



September 6, 2005

JAMES L. LARKIN
SENIOR PLANT MANAGER, SAN FRANCISCO DISTRICT

SUBJECT: Audit Report – Efficiency of the Airmail Records Unit at the
San Francisco International Service Center
(Report Number NO-AR-05-012)

This report presents the results of our audit of the Airmail Records Unit (AMRU) at the San Francisco, California, International Service Center (ISC) located in the Pacific Area (Project Number 05YG017NO000). Our objective was to assess the efficiency of operations at the San Francisco AMRU. This report is the third 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. At the conclusion of our site reviews, we will issue a global report addressing common issues.

The San Francisco AMRU could improve operational efficiency. Specifically, the San Francisco AMRU processed fewer records per workhour than the targeted productivity rate, misaligned some workhours with workload, and performed extra work because plant operations personnel sorted mail improperly. The San Francisco AMRU could begin to improve operational efficiency by reducing 7,757 workhours. This reduction could produce a cost avoidance of approximately \$2.6 million based on labor savings over a 10-year period. These funds represent funds put to better use for the Postal Service and will be reported as such in our Semiannual Report to Congress. In addition, the Postal Service manually maintained records and had employees perform some unnecessary work. We will address the latter issues in our global report.

We made three recommendations in this report. 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
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: Paul E. Vogel
Alfred Iniguez
Michael J. Nappi
Kerry L. Wolny
Scott Tucker
Steven R. Phelps

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	1
Prior Audit Coverage	2
Part II	
Audit Results	4
Assessment of Operational Efficiency	4
Recommendations	9
Management's Comments	10
Evaluation of Management's Comments	10
Appendix A. Cost Avoidance at the AMRU, San Francisco ISC (Funds Put to Better Use)	11
Appendix B. Management's Comments	12

EXECUTIVE SUMMARY

Introduction

We conducted a review of the Airmail Records Unit (AMRU) at the San Francisco, California, International Service Center (ISC) located in the Pacific Area. Our objective was to assess the efficiency of operations at the San Francisco 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 senior plant manager, San Francisco District.

This is our third¹ in a series of site reports on the efficiency of AMRUs. When we complete these site reviews, we will issue a global report addressing common issues.

Results in Brief

The San Francisco AMRU was not operating efficiently. Specifically, the San Francisco AMRU:

- Processed fewer records per workhour than the targeted productivity rate.
- Misaligned some workhours with workload.
- Performed extra work because plant operations personnel sorted mail improperly.
- Manually maintained and retrieved records.
- Performed some unnecessary work.

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, extensively analyzed operations, or examined and updated procedures.

¹The Office of Inspector General (OIG) conducted a self-initiated audit of the New York ISC AMRU and issued a report on September 24, 2004. The OIG conducted a second self-initiated audit of the Los Angeles ISC AMRU and issued a report on April 28, 2005.

We concluded that the Postal Service could begin to improve operational efficiency by reducing 7,757 AMRU workhours, periodically evaluating operations, and training plant operations personnel in proper mail sortation. The workhour reduction could produce a cost avoidance of approximately \$2.6 million based on labor savings over a 10-year period. These funds represent funds put to better use for the Postal Service, and we will report them as such in our Semiannual Report to Congress.

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

During the audit, Postal Service management took immediate action to correct some issues. They also agreed to reduce workhours and provided us with an action plan to correct the remaining issues.

Summary of Recommendations	We recommended the senior plant manager, San Francisco District, reduce 7,757 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. They agreed to reduce workhours by 7,757 over a 3-year period. However, they believe they can achieve an even higher reduction of 8,320 workhours over the same period. They also agreed to 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 the report.
Overall Evaluation of Management's Comments	Management's comments are responsive and proactive in the implementation of our recommendations. Management's actions taken or planned should correct the 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 (AMRUs),² which existed as part of the international exchange offices³ 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 AMRUs transmit some of the information they maintain to the International Accounting Branch in St. Louis, Missouri, for processing and payment to transportation carriers and foreign postal administrations.

International Network Operations has functional responsibility for AMRUs. AMRUs have 94 dedicated full-time employees 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. The San Francisco AMRU reports to the manager, Transportation and Networks, and employs an acting supervisor and ten full-time clerks.

Objective, Scope, and Methodology

The audit assessed the efficiency of operations at the AMRU at the San Francisco ISC. This is our third⁴ in a series of reports 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 senior plant manager, San Francisco District.

To assess the efficiency of the San Francisco AMRU, we observed operations at the unit, analyzed volumes of

²AMRUs are also referred to as international records units.

³An 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.

⁴The Office of Inspector General (OIG) conducted a self-initiated audit of the New York ISC AMRU and issued a report on September 24, 2004, and conducted a self-initiated audit of the Los Angeles ISC AMRU and issued a report on April 28, 2005.

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

Through observations, interviews, and prior audit work, the OIG established a productivity rate of 24 records per workhour.⁵ Postal Service management agreed with this targeted productivity rate.

We also analyzed international AMRU weekly reports issued from October 25, 2003, through October 22, 2004, which the AMRU prepared and submitted to International Network Operations at headquarters. We were unable to trace data to the source documents because it is a manual reporting system involving thousands of hard-copy records. Thus, we used records processed and hours in aggregate to determine the unit's productivity, which we compared to the target rate.

We also analyzed data from the Web Enterprise Information System. We did not test the validity of controls over these systems or data accuracy.

We conducted this audit from January through September 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 management officials and included their comments where appropriate.

Prior Audit Coverage

We have issued two prior audit reports on the efficiency of AMRUs.

Efficiency of the Airmail Records Unit at the New York International Service Center (Report Number NO-AR-04-011, dated 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.

⁵The methodology for determining target productivity used in this report matched the one used in the New York ISC AMRU review, which more closely met management's expectations for productivity.

Efficiency of the Airmail Records Unit at the Los Angeles International Service Center (Report Number NO-AR-05-010, dated April 28, 2005). We recommended Postal Service management reduce workhours by 5,450 to improve the efficiency of operations, periodically evaluate operations, and train plant operations personnel in proper mail sortation. Postal Service management agreed with our recommendations.

AUDIT RESULTS

Assessment of Operational Efficiency

The San Francisco AMRU was not operating efficiently. Specifically, the San Francisco AMRU:

- Processed fewer records per workhour than the targeted productivity rate.
- Misaligned some workhours with workload.
- Performed extra work because plant operations personnel sorted mail improperly.
- Manually maintained and retrieved records.
- Performed some unnecessary work.

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

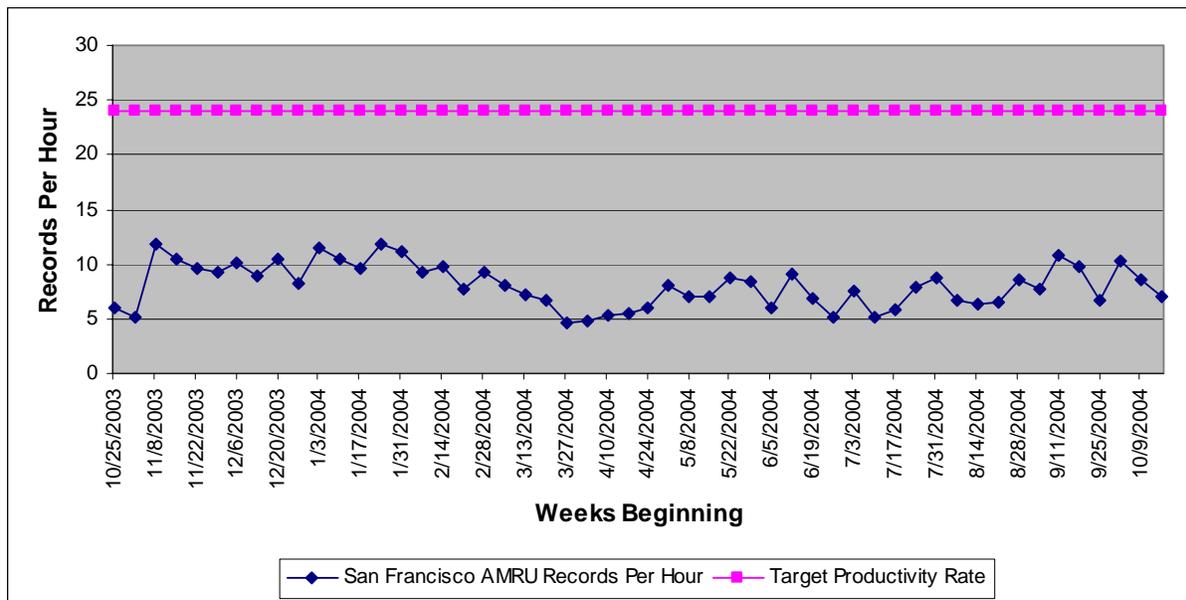
These conditions occurred because Postal Service managers had not evaluated operational efficiency, extensively analyzed operations, or examined and updated procedures. Consequently, the San Francisco AMRU used more workhours than necessary to process international mail records.

As a result, the Postal Service could begin to improve operational efficiency by reducing 7,757 workhours. This reduction could produce a cost avoidance of approximately \$2.6 million based on labor savings over a 10-year period. (See Appendix A for details.)

Records Processed

The San Francisco AMRU processed an average of 7.8 records per workhour as compared to the targeted productivity rate of 24 records per workhour. Chart 1 shows the productivity of the San Francisco AMRU compared to the targeted productivity rate. This productivity difference of over 16 records per workhour means the San Francisco AMRU has the opportunity to reduce workhours.

Chart 1: Productivity of San Francisco AMRU



AMRU Workhours

Workhours used for record processing did not always reflect changes in the workload. The general trend for the period of October 2003 to October 2004 was that workhours increased as the number of records processed increased. However, for 12 weeks during the review period, workhours were misaligned with workload.⁶ (See Table 1 for examples of the misalignment.)

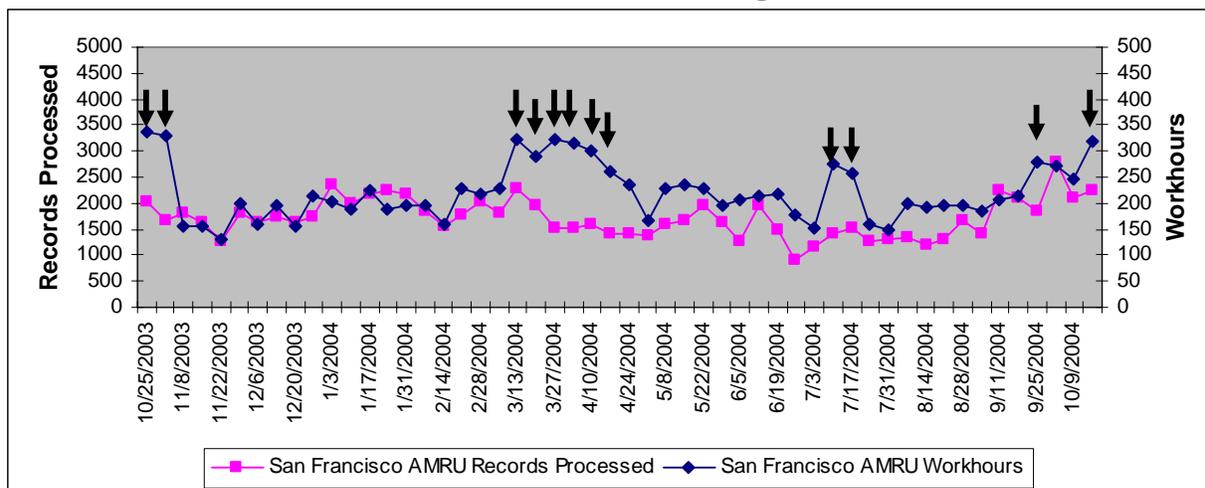
Table 1: Workhours to Records Processed

Week	Workhours	Records
January 3, 2004	204	2,345
March 13, 2004	321	2,294
March 27, 2004	321	1,508

To further illustrate, Chart 2 shows the periods in which workhour usage does not reasonably track with the number of records processed. The arrows in Chart 2 indicate weeks with significant misalignment of workhours to workload. AMRU personnel should be assigned to other functions when record processing workload decreases.

⁶During a six-week time frame from March 13 through April 23, 2004, and in six other weeks during the audit period, workhours were more than one standard deviation above a workhour-to-records regression line.

Chart 2: Workhour Usage



Mail Sortation

Plant operations personnel were not always sorting mail properly. Our review of Verification Notes⁷ showed that many times, personnel sent mail to the wrong country. For example, from October 2003 to October 2004, the San Francisco AMRU received over 5,700 Verification Notes, or approximately 15 percent of all Verification Notes, advising that mail had been incorrectly sent. This resulted in additional work for the San Francisco AMRU employees who handle and input these records. San Francisco AMRU management took immediate action to determine why the mail was missent and were working on a standard operating procedure during our audit. Training that better emphasizes the importance of sorting mail to the correct country could greatly reduce or eliminate this workload.

Manual Records

The Postal Service manually maintained and retrieved records. The AMRU maintained approximately 268,000 hard-copy international mail records. The Postal Service could minimize paper use and storage by exchanging information through Electronic Data Interchange.⁸ Illustration 1 shows the San Francisco AMRU's manual filing system.

⁷The Postal Service and foreign postal administrations use Verification Notes, formerly known as Bulletin of Verifications, to communicate irregularities in the preparation, dispatch, and receipt of mail.

⁸Electronic Data Interchange is a computer-to-computer exchange of information in a standard format.

**Illustration 1: San Francisco AMRU
Manual Hard-Copy Filing System.**



We also observed that the processing of manual records was slow and inefficient. The San Francisco AMRU receives records from plant operations and foreign postal administrations. San Francisco AMRU employees 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 the San Francisco AMRU's manual work environment. We will address these issues in our global report.

**Illustration 2: San Francisco AMRU
management could automate work at this unit to reduce
workhours.**



Extra Work

We observed that employees were performing unnecessary work. Our observations showed the following:

- Employees spent 80 hours a week collecting, sorting, and filing inbound Express Mail⁹ manifests to comply with outdated procedures. These procedures required AMRU clerks to complete a Missing/Duplicate Report on Express Mail manifests initiated by the International Accounting Branch. According to management at the International Accounting Branch, this report has not been required for more than two years.
- Employees mailed duplicate inbound Express Mail manifests back to some originating countries. This occurred because clerks believed they were following proper procedures. However, Postal Service guidance does not require this type of service. AMRU management took action during the OIG audit to eliminate this practice.

⁹Express 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.

- Employees sent Verification Notes prepared for foreign postal administrations by registered mail.¹⁰ This occurred because clerks believed they were following proper procedures. Postal Service guidance does not specify the type of mail service to use, and registered mail service is not an efficient manner of handling routine communications. AMRU management took action during the OIG audit to eliminate this practice.

These conditions occurred because procedures were outdated and standard operating procedures were not current.¹¹

As a result, management used more workhours than necessary to process international mail records. We will address the issues of extra work and outdated procedures in our global report.

Recommendations

To improve operating efficiency at the AMRU, we recommend the senior plant manager, San Francisco District:

1. Reduce workhours by 7,757, resulting in a cost savings of approximately \$2.6 million over a 10-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.

¹⁰Registered mail provides added protection and value by tracking the mailing through delivery. Registered mail is transferred from one individual to another on appropriate forms and must be signed for by the receiving individual at the time of transfer.

¹¹Two primary guides for AMRU operations are Handbook F-59, International Exchange Office Procedures, June 1992, and Standard Operating Procedures, January 1995.

**Management's
Comments**

Management agreed with our finding, recommendations, and monetary impact. They agreed to reduce workhours by 7,757 over a 3-year period. However, they believe they can achieve an even higher reduction of 8,320 workhours over the same period with improvements in efficiencies. They also agreed to periodically evaluate operational efficiency and as a result, have already reduced workhours in the AMRU by 4,160 per year. Postal Service management also agreed to provide additional training to plant operations personnel in the proper sortation of mail. Taking a more aggressive approach to this recommendation, they also have established processes in plant operations to monitor mail sortation.

**Evaluation of
Management's
Comments**

Management's comments are responsive and proactive in the implementation of our recommendations. Management's actions taken or planned should correct the issues identified in the findings.

APPENDIX A

COST AVOIDANCE AT THE AMRU, SAN FRANCISCO ISC (FUNDS PUT TO BETTER USE)

Employee Category	Total Workhour Reduction	Undiscounted Total Savings or (Costs) (Ten Years; 3.1 Percent Escalation Rate)	Discounted Total Savings or (Costs) (Ten Years; 5 Percent Discount Rate)
AMRU Clerks (PS-6): Yearly reduction of 2,585.7 hours average per year over three years	7,757	\$3,435,988	\$2,563,277

Notes

- We based workhour reductions on Postal Service management’s plan to reduce 7,757 workhours over a 3-year period from FYs 2006 to 2008, based on FY 2004 workhour usage.
- Using the April 15, 2005, Decision Analysis Report (DAR) “Productive Workyear Factor” of 1,746 hours per year for bargaining employees, 7,757 workhours is equivalent to 4 to 5 employees (4.4).
- We calculated cost avoidance using the workhour savings multiplied by the escalated labor rate over a 10-year period beginning in FY 2006.
- We calculated the net present value using the discount rate of 5 percent over a 10-year period. The yearly escalation factor is 3.1 percent (DAR factors effective April 15, 2005).
- We based labor rates on the Postal Service’s March FY 2005 published rates for a PS-6 mail processing clerk in FY 2006 (salary and fringe and service-wide costs).

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

APPENDIX B. MANAGEMENT'S COMMENTS

SR PLANT MANAGER
SAN FRANCISCO PROCESSING & DISTRIBUTION CENTER



August 11, 2005

KIM H. STROUD
DIRECTOR, AUDIT REPORTING
OFFICE OF INSPECTOR GENERAL
1735 NORTH LYNN STREET
ARLINGTON VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report - Efficiency of the Airmail Records
Unit at the San Francisco International Service Center
(Report Number NO-AR-05-DRAFT)

On August 2, I forwarded our response addressing issues noted during the
review of the Airmail Records Unit at the San Francisco International Service
Center (ISC).

Attached is a revised response to the draft audit report, incorporating changes
discussed by a member of the OIG audit group and ISC staff.

A handwritten signature in black ink, appearing to read "James L. Larkin".

James L. Larkin
Senior Plant Manager

cc: Al Iniguez
Scott Tucker
Kerry Wolny
Wesley Tokushige
Paul Vogel
Michael Nappi
Steven Phelps
Robert Batta
Maria Madocks

P O Box 664024
SAN FRANCISCO CA 94188-4024
PHONE: (415) 550-5636
FAX: (415) 550-5283

SR PLANT MANAGER
SAN FRANCISCO PROCESSING & DISTRIBUTION CENTER



August 11, 2005

KIM H. STROUD
DIRECTOR, AUDIT REPORTING
OFFICE OF INSPECTOR GENERAL
1735 NORTH LYNN STREET
ARLINGTON VA 22209-2020

SUBJECT: Transmittal of Draft Audit Report - Efficiency of the Airmail Records
Unit at the San Francisco International Service Center
(Report Number NO-AR-05-DRAFT)

This responds to Mary W. Demory's letter dated July 8, which forwarded findings and recommendations following a review of the Airmail Records Unit at the San Francisco International Service Center (ISC).

Although we agree that a reduction in workhours can be achieved, we also believe the methodology used to determine this number and the benchmark rate of 24 documents per workhour is imprecise. Using a more accurate method, the actual savings that can be achieved is 8,320 over a three-year period, a 7.3% improvement over the Office of Inspector General's (OIG) calculation of 7,757 workhours over a three-year period.

As stated in the entrance discussion and exit briefing, the benchmark was determined by summing the total documents worked over a one-year period by the Los Angeles, Miami, Chicago and San Francisco ISCs (1,231,088) and dividing by the total workhours used to process these documents (49,949). A review of the data used in determining the benchmark clearly indicates that Miami is an outlier, and Miami's data should not be included in the benchmark calculations.

Miami ISC uses different criteria for reporting documents worked than Los Angeles, Chicago and San Francisco. For the period October 25, 2003 to October 22, 2004, Miami reported an average of 15,291 documents worked each week using 286 workhours, resulting in an average of 53 documents per workhour. Los Angeles, Chicago and San Francisco reported an average of 2,794 documents worked each week, using 225 workhours, resulting in an average of 12 documents per workhour, which, using the OIG criteria of similarly sized ISCs,

P O Box 884024
SAN FRANCISCO CA 94188-4024
PHONE: (415) 550-5638
FAX: (415) 550-5283

- 2 -

should be the benchmarked productivity. Because of the inconsistency in the way Miami ISC reports its documents worked per hour compared to Los Angeles, Chicago and San Francisco, its data should not be included in determining the benchmark productivity for Airmail Record Units (AMRUs).

By separating productivity for Verification Bulletins and other documents rather than total documents, and calculating projected work load, plus factoring technology implementation and verification bulletin reduction, the San Francisco ISC projects it will require approximately 110 hours a week to process Verification Bulletins and approximately 130 hours per week for other documents (bills, etc.), for a total of 240 hours, or six FTE employees. With improvements in efficiencies, technology, and a reduction in outbound Verification Bulletins, over time the San Francisco ISC will realize a cost savings of 8,320 hours per year.

That said, I concur with the three recommendations proposed in the report.

Recommendation 1:

Reduce workhours by 7,757, resulting in a cost savings of approximately \$2.6 million over a ten-year period.

Response

Management agrees in principle with this recommendation. However, the actual targeted reduction is 8,320 workhours, with an estimated cost savings of \$2.75 million over a ten-year period.

Recommendation 2:

Periodically evaluate operational efficiency and staffing to determine whether further workhour adjustments are necessary based on work load.

Response

Management agrees with this recommendation. Processes have been put in place to monitor operational efficiency on a weekly basis. This is accomplished by reviewing the weekly AMRU report and breaking out productivity in several categories including Verification Bulletins and Documents, among others. The San Francisco ISC has reduced net workhours in the AMRU by 4,160 hours per year since implementing the efficiency recommendations stated in the OIG exit conference. The Manager, Transportation and Networks is responsible for quarterly review and revision of AMRU staffing requirements.

Recommendation 3:

Provide additional training to plant operations personnel in the proper sortation of mail.

Response

Management agrees with this recommendation. Since the initial OIG audit, processes have been put in place to monitor mail sortation to reduce missent mail. On a daily basis, each distribution supervisor is required to randomly check foreign outbound mail for missent pieces. Supervisors are also required to monitor other sources of Verification Bulletins such as incorrect or missing documentation, appropriate country of destination slide labels, and sort plans for correct sortation. These actions are documented on a daily basis using an internally generated checklist. In a coordinated effort between plant operations and transportation, studies were conducted to determine where the greatest amount of missent mail was being generated and possible causes. As a result, the plant initiated ongoing geography training to assist employees with identifying the proper sortation for, by way of example, Macau, Hong Kong, China, and Taiwan. Each of these could have the country code listed as China; however, each has a separate sortation. Finally, the San Francisco ISC has coordinated with Customer Service to initiate a stand-up talk with its Sales Associates to ensure international outbound mail is properly addressed in accordance with the International Mail Manual. These combined processes have resulted in a 16.7% reduction in received Verification Bulletins (first ten weeks of fiscal year versus most recent ten weeks). The processes are ongoing. The Manager, Transportation and Networks is responsible for monitoring these processes.



James L. Larkin
Senior Plant Manager

cc: Al Iniguez
Scott Tucker
Kerry Wolny
Wesley Tokushige
Paul Vogel
Michael Nappi
Steven Phelps
Robert Batta
Maria Madocks