



December 22, 2006

TERRY J. WILSON
VICE PRESIDENT, SOUTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Air Networks – Airport Mail Center Operations - Atlanta
(Report Number NL-AR-07-001)

The U.S. Postal Service air transportation network includes 59 airport mail centers (AMCs). The principal mission of AMCs is to receive mail from the Postal Service ground transportation network, distribute it to commercial air carriers for airport-to-airport transportation, and recover it from air carriers for further transportation and delivery. This report is one in a series of reports that presents results from our nationwide air network audit (Project Number 04YG023NL004). Our objectives were to evaluate the effectiveness of the air transportation network and identify opportunities to save money. This report focuses on the Atlanta AMC.

The effectiveness of Atlanta AMC operations could be improved, and the Postal Service could save at least \$107 million over a 10-year period, if Postal Service officials increased Atlanta AMC productivity and reduced Atlanta AMC workhours to levels commensurate with current operational requirements. Specifically, the Postal Service could achieve these results by using equipment efficiently in accordance with productivity standards, eliminating overstaffing on some operations, eliminating operations that are not necessary, and reducing workhours, including unsupported overtime, accordingly.

The Postal Service transportation network is dynamic, and requirements change constantly. Therefore, throughout our audit, we continually coordinated with local, area, and headquarters officials; discussed our observations, analysis, and preliminary recommendations; and solicited their feedback. We appreciated these officials' cooperation and rapid reaction to our preliminary recommendations and the changing operational environment, as well as their willingness to make immediate modifications to save the Postal Service money. In this regard, Atlanta AMC management has already initiated action to emphasize supervision and accountability, increase productivity, eliminate overstaffing, eliminate unnecessary functions, and reduce workhours. However, they acknowledged that their initiatives are not yet complete, that the task of improving the Atlanta AMC's productivity is challenging, and that despite their initiatives, staffing levels have not changed appreciably. They also explained that staffing issues remain uncertain because the Postal Service's air network strategy and plans for future network optimization could significantly affect long-term requirements.

We recommended that management reinforce the supervisory practices Atlanta AMC managers have initiated and analyze Atlanta AMC operational requirements in relation to the Postal Service's air network strategy and plans for future network optimization. Management explained the Atlanta AMC had undergone significant operational changes within the last year due to the loss of commercial airlines and the intra-facility movement of processing facilities in Atlanta. They stated they implemented a variety of supervisory management tools to allow supervisors to monitor data, share information, improve efficiencies, and match operational targets with workload projections. Management also stated they had already reduced some staffing, would continue to reduce staffing as more air volume moved to surface transportation, and had already shifted certain operations from the Atlanta AMC to other Atlanta facilities. Management's comments and our evaluation of these comments are included in the report.

The U.S. Postal Service Office of Inspector General (OIG) considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Joe Oliva, Director, Transportation, or me at (703) 248-2100.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!


Colleen A. McAntee
Deputy Assistant Inspector General
for Core Operations

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INTRODUCTION

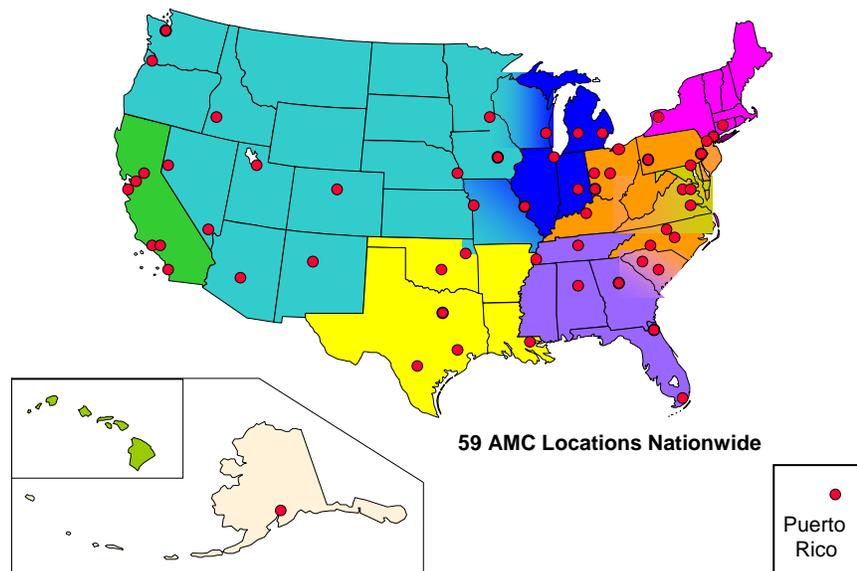
Background

The U.S. Postal Service air transportation network includes 59 airport mail centers (AMCs). The principal or “core” mission of AMCs is to:

- Receive mail from the Postal Service ground transportation network.
- Distribute or “tender” that mail to commercial air carriers for airport-to-airport transportation.
- Monitor mail in air carriers’ possession.
- Supervise air carriers’ mail handling operations during aircraft loading and unloading.
- Recover mail from air carriers.
- Redistribute mail for further transportation and delivery.

In addition to the above “core AMC operations,” some AMCs perform collateral operations that are usually performed at mail processing facilities. These additional

The Postal Service air transportation network includes 59 AMCs.



operations include some mail sorting, repairing damaged mail, and applying mail dispatch and routing (D&R) tags. The Postal Service spends more than \$500 million every year to operate AMCs.

The Postal Service Air Network in Transition

The air transportation network is dynamic and AMC operational requirements change continually. Recent events have reduced operational requirements for AMCs.

AMC Standardization Initiative – In fiscal year (FY) 2005, the Postal Service began standardizing AMCs. This effort included:

- Redesignating most AMCs as air transport offices (ATOs), also called airport transfer centers (ATCs).
- Eliminating the collateral functions normally performed by mail processing facilities.
- Restricting the ATO mission to the core functions of distributing mail to air carriers, monitoring mail in air carriers' possession, and recovering mail from air carriers for further transportation.

Initial standardization plans anticipated that 52 of the Postal Service's 59 AMCs would be converted into ATOs over an 18-month period. Postal Service officials hoped that standardization would reduce inefficiency, improve productivity, and save money.

This picture shows D&R tags being applied to mail trays at the Atlanta AMC in August 2004.

D&R tags are normally placed on mail at processing facilities such as processing and distribution centers.

The Postal Service's FY 2005 standardization initiative was intended to eliminate noncore functions such as placement of D&R tags and return those functions to processing plants.



The Integrated Air Strategy – In January 2006, Postal Service management formalized an integrated air strategy and briefed the Board of Governors (BOG) on the strategy. Management explained that passenger airlines were not as

reliable as the Postal Service needed them to be. Under the new strategy, the Postal Service would:

- Reduce reliance on passenger airlines.
- Expand existing air transportation with United Parcel Service (UPS).
- Renegotiate and renew the existing air transportation contract with Federal Express (FedEx).
- Where possible, shift mail moved by air to less costly ground transportation.

Officials emphasized that the integrated air strategy would increase air carriers' on-time performance, reduce costs, create air network redundancy, improve flexibility, enhance security, and make contracting more competitive.

Officials also said the integrated air strategy would affect the mission of AMCs because in the future, contractors would perform AMC core operations, thereby reducing or eliminating the need for AMCs. In July 2006, the Postal Service formally announced that it was considering outsourcing the principal AMC core functions—the tender and receipt of mail.

On June 28, 2006, under the integrated air strategy, the Postal Service signed an expanded contract with UPS for airport-to-airport mail transportation.

UPS planes at Hartsfield-Jackson Atlanta International Airport, October 10, 2006.



The UPS Contract – On June 28, 2006, the Postal Service announced a new 3-year contract with UPS. The contract provided expanded airport-to-airport mail transportation to

potentially 98 cities. Officials explained that mail flown on UPS planes would:

- Eventually reach about 1.4 million pounds per day.
- Come from mail previously flown on passenger airlines or FedEx.
- Bypass AMCs.
- Be transported by the Postal Service to and from UPS air shipment facilities.
- Significantly reduce the amount of mail passing through AMCs.

The FedEx Contract – On August 2, 2006, the Postal Service announced that it had cut short its original 2001 contract with FedEx and signed a new 7-year agreement. The new agreement specified an immediate price reduction in all contract categories and stipulated that the Postal Service would continue to outsource terminal handling services, including some of the services otherwise performed by AMCs.

On June 30, 2006, the Postal Service signed a new 7-year agreement with FedEx.

The air container pictured in the foreground is designed to be loaded onto aircraft.

FedEx planes at Hartsfield-Jackson Atlanta International Airport, October 10, 2006.



The Commercial Air Contract – On June 30, 2006, when the Postal Service mail transportation contract with 40 air carriers expired without renewal, the Postal Service evaluated the performance of the 40 carriers and asked only

selected airlines to continue. On September 29, 2006, the Postal Service announced new air transportation contracts with seven airlines—American, American Trans Air, Continental, JetBlue, Midwest, Sun Country, and U.S. Airways. The Vice President, Network Operations, explained that by relying on passenger airlines with

Postmaster General Jack Potter (center) shakes hands with American Airlines Chairman and CEO Gerard Arpey as USPS Network Operations Vice President, Tony Pajunas, looks on. American Airlines is one of seven passenger airlines that signed air transportation contracts with the Postal Service.

Postal Service photograph, September 29, 2006.



established records of performance, the new contracts would help achieve on-time delivery and provide the highest levels of service.

The Atlanta AMC

The Atlanta AMC is located at the Hartsfield-Jackson Atlanta International Airport. In September 1997, the BOG approved a Decision Analysis Report (DAR) to establish the center, and the 325,000 square foot facility was completed in 1999. The DAR identified Delta Airlines as the major Atlanta air carrier and cited mail flown on Delta as a significant justification for establishing the Atlanta AMC. Delta Airlines was not one of the passenger airlines the Postal Service asked to continue transporting mail after the commercial air contract expired on June 30, 2006, and Delta is no longer a Postal Service domestic mail transportation contractor. Terminating Delta as a domestic air transportation contractor significantly affected the Atlanta AMC's mission.

The DAR stated that the Atlanta AMC would be a Postal Service-owned facility located on a 21-acre site, leased for 30 years, at the Hartsfield-Jackson Atlanta International

Airport. The DAR also stated that because of space constraints at Atlanta mail processing facilities, the Atlanta AMC would perform some collateral mail processing operations in addition to core operations. The Postal Service spends about \$45 million annually to operate the Atlanta AMC. That total is the second highest in the 59-facility air transportation network and accounts for about 9 percent of all funds the Postal Service spends to operate AMCs. About 700 Postal Service employees work at the Atlanta AMC, and personnel costs for Atlanta AMC employees exceed \$35 million annually. Leasing costs for the land are about \$350,000 annually.

**U.S. Postal Service
Atlanta AMC at
Hartsfield-Jackson
Atlanta International Airport.**



The Atlanta AMC was not one of the 52 AMCs designated for conversion to an ATO under the Postal Service's FY 2005 standardization initiative. Local officials were uncertain why the facility was not designated, but suggested the reasons might be the long-term lease and the potential for using the facility as a consolidated Area Mail Processing (AMP) center under the Postal Service's strategy for optimizing the future network. However, the local officials could not cite any specific consolidation plans; rather, they explained that the Postal Service was considering a plan to expand the region's mail processing capacity by adding a new mail processing center in northwest Atlanta. If the new Northwest Processing Center was established, the AMC might be converted to an ATO with a greatly reduced mission.

Local officials further explained that the Atlanta AMC's core operational requirements were significantly reduced by the integrated air strategy, the UPS contract, the renegotiated FedEx contract, and the generally reduced reliance on

These unused mail chutes were once used to distribute mail to Delta Airlines. Delta Airlines is no longer a domestic air transportation contractor for the Postal Service. An Atlanta AMC manager said that in the past, Delta Airlines had been the "heart and soul" of the Atlanta AMC.

Atlanta AMC,
October 6, 2006.



passenger airlines. Officials also cited the specific elimination of Delta Airlines as a Postal Service domestic air transportation contractor as greatly impacting operational requirements for the Atlanta AMC.

Objectives, Scope, and Methodology

This report is one in a series of reports on Postal Service air network operations. Our objectives were to evaluate whether operations were effective and to identify opportunities to save money. This report focuses on the Atlanta AMC.

We interviewed officials from Postal Service Headquarters Network Operations, the Southeast Area and the Atlanta District. We visited the Hartsfield-Jackson Atlanta International Airport, the Atlanta AMC, and other network AMCs. We interviewed supervisors, employees, and airline personnel, and we observed and photographed operations.

We examined relevant Postal Service policies and procedures and other related documents, including:

- The Postal Service's commercial air contract with passenger airlines, dated June 28, 2003.
- The Postal Service's Integrated Air Strategy, dated January 9, 2006.
- The original FedEx contract, dated January 10, 2001, and the renegotiated FedEx contract, dated July 31, 2006.
- The UPS contract dated June 26, 2006.
- The Atlanta AMC DAR, dated June 6, 1996, and the DAR modification, dated April 16, 1997.
- The Northwest Atlanta Processing Center Facility Planning Concept, dated February 17, 2006.

Using computer-assisted analysis techniques, we examined computer-generated data from the Postal Service, and we used the data to analyze mail volume, expenditures, and productivity. We did not audit or comprehensively validate the data; however, we noted several weaknesses that constrained our work. For example, the Atlanta AMC did not routinely compile workhour data for its processing operations according to standard procedures for Postal Service mail processing facilities. In addition, Atlanta AMC operations were not held to nationally established processing productivity standards. Although data weaknesses and other limitations constrained our work, we supported our audit conclusions by applying alternate audit procedures, including the use of locally established productivity standards where available, examination of source documents, physical inspection, and consultation with subject matter experts such as the Postal Service's activity-based costing group. We also used observation, reasonable approximation, and discussion with officials. We maintained a dialogue with Postal Service officials, shared observations, and solicited feedback.

We conducted work associated with this report from March 2005 through November 2006, in accordance with generally accepted government auditing standards, and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

Our audit, *Mail Backlogs at the Hartsfield-Jackson Atlanta International Airport* (Report Number NL-AR-05-002, dated March 8, 2005), responded to a December 27, 2004, complaint from a Postal Service employee who reported significant mail backlogs at the Hartsfield-Jackson Atlanta International Airport. During our on-site visits, we observed backlogged mail the Atlanta AMC had tendered to Delta Airlines. We concluded that as a result of Delta's inability to

**Hartsfield-Jackson
Atlanta International
Airport, December 2004.**

**Backlogged mail
exposed to the weather,
staged on the airport
tarmac awaiting
transportation by Delta
Airlines.**

**In a prior audit, we
concluded that Delta's
inability to transport the mail
cost the Postal Service
money it should not have
been required to spend, and
that passenger airlines did
not always meet their
contractual obligations.**



transport mail, the Postal Service incurred unanticipated costs to repossess and reroute mail, including higher-than-normal contract expenditures for emergency surface transportation. Management agreed with all of our recommendations. In their response, management stated that during the holiday period, December 21 through 31, 2004, they repossessed 153,340 pounds of mail distributed to Delta. Management also stated that on February 2, 2005, Delta notified the Postal Service that it would no

longer use its Atlanta hub to transfer mail to connecting flights. Instead, Delta stated it would use the Atlanta hub only to transport mail originating or terminating in Atlanta.

Our audit, *Commercial Air Network Operations* (Report Number NL-AR-05-015, dated September 28, 2005), stated that passenger airlines did not always meet their contractual obligations and did not meet the 92 percent on-time performance anticipated for First-Class Mail[®] air transportation. The report cited airline data indicating that from October 2003 through May 2005, passenger airlines' on-time performance for First-Class Mail averaged between 39 and 67 percent. The report also concluded that AMC personnel were not properly using electronic scanning equipment, were not recording airline contract violations, and were not properly executing mail repossession. As a result, the Postal Service could not pursue the monetary recoveries and penalties to which it was entitled. The report recommended that the Postal Service strengthen the control environment, ensure that systems for recovering damage penalties were functioning, and aggressively pursue damage penalties where possible. Management agreed with all of our recommendations.

Our audit report, *Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center* (Report Number NO-AR-06-006, dated September 12, 2006), stated that in FY 2005, the Postal Service decided to standardize AMCs, eliminate all noncore operations, and restrict the AMC function to transporting mail to and from airlines. The report concluded that the Worldway AMC had not adequately adjusted to the reduced workload resulting from the FY 2005 standardization initiative, and that the Postal Service could save more than \$192 million over the next 10 years by staffing operations at a level commensurate with the reduced workload. Management agreed with all of our findings and recommendations.

AUDIT RESULTS

Atlanta AMC Operations

The effectiveness of Atlanta AMC operations could be improved, and the Postal Service could save at least \$107 million over a 10-year period, if Postal Service officials:

- Use equipment efficiently and according to productivity standards.
- Increase the Atlanta AMC's productivity.
- Reduce the Atlanta AMC's workhours to levels commensurate with current operational requirements.

Our analysis of FY 2004 and 2005 Atlanta AMC data concluded that the Postal Service incurred costs for about 653,000 unnecessary workhours. We estimated that the Postal Service could phase out 409,957 workhours over the next 5 years and save more than \$107 million over the next 10 years. (See the chart below.)

Potential Future Workhour Reductions and Associated Savings
(See Appendix A for more information)

	Hours	Savings
Productivity increases and workhour reductions (including overtime)	227,219	\$57,732,000
Overstaffing	85,622	23,311,000
Unnecessary operations	<u>97,116</u>	<u>26,830,000</u>
Total	409,957	\$107,873,000

Productivity and Excess Overtime

Our analysis of FY 2004 and 2005 data identified about 398,500 excess workhours that the Atlanta AMC should not have needed to process mail. As a result, the Atlanta AMC incurred more than \$10.1 million in unnecessary costs. The Atlanta AMC also incurred \$2.5 million in overtime costs that were either unnecessary or unsupported. The Atlanta AMC incurred excess or unsupported costs because of inefficient operations. Productivity data either did not exist or officials did not analyze it, and consequently, managers did not enforce standards.

Postal Service officials measure mail processing efficiency or productivity based on national standards for pieces of mail processed per workhour for each type of equipment. However, they stated that instead of measuring the mail processing productivity of AMCs, they evaluate performance based on adherence to budget. According to the Postal Service's FY 2006 records, the Atlanta AMC was \$6 million over budget as of July 31, 2006.

UPS moving an air container filled with mail in preparation for loading onto a UPS aircraft.

The contract between the Postal Service and UPS requires the Postal Service to move mail directly to UPS air shipment facilities.

The contract also significantly reduces the amount of mail passing through AMCs.

Photograph taken on the Hartsfield-Jackson Atlanta International Airport ramp, October 10, 2006.



As stated in the Objectives, Scope, and Methodology, we conducted a productivity analysis using locally established standards when such standards existed. We also used extensive observation.

Analysis – The records we examined for FY 2004 and 2005 showed that productivity standards were rarely met, and that productivity did not improve during the 2-year period.

Observation – During our site visits, we noted employees who were idle or not fully engaged, inadequate supervision, supervisors who could not locate staff, limited accountability for work performed, employees who were on extended breaks, and employees who worked overtime when no apparent need for overtime existed.

If Atlanta AMC officials improve staff supervision, meet the Postal Service's national productivity standards, and eliminate unnecessary workhours, including overtime, the Atlanta AMC can phase out 227,219 workhours over the next 5 years and save \$57.7 million over the next 10 years.

Overstaffed Operations Our analysis of data for FY 2004 and 2005 identified about 68,000 excess workhours for operations that were overstaffed. As a result, the Atlanta AMC incurred more than \$2.6 million in unnecessary costs.

The costs were unnecessary because mail volume flowing through the Atlanta AMC during FYs 2004 and 2005 declined significantly, but workhours had not been reduced commensurate with the workload. For example:

Ramp Clerk Staffing – Our Report Number NL-AR-05-002, *Mail Backlogs at the Hartsfield-Jackson Atlanta International Airport* (see Prior Audit Coverage), stated that Delta stopped using its Atlanta hub to transfer mail to connecting flights, and limited its Atlanta mail operation to

Postal Service ramp clerks perform AMC core operations on the airport ramp or tarmac.

The Atlanta AMC ramp clerk pictured here is working with Delta Airline mail containers.

Photograph taken on the Hartsfield-Jackson Atlanta International Airport ramp, December 30, 2004.



mail originating or terminating in Atlanta. When we analyzed mail volume at the Atlanta AMC after Delta transfer operations stopped, we identified a 64 percent decrease in volume. However, the staffing level for ramp

clerks who monitored Delta mail transfers remained the same, and managers had no documentation to support the staffing level.

Mail Repair and Rewrap Staffing – Local managers stated that mail repair requirements dropped significantly after Delta transfer operations stopped, and that they needed only one employee to perform the function on each shift. However, they also stated that three employees were

The Atlanta AMC mail repair and rewrap station in the foreground.

After Delta Airline stopped transfer operations, the staffing requirement for mail repair and rewrap operations dropped significantly.

Beyond the repair and rewrap operation is the D&R tag operation and the Scan Where You Band (S.W.Y.B.) operation

Photograph taken October 6, 2006.



assigned instead of one. Because the Atlanta AMC had no productivity documentation to validate the managers' assessment, we observed the damaged mail repair and rewrap operation during our on-site inspections, and we noted excessive periods of idle staff time.

If Atlanta AMC officials align staffing with current operational requirements, they can phase out 85,622 workhours over

the next 5 years and save \$23.3 million over the next 10 years.

Unnecessary Operations

Our analysis of FY 2004 and 2005 data identified about 186,400 excess workhours the Atlanta AMC used for unneeded operations. As a result, the Atlanta AMC incurred more than \$5.8 million in unnecessary costs. The operations were not needed because they were manual functions that duplicated machine functions or should have been performed by Atlanta regional processing facilities before those facilities transported the mail to the Atlanta

Mail arriving at the Atlanta AMC for shipment by air, October 10, 2006.

When mail arrives, it should already have D&R tags affixed.

When mail arrives late, it has to be rerouted and retagged.

Duplicating the D&R function requires the Postal Service to spend money unnecessarily.



AMC for assignment to air carriers. For example, during our site visits, we observed Atlanta AMC personnel:

- Manually sorting mail to verify that it had been properly sorted by machine. Local managers stated that this was a data collection effort, but could not identify any operational purpose or provide any data to indicate that machine sorting was inaccurate.
- Placing D&R tags on mail because regional processing facilities had not affixed the tags as required or because the facilities transported the mail late and mail had to be rerouted and retagged.

If Postal Service officials eliminate unnecessary operations or functions at the Atlanta AMC, the Postal Service can phase out 97,116 workhours over 5 years and save \$26.8 million over the next 10 years.

**Communication,
Implementation, and
Subsequent Events**

As stated in the Background, the Postal Service transportation network is dynamic and requirements change constantly. Therefore, throughout our audit, we continually coordinated with local, area, and Network Operations officials; discussed our observations, analysis, and conclusions; and solicited their feedback.

On December 9, 2005, we met with officials to discuss our analysis of FY 2004 and 2005 operations. As a result of the changing operational environment and management's responsiveness to our observations and conclusions, officials initiated cost-saving modifications consistent with our recommendations.

In January 2006, the Postal Service assigned new management to the Atlanta AMC. The new management team took immediate action to:

- Emphasize supervision and accountability by aligning supervisory schedules with operational activity.
- Increase productivity and reduce workhours, including unsupported overtime, by "right-sizing" all operations, establishing standard productivity levels, ensuring data was available for analysis, and requiring supervisory pre-approval for overtime.
- Eliminate overstaffing and unnecessary functions by creating staffing level models, eliminating some positions, and reassigning some staff to operations where they were needed.

The new Atlanta AMC management team acknowledged that these initiatives were not completed, that the task of improving productivity at the Atlanta AMC was challenging, and that they had only begun to address the issues. They also conceded that while they had been able to reduce some workhours, staffing levels at the facility had not appreciably changed. Finally, they explained that the Atlanta AMC staffing issue remained clouded because future staffing requirements could be significantly impacted by the proposed Northwest Atlanta Processing Center—and that plans for that proposed facility remained uncertain.

Throughout our audit, we appreciated the cooperation of Postal Service officials and their proactive responses to our observations and the changing operational environment. We also appreciated their willingness to implement modifications immediately to save the Postal Service money.

Recommendation	<p>We recommend the Vice President, Southeast Area Operations:</p> <ol style="list-style-type: none"> 1. Reinforce the supervisory practices initiated by Atlanta Airport Mail Center managers, including aligning supervisors' schedules with operational needs; establishing appropriate productivity standards for all operations at the Atlanta Airport Mail Center; and using productivity data to increase efficiency, establish accountability, reduce workhours, and approve overtime.
Management's Comments	<p>Management explained they implemented a variety of supervisory management tools to allow supervisors to monitor data, share information, improve efficiencies, and match operational targets with workload projections. Management stated they would continue to use those tools to align workhours with workload, measure performance, and improve productivity. Management's comments, in their entirety, are included in Appendix B.</p>
Recommendation	<ol style="list-style-type: none"> 2. Eliminate unnecessary workload and functions by analyzing the Atlanta Airport Mail Center's operational requirements in relation to the Postal Service's integrated air strategy, future network optimization, and the capacity of the Atlanta regional mail processing network, including the proposed Northwest Atlanta Processing Center.
Management's Comments	<p>Management explained the Atlanta AMC had undergone significant operational changes within the last year due to the loss of commercial airlines and the intra-facility movement of processing facilities in Atlanta. They stated they:</p> <ul style="list-style-type: none"> • Already reduced ramp clerks, transfer clerks and other clerks to match workload projections.

- Would continue to reduce ramp clerks as more air volume moved to surface transportation.
- Shifted First Class Mail scanning operations from the Atlanta AMC to Atlanta plants.
- Automated the D&R tag placement process at the North Metro Processing and Distribution Center.
- Would continue to address operational deficiencies to align workhours to workload.

Management also stated that their goal was to provide customers with the best service by reducing cost and improving efficiency.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our findings and recommendations. Although management's comments did not specifically state agreement with the findings, recommendations, and monetary impact, we consider management's actions, taken or planned, sufficient to address the recommendations we made in our report.

APPENDIX A

ATLANTA AIR MAIL CENTER FUTURE WORKHOUR REDUCTIONS AND ASSOCIATED SAVINGS

Productivity and Excess Overtime

Workhour Type*	Average Rate/Hr	Year 1 Hour Reduction	Year 2 Hour Reduction	Year 3 Hour Reduction	Year 4 Hour Reduction	Year 5 Hour Reduction	Total Hour Reduction	Total Savings (10 Years)**
Clerk	\$41.72	23,342	23,342	23,342	23,342	23,342	116,710	\$32,665,843
Casual	13.56	31,704					31,704	3,682,261
Clerk OT	34.05	42,154					42,154	12,294,099
Casual OT	16.94	3,515					3,515	510,011
Mail Handler OT	28.23	29,043					29,043	7,022,523
Supervisor OT	44.22	4,093					4,093	1,557,260
Total		133,851	23,342	23,342	23,342	23,342	227,219	\$57,731,996

Overstaffing

Workhour Type*	Average Rate/Hr	Year 1 Hour Reduction	Year 2 Hour Reduction	Year 3 Hour Reduction	Year 4 Hour Reduction	Year 5 Hour Reduction	Total Hour Reduction	Total Savings (10 Years)**
Clerk	\$41.72	6,712	6,712	6,712	6,712	6,712	33,560	\$ 9,393,074
Mail Handler	39.85	10,412	10,412	10,412	10,412	10,412	52,060	13,917,909
Total		17,124	17,124	17,124	17,124	17,124	85,622	\$23,310,983

Unnecessary Operations

Workhour Type*	Average Rate/Hr	Year 1 Hour Reduction	Year 2 Hour Reduction	Year 3 Hour Reduction	Year 4 Hour Reduction	Year 5 Hour Reduction	Total Hour Reduction	Total Savings (10 Years)**
Clerk	\$41.72	12,576	12,576	12,576	12,576	12,576	62,881	\$17,599,419
Mail Handler	39.85	5,194	5,194	5,194	5,194	5,194	25,969	6,942,914
Clerk OT	34.05	5,803					5,803	1,692,429
Mail Handler OT	28.23	2,463					2,463	595,547
Total		26,036	17,770	17,770	17,770	17,770	97,116	\$26,830,309

	Year 1 Hour Reduction	Year 2 Hour Reduction	Year 3 Hour Reduction	Year 4 Hour Reduction	Year 5 Hour Reduction	Total Hour Reduction	Total Savings (10 Years)**
Total All Areas	177,011	58,236	58,236	58,236	58,236	409,955	\$107,873,288

* Regular hours reduced over 5-year period to allow for attrition; overtime/casual hours reduced in first year.

** Projected savings represent labor costs avoided over 10 years, discounted to present value using the Postal Service's published discount rate of 5.25 percent.

APPENDIX B. MANAGEMENT'S COMMENTS

Terry J. Wilson
VICE PRESIDENT, AREA OPERATIONS
SOUTHEAST AREA



December 7, 2006

MEMORANDUM FOR: Ms. Kim H. Stroud
Director, Audit Reporting
Office of Inspector General

SUBJECT: OIG Audit - Atlanta AMC
(Report Number NL-AR-07-DRAFT)

The Atlanta Priority Annex (Atlanta AMC) has undergone significant operational changes in the last year with intra facility movement of processing activities in Atlanta. The cost reduction opportunities must be analyzed at the Atlanta District level. The BPI improvement from FY-05 to FY-06 was an increase of 3.5%. This improvement in mail processing efficiency resulted in a savings of 200,000 work hours. The Atlanta District continues to use the Business Management Guide to align complement with budget. The FLASH report for FY-07 YTD indicates the Atlanta District is operating -1.9% under Plan in Mail Processing. We will continue to address operational deficiencies utilizing the Equipment Standardization processes and align work hours to workload.

OIG Recommendations

- Reinforce the supervisory practices initiated by the Atlanta Airport Mail Center Managers, including aligning supervisors' schedules with operational needs; establishing appropriate productivity standards for all operations at the Atlanta Airport Mail Center; and, using productivity data to increase efficiency, establish accountability, reduce work hours, and approve overtime.
- Eliminate unnecessary workload and functions by analyzing the Atlanta Airport Mail Center's operational requirements in relation to the Postal Service's integrated air strategy and Evolutionary Network Development and the capacity of the Atlanta regional mail processing network, including the proposed Northwest Atlanta Processing Center.

Productivity and Overtime

- Through analysis of FY-2004 and FY-2005 data, the report concludes there were 398,500 excess work hours used by the AMC. The value of these unnecessary work hours was estimated at a dollar value of \$10.1 million. The report indicates the Atlanta AMC incurred \$2.5 million in overtime that was either an unnecessary cost or unsupported due to inefficient operations. The report states that productivity data either did not exist or AMC officials did not analyze to enforce standards.
- Atlanta AMC productivity standards were rarely met during FY-2004 and FY-2005, and productivity did not improve during the two-year review period.
- Site visits by OIG representatives revealed idle employees, inadequate supervision, supervisors that could not locate staff, limited performance accountability by craft employees, and extended breaks by employees who worked overtime without apparent need.
- The conclusion of the OIG team was: If Atlanta AMC officials improve staff supervision; meet the Postal Service productivity standards; and eliminate unnecessary work hours, including overtime, the

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Atlanta AMC can phase out 227, 219 work hours over the next five years and save \$57.7 million over the next ten years.

Response:

The Atlanta Priority Annex received an Automated Package Processing System (APPS) in FY-06. This allowed us to remove two Small Parcel Bundle Sorters. We will continue adjusting complement using the Incremental Complement Management tool and the Business Management Guide to align work hours, complement, and workload. The Integrated Tour Operating Plan (ITOP) has been implemented. This tool provides a standard communication plan for supervisors to pass information between tours. Production Planning models have been implemented to measure performance and will be continually updated and monitored to improve efficiencies. The Equipment Standardization processes for each equipment type are in place and performance is trended for improvements in productivity.

Overstaffed operations

- Through analysis of FY-2004 and FY-2005 data, the report concludes there were 68,000 excess work hours due to overstaffed operations. This resulted in \$2.6 million dollars in unnecessary cost for the AMC. The basis for this statement was that commercial air volumes declined significantly without the corresponding reductions in work hour usage. The two specific operations were Ramp activity and Repair and Rewrap operations.
 - Ramp Clerk staffing referenced the decline in commercial air volume while the staffing levels of Ramp Clerks remained the same.
 - Mail Repair and Rewrap functions were identified as overstaffed because reduced commercial air transfer volume resulted in a decline of mail repair and rewrap.
- The conclusion was 85,622 work hours over the next five years, or \$23.3 million over the next ten years could be phased out if staffing was aligned to operational requirements.

Response:

With the loss of commercial airlines, the Ramp Clerks, Transfer Clerks, and other clerks associated with these operations have been reduced accordingly to match work load projections. We will be using the Incremental Complement Management tool to continually realign our work force to meet operational targets. As we move more Registry volume to surface transportation, we will continue to reduce the Ramp Clerks. The staffing at the Atlanta Priority Annex supports the volumes being tendered to Federal Express and United Parcel Service.

Unnecessary Operations

- Through analysis of FY-2004 and FY-2005 data, the report concludes there were 186,400 excess work hours used for unneeded operations. This resulted in \$5.8 million dollars in an unnecessary cost to the AMC. The two specific operations were Fiat sort quality verification and Air assignment activities.
 - The basis for this inclusion was the OIG assertion that work hours used to verify mail distribution, after having been sorted by machines, was unnecessary.

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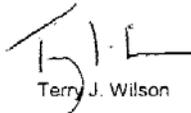
° The review indicates that D&R tags should have been placed on mail by the origin Processing Center and not the Atlanta AMC. The report projected 97,116 work hours over five years and \$26.8 million dollars saved over the next ten years if the Atlanta AMC eliminated these unnecessary operations.

Response:

Verification processes are now limited to quality assurance and machine performance.

Scanning First Class Mail has been shifted to each Plant. Integrated Dispatch and Routing (IDR) has automated this process at the North Metro P&DC. The work hour reductions associated with this program have been identified and are currently being captured.

Providing our customers with the best service by reducing costs and becoming more efficient is the Atlanta District management team's goal. Taking ownership in complement strategies and equipment impacts will keep us focused on our mission.



Terry J. Wilson