general mail facility, satellite locations, detached mail units, and a bulk mail center. We reviewed satellite locations at Barrington, Bicentennial, the San Francisco Airport, International Service Center, and Alameda. We also reviewed detached mail units located at two customer sites.

We relied on Postal Service operational systems, including the National Workhour Reporting System, Standard Field Accounting System Unit Revenue Data, Web Enterprise Information System, and the Permit System to perform our analysis of mailings and workhours. We did not test the validity of controls over these systems. However, we checked the accuracy of data by confirming our analysis and results with Postal Service managers. Nothing came to our attention to suggest that data used was unreliable. Therefore, we believe the computer-generated data was sufficiently reliable to support the opinions, conclusions, and recommendations in this report.

This audit was conducted from February 2003 through July 2003 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

**Prior Audit
Coverage**

We have issued two prior audit reports on the efficiency of business mail entry units.

Work Performed by Business Mail Entry Employees in the Colorado Wyoming Performance Cluster (Report Number CQ-AR-02-001, dated September 26, 2002), disclosed that many Denver Bulk Mail Center and Denver General Mail Facility business mail entry employees were not needed to accept business mailings. As a result, management could save an estimated \$1 million annually. We recommended management oversee the consolidation of business mail entry operations and reduce staff as planned, and reevaluate staffing to determine if further staff reductions are necessary. Management agreed and the actions taken and planned are responsive to the issues identified in the report.

Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis, and Des Moines Bulk Mail Centers (Report Number CQ-AR-03-001, dated March 28, 2003), disclosed that workhours necessary to accept business mailings at these facilities should be reduced. As a result, management could save an estimated \$588,730 through the end of FY 2005 when its planned workhour reductions are fully implemented. We recommended senior plant managers of the Seattle, Minneapolis, and Des Moines Bulk Mail Centers reduce hours, reevaluate staffing needs periodically, and ensure that appropriately trained personnel perform acceptance functions. Management agreed and the actions taken and planned are responsive to the issues identified in the report.

AUDIT RESULTS

Assessment of Employees' Workhours

Our review disclosed that workhours at the Los Angeles business mail entry units were excessive in relation to the number of business mailings processed. Postal Service policies² require that business mail entry units ensure the efficient use of workhours. For FYs 2001 and 2002, mailings per workhour for the Los Angeles Business Mail Entry Units we reviewed were markedly below benchmarked units. Postal Service management agreed that at least 28,800 workhours could be eliminated based on business mail volumes, benchmark data, and observations of business mail operations.

The following chart depicts average productivity levels for Los Angeles Business Mail Entry Units we reviewed and benchmark sites:

	FISCAL YEAR	LABOR DISTRIBUTION CODE 79 WORKHOURS	NUMBER OF MAILINGS	MAILINGS PER WORKHOUR FOR LOS ANGELES DISTRICT	MAILINGS PER WORK-HOUR FOR BENCHMARK SITES
Los Angeles	2001	96,745	101,098	1.04	1.44
	2002	97,730	102,179	1.05	2.00
Growth Rate		1.02%	1.07%		

FYs 2001 and 2002 mailings per workhour for the Los Angeles District were 1.04 and 1.05 while the averages for comparable³ business mail entry units were 1.44 and 2.0, respectively. Appendix A highlights how the Los Angeles Business Mail Entry Units we reviewed compared to other similar sites for mailings per workhour.

The Los Angeles Business Mail Entry Units maintained the largest number of employees when compared to comparable sites for FYs 2001 and 2002. While not unusual by itself, there is cause for concern when productivity measures are below expectations. Appendix B highlights how the Los Angeles Business Mail Entry Units we reviewed compared to other similar sites for employee complements.

² Handbook DM-109, Business Mail Acceptance, Chapter 2.

³ Comparative sites have revenue greater than \$125 million and mailings within +/- 30 percent of Los Angeles.

To corroborate our analysis, observations of the Los Angeles Business Mail Entry Units revealed that employees had excessive idle time. The Office of Inspector General (OIG) agrees with Postal Service managers that this is attributed to:

- A misalignment between acceptance hours of operation and mail arrival times.
- Low mailing volumes relative to the number of workhours.
- Managers not evaluating and adjusting staffing levels based on mail volumes.

We believe that excessive hours, unchecked, contribute to poor performance as demonstrated above and clerks experiencing prolonged downtime.

Management's Actions	To improve productivity, Postal Service management agreed to reduce business mail entry workhours in the Los Angeles District by at least 28,800 hours by the end of FY 2005. This will be done through employee attrition. While holding mail volume constant, these actions would significantly raise the Los Angeles District's mailings per hour within benchmarked averages and would save the Postal Service approximately \$9.26 ⁴ million over the next 10 years. Appendix C details the financial impact of workhour reductions for the units we reviewed.
-----------------------------	--

Recommendations	To improve business mail entry productivity, we recommend the manager, Los Angeles District: <ol style="list-style-type: none">1. Reduce business mail entry hours as planned.2. Periodically evaluate staffing to determine if further workhour reductions are necessary based on workload.
------------------------	---

⁴ Based on Postal Service's methodology, the cost avoidance was projected over 10 years using Postal Service's assumptions for annual workhours, the business mail entry clerk labor rate, and the latest labor escalation factor.

**Management's
Comments**

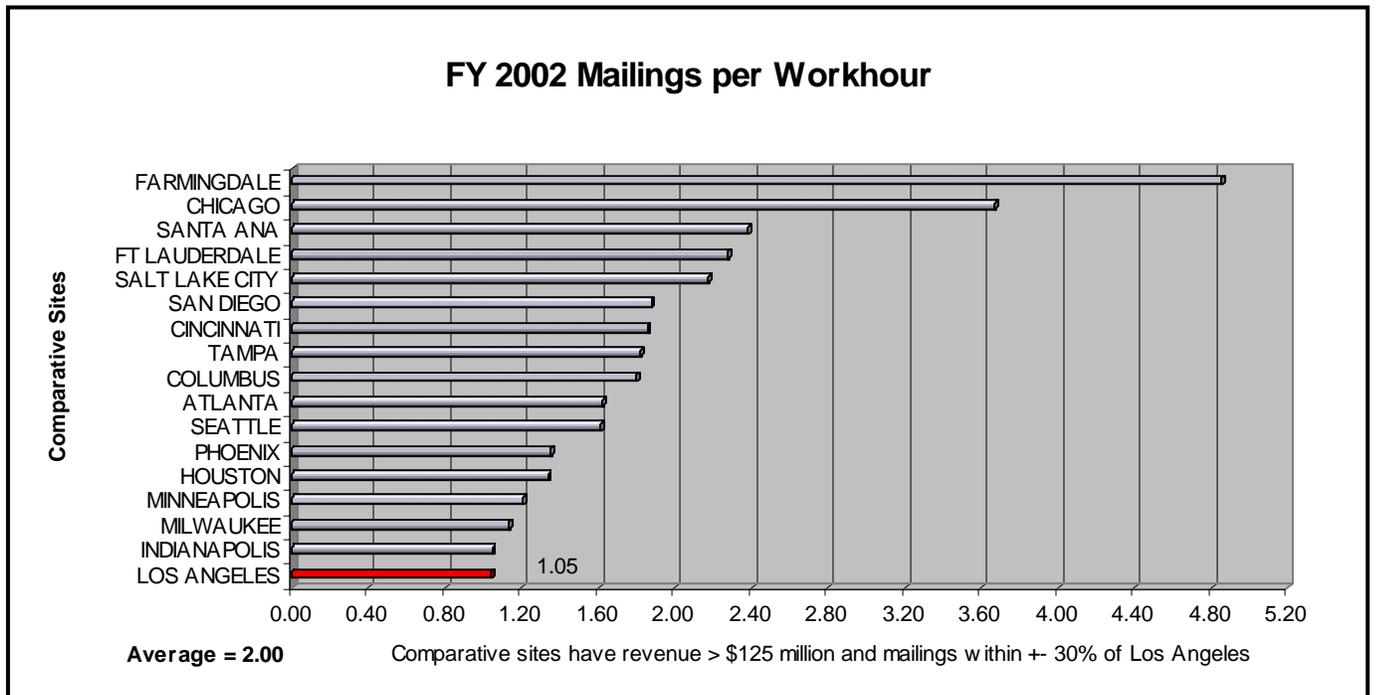
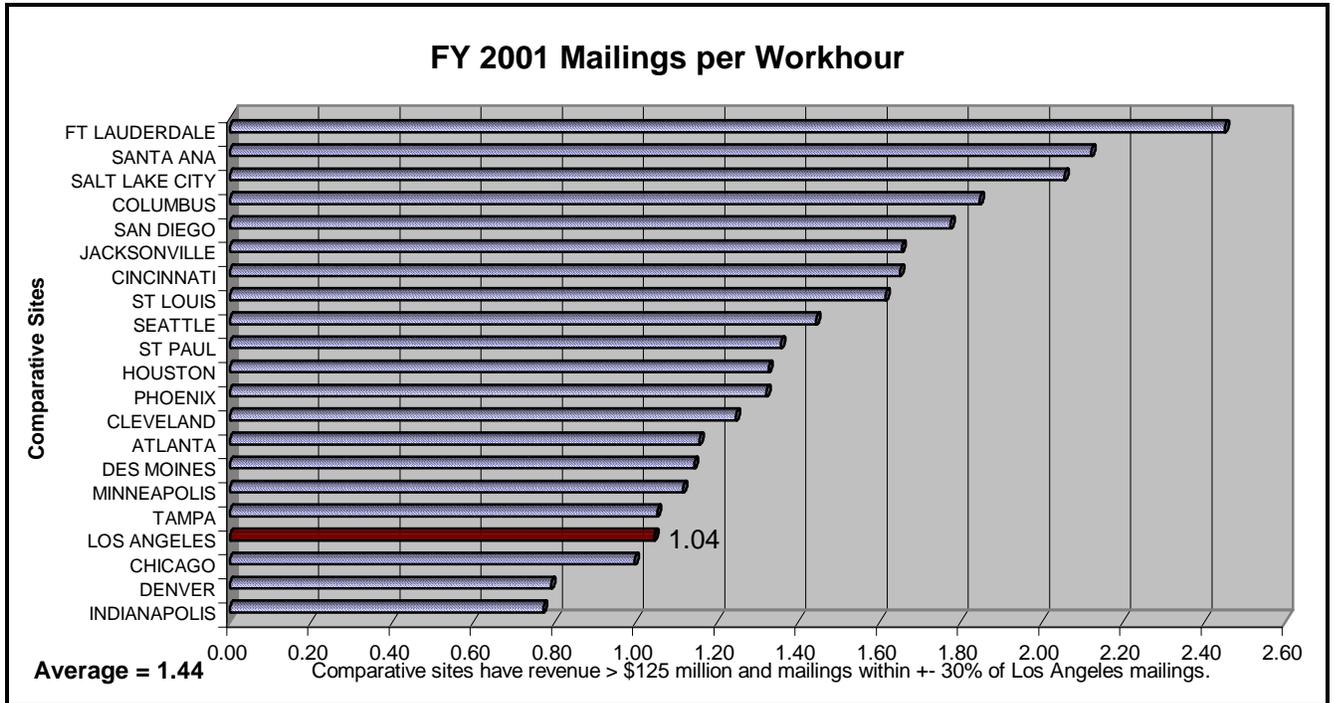
Management agreed with our finding and recommendations and anticipated that future workhour savings may be realized prior to target dates as a result of attrition. In general, management asserted that our proposal to reduce workhours was fair and objective.

**Evaluation of
Management's
Comments**

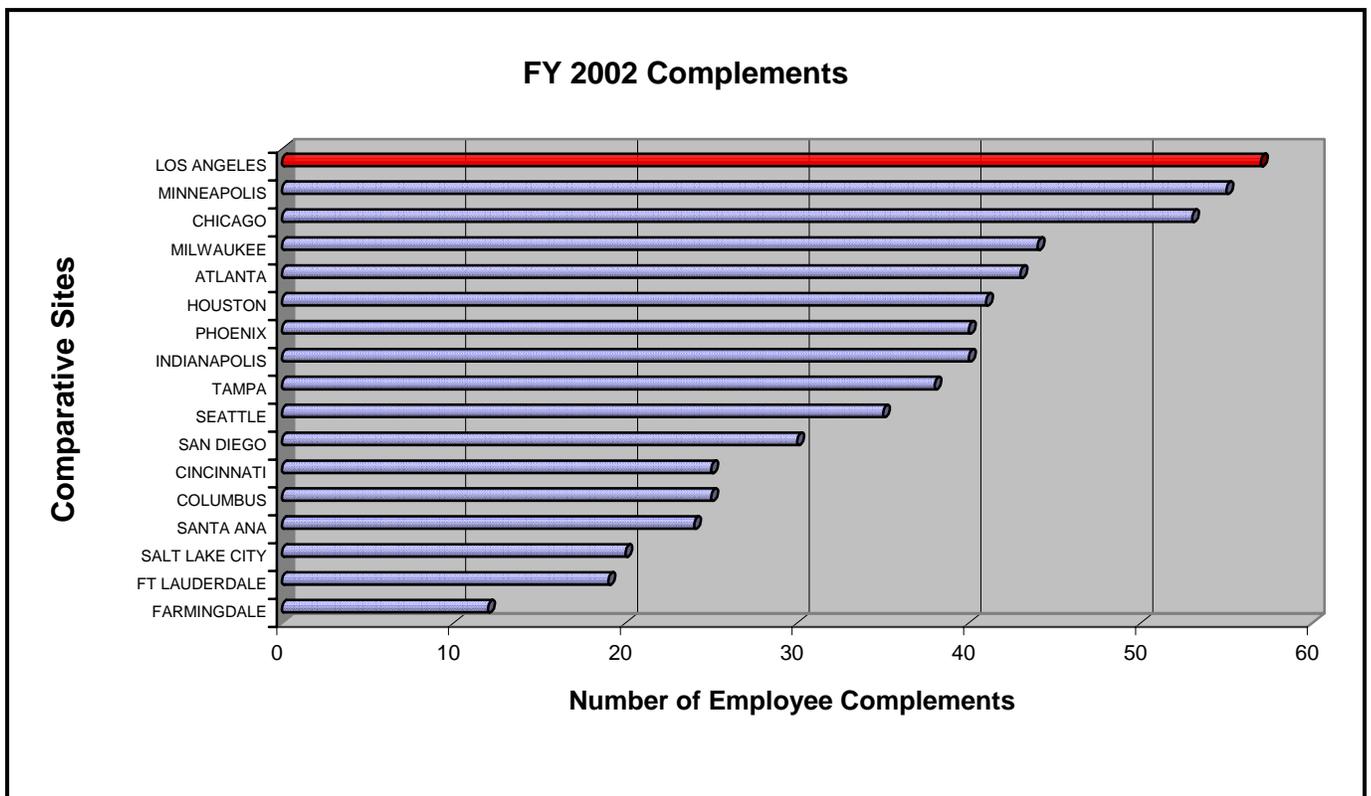
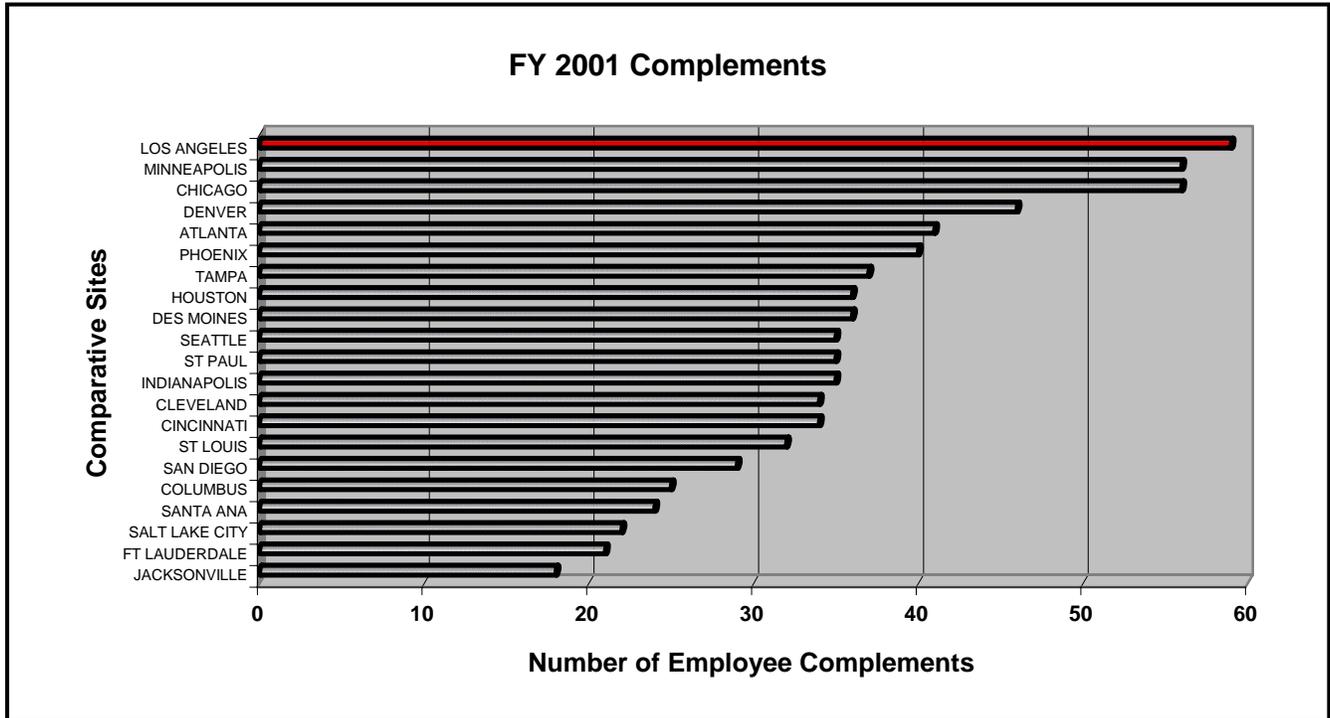
Management's actions, taken and planned, should correct the issues identified in the report.

APPENDIX A

FYS 2001 AND 2002 MAILINGS PER WORKHOUR COMPARISON FOR LOS ANGELES BUSINESS MAIL ENTRY UNITS



APPENDIX B FY 2001 AND 2002 EMPLOYEE COMPLEMENT COMPARISON FOR LOS ANGELES BUSINESS MAIL ENTRY UNITS



APPENDIX C

LOS ANGELES BULK MAIL ENTRY UNIT COST AVOIDANCE

Year	Yearly Workhour Reduction	Fully Loaded Labor Rate/Hr	Cost Avoidance
FY 2003 (Effective Accounting Period 9)	7,200	\$ 36.73	\$ 2,521,038
FY 2004 (Effective Accounting Period 1)	9,000	\$ 38.53	\$ 4,278,598
FY 2005 (Effective Accounting Period 1)	12,600	\$ 40.42	\$ 6,283,548
Totals (10 full fiscal years)	28,800		\$ 13,083,184
		Present Value @ 5%, 10 Years	\$ 9,256,376

SOURCE

Workhour Reductions were based on the Postal Service Los Angeles Area Action Plan.

ASSUMPTIONS

- Labor rates were based on the Postal Service 2003 Published Rates for a PS-06 Business Mail Entry Unit Technician.
- Escalation Factor is 4.9 percent..
- USPS Cost of Borrowing is 5.0 percent.

FUNDS PUT TO BETTER USE – Funds that can be used more efficiently by implementing recommended actions.

APPENDIX D. MANAGEMENT'S COMMENTS

Los Angeles District



July 15, 2003

John M. Seeba
Assistant Inspector General
For Audit
1735 N Lynn St.
Arlington VA 22209-2020

Subject: Draft Audit Report/Management Advisory – Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District (Report Number AO-AR-03-Draft)

In general, the proposal is fair and objective. Future workhour consideration should be given to efforts made in the capture and collection of revenue under Revenue Protection and the undertaking to assure that fees are collected for Business Reply permits.

OIG Recommendation

The Los Angeles District agrees that Business Mail Entry can improve its productivity by doing the following:

1. Reduce business mail entry hours as planned.
2. Periodically evaluate staffing to determine if further workhour reductions are necessary based on workload.

<u>Year</u>	<u>Yearly Workhour Reduction</u>	<u>Labor Rate/hr</u>	<u>Cost Avoidance</u>
FY 2003	7,200	36.73	\$2,521,038
FY 2004	9,000	38.53	\$4,278,598
FY 2005	12,600	40.42	\$6,283,548

Action Plan:

FY 2003

1. Eliminate two Rehab positions – AP13 FY03.
2. Abolish one (1) Bulk Mail Position - AP13 FY03.
3. Abolish two (2) Mailing Requirement positions - AP13 FY03.

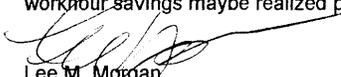
FY 2004

1. Abolish two (2) Mailing Requirement positions – AP3 FY04.
2. Abolish three (3) Bulk Mail positions - AP3 FY04.
3. Reduction of operating hours at two (2) Satellite Units - AP1 FY04.

FY 2005

1. Abolish two (2) Mailing Requirement positions - AP3 FY05.
2. Abolish five (5) Bulk Mail positions – AP3 FY05.

It is anticipated that all complement changes will be made by Accounting Period 3, FY 2005. Future workhour savings may be realized prior to target dates as a result of attrition.


Lee M. Morgan
Manager, Business Mail Entry

cc: Bill Almaraz, District Manager
Diedra Harris-Brooks, A/Manager, Marketing

7001 S Central Ave. Rm. 210
Los Angeles CA 90052-9614
Phone: (323) 586-2605

www.usps.com

