



April 28, 2005

WILLIAM ALMARAZ
MANAGER, LOS ANGELES DISTRICT

SUBJECT: Audit Report - Efficiency of the Airmail Records Unit at the
Los Angeles, International Service Center
(Report Number NO-AR-05-010)

This report presents the results of our audit of the Airmail Records Unit (AMRU) at the Los Angeles International Service Center (ISC) located in the Pacific Area (Project Number 05YG003NO000). Our objective was to assess the efficiency of operations at the Los Angeles, California, AMRU. This report is the second in a series of site reports on the efficiency of AMRUs. The managing director, International Network Operations, requested this audit, which we conducted in cooperation with the Pacific Area manager of Operations Support, and the manager, Los Angeles District. At the conclusion of our site reviews, we will issue a global report addressing common issues.

The Los Angeles AMRU was not operating efficiently. Specifically, fewer records were processed per workhour than at other similar-sized sites, workhours were misaligned with workload, and plant operations personnel were not always sorting mail properly. The Los Angeles AMRU could begin to improve operational efficiency by reducing workhours by 5,450. This reduction could produce a cost avoidance of approximately \$1.8 million based on labor savings over a ten-year period. These funds represent funds put to better use and will be reported as such in our Semiannual Report to Congress. In addition, records were manually maintained, and some unnecessary work was performed. We will address these latter issues in our global report.

We made three recommendations in this report. During the audit, Postal Service management agreed to reduce these workhours and provided us with an action plan. Management agreed with our finding, recommendations, and monetary impact and has initiatives in progress, completed, or planned addressing the issues in this 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, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
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Attachments

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EXECUTIVE SUMMARY

Introduction

We conducted a review of the Airmail Records Unit (AMRU) at the Los Angeles, California, International Service Center (ISC) located in the Pacific Area. Our objective was to assess the efficiency of operations at the Los Angeles AMRU. The managing director, International Network Operations, requested this audit, which we conducted in cooperation with the Pacific Area manager of Operations Support and the manager, Los Angeles District.

This is our second in a series of site reports on the efficiency of AMRUs. At the conclusion of these site reviews, we will issue a global report addressing common issues.

Results in Brief

The Los Angeles AMRU was not operating efficiently. Specifically:

- Fewer records were processed per workhour than at other similar-sized sites.
- Workhours were misaligned with workload.
- Plant operations personnel were not always sorting mail properly.
- Records were manually maintained and retrieved.
- Some unnecessary work was performed.

Title 39, United States Code, Chapter 4, Section 403, states, “The Postal Service shall plan, develop, promote and provide adequate and efficient postal services”

These conditions occurred because Postal Service managers had not evaluated operational efficiency by benchmarking operations with similar-sized sites, extensively analyzed operations, or examined and updated procedures.

We concluded that the Postal Service could begin to improve operational efficiency by reducing 5,450 AMRU workhours, periodically evaluating operations, and training plant operations personnel in proper mail sortation.

This reduction could produce a cost avoidance of approximately \$1.8 million based on labor savings over a ten-year period. These funds represent funds put to better use and will be reported as such in our Semiannual Report to Congress.

The Postal Service could also improve efficiency by using available technologies and updating policies and procedures. The latter two issues will be addressed in our global report.

Summary of Recommendations	We recommended the manager, Los Angeles District, reduce 5,450 AMRU workhours, periodically evaluate operations, and provide additional training to plant operations personnel in the proper sortation of mail.
Summary of Management's Comments	Management agreed with our finding, recommendations, and associated monetary impact. The manager, Los Angeles District, agreed to reduce workhours by 5,450 by the end of fiscal year 2008, periodically evaluate operational efficiency, and provide additional training to plant operations personnel in the proper sortation of mail. Management's comments, in their entirety, are included in Appendix B of this report.
Overall Evaluation of Management's Comments	Management's comments reflect that the manager, Los Angeles District, is taking a proactive approach to improving efficiency. Management's planned actions should correct the site-specific issues identified in the report.

INTRODUCTION

Background

When the Postal Service established the International Service Centers (ISC) Network in 1996, it absorbed the operations of the airmail records units (AMRU),¹ which existed as part of the international exchange offices² before the creation of the ISC Network.

AMRUs handle accounting records involving international mail for the international exchange offices. These units' main functions are to communicate with foreign postal administrations and reconcile incoming international mail records. The information maintained by the AMRUs is transmitted to the International Accounting Branch in St. Louis, Missouri, for processing and payment to transportation carriers and foreign postal administrations.

AMRUs with 94 dedicated full-time employees are located in Los Angeles, California; Chicago, Illinois; San Francisco, California; Dallas, Texas; Honolulu, Hawaii; Jamaica, New York; Jersey City, New Jersey; Miami, Florida; and San Juan, Puerto Rico. International Network Operations has functional responsibility for AMRUs. The Los Angeles AMRU reports to the district manager, Finance. The unit employs one supervisor and seven full-time clerks. This unit used 11,036 workhours to process 137,675 international records from October 25, 2003, to October 22, 2004.

Objective, Scope, and Methodology

The audit assessed the efficiency of operations at the AMRU at the Los Angeles ISC. This is our second³ report on AMRU efficiency. The managing director, International Network Operations, requested this audit, which we conducted in cooperation with the Pacific Area manager of Operations Support and the manager, Los Angeles District.

To assess the efficiency of the Los Angeles AMRU, we observed operations at the unit, analyzed volumes of

¹ AMRUs are also referred to as international records units.

² An international exchange office is a post office, airport mail center, or facility authorized to exchange international mail and military mail, both air and surface, with another country.

³ The Office of Inspector General (OIG) conducted a self-initiated audit of the New York ISC Airmail Records Unit and issued a report on September 24, 2004.

records processed and associated workhours, reviewed policies and procedures, and interviewed Postal Service employees.

We compared the Los Angeles AMRU productivity to the benchmarked productivity rate. The benchmark was calculated using international AMRU weekly reports from units with similar staffing (7 to 10 craft positions). Comparable sites were Los Angeles, San Francisco, Miami, and Chicago.

To analyze productivity, we used Postal Service international AMRU weekly reports from October 25, 2003, through October 22, 2004, and data from the Web Enterprise Information System. We did not test the validity of controls over these systems or data accuracy.

This audit was conducted from November 2004 through April 2005 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 observations and conclusions with appropriate management officials and included their comments where appropriate.

**Prior Audit
Coverage**

We have issued one prior audit report on the efficiency of AMRUs, entitled Efficiency of the Airmail Records Unit at the New York International Service Center (Report Number NO-AR-04-011, issued September 24, 2004). We recommended Postal Service management reduce workhours by 30,000 to improve the efficiency of operations, and consider possible outsourcing. Postal Service management agreed with our recommendations.

AUDIT RESULTS

Assessment of Operational Efficiency

The Los Angeles AMRU was not operating efficiently.
Specifically:

- Fewer records were processed per workhour than at other similar-sized sites.
- Workhours were misaligned with workload.
- Plant operations personnel were not always sorting mail properly.
- Records were manually maintained and retrieved.
- Some unnecessary work was performed.

Title 39, United States Code, Chapter 4, Section 403, states, "The Postal Service shall plan, develop, promote and provide adequate and efficient postal services . . ."

These conditions occurred because Postal Service managers had not evaluated operational efficiency by benchmarking operations with similar-sized sites, extensively analyzed operations, or examined and updated procedures. Consequently, the Los Angeles AMRU used more workhours than necessary to process international mail records.

As a result, the Postal Service could begin to improve operational efficiency by reducing workhours by 5,450. This reduction could produce a cost avoidance of approximately \$1.8 million based on labor savings over a ten-year period. (See Appendix A for details.)

Records Processed

The Los Angeles AMRU processed fewer records per workhour than the average of other similar-sized sites. The Los Angeles AMRU processed 12.48 records per workhour as compared to the benchmarked average for similar-sized sites of 24.65.

Chart 1: Benchmarked Average Productivity

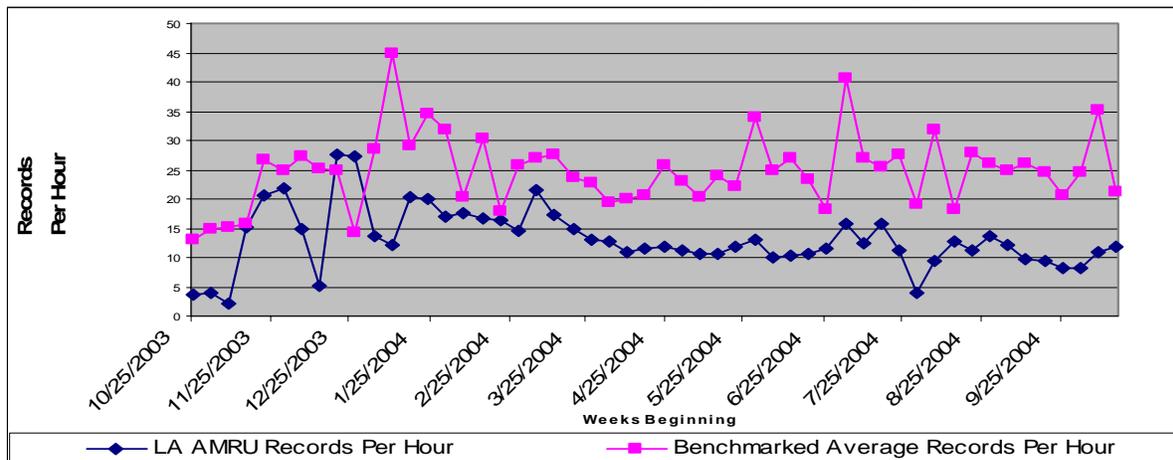
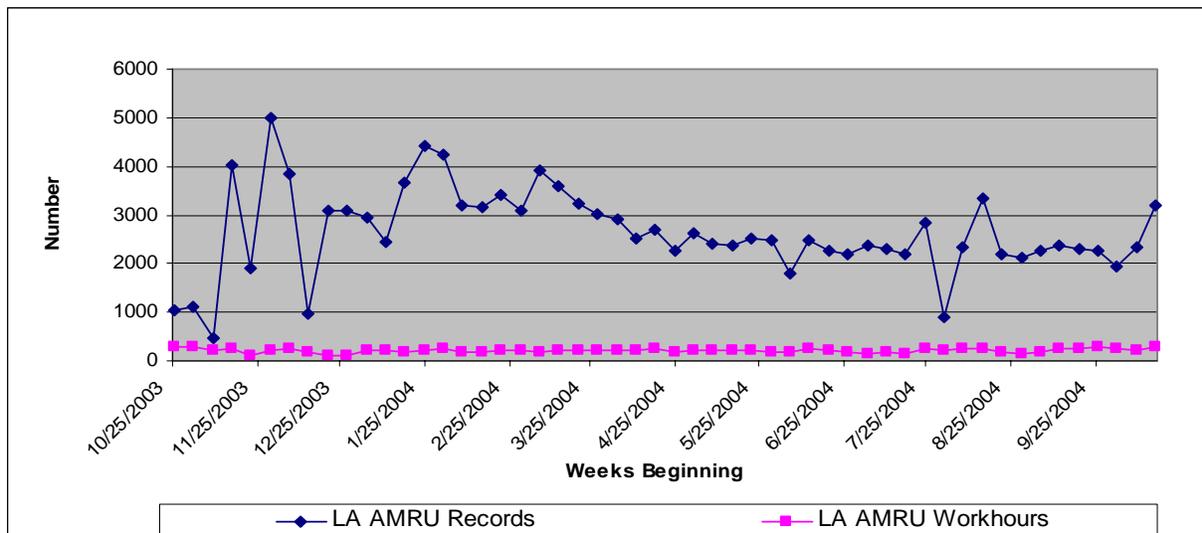


Chart 1 shows the productivity of other similar sites was almost double the productivity of the Los Angeles AMRU. This means the Los Angeles AMRU would need to reduce its workhours by nearly half of its current usage to obtain the benchmark average.

AMRU Workhours

Workhours were misaligned with workload. For example, for the week of September 25, 2004, the Los Angeles AMRU used 270 workhours to process 2,247 records, and for the week of October 16, 2004, the Los Angeles AMRU used the same number of workhours to process 3,215 records. Postal Service managers advised they lack the necessary flexibility to assign employees to different work areas when insufficient workload exists. Chart 2 shows that workhour usage is not dependent on the number of records requiring processing.

Chart 2: Workhour Usage



Mail Sortation

Plant operations personnel were not always sorting mail properly. Our review of Verification Notes⁴ showed that many times, mail was sent to the wrong country. For example, from October 2003 to October 2004, the Los Angeles AMRU received over 6,500 Verification Notes advising that mail had been incorrectly sent. This missent mail resulted in additional work for the Los Angeles AMRU employees who handle and input these records. Better training emphasizing the importance of sorting mail to the correct country, could greatly reduce or eliminate this workload.

Manual Records

Records were manually maintained and retrieved. The AMRU maintained more than 400,000 hard-copy international mail records. Paper use and storage could be minimized by exchanging information through Electronic Data Interchange.⁵ Illustration 1 shows the Los Angeles AMRU's manual filing system.

⁴ Verification Notes, formerly known as Bulletin of Verifications, are used between foreign postal administrations to communicate irregularities in the preparation, dispatch, and receipt of mail.

⁵ Electronic Data Interchange is a computer-to-computer exchange of information in a standard format.

**Illustration 1: Los Angeles AMRU Manual
Hard-Copy Filing System.**



We also observed that the processing of manual records was slow and inefficient. Los Angeles AMRU receives records from plant operations and foreign postal administrations. Los Angeles AMRU clerks manually count, sort, and categorize records for processing. They perform data entry and file hard-copy records in the unit. They also manually retrieve records from their files to respond to foreign postal administrations by mail concerning actions taken on incoming records. Automating these processes and electronically transmitting responses would be more efficient. Illustration 2 shows Los Angeles AMRU's manual work environment. We will address this issue in our global report.

**Illustration 2: Los Angeles AMRU
Work at this unit could be automated to reduce
workhours.**



Extra Work

We observed that employees were performing unnecessary work. For example, our observations showed 40 hours a week were spent collecting, sorting, and filing approximately 1,200 Inbound Express Mail⁶ manifests to comply with procedures. These procedures required AMRU to complete a Missing/Duplicate Report on Express Mail manifests initiated by the International Accounting Branch. However, according to management at the International Accounting Branch, this report has not been required for more than two years. This condition occurred, in part, because of outdated procedures.⁷ We will address this issue in our global report.

⁶Express Mail is a mail class that provides expedited delivery service. This is the fastest mail service offered. Express Mail International Service is available between the United States and most other countries.

⁷Two primary guides for AMRU operations are F-59, International Exchange Office Procedures, last updated in June 1992, and Standard Operating Procedures, last updated in January 1995.

Recommendations

To improve operating efficiency at the AMRU, we recommend the manager, Los Angeles District:

1. Reduce workhours by 5,450, resulting in a cost savings of approximately \$1.8 million over a ten-year period.
2. Periodically evaluate operational efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.
3. Provide additional training to plant operations personnel in the proper sortation of mail.

**Management's
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. They agreed to reduce workhours by 5,450 by the end of fiscal year (FY) 2008, periodically evaluate operational efficiency, and provide additional training to plant operations personnel in the proper sortation of mail. In addition, management plans to focus on additional training and gain access to systems that will provide error data allowing them to take a more aggressive approach to this recommendation.

**Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendations. Management's comments reflect that the manager, Los Angeles District, is taking a proactive approach to improving efficiency. Management's planned actions should correct the site-specific issues identified in the finding.

**APPENDIX A
COST AVOIDANCE AT THE AIRMAIL RECORDS UNIT,
LOS ANGELES INTERNATIONAL SERVICE CENTER
(FUNDS PUT TO BETTER USE)**

Employee Category	Total Workhour Reduction	Undiscounted Total Savings or (Costs) (10 Years – 2.7 Percent Escalation Rate)	Discounted Total Savings or (Costs) (10 Years – 5 Percent Discount Rate)
Airmail Records Unit Clerks (PS-6): yearly reduction of 1,817 hours over three years.	5,450	\$2,539,915	\$1,847,858

Notes

- The total workhour reduction was based on decreasing AMRU hours by 5,450.
- Workhour reductions were based on Postal Service management’s plan to reduce 5,450 workhours over a three-year period from FYs 2006 to 2008, based on FY 2004 workhour usage of 11,316.
- We calculated cost avoidance using the workhour savings multiplied by the escalated labor rate over a ten-year period.
- We calculated the net present value using the discount rate of 5 percent over a ten-year period. The yearly escalation factor is 2.7 percent.
- Labor rates were based on the Postal Service’s FY 2004 published rates for a PS-06 mail processing clerk.

Funds Put to Better Use – Funds that can be used more efficiently by implementing recommended actions.

APPENDIX B. MANAGEMENT'S COMMENTS

DISTRICT MANAGER
LOS ANGELES



March 28, 2005

MEMORANDUM FOR KIM H. STROUD
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response OIG Report Number NO-AR-05-Draft, Efficiency of the Airmail
Records Unit at the Los Angeles International Service Center

Recommendation #1:

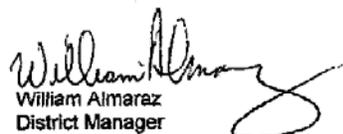
We agree that efficiencies can be improved and we are working toward that goal. The reduction of 5,450 workhours from FY 2006 to FY 2008 would require the reduction of three full-time equivalent AMRU clerk bids by the end of FY08. This is a reasonable and achievable goal and we are in complete agreement to develop and implement the necessary steps to do so.

Recommendation #2:

We agree to periodically evaluate operational efficiency and staffing to determine whether future workload adjustments are necessary based on workload.

Recommendation #3:

We agree to provide additional training to plant personnel emphasizing proper sortation of mail. The ISC will implement a sustained training effort of all new and existing employees to improve their knowledge and skills, conducive to improved quality. Additionally, we will request access to systems which will provide us error data in order to perform cause analysis and implement aggressive countermeasures, focused on the vital opportunities. Once implemented, this process will be an ongoing activity performed in conjunction with the ISC's In-Plant Support department.


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