



December 24, 2003

TIMOTHY C. HANEY
MANAGER, CAPITAL DISTRICT

SUBJECT: Audit Report – Efficiency of Work Performed by Clerks in the Southern Maryland Business Mail Entry Unit (Report Number NO-AR-04-001)

This report presents the results of our audit of work performed by business mail entry employees in the Southern Maryland Business Mail Entry Unit (Project Number 03YG051AC000). This self-initiated audit was conducted jointly with Capital Metro Area Marketing managers.

Our audit disclosed workhours necessary to accept business mailings in the Southern Maryland Business Mail Entry Unit were excessive. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 20,240 hours by the end of fiscal year 2006. We calculated the financial impact of this reduction in workhours could produce an estimated cost avoidance of approximately \$8.4 million over 10 years. We recommended the manager, Capital District, reduce hours as planned and periodically reevaluate staffing needs. Management agreed with our finding and recommendations and actions taken or planned should correct the issues identified in the report. Management's comments and our evaluation of these comments are included in the report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Robert J. Batta, director, Network Operations-Processing, at (703) 248-2100 or me at (703) 248-2300.

Mary W. Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

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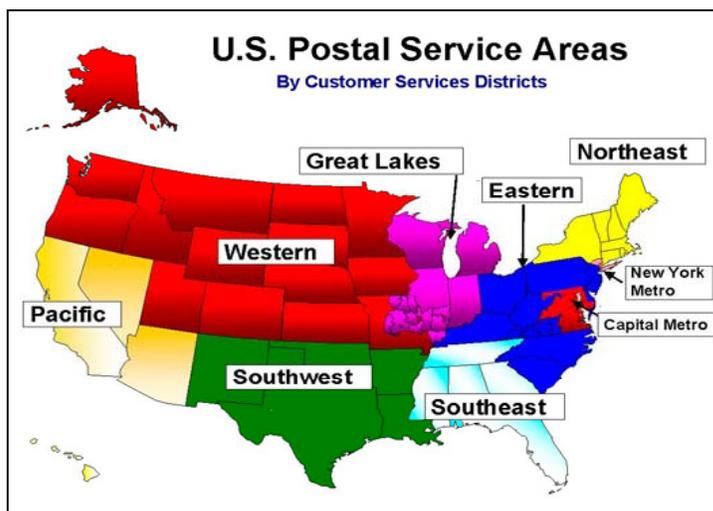
INTRODUCTION

Background

There are over 2,000 business mail entry units located in Postal Service facilities nationwide. They accepted approximately \$36.7 billion in revenue in fiscal year (FY) 2002, which represents about 56 percent of the Postal Service's total revenue. Business mail entry unit clerks receive business mailers' bulk, presorted, and permit mail for acceptance. Business mail is accepted using dedicated platform space, office space, and a staging area on the workroom floor. A business mail entry clerk, using prescribed acceptance procedures, typically performs mailing verifications. Verification procedures include verifying fees and funds on deposit, reviewing contents of mailpieces, checking of labels and mail make up, and completing postage verification.

Business mail entry clerks are primarily located at processing and distribution centers; however, some clerks are located or operate at bulk mail centers, detached mail units, associated post offices, and satellite offices.

The Postal Service operations are organized into nine areas, as depicted below. The Southern Maryland Business Mail Entry Unit¹ is located in the Capital Metro Area.



¹ In FY 2002, the Washington D.C., business mail entry operations were transferred to the Southern Maryland Business Mail Entry Unit. Because of this mixing, our review includes combined data for both the Southern Maryland and Washington D.C., Business Mail Entry Units, and the combination is labeled as Southern Maryland in this report.

As shown in Appendix A, Southern Maryland business mailings² per workhour have consistently been below area, national, and benchmark averages since FY 2000.

**Objective, Scope, and
Methodology**

The objective of our audit was to assess the efficiency of work performed by business mail entry clerks within the Southern Maryland Business Mail Entry Unit. To assess the efficiency of work performed, we observed business mail entry unit operations and analyzed business mail volumes and workhours. In addition, we benchmarked the Southern Maryland Business Mail Entry Unit revenues and mailings with comparable business mail entry units.

Our review consisted of business mail entry units at two processing and distribution centers, Southern Maryland and Washington, D.C. In addition to these sites, we reviewed detached mail units located at customer sites.

We relied on Postal Service operational systems, including the National Workhour Reporting System, Standard Field Accounting System Unit revenue data, Web Enterprise Information System and the Permit System to perform our analysis of mailings and workhours. We did not test the validity of controls over these systems. However, we checked the accuracy of data by confirming our analysis and results with Postal Service managers. Nothing came to our attention to suggest data used was unreliable.

Our review also did not account for the impact of MERLIN (Mailing Evaluation, Readability, Lookup Instrument) on business mail entry unit workhours. MERLIN is a new Engineering developmental effort, initiated by Marketing systems to automate many of the functions performed by acceptance personnel at the business mail entry units. When implemented, it could impact business mail acceptance workhours.

This audit was conducted from August through December 2003 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and

² A group of mailpieces within the same class and mail processing category that may be sorted together under the appropriate standards.

observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We have issued four prior audit reports on the efficiency of business mail entry units. (See Appendix B for details.)

AUDIT RESULTS

Assessment of Employees' Workhours

Our review disclosed workhours within the Southern Maryland Business Mail Entry Unit were excessive in relation to the number of business mailings processed. Postal Service policies³ require business mail entry units ensure the efficient use of workhours. Furthermore, FY 2002 mailings per workhour were well below benchmarked units. Postal Service management agreed 20,240 workhours⁴ could be eliminated based on business mail volumes, benchmark data, and observations of business mail operations. 

As shown in the table below, FY 2002 mailings per workhour⁵ for the Southern Maryland Business Mail Entry Unit was 1.13 while the average for comparable⁶ business mail entry units were 1.51. This means the Southern Maryland Business Mail Entry Unit processes a little over one mailing per workhour versus one and a half mailings per workhour on average for a similar business mail entry unit.

Table 1 – FY 2002 Business Mail Entry Unit Comparison

	LDC 79 ⁷ WORKHOURS	NUMBER OF MAILINGS	MAILINGS PER WORKHOUR
Southern⁸ Maryland	79,533	89,554	1.13
Benchmark (average of 10 sites)	60,410	91,437	1.51

In addition, Appendix C highlights how the Southern Maryland Business Mail Entry Unit compares to similar sites for mailings per workhour for FY 2002.

³ Handbook DM-109, Business Mail Acceptance, Chapter 2.

⁴ Workhour reductions were based on the Southern Maryland Business Mail Entry Unit Action Plan. (See Appendix E.)

⁵ Mailings per workhour is defined as the number of business mail entry unit mailings divided by the number of LDC79 (labor distribution code) workhours.

⁶ Comparative sites have revenue greater than \$40 million and mailings within +/- 11 percent of the Southern Maryland Business Mail Entry Unit.

⁷ LDC 79 is the labor distribution code for mail acceptance.

⁸ See footnote 1.

The Southern Maryland Business Mail Entry Unit has 51 full-time employees. Thus, it has the second highest number of employees when compared to comparable sites for FY 2002. While not unusual by itself, there is cause for concern when productivity measures are below expectations. Appendix D highlights how the Southern Maryland Business Mail Entry Unit compared to other similar sites for the number of employees.

To corroborate our analysis, observations of the Southern Maryland Business Mail Entry Unit revealed employees had excessive idle time. This can be attributed to:

- Inconsistencies between bulk mail entry unit hours of operation and mail arrival times.
- Low mailing volumes per workhour.
- Business mail entry unit managers not evaluating and adjusting staffing levels based on current mail volumes.

**Management's
Actions**

To improve productivity, Postal Service managers agreed to reduce business mail entry workhours in the Southern Maryland Business Mail Entry Unit by 20,240 hours by the end of FY 2006 primarily through attrition. While holding mail volume constant, these actions would raise productivity to approximately 1.51 mailings per workhour based upon FY 2002 mailings and hours. These actions could also produce an estimated cost avoidance of approximately \$8.4⁹ million over the next 10 years. Appendix E details the financial impact of workhour reductions planned by the Southern Maryland Business Mail Entry Unit.

Recommendations

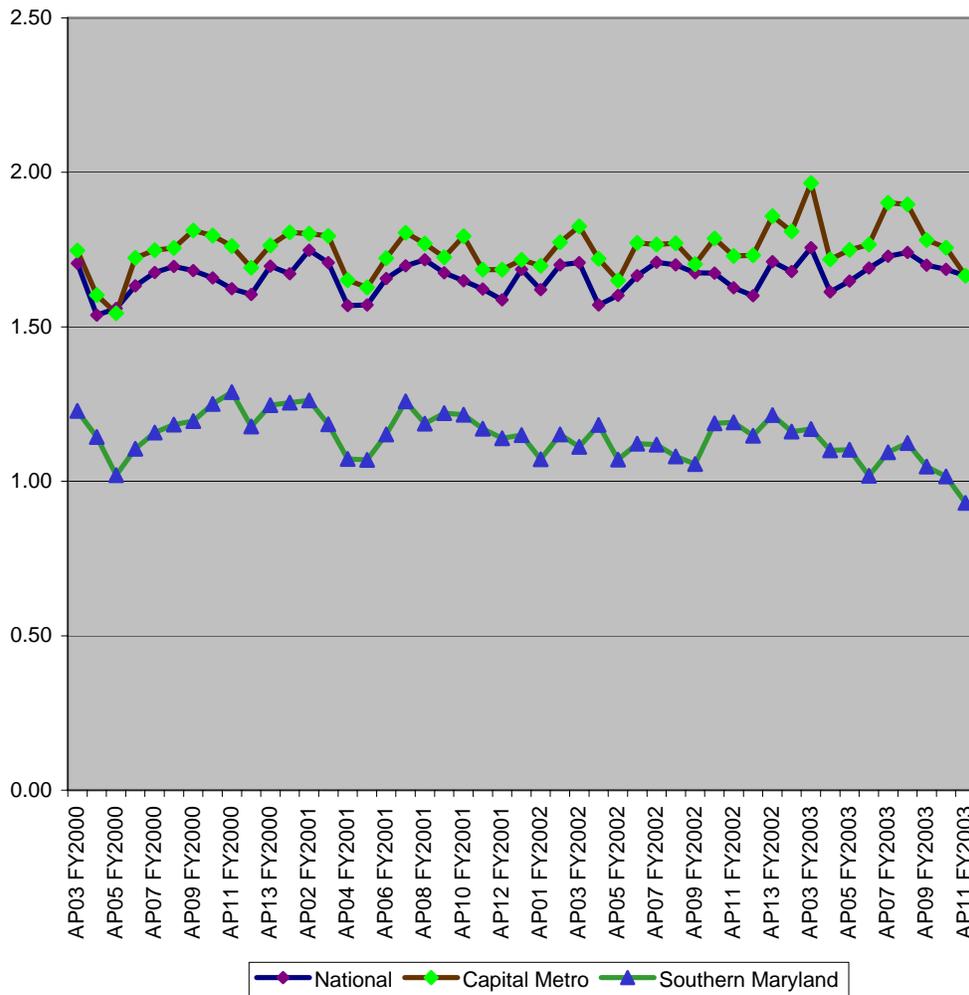
To improve business mail entry productivity, we recommend the manager, Capital District:

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

⁹ Based on Postal Service's methodology, the cost avoidance was projected over 10 years using Postal Service's assumptions for annual workhours, the business mail entry clerk labor rate, and the latest labor escalation factor. (See Appendix E.)

Management's Comments	Management agreed with our finding and recommendations, including the reduction of business mail entry workhours by 20,240 by the end of FY 2006. Management's comments, in their entirety, are included in Appendix F of this report.
Evaluation of Management's Comments	Management's comments are responsive to the recommendations. Management's actions taken or planned should correct the issues identified in the report.

**APPENDIX A
BUSINESS MAIL ENTRY UNIT
MAILINGS PER HOUR TRENDS
(AP 03, FY 2000 THROUGH AP 11, FY 2003)**



AP=accounting period.

Note: The benchmarked mailings per hour for FY 2002 was 1.51 and consisted of all business mail entry units with revenue greater than \$40 million and mailings within 11 percent of the Southern Maryland Business Mail Entry Unit.

APPENDIX B PRIOR AUDIT COVERAGE

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

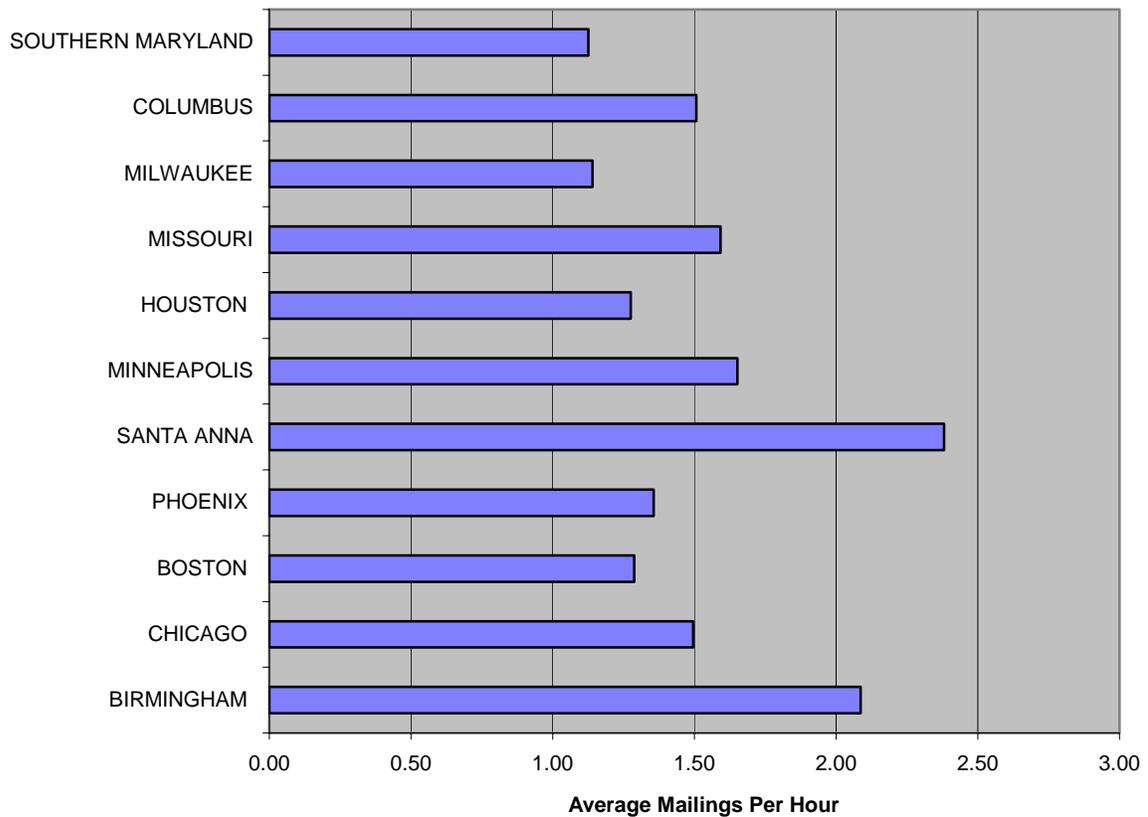
Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis, and Des Moines Bulk Mail Centers (Report Number CQ-AR-03-001, dated March 28, 2003), disclosed workhours necessary to accept business mailings at these facilities should be reduced. As a result, management could produce an estimated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

Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District (Report Number AO-AR-03-001, dated July 31, 2003), disclosed workhours necessary to accept business mailings at the facilities we reviewed should be reduced. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 28,800 hours by the end of FY 2005. We calculated the financial impact of this reduction in workhours could produce an estimated cost avoidance of approximately \$9.26 million over 10 years. We recommended the manager, Los Angeles District, reduce hours and reevaluate staffing needs periodically. Management agreed with our recommendations and has initiatives in progress addressing the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks in the San Francisco Business Mail Entry Unit (Report Number AO-AR-03-002, dated September 25, 2003), disclosed workhours necessary to accept business mailings in the San Francisco Business Mail Entry Unit should be reduced. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 18,000 hours by the end of FY 2006. We calculated the financial impact of this reduction in workhours could produce an estimated cost avoidance of approximately \$6.9 million over 10 years. We recommended the manager, San Francisco District, reduce hours as planned and reevaluate staffing needs periodically. Management

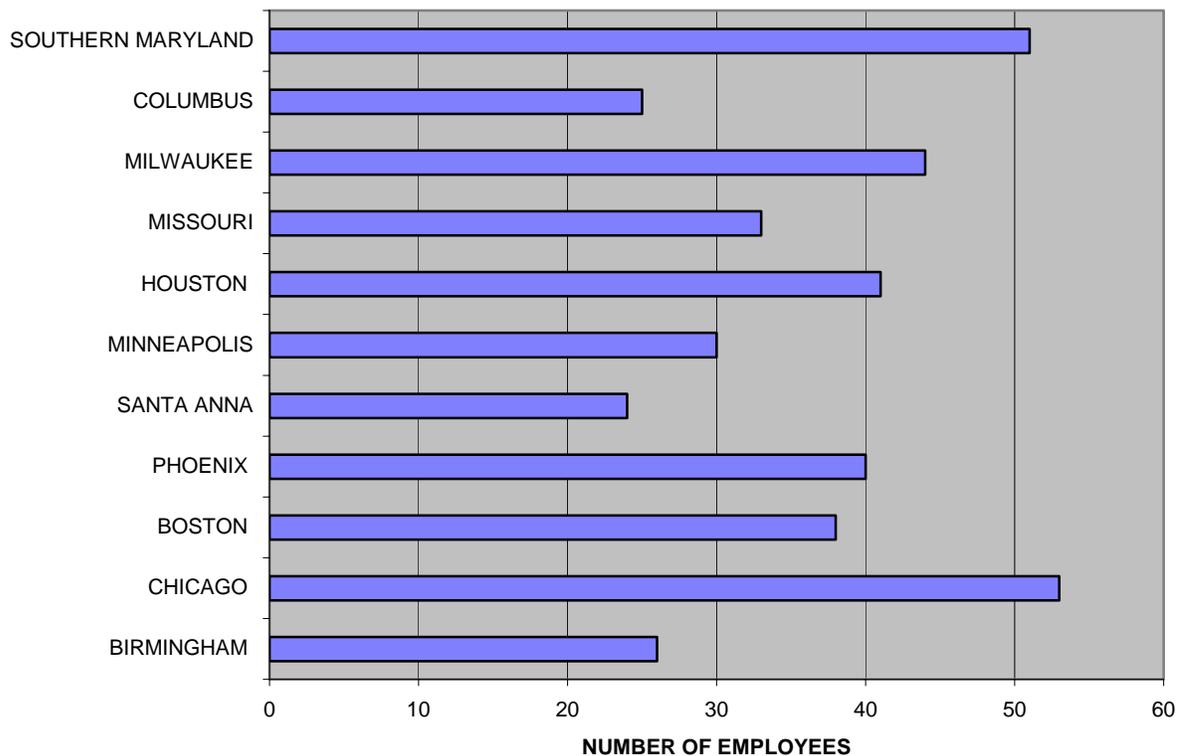
agreed and the actions taken and planned were responsive to the issues identified in the report.

APPENDIX C
FY 2002 BUSINESS MAIL ENTRY UNIT
MAILINGS PER WORKHOUR FOR COMPARATIVE SITES
(SITES CHOSEN WERE WITHIN + OR -11 PERCENT OF SOUTHERN MARYLAND'S MAILINGS)



Note: In FY 2002, the Washington D.C., business mail entry operations were transferred to the Southern Maryland Business Mail Entry Unit. Because of this mixing, our review includes combined data for both the Southern Maryland and Washington D.C., Business Mail Entry Units, and the combination is labeled as Southern Maryland in this report.

APPENDIX D
FY 2002 BUSINESS MAIL ENTRY UNIT STAFFING
LABOR DISTRIBUTION CODE (LDC) 79 COMPARISON
(SITES CHOSEN WERE WITHIN + OR -11 PERCENT OF SOUTHERN MARYLAND'S MAILINGS)



Note: In FY 2002, the Washington D.C., business mail entry operations were transferred to the Southern Maryland Business Mail Entry Unit. Because of this mixing, our review includes combined data for both the Southern Maryland and Washington D.C., Business Mail Entry Units, and the combination is labeled as Southern Maryland in this report.

APPENDIX E
SOUTHERN MARYLAND BUSINESS MAIL ENTRY UNIT
COST AVOIDANCE
(FUNDS PUT TO BETTER USE)

Year	Yearly Workhour Reduction	Fully Loaded Labor Rate/Hr	Cost Avoidance (10 Years with escalation)
FY 2004 (Effective Accounting Period 1)	3,680	\$ 40.29	\$ 3,553,510
FY 2005 (Effective Accounting Period 1)	9,200	\$ 41.30	\$ 4,256,553
FY 2006 (Effective Accounting Period 1)	7,360	\$ 42.33	\$ 3,490,374
Totals (10 full fiscal years)	20,240		\$11,300,437
		Present Value @4.5 percent, 10 Years	\$ 8,398,222

SOURCE

- Workhour reductions were based on the Postal Service Southern Maryland Action Plan.

ASSUMPTIONS

- Labor rates were based on the Postal Service 2003 Published Rates for a PS-06 business mail entry unit technician.
- Yearly escalation factor is 2.5 percent.
- Postal Service cost of borrowing is 4.5 percent.

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

APPENDIX F. MANAGEMENT'S COMMENTS

CAPITAL PERFORMANCE CLUSTER



December 10, 2003

Subject: Transmittal of Draft Audit Report – Efficiency of Work Performed by
Clerks in the Southern Maryland Business Mail Entry Unit
(Report Number NO-AR-04-DRAFT)

Mary Demory
Deputy Assistant Inspector General
For Operations and Human Capital
735 N Lynn Street
Arlington VA 22209-2020

This response is in agreement with the finding of work performed by Business
Mail Entry employees, Southern Maryland (Project Number 03YG051AC000).

Recommendation #1

Reduce Business Mail Entry hours as planned.

Response

Management agrees in part for the following reasons:

To reduce business mail entry work hours in the Southern MD BMEU by 20,240
hours by the end of FY 2006 primary through attrition. While holding mail volume
constant, these actions would raise productivity to approximately 1.51 mailings
per work hour based upon FY 2002 mailings and hours. The reduction could
produce an estimated cost avoidance of approximately \$8.4 million over the next
10 years (See attachment).

Recommendation #2

Periodically evaluate staffing to determine if further work hour reductions are
necessary based on workload.

Response

Management agrees in part to periodically reevaluate staffing needs based on workload through MAP (Mail Arrival Profile).

If I can be of further assistance, please do not hesitate to give me a call at (301) 324-5800.


Timothy C. Haney
District Manager

Attachment

cc: John A. Rapp
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Michele A. Denny
Susan M. Duchek

Washington DC BMEU Staffing Adjustment Proposal

FY 04 Action Plan

Work hour Savings

Eliminate Mailing Requirements position (abolishment/attrition) (OCC Code 2345-32)	920 hours
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FY 05 Action Plan

Eliminate 1 Mailing Requirements (OCC Code 2345-32) (abolishment)	1840 hours
Eliminate 1 BMEU position (attrition)	1840 hours

FY 06 Action Plan

Eliminate 1 Mailing Requirements position	1840 hours
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Grand Total 6440 Hours saved

Southern MD BMEU Staffing Adjustment Proposal

FY 04 Action Plan

Work hour Savings

Relief Clerk
Eliminate 2 BMEU positions (attrition)

1 x 920 = 920 hours
2 x 920 = 1840 hours

Total 2760 Hours

FY 05 Action Plan

Work hour Savings

Elimination of 3 BMEU position (attrition)

3 x 1840 = 5520 hours

FY 06 Action Plan

Work hour Savings

Elimination of 3 BMEU position (attrition)

3 x 1840 = 5520 hours

Grand Total 13,800 Hours saved