



July 1, 2010

EDUARDO H. RUIZ
DISTRICT MANAGER, LOS ANGELES DISTRICT

SUBJECT: Audit Report – City Delivery Efficiency Review – Los Angeles District
(Report Number DR-AR-10-006)

This report presents the results of our audit of City Delivery Efficiency Review – Los Angeles District (Project Number 10XG005DR000). This self-initiated audit addresses operational risk and is the first in a series conducted by the U.S. Postal Service Office of Inspector General (OIG). Our objectives were to assess the overall efficiency of city delivery operations and identify opportunities to reduce operating costs within the Los Angeles District. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service is delivering fewer pieces of mail to a growing number of addresses as new households and businesses are added to the delivery network each year. Accommodating this new growth, while facing financial loss from declining mail volume and rising costs, demands that the Postal Service achieve unprecedented levels of efficiency.

Conclusion

The Los Angeles District was not operating at peak efficiency and could reduce city delivery operating costs. Our benchmarking comparison determined the Los Angeles District used approximately 26 minutes more per day than the national average for each carrier route, as compared to the standard for that route. The measurement for this, called “percent to standard,”¹ was 124.17 - about 17 percentage points above the national average of 107.19 percent.

¹ A measure of carrier office workhour performance in relation to mail volume and delivery points. A figure of 100 percent indicates that office performance is at the stated performance goal. A figure greater than 100 percent indicates performance is less than the desired standard.

Operation Efficiency

Although numerous factors were involved, our review of 25 randomly selected delivery units confirmed these inefficiencies and determined Los Angeles District management did not always (1) provide sufficient review and oversight of unit offices' operating efficiencies and (2) coordinate with the mail processing facility to ensure mail was timely received and in a condition that promoted office operating efficiency. Elimination of time-wasting practices and increased focus on efficiency could allow management to reduce workhours. Some examples include ensuring that:

- Morning and afternoon office expectations are established with carriers.
- Unscheduled leave is effectively managed.
- Carriers do not resort mail that is already in delivery point sequence (DPS) and ready for delivery.
- Management conducts efficient vehicle inspections.
- Carriers do not have to wait for mail from the processing facility.
- DPS mail received from the mail processing facility is organized on shelved containers, so that carriers can easily identify and retrieve it for their routes.

See [Appendix B](#) for additional information about these issues.

Consequently, the Los Angeles District used more workhours than necessary to deliver the mail. Making adjustments to its operations would increase the Los Angeles District's overall efficiency and allow them to reduce approximately 298,000 operating workhours, resulting in savings of about \$10.5 million annually or more than \$105 million over 10 years. See [Appendix C](#) for additional information about this issue.

We recommend the district manager, Los Angeles District:

1. Reduce the Los Angeles District's workhours by 298,260 to achieve an associated economic impact of over \$105 million over 10 years.
2. Periodically evaluate units' operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.
3. Reinforce Postal Service policy and procedures for supervising city delivery office operations in delivery units and eliminate time-wasting practices as appropriate.
4. Require processing facility managers and delivery managers to coordinate, review, and update all Integrated Operating Plans to ensure mail arrives timely and in the condition necessary to promote office efficiency.

Management's Comments

Management agreed with the findings, recommendations and monetary impact in our report. In response to recommendation 1, management stated that an opportunity exists to save at least the workhours recommended in the report. As of week 37, fiscal year (FY) 2010, the Los Angeles District has reduced 502,953 hours in city delivery for the same period last year (SPLY). The Los Angeles District expects to achieve a 650,000 reduction of city delivery workhours to SPLY by the end of FY 2010 with an expected savings of \$26,650,000 in salaries and benefits.

For recommendation 2, management stated that the focus on efficiency has become a heightened topic of discussion at all levels of district management. Each station has a carrier flowchart that reflects the approved activity of a letter carrier in the morning as well as the afternoon. Management indicated they would discuss this flowchart at a stand-up talk with all letter carriers and strictly enforce its implementation by August 20, 2010.

In response to recommendation 3, management stated that they immediately curtailed the casing of DPS and advertising mail discovered by the OIG in certain units. Management also indicated that they discussed the prohibition of casing this mail at the weekly postmaster/station manager meeting and instructed each postmaster/station manager to give a stand-up talk to the letter carriers on this issue by July 30, 2010.

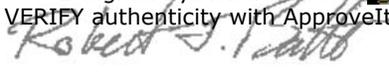
For recommendation 4, management indicated that the Customer Service Operations staff would work with the processing plant to ensure the proper preparation and stacking DPS mail. The plant has a process in place to ensure all DPS mail sent to the delivery units are properly stacked, which should minimize work for letter carriers. See [Appendix D](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations, findings, and monetary impact. Management's corrective actions taken and planned should resolve the issues identified in the report.

The OIG considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

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

E-Signed by Robert Batta 
VERIFY authenticity with ApproveIt


Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

Attachment

cc: Patrick R. Donahoe
Steven J. Forte
Dean J. Granholm
Drew Aliperto
Mark H. Anderson
Elizabeth A. Schaefer
Phillip F. Knoll
Sally K. Haring

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Delivery operations are the Postal Service's largest operational function, accounting for approximately 45 percent of salary expenses and workhours. Despite an annual increase of approximately 1 million delivery points, delivery operations used 36.5 million fewer workhours in FY 2009 because of effective growth management, increased use of automation, standardization of best practices, and improved productivity. Although delivery operations used fewer workhours, workhour reduction has not kept pace with declining mail volume. Nationally, mail volume declined by 12.7 percent in FY 2009. During this same period, mail volume declined in the Los Angeles District by 26.7 percent, while workhours declined by 9 percent.

Although the Postal Service has achieved significant gains in automated mail processing, mail delivery remains primarily a manual process. To effectively manage this manual process and improve productivity, delivery managers must eliminate process inefficiencies and manage costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess the overall efficiency of city delivery operations and identify opportunities to reduce operating costs within the Los Angeles District. To accomplish our objectives, we:

- Ranked the eight areas from highest to lowest in terms of percent to standard from January 1 through December 31, 2009. We used the national percent to standard of 107.19 percent for January 1 through December 31, 2009, as a baseline guide.
- Judgmentally selected the Pacific Area and, within that area, the Los Angeles District for review, because of its high percent to standard (124.17 percent) measure.
- Randomly selected 25 of 64 delivery units within the Los Angeles District for review.

At the selected delivery units, we:

- Obtained, reviewed, and analyzed delivery unit data related to office operations.
- Conducted interviews on-site and obtained information on carrier operations, unit operations, processes, and procedures.
- Physically observed office delivery operations.

- Reviewed documentation and applicable policies and procedures for city delivery and Postal Service Handbooks M-39² and M-41.³

We conducted this performance audit from February through July 2010 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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 3, 2010, and included their comments where appropriate.

We relied on data primarily from eFlash⁴ and web Enterprise Information System (webEIS). We obtained data from January 1 through December 31, 2009, but did not test controls over these systems. However, we checked the reasonableness of results by confirming our analysis and results with management and other data sources.

The OIG identified three audits related to our objective that were issued over the past 6 years:

² Handbook M-39, *Management of Delivery Services*, March 1998.

³ Handbook M-41, *City Delivery Carriers Duties and Responsibilities*, March 1998.

⁴ A weekly operating report management system that combines data from delivery, mail processing, employee relations, labor relations, and finance. The information is extracted from various host systems and loaded into eFlash.

PRIOR AUDIT COVERAGE

| Report Title | Report Number | Final Report Date | Monetary Impact Report | Results |
|--|----------------------|--------------------------|-------------------------------|--|
| <i>City Delivery Efficiency Review – San Francisco Napoleon Street Station</i> | DR-AR-10-002 | 12/18/2009 | \$21,308,433 | The audit concluded the Napoleon Street Station was not operating at peak efficiency, and management could reduce city delivery costs. Our benchmarking comparison of five similar delivery units showed this station used 54,975 more workhours than necessary. We also found management did not adjust workhours to the changes in workload. Management agreed with our findings and recommendations to correct the issues identified. |
| <i>Timely City Delivery – Chicago District</i> | DR-AR-08-001 | 10/11/2007 | N/A | The audit confirmed the Chicago District had difficulty with timely mail delivery. Specifically, delivery performance indicators showed office performance was well below standard and street performance was at an all-time low. Management agreed with our findings and recommendations to correct the problems. |
| <i>Capping Report City Letter Carrier Operations</i> | DR-AR-06-004 | 3/31/2006 | \$7,061,060 | This audit summarized a series of five reports on city letter carrier operations. Specifically, delivery facility supervisors and managers could more effectively match workhours with workload and improve delivery efficiency by consistently using operational data from the Delivery Operations Information System. Management agreed with our findings and recommendations to correct these problems. |

APPENDIX B: DETAILED ANALYSIS

Operation Efficiency

The Los Angeles District used 298,260 more workhours than necessary. Our benchmarking comparison determined the Los Angeles District's "percent to standard" measurement was 17 percentage points above the national average (124.17 percent compared to the national average of 107.19 percent). In other words, the district used approximately 26 minutes⁵ more per day on carrier routes than the average carrier route in the nation. From January 1 through December 31, 2009, the Los Angeles District ranked eighth in terms of "percent to standard" within the Pacific Area. See Table 1.

**Table 1. National and Pacific Area Percent to Standard Comparison
January 1 through December 31, 2009**

| | Percent to Standard | Ranking |
|----------------------------------|---------------------|------------|
| National Average | 107.19 | N/A |
| Districts in Pacific Area | | |
| Honolulu 103.63 | | 1 |
| San Diego | 109.02 | 2 |
| Sierra Coastal | 112.80 | 3 |
| Sacramento 113.56 | | 5 |
| Santa Ana | 115.56 | 4 |
| Bay Valley | 119.27 | 6 |
| San Francisco | 123.92 | 7 |
| Los Angeles | 124.17 | 8 |

Source: eFlash

This condition occurred, because management did not always (1) provide sufficient review and oversight of unit offices' operating efficiencies, and (2) coordinate with the mail processing facility to ensure mail was timely received and in the condition necessary to promote office operating efficiency.

Setting Morning and Afternoon Office Expectations

Supervisors did not always set expectations for morning office operations nor effectively manage afternoon office time at eight of the 25 units observed. For example, supervisors often printed the *Route Carrier Daily Performance Report*, but did not always discuss the report with carriers. If a carrier does not meet performance standards, a supervisor must investigate and discuss any performance deficiencies with the carrier.

⁵ 17,895,600 minutes (298,260 hours x 60 minutes per hour) divided by 2,241 routes in the Los Angeles District (routes operating above the national average percent to standard) divided by 302 annual delivery days per year equals approximately 26 minutes per carrier route per day.

We observed some carriers spending up to 30 minutes in the office after returning from their routes. Postal Service policy allows a standard 5 minutes for carriers to perform afternoon office duties. We also observed carriers not clocking directly to “office time” upon returning to the unit in the afternoon, resulting in much of this additional office time” being included in street operations time. Although the Los Angeles District has tried to reduce office time with the development of an “undeliverable mail tray,”⁶ carriers have been reluctant to use this process, and supervisors were not enforcing its practice. See Illustration 1.

Illustration 1: Unused Undeliverable Mail Tray at Carrier’s Case after Returning to Office



Source: OIG

Unscheduled Leave

Supervisors did not have sufficient control of unscheduled absences such as sick leave. In fact, the sick leave rate totaled 5 percent or more for several of the units visited during our review. According to a recent OIG report on absenteeism, a 5-percent sick leave rate is more than three times the rate for private industry.⁷ Because of these absences, supervisors must unexpectedly cover routes with carriers who may be unfamiliar with the route, sometimes causing additional office time.

The Los Angeles District is addressing high carrier sick leave percentages by training all unit management employees in this area. The Los Angeles District also stated that appropriate administrative action will take place for employees who do not show minimal improvement in attendance.

⁶ A container carriers use to store mail that has been gathered along the route during street operations. Mailpieces such as Undeliverable as Addressed and collection mail are brought back to the delivery unit for depositing.

⁷ *Postal Service Absenteeism* (Report Number HM-AR-10-001, dated December 23, 2009) identified the average sick leave rate for private industry at 1.49 percent.

Handling DPS Mail

DPS letters were often cased⁸ instead of loaded and taken directly to the street by carriers. Unit management immediately discontinued this practice when we brought it to their attention. Postal Service policy⁹ states DPS mail is not to be distributed to carriers, but staged near the exit. Carriers are to place DPS mail in rolling stock¹⁰ for transport to vehicles and place sequenced mailings in parcel hampers to be taken directly to the street without further handling. See Illustration 2.

Illustration 2: Carrier Casing Sequenced Mail



Source: OIG

Vehicle Inspections

The vehicle inspection process was not always efficient. For example, our observations disclosed that eight delivery units lost several minutes daily due to one or more of the issues below:

- Carriers sometimes had to search for vehicles prior to inspection, because parking spaces were unassigned.
- Carriers had to wait in line to get vehicle keys.

⁸ The act of placing letter and flat mail in the separations located in the carrier cases. Because DPS mail is already sorted into delivery sequence, it does not need to be cased.

⁹ Field Operations Standardization Development, *Morning (AM) Standard Operating Procedures (AMSOP) II Guidebook*, 2007.

¹⁰ Rolling stock consists of equipment or containers used to transport mail such as hampers and utility carts.

Postal Service policy states that employees should park vehicles near the dock in assigned spaces identified by individual route numbers.¹¹ In addition, policy states employees should make vehicle inspections promptly after clocking in for the morning. The policy also requires vehicle keys to be located adjacent to time-recording equipment.¹² See Illustration 3.

Illustration 3: Carriers Waiting to Obtain Keys for Vehicle Inspection



Source: OIG

Carriers Waiting for Mail from the Plant

The arrival of mail at 11 of the 25 delivery units observed did not always mirror the Integrated Operation Plans (IOPs) agreed upon by the plant and the delivery unit. When mail arrives at the delivery unit later than expected, carriers can be delayed in the office. The IOP is designed to help stabilize mail flow and is critical in establishing appropriate staffing and reporting times to ensure carriers do not have to wait for mail. Although the Los Angeles District uses the Mail Arrival Quality System to report issues to the plant, mail flow issues often remain unresolved. In several instances, carriers were required to wait for Express Mail[®] before leaving the office or had to return to the unit from the street to obtain Express Mail. District management stated the untimely arrival of Express Mail is an area needing improvement, and they are discussing solutions to resolve the issue.

¹¹ Postal Service Handbook M-41, *City Delivery Carriers Duties and Responsibilities*, Section 922.51(f), dated March 1, 1998.

¹² Postal Service Handbook M-39, *Management of Delivery Services*, Section 117.1(b), dated March 1, 1998.

Unnecessary Rehandling of DPS Mail Trays

DPS letters the plant processes often arrive at the delivery unit in un-shelved mail¹³ transport containers. The mail in these containers is not easily identifiable or retrievable by carriers as they depart for street operations. Carriers were frequently delayed in the office 5 minutes or more daily retrieving DPS mail. Postal Service policy¹⁴ states mail processing should stage DPS letters for transport in shelved or modified containers so individual trays do not have to be rehandled at the delivery unit. See Illustration 4.

Illustration 4: Unshelved DPS Mail



Source: OIG

By reviewing workhour and workload utilization and improving oversight of office processes, management would increase the Los Angeles District's efficiency, thereby

¹³ Unshelved mail refers to DPS mail that is received by the delivery unit in containers not easily identifiable by route.

Trays for each route are stacked directly on trays of other routes without shelves in between.

¹⁴ Field Operations Standardization Development, Morning (AM) Standard Operating Procedures (AMSOP) II Guidebook, 2007.

saving approximately \$10.5 million annually, or over \$105 million over 10 years. See [Appendix C](#).

APPENDIX C: MONETARY IMPACT

| Finding | Impact Category | Amount |
|-----------------------------|---|----------------------|
| Operating Efficiency | Funds Put to Better Use¹⁵ | \$105,056,064 |

We estimated the monetary impact of \$105,056,064 in funds put to better use by reducing 298,260 workhours at delivery units in the Los Angeles District. This amount included an estimated cost savings of \$101,371,292 from reducing city letter carrier positions over 10 years and \$3,684,772 in reduction of delivery office overtime workhours over 2 years

Table 2. Los Angeles District Station Workhour Savings

| District | Delivery Units¹⁶ | Total Routes | Estimated City Delivery Workhours Saved¹⁷ | 10-Year Projection Based on Full-Time Equivalents' (FTEs) Reduction | 2-year Projection of Savings from Partial FTEs' Overtime Workhours | Estimated Total Savings |
|-----------------|------------------------------------|---------------------|---|--|---|--------------------------------|
| Los Angeles | 53 | 2,241 | 298,260 | \$101,371,292 | \$3,684,772 | \$105,056,064 |

Source: OIG

- We calculated funds put to better use of FTEs over 10 years using the FY 2011 city carrier level 2 fully loaded, labor rate with an escalation factor of 1.5 percent.
- To determine the reduction of city carrier FTE positions, we used a cash flow analysis based on city carrier complement and attrition from WebEIS for FYs 2005 through 2009. We used this to determine how many city letter carriers are estimated to leave in future years.
- We used the discount rate of 3.5 percent based on the Postal Service's Decision Analysis Report Factors (cost of borrowing rate).
- We calculated funds put to better use for reducing city carrier hours not equivalent to a FTE using the city carrier overtime rate for FY 2011 with an escalation factor of 1.5 percent for the 2-year projection.

¹⁵ Funds that could be used more efficiently by implementing recommended actions.

¹⁶ Cost savings were identified at 53 of 64 delivery units in the Los Angeles District.

¹⁷ The amount of estimated workhours the Los Angeles District can save if they improve their percent to standard from 124.17 down to the national average of 107.19. The reduction of these hours results in a projected FTE reduction of 142 positions over 10 years and a reduction of 49,760 overtime hours over 2 years.

APPENDIX D: MANAGEMENT'S COMMENTS

District Manager
Los Angeles District



June 16, 2010

MEMORANDUM TO:

SUBJECT: 2010 Los Angeles District City Delivery Efficiency Review
Report Number DR-AR-10

Thank you for the opportunity to provide a follow-up report to the report dated May 2010, and comment on the progress of the units reviewed. Overall, the audit conducted by OIG team members was fair and professional. The team was courteous, professional, and effective with resolving concerns.

RECOMMENDATIONS

- 1. Reduce the district's workhours by 298,260 to achieve an associated economic impact of over \$105 million over 10 years.**

RESPONSE: We agree with the findings of the audit that there is opportunity to save at least the workhours recommended in the report. The Los Angeles District has committed to the over all success of the Postal Service and the cost reductions required to achieve that success. As of this writing (week 37) the Los District has reduced 502, 953 hours to SPLY in Function 2b. Although success has been achieved in this arena we are continuing to drive for more workhour reductions. We expect to achieve a 650,000 reduction of F2b workhours to SPLY by the end of FY 10. The monetary impact expected is a savings of \$26,650,000 in S&B when compared to workhours to SPLY.

- 2. Periodically evaluate units' operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.**

RESPONSE: We agree with the findings from the audit. Focus on efficiency has become a heightened topic of discussion at all levels of district management. Each Station has a Carrier Flowchart. The Carrier Flowchart specifically reflects the

7001 S. CENTRAL AVE. ROOM 320
LOS ANGELES CA 90052
PHONE: (323) 586-1200
FAX: (323) 586-

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approved activity of a letter carrier in the AM as well as the PM. The Carrier Flowchart will be discussed at a stand up talk with all letter carriers and strictly enforced by management. The efficiency success in the delivery units is determined largely on the structure the Carrier Flow Chart provides. The stand-up talk will be developed, conducted and documented in all units NLT August 20, 2010.

All residual vacancies were posted in the Los Angeles Post Office during the time of the OIG review with the assistance of Human Resources. Residual vacancies that did not receive a successful bidder were filled by unassigned regulars. This process will be repeated on an ongoing basis until all residual vacancies are filled or adjusted in the joint agreement process.

To address high carrier sick leave in the Los Angeles District, attendance control training is being provided by Labor Relations to all EAS employees. The training started in May 2010. Specialized training has been and will continue to be provided to offices in the Enabling environment. Reviews of PS Form 3972 will be conducted by local management to identify employees that are irregular in attendance. The appropriate administrative action will be taken with employees who show minimal improvement in attendance.

3. Reinforce Postal Service policy and procedures for supervising city delivery office operations in delivery units and eliminate time-wasting practices as appropriate

RESPONSE: The casing of DPS mail and Advertisement mail was immediately stopped in the units where it was discovered during the review. In addition, the topic of casing DPS mail and Advertising mail was brought up at the weekly Postmaster/Station Manager meeting. Each Postmaster/Station Manager was instructed to give a stand up talk to the letter carriers regarding casing DPS mail and Advertising mail. The instruction to the letter carriers was this improper practice is not allowed. The stand-up talk will be developed, conducted and documented in all units NLT July 30, 2010.

The vehicle inspection process will be revisited with letter carriers via a stand up talk. The vehicle inspection process will be supervised by the delivery supervisor to minimize the inspection time. The stand-up talk will be developed, conducted and documented in all units NLT August 20, 2010.

4. Require processing facility managers and delivery managers to coordinate, review, and update all Integrated Operating Plans to ensure mail arrives timely and in the condition necessary to promote office efficiency.

- 3 -

RESPONSE: *we have re-emphasized to Customer Service Operations the need to communicate with the Plant on a daily basis in regard to properly preparing and stacking DPS mail. The Plant has a process in place to ensure all DPS mail comes to the delivery units properly stacked, minimizing the time wasting practice of letter carriers having to organize the DPS mail for accurate delivery. All pending FSS offices along with offices that have been identified as Enabling Offices receive their DPS racked daily to avoid the practice that is inefficient.*

Your guidance and assistance in improving the Los Angeles District's delivery efficiency is greatly appreciated.

If you have any questions, please contact Mark H. Anderson at 323-586-1201 or Tim Dwyer at 323-586-1446.


for Eduardo H. Ruiz Jr.
District Manager
Los Angeles District

cc: File