



September 21, 2009

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MANAGER, SALT LAKE CITY CUSTOMER SERVICE DISTRICT

SUBJECT: Audit Report – Salt Lake City Airport Mail Center Closure  
(Report Number EN-AR-09-004)

This report presents the results of our audit of the Salt Lake City Airport Mail Center (AMC) Closure (Project Number 08XG041EN000). Our objectives were to assess the operational and monetary impacts of the Salt Lake City AMC closure and evaluate compliance with policies. This audit addresses operational risks, is part of our Value Proposition agreement,<sup>1</sup> and is the fourth in a series of AMC reviews. See [Appendix A](#) for additional information about this audit.

### **Conclusion**

The decision to close the Salt Lake City AMC on August 30, 2008, reduced costs without impacting service. However, management did not perform a complete analysis to determine all monetary impacts, including how the facility would be used after the AMC closed. Although management has made continuing improvements to operational efficiency, additional opportunities exist. Specifically, management did not review and adjust workhours for the workload transferred to the Salt Lake City Processing and Distribution Center (P&DC), which could save \$414,891 over 5 years. In addition, management could save \$466,120 by terminating the land lease and selling the building in 2012. See [Appendix G](#) for summary of funds put to better use. We also identified concerns with mail security at the airline freight houses. Management generally complied with relevant policies but had not measured the results of this initiative.

### **Operational Impacts**

Service – After closing the Salt Lake City AMC, management maintained service by consolidating transportation routes to ensure there would be no service downgrades. Service scores for overnight, 2-day, and 3-day service remained consistent with scores from the same period in fiscal year (FY) 2007. See [Appendix B](#) for our detailed analysis of this topic.

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<sup>1</sup> A value proposition is a signed agreement between the U.S. Postal Service Office of Inspector General (OIG) and Postal Service management to perform one or more specific audits in an agreed-upon period.

Staffing – Management also reduced the number of staff at the Salt Lake City AMC from 30 to nine as a result of the closure, as of March 2009. The other employees transferred to the Salt Lake City P&DC, retired, or were not reinstated, if they were casuals. See [Appendix B](#) for our detailed analysis of this topic.

AMC Facility – The Postal Service has not vacated the Salt Lake City AMC facility because of the terms of a 42-year land lease. The Postal Service cannot sever the lease until the 6<sup>th</sup> month of the 25<sup>th</sup> year (August 2012). A retail unit and post office box section remain operational in the facility. Also, the terminal handling service<sup>2</sup> (THS) for Federal Express (FedEx) and United Parcel Service (UPS) leases the rear of the facility. Picture 1 shows the retail section of the AMC. See [Appendix B](#) for our detailed analysis of this topic.

**Picture 1: Fletcher F. Acord Airport Mail Facility<sup>3</sup>**



Mail Security – We identified concerns with mail security at the commercial air carrier freight houses that contract personnel use to stage and transport mail to and from aircraft. Specifically, mail at two of the three airline freight houses was not staged in secure locations.

- One freight house was also used as a garage, to which maintenance personnel had access.

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<sup>2</sup> Terminal handling refers to any activity to receive, sort, route, and dispatch sacks, pouches, and outsides at an AMC/facility and railroad or a truck terminal.

<sup>3</sup> Airport Mail Facility/Airport Mail Center (AMF/AMC) – is a postal facility at an airport that receives, concentrates, transfers, dispatches, and distributes mail transported by air. The terms “airport mail facility” and “airport mail center” are interchangeable.

- Another freight house was left unsecured. See [Appendix B](#) for our detailed analysis of this topic.

Postal Service Actions – Management has various initiatives in place or planned to reduce costs and improve efficiency. For example, management has already adjusted 8,750 workhours at the Salt Lake City P&DC to match workhours to workload since the Salt Lake City AMC closed. In addition, management is considering relocating other Postal Service operations to the vacant space at the Salt Lake City airport facility.

We recommend the Manager, Salt Lake City Customer Service District:

1. Move the retail unit and post office box section to another facility before August 2012, when the land lease can be terminated.
2. Terminate the land lease and sell the former airport mail center building and lease rights in August 2012, with an associated economic impact of \$466,120.
3. Work with freight house managers to ensure that mail staged at the airline freight houses is secure.

### **Monetary Impacts**

Management did not perform a cost analysis to determine overall monetary savings associated with closing the Salt Lake City AMC and moving non-core AMC functions<sup>4</sup> to the Salt Lake City P&DC. The Salt Lake City AMC was not a part of the Postal Service's comparative analysis for outsourcing AMCs, because mail is tendered and picked up directly by the Postal Service with no THS required. We prepared an independent analysis to determine potential workhour savings associated with consolidating AMC functions into the P&DC. See [Appendix B](#) for our detailed analysis of this topic.

We recommend the Manager, Salt Lake City Customer Service District:

4. Reduce mail processing workhours by 6,940 at the Salt Lake City Processing and Distribution Center, with an associated economic impact of \$414,891 over 5 years.

### **Compliance with Policies and Procedures**

Management generally complied with Article 12 of the national agreement with unions by following notification policies and procedures before moving operations to the Salt Lake City P&DC. See [Appendix B](#) for our detailed analysis of this topic.

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<sup>4</sup> Non-core AMC functions include automated mail processing, distribution and assignment, and material handling.

## Management's Comments

Management did not agree with recommendations 1 and 2 to move the retail unit and box section, terminate the land lease, and sell the former AMC building. Management also did not agree with the associated monetary impact. However, management stated they are implementing operational changes that meet the spirit of the recommendations and achieve equivalent savings. Management agreed with findings 3 and 4 and the associated monetary impacts, and stated they have already implemented those recommendations. Management's comments, in their entirety, are included in [Appendix H](#).

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and management's corrective actions should resolve the issues identified in the report. Management intends to terminate the lease for two adjacent facilities and move those operations to the former AMC building, generating equivalent savings. We believe these alternative cost saving actions satisfy the intent of recommendations 1 and 2, but will report our projected cost savings since management's alternative involves facilities outside the scope of our review and could not be validated.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Michael A. Magalski, Director, Network Optimization, 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

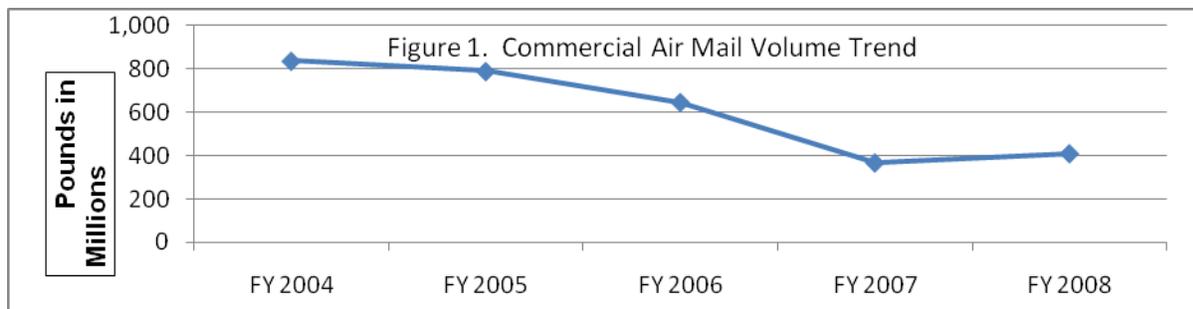
## Attachments

cc: Patrick R. Donahoe  
Steven J. Forte  
Sylvester Black  
Cynthia F. Mallonee  
Gus G. Chaus  
Bill Harris

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Postal Service maintains AMCs and AMFs to expedite the transfer of mail to and from commercial air carriers. This transfer is called the tender and receipt of mail. In many cases, these airport facilities have excess capacity as a result of declining volumes of mail tendered to commercial air carriers. Commercial air volume has declined from approximately 837 million pounds of mail in FY 2004 to 410 million pounds in FY 2008. Figure 1 shows this trend. To address this issue, the Postal Service began standardizing AMCs by returning non-core AMC operations to P&DCs and bulk mail centers. This standardization enabled the Postal Service to improve efficiency and productivity and reduce costs at the AMCs.



### Optimizing the Network

The Postal Service identified Network Integration and Alignment (NIA) as a strategy in the *Transformation Plan*.<sup>5</sup> NIA's charter was to create a flexible logistics network that would reduce costs for the Postal Service and its customers, increase operational effectiveness, and improve consistency of service. In 2003, the President's Commission<sup>6</sup> found the Postal Service had more facilities than needed and recommended optimizing the facility network.

The *Strategic Transformation Plan 2006-2010*<sup>7</sup> stated the efforts to create a flexible network to increase productivity and effectiveness—formerly called Network Integration and Alignment—would continue as an evolutionary process, called Evolutionary Network Development. One of these efforts was to reexamine the role of AMCs to determine whether the number of these facilities could be reduced and better coordinated using third-party facilities (contracting out). The *2006 Annual Progress Report*<sup>8</sup> noted that because of the consolidation of air contractors and expansion of the

<sup>5</sup> United States Postal Service's *Transformation Plan*, dated April 2002.

<sup>6</sup> *Report of the President's Commission on the United States Postal Service*, dated July 31, 2003.

<sup>7</sup> *Strategic Transformation Plan 2006-2010*, dated September 2005.

<sup>8</sup> *Strategic Transformation Plan 2006-2010, 2006 Annual Progress Report*, dated December 2006.

surface transportation network, the Postal Service was reviewing AMCs. At that time, management was considering contracting out operations at 43 AMCs. The *Strategic Transformation Plan 2006-2010 2007 Update*<sup>9</sup> noted that some non-core operations were transferred from AMCs to processing plants. The Postal Service standardized more than 40 facilities and made plans to standardize additional facilities in 2008.

### Operational Impact

Because of security restrictions the Federal Aviation Administration imposed after September 11, 2001, the Postal Service no longer used commercial passenger aircraft for Priority Mail®. Consequently, there was a significant decrease in the volume of mail tendered to commercial passenger carriers. Priority Mail was tendered to FedEx and UPS and containerized by THSs in specially configured facilities. This contributed to the underuse of AMCs. Before the initiative to outsource and reduce the number of AMCs, the Postal Service had 80 AMCs—12 percent of the facilities in the processing network. See [Appendix C](#) for the status and disposition of AMCs as of October 22, 2008.

In January 2006, management implemented a nationwide integrated air strategy that included reducing reliance on passenger airlines; renegotiating and renewing the FedEx contract, and, where possible, shifting mail moved by air to less costly ground transportation. This strategy allowed the Postal Service to eliminate infrastructure because contractors tendered and received mail and performed other AMC core operations, reducing or eliminating the need for some AMCs.

In September 2006, the Postal Service issued a new commercial air contract with seven air carriers: American Airlines, American Trans Air, Continental, Jet Blue, Midwest Express, Sun Country, and US Airways/America West. In April 2007, the Postal Service added an eighth air carrier, United Airlines, on a trial basis. The previous commercial air contract used 17 air carriers. At the same time, the Postal Service continued with its air-to-surface initiative, which diverted 3-day First-Class Mail® (FCM) volume to surface transportation. This reduction of air carriers and increased use of surface transportation provided an opportunity to use direct tender and receipt of mail.

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<sup>9</sup> *Strategic Transformation Plan 2006-2010, 2007 Update*, dated December 2007.

## OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess the operational and monetary impacts of the Salt Lake City AMC closure and evaluate compliance with policies. To accomplish the objectives, we interviewed Postal Service managers, visited the Salt Lake City AMC, the Salt Lake City P&DC, and the Salt Lake City Auxiliary Service Facility (ASF). We performed a limited review of Article 12 processes the Postal Service followed to terminate AMC operations. We also reviewed the Salt Lake City AMC land lease and evaluated service performance before and after the non-core operations were moved. In addition, we reviewed available guidance for moving mail processing operations at AMCs and the implications of the Postal Act of 2006.<sup>10</sup>

We relied on several Postal Service data systems: Enterprise Data Warehouse System, Web Complement Information System, and the Transportation Contract Support System. We did not test the controls over these systems. However, we checked the accuracy and reasonableness of the data by confirming our analysis and results with management and by consulting different data sources. We found no material differences. Because management did not develop a comparative analysis to project cost savings, we relied on other documents to complete our analysis.

We conducted this performance audit from August 2008 through September 2009<sup>11</sup> 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 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 30, 2009, and included their comments where appropriate.

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<sup>10</sup> *Postal Accountability and Enhancement Act*, Public Law 109-435, dated December 2006.

<sup>11</sup> This audit was temporarily suspended from October 2, 2008, to November 14, 2008, to accommodate other priorities.

## PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
<i>St. Louis Airport Mail Center Outsourcing</i>	EN-AR-08-002	February 29, 2008	The decision to outsource some operations at the St. Louis AMC was supported and should reduce costs with minimal impact on service performance. However, management did not formalize lessons learned and best practices and develop guidance for measuring results. Management agreed with recommendations to formalize lessons learned, establish a post-implementation review (PIR) program for AMCs, and conduct a PIR for the St. Louis AMC.
<i>Miami Air Mail Center Outsourcing</i>	EN-AR-08-004	July 16, 2008	The Postal Service's planning for the Miami AMC outsourcing initiative appeared adequate. The Postal Service made the decision to outsource some operations at the Miami AMC and reduce costs with minimal impact on service performance. Management generally complied with existing policies and procedures. Management agreed with the recommendation to conduct a PIR after outsourcing the Miami AMC to determine whether the outsourcing was cost effective.
<i>Best Practices for Post-Implementation Reviews of Air Mail Center Initiatives</i>	EN-MA-08-002	September 15, 2008	Our review identified best practices in the use of PIRs at other government organizations. These best practices help determine whether outsourcing initiatives achieve intended results and could be of assistance to the U.S. Postal Service.

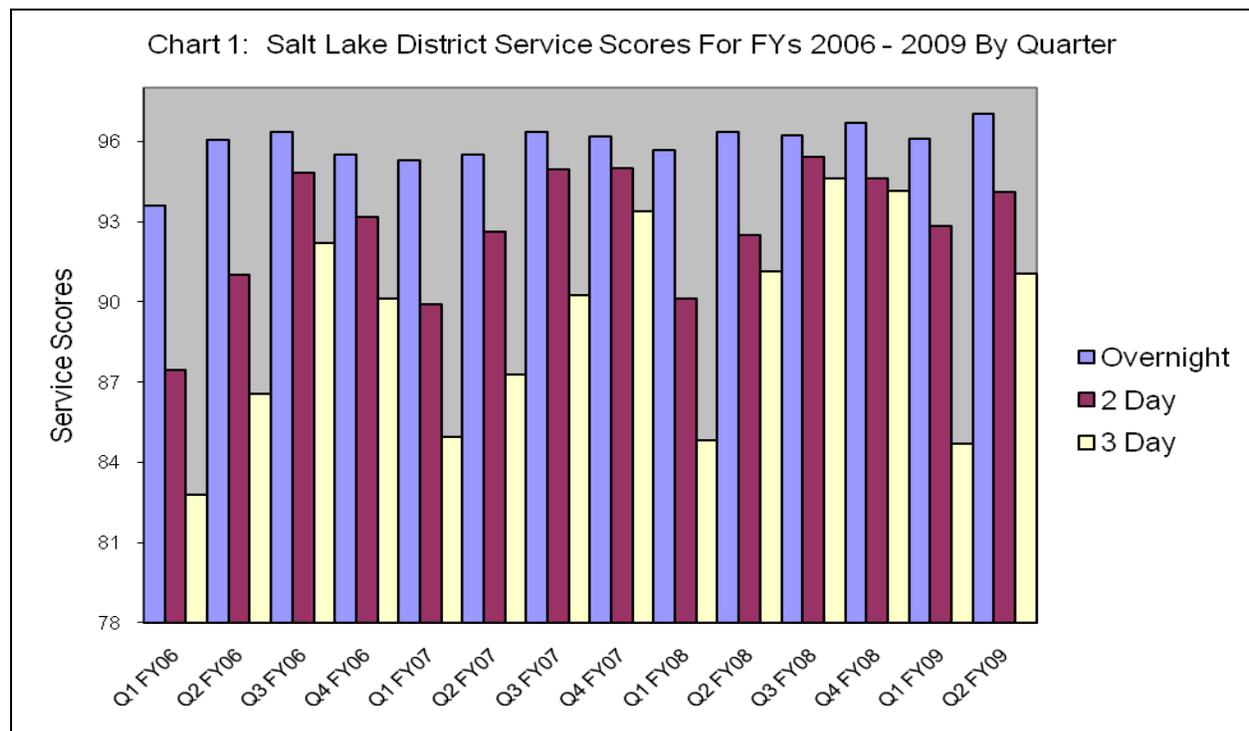
Report Title	Report Number	Final Report Date	Report Results
<i>Boston Airport Mail Center Outsourcing</i>	EN-AR-09-003	May 14, 2009	The Postal Service saved approximately \$8.4 million in costs in the first calendar year following the AMC outsourcing. However, the comparative analysis developed during outsourcing planning was overstated by approximately \$3.1 million over the contract period of 11 years. The Postal Service also paid \$172,857 in unsupported parking fees and \$31,611 for equipment not used to process the mail from May 2006 through January 2009. Eliminating these costs for the remaining term of the contract (4.5 years) could save the Postal Service \$318,330.
<i>Data Needed to Assess Effectiveness of Outsourcing</i>	GAO-08-787	July 2008	The audit found the Postal Service has no statutory restrictions on the work it may outsource; however, collective bargaining agreements impose some requirements and limitations. The Government Accountability Office (GAO) recommended the Postmaster General establish a process to measure the results and effectiveness of outsourcing activities subject to collective bargaining, including tracking actual costs and savings and comparing them with estimated costs and savings. Further, GAO recommended the Postal Service include information on the results and effectiveness of these ongoing outsourcing activities in its annual operations report to Congress, <i>Comprehensive Statement on Postal Operations</i> .

**APPENDIX B: DETAILED ANALYSIS**

**Operational Impacts**

*Service*

Closing the AMC did not result in any downgrades to service performance. Overall service scores for 2-day, 3-day, and overnight service within the Salt Lake District remained consistent after the Salt Lake City AMC closed. We compared FY 2008 service scores prior to the closure with FY 2009 service scores after the closure. We found that service scores dropped slightly in the first quarter of FY 2009 but the decline was seasonal and not due to the closure of the AMC. Management changed transportation routes to accommodate the closure and minimize impacts on service. Chart 1 below shows service scores for the Salt Lake District from FY 2006 to the second quarter of FY 2009.



*Staffing*

Closing the Salt Lake City AMC helped the Postal Service realign its network to reduce costs. Our analysis determined that management was able to reduce the number of employees at the Salt Lake City AMC from 30 as of July 3, 2008, to 9 by March 2009.

As of March 2009, the 30 former AMC employees were accounted for as follows:

- Management transferred 15 to the Salt Lake City P&DC.
- Eight are assigned to the Salt Lake City AMC.<sup>12</sup>
- Three retired.
- Management did not reinstate three casuals.
- Management reassigned one to other operations within the Salt Lake District.

### *AMC Facility*

Although the Postal Service closed the Salt Lake City AMC on August 30, 2008, the retail unit and the post office box section of the facility remain operational. Express Mail® arriving from FedEx is processed in the facility by a THS, and nine Postal Service employees still work the post office box and retail sections. The Postal Service has not vacated the building, because it signed a 42-year land lease with the City of Salt Lake Airport Authority on January 20, 1987. The terms of the lease state the Postal Service cannot terminate the land lease until the 6<sup>th</sup> month of the 25<sup>th</sup> year of the lease. Because the facility cannot be vacated at this time, the Postal Service is leasing approximately 50 percent of the building to the THS that processes UPS and FedEx mail. Management believes renting the rear of the facility to the THS is more cost effective than terminating the lease or vacating the building.

The Postal Accountability and Enhancement Act Section 302 Network Plan, dated June 19, 2008, states

. . .In addition to streamlining mail processing and improving efficiency, AMC consolidations result in cost advantages for the Postal Service. These include facility and land lease cost avoidance, as well as moving underutilized AMC personnel to more productive P&DC operations, and the use of existing commercial THS providers.

The FY 2008 Summary of the Network Plan states

Four AMC closures have been implemented since the Network Plan was submitted. These facilities were located in or near Dallas, TX; Jacksonville, FL; Fort Myers, FL; and Salt Lake City, UT. These

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<sup>12</sup> Nine employees are showing on rolls per the March 2009 webCOINS report. One employee was not on the staffing list provided by management.

closures avoid the unnecessary expense of leasing and maintaining facilities on costly airport property.

The verbiage in the reports suggests the Salt Lake City AMC has been closed and the lease terminated.

### *Mail Security*

Since the closure of the Salt Lake City AMC, FCM is no longer staged at the facility. Instead, postal vehicles transport mail from the Salt Lake City P&DC to the airline freight houses. The freight houses are managed by personnel contracted by the airlines to stage and transport the mail to and from the aircraft. During our site visit, we toured the three freight houses and noted the contractors did not stage the mail in secure locations. For example, we were able to enter one of the freight houses from the airport side, because the door was unlocked constantly. Contractors used another freight house as a maintenance garage. The mechanics in the freight house were performing maintenance on an airline tug, with maintenance personnel entering and exiting the facility and working around the staged mail. Freight house personnel believed the freight houses are secure, because the buildings are located on airport property, with special clearances required to access airport property. However, postal managers expressed concerns about mail security. Although the freight houses are located on secure airport property, mail staged in unsecured freight houses is subject to being lost, stolen, or damaged. See Picture 2 showing a freight house used as a garage and mail staging area.

**Picture 2. Freight House Used to Stage Mail and Service Airport Equipment**



## Monetary Impacts

We determined the Postal Service did not conduct an analysis to determine overall cost savings associated with the Salt Lake City AMC closure.

- The Manager, Transportation, conducted a transportation analysis at the Salt Lake City P&DC to determine cost savings associated with changing transportation routes to accommodate the closure. Management determined the Postal Service would save approximately \$79,868 by changing transportation routes. We determined the Postal Service would save approximately \$201,254 by changing transportation routes. The difference occurred because management did not include one highway schedule in their initial analysis. Management eliminated the schedule and combined the trips previously associated with the eliminated schedule with an existing schedule. The consolidation of trips increased the transportation savings by approximately \$121,386.
- Management did not perform an overall cost analysis to determine all monetary savings associated with moving non-core functions to the Salt Lake City P&DC and closing the Salt Lake City AMC. Management stated that because the Salt Lake City AMC was not considered for outsourcing, no comparative analysis was completed. Preparation of a cost benefit analysis would have helped determine whether it was more beneficial to close the Salt Lake City AMC and move all functions out or leave functions in the facility and continue operating as an AMC. In addition, an analysis may have also addressed the timing of the closure given the lease concerns addressed in this report.
- We prepared a workhour analysis to determine additional cost saving opportunities if the Postal Service reduces the hours associated with the non-core functions moved from the Salt Lake City AMC to the Salt Lake City P&DC through attrition. We used FY 2008 data in the analysis, analyzing mail processing operations for the Salt Lake City AMC and Salt Lake City P&DC.<sup>13</sup> Our workhour analysis determined the Salt Lake City P&DC would need 12 Salt Lake City AMC employees to process the Salt Lake City AMC volume transferred to the Salt Lake City P&DC (9 bargaining unit and 3 executive and administrative schedule employees). The remaining mail processing employees could be reduced through attrition over a 5-year period resulting in a monetary savings of approximately \$414,891. Our analysis is net of the monetary savings through attrition the Postal Service has realized since the closure. See [Appendix E](#) for workhour analysis methodology.

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<sup>13</sup> The analysis did not include the custodial operation.

- We compared the cost of continuing to occupy the AMC facility and leasing to the THS to terminating the lease in August 2012 and selling the AMC building and improvements or leasehold interests to the City of Salt Lake Airport Authority. We estimated the sale price for the building to be approximately \$1.6 million.<sup>14</sup> We considered the costs associated with the THS operating in the AMC, the fixed cost associated with the THS operating in its own facility, and the expenses associated with maintaining the facility. We determined if the Postal Service continues to occupy the facility after August 2012 and allow the THS to operate from the rear of the facility, it would incur a loss of approximately \$638,594. However, if the Postal Service terminates the lease in August 2012, sells the building and improvements or leasehold interests to the Airport Authority, and incurs the fixed cost of the THS building expense, the Postal Service's loss would be reduced to approximately \$172,473.01. The difference between the two options is approximately \$466,120. See [Appendix D](#) for Salt Lake City AMC facility land lease timeline. See [Appendix F](#) for facility cost methodology.

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<sup>14</sup> The [REDACTED] is what the approximate book value of the facility will be in August 2012, assuming depreciation remains constant. However, the facility may sell for a higher appraised value.

## Compliance with Policies and Procedures

Management complied with policies and procedures when closing the Salt Lake City AMC. The Postal Service met Article 12<sup>15</sup> notification requirements and provided American Postal Workers Union (APWU) officials and employees with information regarding the closure. Approximately 4 years before the closure, management advised the unions in accordance with Article 12 that they were planning to close the Salt Lake City AMC. However, one grievance was filed due to a violation of crossing crafts.<sup>16</sup>

- March 8, 2005 – Postal Service Headquarters management conducted a comparative analysis of 54 AMCs to compare the cost of outsourcing the air mail centers to the cost of keeping the air mail center operations in-house.
- February 2007 – Postal Service management updated the 2005 comparative analysis, which included 14 AMCs, but did not include the Salt Lake City AMC.
- April 2007 – Management moved Express Mail from the Salt Lake City AMC to the Salt Lake City P&DC.
- September 2007 – Management moved Registry mail from the Salt Lake City AMC to the Salt Lake City P&DC.
- April 24, 2008 – Management met with local mail handler union officials to discuss moving sack operations to the Salt Lake City ASF anticipated in May 2008.
- April 29, 2008 – Management met with APWU union officials to discuss Salt Lake City AMC sack operations.
- May 22, 2008 – Management notified mail handlers and APWU union officials of moving sack operations on June 16, 2008.
- August 30, 2008 – Management closed the Salt Lake City AMC. The retail unit and post office box remain operational in the facility.

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<sup>15</sup> Article 12 of the Collective Bargaining Agreement applies when a major relocation of employees is planned in a major metropolitan area. The Postal Service must meet with the unions at the national level at least 90 days in advance of the plan's implementation and must also meet with unions at the regional level in advance of the relocation (6 months in advance, if possible). When an independent installation is discontinued, full-time and part-time employees will be involuntarily reassigned to continuing installations, to the maximum extent possible.

<sup>16</sup> Article 7 of the Collective Bargaining Agreement states work in different crafts, occupational groups or level will not be combined into one job. However, management may establish full-time schedule assignments by including work within different crafts or occupational groups after determining all available work within each separate craft by tour has been combined and work of different crafts in the same age level by tour has been combined. Management must inform the appropriate representatives of the affected unions in advance of the reasons for combining full-time assignments within different crafts.

- September 10, 2008 – A custodial employee filed a grievance due to custodians used to break down or work Express Mail in violation of crossing crafts.
- October 22, 2008 – The grievance was resolved when management was instructed to cease crossing crafts with custodians.

**APPENDIX C: STATUS OF AIRPORT MAIL CENTERS AS OF OCTOBER 22, 2008**

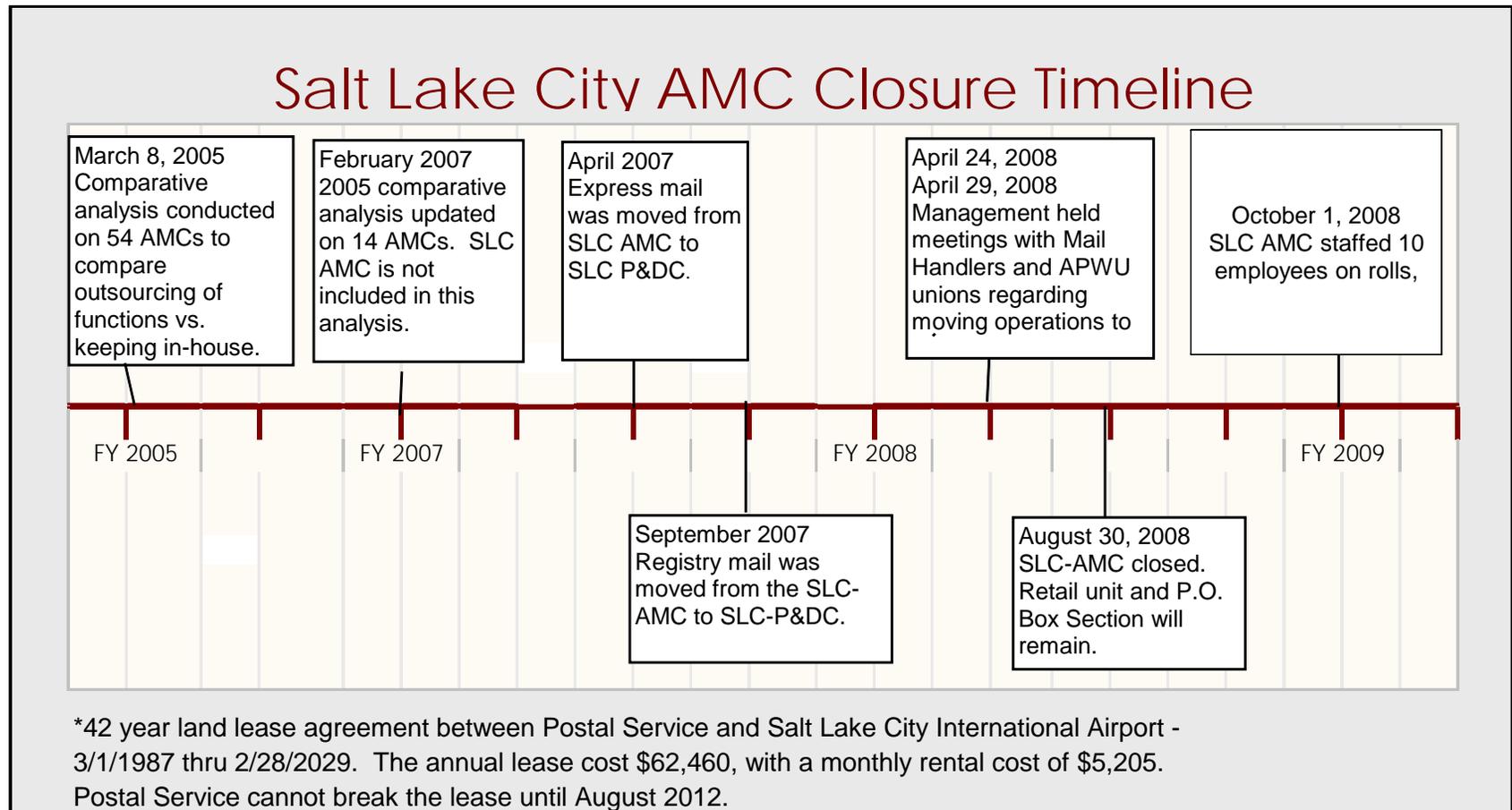
	<b>Number of Facilities</b>
Outsourced	14
Outsourcing date 2009	9
Direct tender/receipt (in-house)	14
Changing from in-house to outsourced	1
Not considered for outsourcing	4
Re-classified as P&DC	7
Re-classified as carrier unit	1
Off commercial air network <sup>17</sup>	30
<b>Total</b>	<b>80</b>

Note: The Salt Lake City AMC is one of the direct tender/receipt (in-house) facilities.

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<sup>17</sup> Commercial air carriers who provide mail transportation services to the Postal Service.

APPENDIX D: SALT LAKE CITY AMC LAND LEASE TIMELINE



## APPENDIX E: WORKHOUR ANALYSIS METHODOLOGY

We prepared an analysis to determine cost savings through attrition from reduction of workhours associated with the non-core functions moved from the Salt Lake City AMC to the Salt Lake City P&DC.

- We used FY 2008 data to analyze mail processing mail volume and workhours for the Salt Lake City AMC and Salt Lake City P&DC.
- For each Salt Lake City AMC mail processing operation, we determined how many workhours from the Salt Lake City AMC would be needed to process the mail volume being transferred to the P&DC, based on the Salt Lake City P&DC's actual productivity rate. For Salt Lake City AMC operations without mail volume but with workhours, we transferred all workhours to the Salt Lake City P&DC.
- After determining the workhours needed<sup>18</sup> for the former Salt Lake City AMC mail processing operations, we subtracted that number from the total number of Salt Lake City AMC workhours for the operation to produce the total workhours that can be saved. We then multiplied the workhours saved by the applicable labor rate for FY 2008. In some operations, more workhours were needed to process the mail volume and in some operations, less were needed.
- The Labor Distribution Code Operation Report showed 42,418 workhours in the mail processing operations of the Salt Lake City AMC. We determined 21,507 workhours were needed to process the mail volume transferred to the Salt Lake City P&DC based on the Salt Lake City P&DC productivity rate for those operations. We recognized that approximately 8,750 hours have been reduced since the closure. Therefore, approximately 12,161 workhours could be eliminated through attrition. We compared our analysis to the number of former Salt Lake City AMC employees on rolls at the Salt Lake City P&DC.
- Management transferred 22,750 hours (13 bargaining unit employees) to the Salt Lake City P&DC. We subtracted 15,810 hours (nine bargaining unit employees), and determined 6,940 hours could be eliminated through attrition.
- Using the total number of clerk and mail handler hours and the average wage, we calculated the total payroll for the facility. The attrition rate is the percentage of payroll that management can reduce annually. Because not all employees will retire or leave on January 1, we assume the rate of attrition to be 20 percent the 1st year, 40 percent the 2nd year, 60 percent the 3rd year, 80 percent the 4th year, and 100 percent for the 5th year.

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<sup>18</sup> Formula for determining workhours needed: AMC Mail Volume/P&DC Productivity Rate = AMC Workhours Needed.

Our analysis takes into account the monetary savings the Postal Service has realized through the reduction of workhours due to the closure. We determined the number of workhours reduced by calculating the number of workhours per work year for the number of bargaining unit employees reduced. We then multiplied that number by the applicable labor rate. Our cash flow analysis took into account the 4 percent cost of borrowing rate to the Postal Service in FY 2008. We determined the Postal Service would save approximately \$414,819 over a 5-year period.

## APPENDIX F: FACILITY ANALYSIS METHODOLOGY

The Postal Service signed a 42-year land lease with the City of Salt Lake Airport Authority on January 20, 1987. The lease is currently in its 22nd year, with payments at \$5,205 per month. Lease payments are scheduled to increase in 2010 to \$6,181 per month. The Postal Service may terminate the lease after the 25th year, in August 2012. If the Postal Service elects to sell or assign its interests during the term of the lease, the Postal Service must offer to sell its interests (in this case the building) to the City of Salt Lake first.

- We calculated the operating expenses of the Salt Lake City AMC for FY 2006 through FY 2009. We also compared the operating expenses 6 months prior to the closure to the expenses 6 months after the closure.
- We determined if the Postal Service terminates the land lease in August 2012, it would save \$1,770,450 in lease costs and \$1,816,241 in operating expenses.
- The Postal Service may be able to sell the un-depreciated value of the building back to the city of Salt Lake Airport Authority. The un-depreciated value in August 2012 will be approximately [REDACTED], assuming depreciation remains constant until 2012.

We considered two options:

- Option 1 – Terminate the land lease in August 2012, sell the un-depreciated value of the AMC (approximately [REDACTED]) to the City of Salt Lake Airport Authority, and incur the cost of the THS operating out of its own facility. The Postal Service would realize a savings of approximately \$117,099 on the expenses associated with maintaining the facility. The THS for FedEx and UPS would then have to operate out of its own facility. We used an average of the fixed costs quoted by the THS on contract number SNET-08-MFE dated January 13, 2009. The average fixed cost is \$505,394. After factoring in the cost of borrowing at 3.5 percent and assuming the THS facility cost will remain constant, the 10-year monetary impact of terminating the lease, selling the building, and the THS operating out of its own facility would be a loss of \$172,473. The monetary impact for the remainder of the lease would be a loss of [REDACTED]. This option assumes the retail unit and post office box section would be absorbed by nearby operations.
- Option 2 – This option maintains the facility and allows the THS to lease approximately 50 percent of the building in the rear of the facility. The Postal Service would continue to incur facility costs and will not realize cost savings from lease expenses. After factoring in the cost of borrowing at 3.5 percent, the 10-year monetary impact of maintaining the facility is a loss of \$638,593. The monetary impact for the remainder of the lease is a loss of \$1,370,858. This

option assumes only the retail unit, post office box section, and THS contractors will use the facility for the next 20 years.

In both options, the Postal Service will incur a loss. However, option 1 is a better monetary option, because the Postal Service will incur less of a loss. The net present value of the 10-year monetary impact is \$466,120 in funds put to better use.

**APPENDIX G: SUMMARY OF FUNDS PUT TO BETTER USE**

<b>Description</b>	<b>Funds Put to Better Use<sup>19</sup></b>
Workhours	414,891
Building	466,120
<b>Total</b>	<b>\$881,011</b>

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<sup>19</sup> Funds that could be used more efficiently by implementing recommended actions.

## APPENDIX H: MANAGEMENT'S COMMENTS

DISTRICT MANAGER  
SALT LAKE DISTRICT



September 14, 2009

Lucine M. Willis  
Director, Audit Operations  
US Postal Service OIG

Subject: Response to Audit Report # EN-AR-09 – Salt Lake City Airport Mail Center Closure

In the audit report from Robert J. Datta, Deputy Assistant Inspector General for Mission Operations, dated August 20, 2009, the USPS Office of Inspector General made four specific recommendations, which we will respond to below. The four recommendations were:

1. Move the retail unit and post office box section to another facility before August 2012, when the land lease can be terminated.
2. Terminate the land lease and sell the former AMC building and lease rights in August 2012, with an associated economic impact of \$466,120.
3. Work with freight house managers to ensure that mail staged at the airline freight houses is secure.
4. Reduce mail processing workhours by 6,940 at the Salt Lake City Processing and Distribution Center, with an associated economic impact of \$414,891 over 5 years.

We disagree with the monetary impact findings on items #1 and #2. We are, however, implementing operational changes which meet the spirit of the OIG recommendations and achieve equivalent savings. We agree with the monetary impact findings for items #3 and #4 and have already implemented those recommendations. As far as we are aware, nothing in this document needs to be exempt from disclosure under FOIA.

### #1 and #2 MOVE RETAIL/BOX AND SELL AMC BUILDING

The USPS currently leases ground space from the Salt Lake International Airport at a rate of \$74,172/yr. Over the next 19 years of the lease term, that amount will climb to a total of \$124,272/yr. Please reference paragraph 3 sub section (a) of the lease, for a table of per year increases over the life of the lease. Also note that contrary to the conclusion statement in the OIG Draft Audit Report, dated 8/20/2009, the building owned by the Postal Service may not be available for sale during the term of this lease, even after 2012. The Sale clause in the lease is in direct contradiction to the Termination clause. This would need interpretation by the Law Department to determine the clause that would take precedence. Most frequently, the more restrictive clause in a contract prevails. In this case, that is the Termination clause, which is: paragraph 16, sub section B of the land lease.

(B). Notwithstanding the foregoing, the parties specifically agree that this Lease may be cancelled by Lessee at any time after this Lease shall have been in force for twenty-five (25) years upon the provision by Lessee to Lessor of one-hundred-eighty (180) days written notice of Such cancellation. Should cancellation or termination occur as described in this paragraph, *then and in such event all real property improvements existing upon the Leased Premises shall become the property of Lessor at no cost to Lessor.* (Italics and underline added for emphasis)

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Termination of the lease by the Lessee will result in forfeiture of the building to the Lessor and no cost savings to the Postal Service.

Rather than close the AMC, incurring a loss of the facility value and an additional expense of THS operations at the Salt Lake City Airport, the Salt Lake City District intends instead to terminate the lease at a nearby Custer Street Annex and move operations (delivery, CFS and Stamp Distribution Office) to the current AMC building. We currently lease two adjacent facilities with one lease: Custer Street Annex for delivery/CFS and Bridger Street Annex for mail transport equipment.

We pay a yearly rate of \$5.28/sq. ft. for the combined space at the Custer and Bridger Annex. This is a yearly lease cost of \$167,286. Adding the most recent Common Area Maintenance (CAM) charges, \$52,579.99, and yearly property taxes of \$9,797.31, our current yearly cost for the Custer/Bridger lease is \$229,663. The Salt Lake District would like to keep or replace the square footage in the Bridger building. At the current average price per sq. ft. for this 7843 sq. ft. space, we should be able to negotiate a yearly lease rate of \$37,960, to keep or replace this portion of our current lease for the Custer Annex. Adding per foot CAM and Taxes to this would bring the total for Bridger to \$53,410 per year and a savings from terminating Custer to \$176,253.

We are currently leasing 50% of the Salt Lake City AMC to Matheson (a THS company) for a yearly rate of \$1. This makes sense in that for Matheson to lease the space needed to provide service to us at the current yearly rate of \$4.84/sq. ft. would cost them \$101,101. CAM charges and Taxes would run approximately \$27,367. It is reasonable to expect them to pass this cost plus overhead and profit of 15% on to the Postal Service, a total increased yearly cost of \$147,738 to the Postal Service for the THS services now provided. Thus, just moving the Matheson THS operation out of the AMC would incur an additional expense of \$73,566 over the \$74,172 which we pay for the AMC property.

Based on the analysis and dollar amounts shown, the current yearly savings to the Postal Service in lease, CAM and Property Tax costs, by moving the postal operations at the Custer/Bridger Annex to the Salt Lake City AMC, are estimated at \$249,819 per year.

In addition, there will be additional savings with utility costs. Much of the utilities at the Custer building are covered with the CAM, but we pay gas separately at approximately \$8,500 per year. Since we already pay to keep the AMC heated, cooled and lit, any additional utility cost of moving delivery and CFS operations would only entail water and sewage fees. It is also expected to save approximately \$80,000 in custodial expenses at the Custer facility.

#### Selling AMC

New Matheson Expense	\$147,738
Keep Custer/Bridger	\$229,663
Total	\$377,401

#### Moving Custer Operations to AMC

Keep SLC AMC	\$74,172
Bridger only	\$53,410
Total	\$127,582

#### Savings in Lease and Associated Costs

Sell AMC	\$377,401
Custer Ops to AMC	- \$127,582
Facility Savings	\$249,819
Custodial and Utility	\$88,500
Total Savings	\$338,319

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Maintaining the current lease at the Salt Lake City AMC and moving the Postal Operations, now housed in the Custer Annex, to the Salt Lake city AMC would result in a cost savings in lease and associated costs alone of \$249,819 to the Postal Service. That savings increases to approximately \$338,319 when utility and custodial expenses are included. As a result the Salt Lake District is actively pursuing this option at the present time.

### #3 SECURITY OF MAIL

Immediately after the IG Inspectors met with us in March, we called a meeting to address the security issues raised. The minutes of that meeting are attached. Implementation of the recommendations was completed by the end of March 2009. We contacted the Salt Lake City Airport Authority and had the facility re-keyed, and we implemented a system of accountability. This ensured that the mail would: 1) be locked in the facility, 2) no mail would be left out because someone did not have the key. In addition to this, those responsible for leaving the mail unsecured were issued corrective action and all G2 employees were re-trained on mail procedures and mail security. Since that time, there have been no incidents involving unsecured mail. Million Air was the other freight facility that was questionable because the SIDA/Ramp side doors to the facility were not locked. Million Air has employees on duty 24/7 because they handle mail and freight for three airlines: Continental, Jet Blue and US Airways. The SIDA door needs to have access to it 24/7, so Mike Fuoco, Million Air Manager, has installed security cameras throughout the facility. All employees that are employed with Million Air have had fingerprints, criminal background checks and a threat assessment performed by TSA.

### #4 REDUCE MAIL PROCESSING HOURS

We agree with the recommendation and implemented it immediately after meeting with the OIG. Mail Processing (Function 1) has already reduced workhours 14.9% to SPLY year-to-date through Week 48. This is a reduction of 134,314 workhours to SPLY. Some of this savings is directly related to the closure of AMC operations. During the same period of time, FHP workload is 9.5% below SPLY. DPI productivity is +6.3%. Additionally, Total Function 1 complement has been reduced by 62 employees, which is a reduction of 9.1% to SPLY. The savings associated with the AMC consolidation have definitely been achieved.

We appreciate the time that Inspectors Karla Miller and Brenda Howard spent with us. They were professional, helpful, and accommodating.

If you have any further questions about these issues, please feel free to contact me.



Ken S. McArthur

Attachment

cc: Gus Chaus - Manager, Processing & Distribution Center, Salt Lake District  
Steve Black - Manager, Finance, Salt Lake District

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