



September 30, 2008

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS

SUBJECT: Audit Report – Air Networks – Dallas Airport Mail Center
Operations (Report Number NL-AR-08-009)

This report presents the results of our self-initiated audit of operations at the Dallas Airport Mail Center (AMC) (Project Number 07XG013NL000). Our objectives were to determine whether operations were efficient and economical.¹ Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

The Dallas AMC operated at lower efficiency levels as compared to national productivity standards or similar operations at other facilities; misaligned some workhours with workload; and performed some unnecessary work. As a result, the Postal Service incurred costs of over \$8.4 million for unnecessary workhours during the period reviewed. The Postal Service subsequently closed the Dallas AMC on September 29, 2008, and moved most of the operations we reviewed to other facilities in the Dallas/Fort Worth metropolitan area. Moving the operations to other facilities should improve efficiency and reduce unnecessary workhours.

However, the Southwest Area has an opportunity to improve efficiency, reduce unnecessary workhours, and save money for two remaining operations at the facility. We estimate that the Southwest Area could make operations more cost effective by phasing out over 92,500 annual workhours and save about \$26.3 million over 10 years.

Productivity and Efficiency

We found some Dallas AMC operations were inefficient as compared to national productivity standards or similar operations at other facilities, which resulted in usage of excessive workhours. This occurred because management did not enforce standards and productivity data was inadequate or did not exist. Consequently, managers did not have the tools to control operations. As a result of using excessive workhours, the Dallas AMC incurred about \$3.6 million in unnecessary costs for the period reviewed.

¹ The wording of our audit objectives was modified slightly from the original announcement letter. Our initial objectives were to determine whether operations were effective and to identify opportunities to save money.

Although most of these operations were moved to other locations in the Dallas/Fort Worth metropolitan area, the Southwest Area still has opportunities to phase out about 23,495 annual workhours associated with the retail box section operation, and save about \$7 million over 10 years. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

We recommend the Vice President, Southwest Area Operations:

1. Use existing productivity standards or establish appropriate productivity standards for the retail box section operation that will continue at the former Dallas AMC facility.
2. Use productivity data to increase efficiency and approve overtime.

Overstaffed Operations

The Dallas AMC misaligned some workhours with workload. This occurred because management did not properly schedule staff to match mail flow. Consequently, the Dallas AMC used more workhours than necessary, resulting in unnecessary costs of \$2.3 million for idle time during our review period. Although staffing levels were reduced and some of the operations were moved to other locations in the Dallas/Fort Worth metropolitan area, the Southwest Area still has opportunities to phase out about 1,140 annual workhours associated with the retail box section operation, and save about \$340,000 over 10 years. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

We recommend the Vice President, Southwest Area Operations:

3. Ensure staff are only scheduled commensurate with the mail flow for the retail box section operations that will continue at the former Dallas AMC facility and reduce operational workhours.

Unnecessary Work

The Dallas AMC was performing unnecessary work to assign and tag mail² for transportation. As a result, the Dallas AMC incurred more than \$2.5 million in unwarranted costs for the period reviewed. This occurred because the mail was not properly sorted via automated equipment prior to arriving at the Dallas AMC and mail arrived late to the Dallas AMC requiring it to be re-tagged. Eliminating unnecessary work would allow the Southwest Area to phase out about 68,000 annual workhours and save more than \$19 million over 10 years. Click [here](#) to go to Appendix B for our detailed analysis of this topic.

² This operation is a manual or automated process that assigns a mailpiece to a transportation mode and applies a dispatch and routing (D&R) tag to the mailpiece. The D&R tag is used for sorting the mailpiece to ensure it reaches its intended destination via its intended transportation mode.

We recommend the Vice President, Southwest Area Operations:

4. Eliminate unnecessary workload by ensuring mail is assigned and tagged before arriving at the Dallas/Fort Worth area processing facilities and by ensuring it arrives on time to meet its assigned transportation.

Management's Comments

Management agreed there were opportunities to improve efficiencies at the Dallas AMC at the onset of the audit. However, management stated that the Dallas AMC was to be closed on September 29, 2008,³ and most of the operations are being moved to other facilities in the Dallas/Fort Worth metropolitan area. Management stated that operations that are moved will realize efficiency improvements and staffing changes at the gaining plants. As a result, management stated recommendations 1-3 and the draft report's monetary impacts associated with the recommendations, with the exception of the box section remaining at the former Dallas AMC, have been overtaken by events and are no longer applicable.

Regarding recommendation 4, management stated that the scanning and tagging mail operation must be performed at a plant and not at the feeder location. Management intends to move the workhours associated with the function to the plants that will take on the function formerly performed at the Dallas AMC. Management's comments, in their entirety, are included in [Appendix D](#).

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1-3 and the actions taken for moving operations to other facilities and improving efficiencies for the retail box operation that will remain at the location should resolve the issues identified.

The OIG does not consider management's comments on recommendation 4 responsive. During our review of the operation, we determined that many feeder locations had the capability of automatically tagging the mail before sending it to the Dallas AMC. This finding would apply even if the mail was sent from other locations for processing. Therefore, we still consider our recommendation appropriate and will pursue its disposition through our formal audit resolution process. We will also work with management to validate the projected savings after issuance of the report.

Based on management's comments and subsequent events, we have updated our report as well as adjusted our recommendations and monetary impact from our draft

³ While most operations and positions were moved to other locations and the facility no longer should be considered an AMC, there will be minimal operations that will continue at the facility, including the retail box section, customs, and ramp operations.

report. We will report a total of \$34,766,897 in monetary impact in our *Semiannual Report to Congress*, including \$8,437,430 in questioned costs and \$26,329,467 in funds put to better use.

The OIG considers recommendation 4 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. The recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation that it can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Jody Troxclair, Director, Transportation, 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
William P. Galligan
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APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The U.S. Postal Service air transportation network includes AMCs located at airports nationwide. Depending on the size of these installations, they are sometimes called Airport Mail Facilities (AMFs) or Air Transport Offices (ATOs). Their principal or “core” mission is to:

- Receive mail from the Postal Service ground transportation network and distribute that mail to commercial air carriers for airport-to-airport transportation.
- Monitor mail in air carriers’ possession and supervise air carriers’ mail handling operations during aircraft loading and unloading.
- Recover mail from air carriers and redistribute it for further transportation.

In addition to “core operations,” some AMCs perform other functions normally associated with mail processing facilities or local post offices. These functions include mail sorting, retail operations, and post office (PO) delivery boxes. During fiscal year (FY) 2007, the Postal Service spent about \$429 million to operate AMCs.

Non-core AMC operations include manually sorting Express Mail. These manual sorting functions usually are performed at processing facilities.

**Express Mail Operation –
Dallas AMC**



Events in recent years have reduced operational requirements for AMCs. For example:

The AMC Standardization Initiative – In FY 2005, the Postal Service began standardizing AMCs. This effort included eliminating collateral activities normally associated with other facilities such as processing plants or POs and restricting the AMCs’ mission to core functions.

The Integrated Air Strategy – In January 2006, Postal Service management formalized a nationwide integrated air strategy. Management explained that passenger airlines were not as reliable as the Postal Service needed them to be and that under the new strategy, the Postal Service would reduce reliance on passenger airlines and expand existing cargo air transportation. Finally, officials explained that the 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.

American Airlines was one of the airlines providing reliable on-time performance and when the Postal Service contract with passenger air carriers expired, American Airlines was one of the carriers they selected to continue.

American Airlines mail containers, Dallas-Fort Worth International Airport.



As a result of the AMC standardization initiative, the integrated air strategy, and the resulting reduced reliance on passenger airlines, by January 2008, 56 AMCs had been converted to ATOs or closed, and only about 20 AMCs - including the Dallas AMC - remained in the Postal Service air transportation network.

The Dallas AMC - The Dallas AMC was located at Dallas/Fort Worth International Airport. When Postal Service domestic transportation contracts with passenger airlines expired without renewal, Dallas/Fort Worth-based American Airlines was selected to continue to support the Postal Service. American Airlines operates its principal national hub at Dallas/Fort Worth and carries more mail than any other passenger airline serviced by the Dallas AMC.

In addition to core AMC functions, the Dallas AMC provided some sorting operations normally associated with processing plants, and conducted some activities normally associated with local post offices. The local PO activities included such functions as providing customer retail windows and PO boxes. Our initial plans to audit AMCs included the Dallas AMC because Headquarters Network Operations officials identified it as one of the facilities that would not be converted to an ATO or closed. However, during our audit, officials from the

Postal Service Dallas District explained that the AMC land lease would expire in 2009, and consequently, they planned to move “non-core” functions to other regional facilities as of September 29, 2008. About 370 employees worked at the Dallas AMC as of the end of FY 2007, and the Postal Service spent about \$30 million annually to operate the facility.

OBJECTIVES, SCOPE, AND METHODOLOGY

This report is the second in a series of reports on Postal Service air network operations. We evaluated whether Dallas AMC operations were effective and economical.

We interviewed officials from Postal Service Headquarters Network Operations, the Southwest Area and the Dallas District. Also, we visited the Dallas/Fort Worth International Airport and the Dallas AMC. We interviewed supervisors and employees, 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 contracts with passenger airlines, announced on September 29, 2006.
- 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 United Parcel Service contract dated June 26, 2006.

Using computer-assisted analysis techniques, we examined Postal Service computer-generated data, and we used the data to analyze mail volume, expenditures, and productivity. We conducted the analysis to determine if management could improve processes and, as a result, reduce workhours and labor costs. We did not audit or comprehensively validate the data; however, we noted several weaknesses that constrained our work. For example, the Dallas AMC did not routinely compile workhour data for its processing operations according to standard procedures for Postal Service mail processing facilities and Dallas AMC operations were not held to nationally established processing productivity standards.

Nonetheless, we supported our audit conclusions by applying alternate audit procedures. For example, to compensate for inadequate workhour data and productivity standards, we used nationally established standards when available, examined source documents, and consulted with subject matter experts such as the Postal Service’s activity-based costing group. We also observed, inspected, and photographed operations, and applied reasonable estimates or approximations.

In order to validate our analytical assumptions, observations, and conclusions, we routinely talked to senior management officials throughout our audit, asked for their feedback, considered their perspective, and included their comments where appropriate. We also applied conservative principles to our workhour and cost reduction estimates.

We conducted work associated with this performance audit from December 2006 through September 2008 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 audit work 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.

PRIOR AUDIT COVERAGE

The U.S. Postal Service Office of Inspector General (OIG) previously issued the following AMC reports with efficiency findings similar to those contained in this report.

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
<i>Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center</i>	NL-AR-06-006	September 12, 2006	\$192.0
<i>Air Networks – Airport Mail Center Operations – Atlanta</i>	NL-AR-07-001	December 22, 2006	\$107.0

APPENDIX B: DETAILED ANALYSIS

Productivity and Efficiency

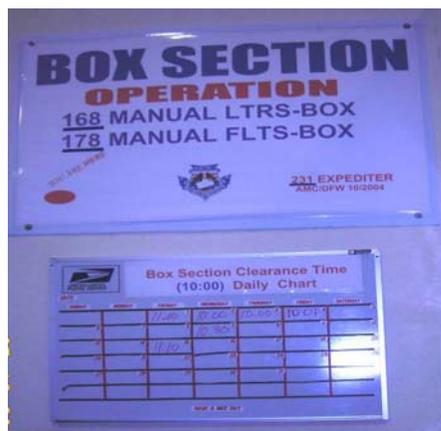
Some Dallas AMC operations were inefficient at the time of our review as compared to national productivity standards and to similar operations at other AMCs, which resulted in using excessive workhours. This occurred because management did not establish and enforce standards⁴ and productivity data was inadequate or did not exist. Therefore, managers did not have the tools to effectively control operations. As a result, the AMC used excessive workhours to perform the work and incurred about \$3.6 million in unnecessary costs.

The Dallas AMC houses a Customer Service Box Section.

This is a non-core AMC operation that typically has productivity standards associated with it.

Our analyses of the operations revealed that employees were not fully engaged or idle, and opportunities exist to improve efficiency and reduce workhours.

The operation was managed to ensure clearance times were met, and not according to staff productivity.



The excessive workhours and associated costs that we identified for calendar year (CY) 2006 were as follows.

Operation	Unnecessary Hours	Unnecessary Costs
Box Section ⁵	22,552	\$908,381
SPBS ⁵	656	26,440
Platform ⁶	25,180	968,161
Ramp ⁶	19,938	851,764
Overtime ⁷	28,025	894,280
Total	96,351	\$3,649,026

In addition, based on observations conducted at the Dallas AMC, we found employee productivity could improve. Specifically, we found cases of limited accountability for

⁴ The Postal Service measures productivity based on national standards for pieces of mail processed per workhour. However, at AMCs, the Postal Service does not use nationally established standards. Postal Service officials explain that instead of evaluating AMC performance using nationally established productivity standards, they evaluate AMC performance based on adherence to budget.

⁵ Excess workhours determined by analyzing actual performance against national productivity standards for operations. SPBS is a small parcel bundler sorter.

⁶ Excess workhours determined by analyzing actual performance against similar facilities (AMCs) since no national standards existed for these types of operations.

⁷ Excess workhours based on unjustified need for overtime.

work performed; employees who worked overtime for no apparent reason; some employees who were idle or not fully engaged; and some employees performing functions that seemed unnecessary. For example, we observed employees who were spending time to verify that machine pre-sorted and bundled mail was properly sorted.

As of September 29, 2008, management closed the Dallas AMC, reduced ramp clerk staffing levels, and moved the other operations (with the exception of the retail box section) to other facilities in the Dallas/Fort Worth metropolitan area. Moving the operations to other facilities should improve efficiency and reduce unnecessary workhours. For example, management stated that some manual sort operations would be automated at the gaining facilities, which would reduce staff hours needed for the operations.

However, we believe the Southwest Area still has an opportunity to improve efficiency by phasing out about 23,495 annual workhours for the retail box section operation and save about \$7 million over 10 years. Click [here](#) to go to Appendix C for a breakdown of unnecessary costs (questioned costs) and projected workhour reductions and savings (funds put to better use) associated with this finding.

Overstaffed Operations

The Dallas AMC misaligned some workhours with workload. As a result, the Dallas AMC used more workhours than necessary and incurred about \$2.3 million in unnecessary costs during our review. This occurred because management did not properly schedule staff to match mail flow. For example:

- Ramp Clerk Staffing – We analyzed activities of ramp clerks and identified time periods during which ramp clerks had limited to no work responsibilities, yet were charging workhours to ramp operations. As a result, during CY 2006, the Dallas AMC unnecessarily used over 13,000 ramp clerk workhours. Local managers acknowledged that there are no guidelines or standards for the number of clerks or workhours needed, agreed there were too many ramp clerks, and explained that they were finding other ways to keep the clerks productive.
- PO Box Staffing – We compared the actual work schedules of employees that put mail into customer PO boxes against the operational times needed to perform that function. We determined Dallas AMC managers frequently assigned staff when no PO box mail or work requirement existed. As a result, during CY 2006, the Dallas AMC unnecessarily used more than 1,100 work hours on the PO box function.
- Express Mail Staffing – During our observations and interviews with supervisors, we compared the staff assigned to sort Express Mail with the actual work time needed to perform the function. We noted Dallas AMC managers frequently assigned staff to sort Express Mail when there was very little Express Mail.

Consequently, we analyzed CY 2006 Express Mail staff workhours during non-peak operational hours and concluded that the Dallas AMC unnecessarily used more than 29,500 workhours on the Express Mail sorting function.

Express Mail outbound operations at the Dallas AMC have established critical entry and clearance times as 2045 and 2105.

Through observations and discussions, we determined that the majority of mail was available for the operation beginning at 1800, yet employees were on the clock as early as 1450.



The unnecessary workhours and associated costs that we identified for CY 2006 are as follows.

Operation	Excess Hours	Excess Costs
Ramp	13,049	\$534,264
Retail Box Section	1,141	45,458
Express Mail	29,536	1,184,408
Guard Posts	13,130	500,509
Total	56,856	\$2,264,639

As of September 29, 2008, management closed the Dallas AMC, reduced staffing levels for ramp operations, moved Express Mail operations to other facilities in the Dallas/Fort Worth metropolitan area, and eliminated the guard posts. These actions should result in improved operational effectiveness.

However, we believe the Southwest Area still has an opportunity to improve effectiveness and reduce unnecessary workhours, if managers properly aligned work schedules with peak workhours for the retail box section operation that will remain at the location. We estimate management could phase out about 1,140 annual workhours and save about \$340,000 over 10 years. Click [here](#) to go to Appendix C for a breakdown of unnecessary costs (questioned costs) and projected workhour reductions and savings (funds put to better use) associated with this finding.

Unnecessary Work

The Dallas AMC was performing unnecessary work resulting in 68,000 excess annual workhours and more than \$2.5 million in unnecessary costs in CY 2006. We concluded that Dallas AMC performed unnecessary work to apply dispatch and routing tags to mail pieces in the AAA/SWYB/Rapistan⁸ operations and sort the mail pieces to intended modes of transportation. For example:

- Employees performed tagging and sorting work that regional processing facilities or local business mailers were equipped to perform and should have performed before they sent the mail to the Dallas AMC.
- Employees performed tagging and sorting work because regional processing facilities and local business mailers were late in sending mail to the Dallas AMC.
- Employees performed manual work rather than using the automated equipment.

These conditions existed because local managers were not ensuring that mail either was sorted and tagged prior to arrival at the Dallas AMC, or arrived on time. In addition, management allowed manual processing of some mail pieces when automated equipment was available to process it at other facilities.⁹

Volumes of First-Class Mail® trays for a large business mailer waiting to be tagged for transportation at the Dallas AMC.

The mail should arrive already tagged since equipment is provided to the mailer for doing so.



If Southwest Area management eliminated unnecessary work, the Postal Service could phase out about 68,000 annual workhours and save more than \$19 million over 10 years. Click [here](#) to go to Appendix C for a breakdown of unnecessary costs (questioned costs) and projected workhour reductions and savings (funds put to better use) associated with this finding.

⁸ AAA/SWYB/Rapistan are automated or manual operations that apply D&R tags to mail pieces and sort the mail for transportation.

⁹ Some of the feeder locations which could automatically tag mail were large business mailers including Charles Schwab and Pitney Bowes PSI.

Postal Service Actions During our Audit

During our audit, management acknowledged that constant changes in the air transportation network resulted in overstaffing, and management began to take action to address some of the issues we identified and reduce operational costs. In addition, after our audit began, officials significantly reduced the level of operations at the Dallas AMC. Management's actions included:

- Increasing supervision and oversight by senior management.
- Transferring certain mail preparation operations to regional processing plants.
- Aligning some work schedules with peak workload hours.
- Reducing the number of assigned ramp clerks.

We met with management on June 20, 2008, to discuss our audit results and the impact of the changes at the Dallas AMC on our findings and recommendations. Management commented that the planned Dallas AMC changes would provide savings opportunities. For example, management stated that they had already moved some operations from the Dallas AMC into local processing plants and the operations would now be measured through the Breakthrough Productivity Initiative to help ensure efficiency.

**APPENDIX C: SUMMARY OF QUESTIONED HOURS/COSTS
AND PROJECTED WORKHOUR REDUCTIONS/SAVINGS**

SUMMARY BY ISSUE AREA*

Issue Area	Questioned Workhours	Questioned Costs	Projected Workhour Reductions		Projected Savings
			Immediate	Over 5 Years	
Productivity and Efficiency	96,351	\$3,649,026	943	22,552	\$6,981,520
Overstaffed Operations	56,856	\$2,264,639	75	1,066	339,842
Unnecessary Work	67,894	\$2,523,765	11,976	55,918	19,008,105
Total (rounded)	221,100	\$ 8,437,430¹⁰	12,994¹¹	79,536¹²	\$26,329,467¹³

* This was adjusted based on the closure of the Dallas AMC on September 29, 2008.

SUMMARY BY OPERATION

Operation	Questioned Workhours	Questioned Costs	Projected Workhour Reductions		Projected Savings
			Immediate	Over 5 Years	
SPBS	2,343	\$83,283	n/a	n/a	n/a
Box Section	24,636	985,630	1,018	23,618	\$7,321,362
Express	29,536	1,184,408	n/a	n/a	n/a
Platform	47,222	1,656,028	n/a	n/a	n/a
Ramp	36,339	1,503,807	n/a	n/a	n/a
SWYB/AAA/Rapistan	67,894	2,523,765	11,976	55,918	19,008,105
Guard Posts	13,130	500,509	n/a	n/a	n/a
Total (rounded)	221,100	\$8,437,430	12,994	79,536	\$26,329,467

n/a – not applicable since Postal Service closed the Dallas AMC as of September 29, 2008.

¹⁰ Represents unrecoverable questioned costs

¹¹ Hours reduced immediately since requires no Full Time Equivalent (FTE) reduction

¹² Hours reduced over 5 years to allow for attrition since requires FTE reduction

¹³ Represents funds put to better use. Standard OIG practice for calculations of this type employs a 10-year cash flow methodology, discounted to present value by applying factors published for this purpose by Postal Service Headquarters Finance.

APPENDIX D: MANAGEMENT'S COMMENTS

ELLIS A. BURGOYNE
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



September 26, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report – Air Networks – Dallas Airport Mail Center
Operations (Report Number NL-AR-08-DRAFT)

The Southwest Area has reviewed the draft audit report of the Dallas Air Mail Center. We appreciate the information and the work performed by your team.

We agree there were opportunities to improve efficiencies at the Dallas Airmail Center (AMC) at the onset of the audit. However, the Dallas AMC is closing on September 29, 2008 and will transfer much of the operations to other facilities. All necessary operations are moving to the three plants in the Dallas/Fort Worth metro. Work is moving from the AMC tray sorter and SPBS operations to more efficient Automated Parcel and Package Sorter (APPS) and Low Cost Tray Sorter (LCTS) operations in the gaining plants. Recommendations #1-3 describe efficiency improvement and staffing changes, with projected savings over the next 10 years. These recommendations and associated savings have been overtaken by events and as of September 29, 2008 will no longer be applicable.

However, we agree with the savings associated with the box section. This operation will remain at this facility for the foreseeable future, and there is opportunity for improvement which we will pursue.

Recommendation #4 describes scanning and applying air distribution labels currently performed at the AMC, with a suggested savings of \$19 million dollars by having the originating plants perform this work. The work must be done at either the plant or at the AMC, but the work content does not change. There are no savings associated with moving this work from the AMC to the plant, just a transfer of budgeted hours from the AMC to the originating plant. We disagree with this finding and the associated savings of \$19 million over ten years.

Please direct questions to Cliff Rucker or Mark Loop of my Executive Staff.

A handwritten signature in blue ink, appearing to read "Ellis A. Burgoyne".

Ellis A. Burgoyne

cc: Area Manager, Operations Support
Area Manager, Finance

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