



September 12, 2006

WILLIAM ALMARAZ
MANAGER, LOS ANGELES CUSTOMER SERVICE DISTRICT

SUBJECT: Audit Report – Efficiency Review of the Los Angeles, California, Worldway Airport Mail Center (Report Number NO-AR-06-006)

This report presents the results of our review of the Los Angeles, California, Worldway Airport Mail Center (AMC), located in the Pacific Area (Project Number 05WG012NO000). Our objective was to evaluate the efficiency of operations at the Worldway AMC. This report is the first of two reports on the Worldway AMC. We conducted these audits at the request of the Los Angeles District and the Pacific Area.

Although the Worldway AMC has reduced workhours, it could further improve operational efficiency. Specifically, the Worldway AMC did not fully adjust workhours in response to changes in workload, use mechanized equipment effectively, and staff operations commensurate with the workload.

Based on fiscal year (FY) 2004 usage,¹ the Worldway AMC could improve operational efficiency by reducing mail processing and maintenance workhours by 760,000, which could produce a cost avoidance of more than \$192 million in labor savings during a 10-year period. We will report these workhour savings as funds put to better use in our *Semiannual Report to Congress*.

We made four recommendations in the 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.

The U.S. Postal Service Office of Inspector General (OIG) considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when management has completed corrective actions. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendation can be closed.

¹ We used FY 2004 workhours for comparison because FY 2004 was the last complete fiscal year before the Worldway AMC eliminated mail processing operations.

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.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!
Colleen McAntee

Colleen A. McAntee
Deputy Assistant Inspector General
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EXECUTIVE SUMMARY

Introduction

The U.S. Postal Service Office of Inspector General evaluated the efficiency of operations at the Worldway Airport Mail Center (AMC). The Worldway AMC is located in the Pacific Area and is part of the Los Angeles Customer Service District. This audit is the second in a series of efficiency audits covering the Los Angeles Customer Service District. We conducted this audit at the request of the Los Angeles Customer Service District manager and in cooperation with the Pacific Area.

Results in Brief

Although the Worldway AMC has improved efficiency by reducing workhours, opportunities exist for more improvement. Specifically, the Worldway AMC did not fully adjust workhours in response to changes in workload, use mechanized equipment effectively, and staff operations commensurate with the workload.

These conditions existed because the U.S. Postal Service did not evaluate operational efficiency, establish performance standards for mail processing operations, provide adequate supervision, and define a clear mission statement for the Worldway AMC.

Consequently, the Worldway AMC used more resources than necessary to process its mail volume. Based on fiscal year (FY) 2004 usage,² improving efficiency of the Worldway AMC could reduce mail processing workhours by 700,000 and maintenance workhours by 60,000. This workhour reduction could produce a cost avoidance of more than \$192 million in labor savings during a 10-year period.

Summary of Recommendations

We recommended the manager, Los Angeles Customer Service District, reduce mail processing and maintenance workhours by 760,000 by the end of FY 2010. We also recommend that the manager evaluate operating efficiency and staffing.

² We used FY 2004 workhours for comparison because FY 2004 was the last complete fiscal year before the Worldway AMC eliminated mail processing operations.

**Summary of
Management's
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. Management indicated they have already begun to address the recommended workhour reductions. They are also improving their leadership capability and reviewing the low-cost tray sorter requirements. Management's comments, in their entirety, are included in Appendix D.

**Overall Evaluation of
Management's
Comments**

Management's comments are responsive to the audit finding and recommendations. The comments indicate management is taking a proactive approach to improving efficiency. Management's actions taken or planned should correct the issues identified in the report.

INTRODUCTION

Background

An airport mail center (AMC) is a postal facility located at or adjacent to an airport. As of July 2005, the U.S. Postal Service had 71 of these facilities.³ An AMC serves as the transfer point for mail being tendered to the airlines. It assigns mail to flights; receives and dispatches mail to and from air carriers; accepts and sorts mail to and from plants; performs measurement and quality control of air carrier operations; and manages functions specific to airport operations.

In fiscal year (FY) 2005, 35 of these facilities (49 percent) also processed mail volume. However, the Postal Service has decided to standardize these facilities, streamline operations, and eliminate all non-core operations. These facilities will be renamed airport transfer centers (ATC) and will only facilitate the transportation of mail to and from airlines.

The Worldway AMC is located in the Los Angeles, California, Customer Service District in the Pacific Area. (See Appendix A for Pacific Area districts.) The Worldway AMC processed more than 340 million first handling pieces (FHP)⁴ and used 1.5 million workhours in FY 2004. In January 2005, the Worldway AMC began the transition to an ATC, and by April 2005, all automation equipment for mail processing operations was removed from the site. However, the Worldway AMC continued to manually process mail on a sporadic basis for the Los Angeles Bulk Mail Center and for the Los Angeles Processing and Distribution Center (P&DC).

The Postal Service owns the Worldway AMC building, but leases the land from the Los Angeles Department of Airports for \$900,000 annually. The building contains 313,071 square feet of interior space, with a platform of 15,096 square feet, on a site with dimensions of 342,848 square feet.

³ We use the term "facilities" to describe both airport mail centers and facilities. Airport mail centers and facilities perform essentially the same functions and have the same operations, but the centers are generally larger than the facilities.

⁴ An FHP is a letter, flat, or parcel that receives its initial distribution in a Postal Service facility.

Objective, Scope, and Methodology

The objective of the audit was to evaluate the efficiency of the Worldway AMC mail processing operation. To accomplish the objective, we interviewed Postal Service officials; analyzed mail volume, workhours, and machine output; reviewed mail arrival profiles and employee work schedules; benchmarked against other sites; and observed mail processing operations.

We relied on Postal Service data systems, including the National Workhour Reporting System, Web Enterprise Information System, Web End of Run System, Web Complement Information Systems, Management Operating Data Systems (MODS), National Maintenance Activity Reporting and Scheduling System, Workhour Estimator Program (WHEP),⁵ and Enterprise Data Warehouse System. We did not test the controls over these systems. However, we checked the accuracy and reasonableness of the data by confirming our analysis and results with Postal Service managers and by consulting different data sources. We found no material differences.

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

Prior Audit Coverage

We have issued 19 audit reports on operational efficiency. As a result of these audits, the Postal Service has agreed to reduce approximately 1.6 million workhours. These reductions could produce a cost avoidance of about \$501 million over 10 years. (See Appendix B for details.)

⁵ The WHEP estimates workhours for mail processing equipment (miscellaneous postal equipment and major equipment), building and building equipment, field maintenance operations, and maintenance operations support. The WHEP is used in plants, stations, branches, annexes, airmail centers, and other facilities.

AUDIT RESULTS

Assessment of Resources at the Los Angeles Worldway Airport Mail Center

The Postal Service could improve the efficiency of the Worldway AMC's mail processing operation and more effectively use resources at the facility. Specifically, the Worldway AMC did not:

- Fully adjust mail processing and maintenance workhours in response to changes in workload.
- Use mechanized equipment effectively.
- Staff mail processing and maintenance operations commensurate with the workload.

39 U.S.C., Chapter 4, § 403 (a) states, "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services"

Although Postal Service management adjusted workhours according to budget allocations, they did not comprehensively evaluate operational efficiency after changes occurred in the local network. In addition, the Postal Service had not established performance standards, provided adequate supervision, or defined a clear mission statement. Consequently, the Worldway AMC used more workhours than necessary to process its mail volume.

Mail Processing Workhour Adjustments

Mail processing workhours were not adequately adjusted based on workload. In January 2005, the Postal Service began removing all automation equipment for mail processing operations from the Worldway AMC in response to a headquarters initiative to transition to an ATC. All FHP mail volume was also redirected to other mail processing facilities.⁶ The Los Angeles P&DC received the majority of this mail.

However, the Postal Service did not fully adjust workhours in response to this diminished workload. For example, before this operational change, in FY 2004, the Worldway AMC

⁶ FHP volume does not capture all mail volume at the site. The MODS reports only automated volume.

used approximately 36 percent of its total Function 1 (mail processing) workhours⁷ to process 340 million FHPs. The chart below shows operations by labor distribution codes (LDC).

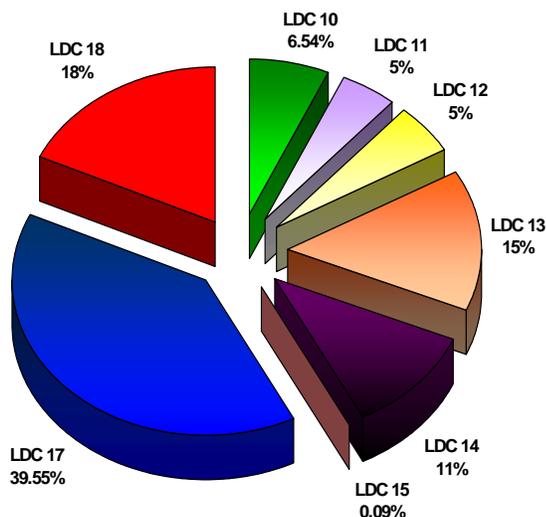


Chart 1: FY 2004 Mail Processing Workhours by LDC

By removing this workload, the Postal Service should have decreased workhours by approximately 36 percent,⁸ or 570,000 workhours, in LDCs 11 through 14. In addition, a corresponding decrease of 36 percent in workhours should also be made to LDC 17 (Other Direct Operations). This would result in a further workhour reduction of 225,000 workhours, for a net total reduction of 795,000 workhours in Function 1.

However, in discussions with the Postal Service, we found that some LDC 13 workhours were necessary for processing letter trays on the sack sorter operation. The Postal Service also advised that a 36 percent reduction in LDC 17 workhours would be too large based on its existing workload. Consequently, we determined that reducing 700,000 workhours in Function 1, based on the hours used in FY 2004, was reasonable given the facility's residual

⁷ Specific LDCs directly related to mail processing are LDC 11 (letter processing), LDC 12 (flats processing), LDC 13 (parcel sorting), and LDC 14 (manual sortation). In FY 2004, the Worldway AMC used 1,583,778 workhours in Function 1 and 567,583 in LDCs 11 through 14.

⁸ Since mail volume is no longer processed at the Worldway AMC, the workhours in LDCs 11, 12, 13, and 14 should be reduced. The workhours used in these LDCs equaled 36 percent of total Function 1 workhours — 5 percent in LDC 11, 5 percent in LDC 12, 15 percent in LDC 13, and 11 percent in LDC 14.

⁹ Through our discussions with management we determined an additional 3 percent of total Function 1 workhours was needed for both LDC 13 and LDC 17, resulting in additional workhours of 95,000.

workload.⁹ Management agreed to this aggressive workhour reduction and began reducing workhours during the audit.

In addition, the Worldway AMC's workload will be transferred primarily to the Los Angeles P&DC. The Los Angeles P&DC has sufficient capacity to absorb this workload without the use of additional workhours.¹⁰

Maintenance Workhour Adjustments Maintenance workhours were not aligned with the workload. In April 2005, the Worldway AMC eliminated the use of automated and mechanized equipment,¹¹ except for the universal sorter and sack sorter machines. This was accomplished when the Worldway AMC transitioned to an ATC. Table 1 shows the machines and automated equipment used at the end of FY 2004 compared to usage in April 2005.

Table 1: Use of Mechanized and Automated Equipment		
Machine Equipment	End of FY 2004	April FY 2005
1 Automated Flat Sorting Machine 100	X	
1 Delivery Barcode Sorter	X	
4 Multiline Optical Character Readers	X	
1 Small Parcel Bundle Sorter	X	
2 Upgraded Flat Sorting Machines 1000	X	
1 Universal Sorter	X	X
1 Sack Sorter Machine	X	X

Before eliminating its mechanized and automated mail processing equipment, the Worldway AMC used more than

¹⁰ We found that in FY 2004, the Los Angeles P&DC had the capacity to process an additional 694 million pieces. This excess capacity could absorb the Worldway AMC FY 2004 workload of approximately 401 million pieces.

¹¹ Mechanized equipment requires operator input on each mailpiece and is used to sort letters, flats, and parcels. Automated equipment uses technology to sort mail with little operator intervention.

92,000 workhours in FY 2004 for repair and preventive and operational maintenance and 52,000 workhours for custodial operations.

However, after the machines were eliminated, the associated workhours necessary for repair and preventive and operational maintenance of these machines were not substantially reduced. According to the maintenance cost breakdown report in the National Maintenance Activity Reporting and Scheduling System, maintenance costs associated with the machines that were removed represented 42 percent of total costs. Consequently, the Postal Service should have decreased workhours by 42 percent, or about 39,000.

In addition, the removal of the machines left the second floor of the facility empty (representing about 40 percent of the total square footage) except for registry operations and the storage of excess equipment. The Postal Service had roped off the unused area and sealed unused restrooms, reducing the need for custodial care. Based on this reduction in usable floor space, we estimate that custodial workhours could be reduced by 40 percent, or approximately 21,000 workhours based on FY 2004 usage.

Based on this analysis, we concluded that the Postal Service needed to reduce maintenance workhours by 60,000. We corroborated our analysis by using the Postal Service's WHEP, which indicated that workhours should be reduced by 59,000. Management agreed that reducing maintenance workhours by 60,000 was reasonable and began reducing workhours during the audit.

Effectiveness of
Mechanized
Equipment

The Postal Service did not use mechanized equipment effectively. The Worldway AMC currently uses two types of mechanized equipment — a universal sorter with an automated tray line and a sack sorter machine.

We noted that automation capabilities on the universal sorter were not used effectively. For example, rather than induct mail through the universal sorter's automated reader, mail was directed to keyers for manual processing. This resulted in using more workhours than necessary to process the mail. (See Illustration 1.)

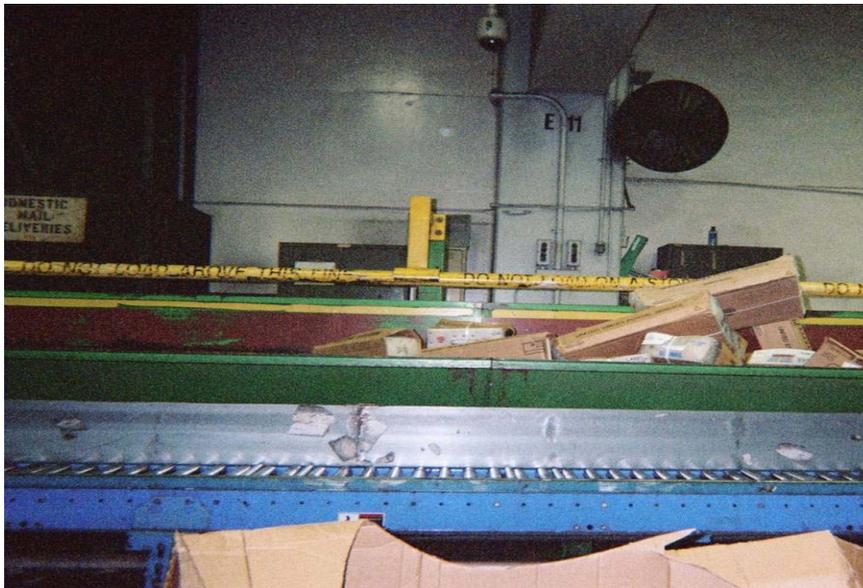


Illustration 1: Mail on green equipment travels to manual keys. Note that the automated blue equipment is empty.

We also observed that the sack sorter machine processed the majority of letter tray mail at the Worldway AMC. Sack sorter machines were not designed to process rectangular trays.¹² Sorting trays on the sack sorter can sometimes result in trays (which carry an average of 500 pieces of mail) breaking open and spilling mail over the conveyor belt. In addition, sorting trays in this fashion can result in labels coming loose from the tray. Consequently, letter trays may need to be reloaded, restrapped, relabeled, and reworked, resulting in additional processing workhours.

To solve this problem, the Worldway AMC could replace the sack sorter machine with a more efficient tray sorter, resulting in additional workhour savings.

¹² Government Accountability Office (GAO) report, *The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability* (Report Number GAO-05-261, April 2005) discussed sack sorting machines.

Employee Staffing

We observed that¹³ staffing of certain operations was not commensurate with the workload for both mail processing and maintenance employees. For example:

- The universal sorter machine and sack sorter machine belts were not staffed according to workload. For example, the belts were staffed when manual keyers were on break; and when the keyers were in place, the belts were empty. (See Illustrations 2 and 3.)



Illustration 2: Manual keyer on universal sorter with no mail to key.

¹³ Observations were conducted during a 14-day period in July 2005, at various times and days to cover all tours and days of operations.



Illustration 3: Mail sent to unstaffed keying station on sack sorter machine.

- Maintenance positions were eliminated according to seniority, but jobs had not been reposted, creating imbalances in employee scheduling. In some instances, too many employees were scheduled on a particular day and tour, and too few on other days or tours.
- The scheduling of mail processing clerks was not in line with anticipated workload. In several instances, too many or too few employees were scheduled based on the available workload. (See Illustration 4.)



Illustration 4: Better scheduling would ensure that sufficient staff was available to process incoming mail.

Cause and Impact on
Operations

To the Postal Service's credit, they had addressed operational efficiency at the Worldway AMC by reducing workhours in response to budgeted workhours.¹⁴ During our review, they reduced FY 2005 workhours.

However, several factors contributed to inefficiency at the Worldway AMC. First, the Postal Service did not evaluate operational efficiency and establish performance standards for ATC mail processing operations. Second, increased supervision and better scheduling were needed to ensure staff and workload alignment. The inadequate supervision was due to high supervisory turnover. Third, the AMCs' original mission was to serve as a transportation gateway for mail. However, over the years, many AMCs had taken on mail processing functions, causing some confusion as to their mission.

In January 2005, headquarters clarified the AMCs' strategic direction and began to eliminate mail processing at all AMCs. The Worldway AMC has substantially completed this task. Nevertheless, the Worldway AMC continues to manually process mail on a sporadic basis for the

¹⁴ Budgeted workhours are workhours allocated to the facility at the beginning of the fiscal year and are shown as planned workhours on the Postal Service FLASH Report. The FLASH Report is a weekly report consisting of a compilation of hours and volumes by finance number and by LDC. It is a quick overview of important factors pertaining to payroll data within a finance number.

Los Angeles Bulk Mail Center and the Los Angeles P&DC. The work received from these other sites was labor-intensive and may have been more efficiently processed at another facility.

Consequently, the Worldway AMC used more workhours than necessary to process mail. We estimated that the Worldway AMC needed to reduce mail processing and maintenance workhours by 760,000 based on FY 2004 workhour usage. These workhour reductions could produce a cost avoidance of more than \$192 million during the next 10 years. (See Appendix C.)

Attrition could be used to reduce workhours. Out of a total 562 Worldway AMC employees, 191 (34 percent) were eligible to retire by the end of calendar year 2005, and 330 (59 percent) will be eligible by the end of calendar year 2010.

Postal Service Actions	The manager, Los Angeles Customer Service District agreed that by the end of FY 2010, they would reduce mail processing workhours by 700,000 and maintenance workhours by 60,000. The manager had already begun reducing workhours during the audit and was responsive to improving operations. In addition, we found that the manager was committed to making continuous efficiency improvements throughout the district and taking advantage of all resources available.
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Recommendations	<p>To improve efficiency, we recommend the manager, Los Angeles Customer Service District:</p> <ol style="list-style-type: none">1. Reduce mail processing and maintenance workhours by 760,000 at the Worldway Airport Mail Center, based on fiscal year 2004 usage, by the end of fiscal year 2010. This workhour reduction could result in a cost avoidance of more than \$192 million based on labor savings during a 10-year period. In addition, the Los Angeles Processing and Distribution Center should process the volume transfer from Worldway Airport Mail Center without increasing workhours.2. Evaluate operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload for airport transfer center functions.
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3. Provide adequate supervision and performance standards and improve employee scheduling.
4. Eliminate the sack sorter machine and consider obtaining a low-cost tray sorter with automated airline assignment capabilities.

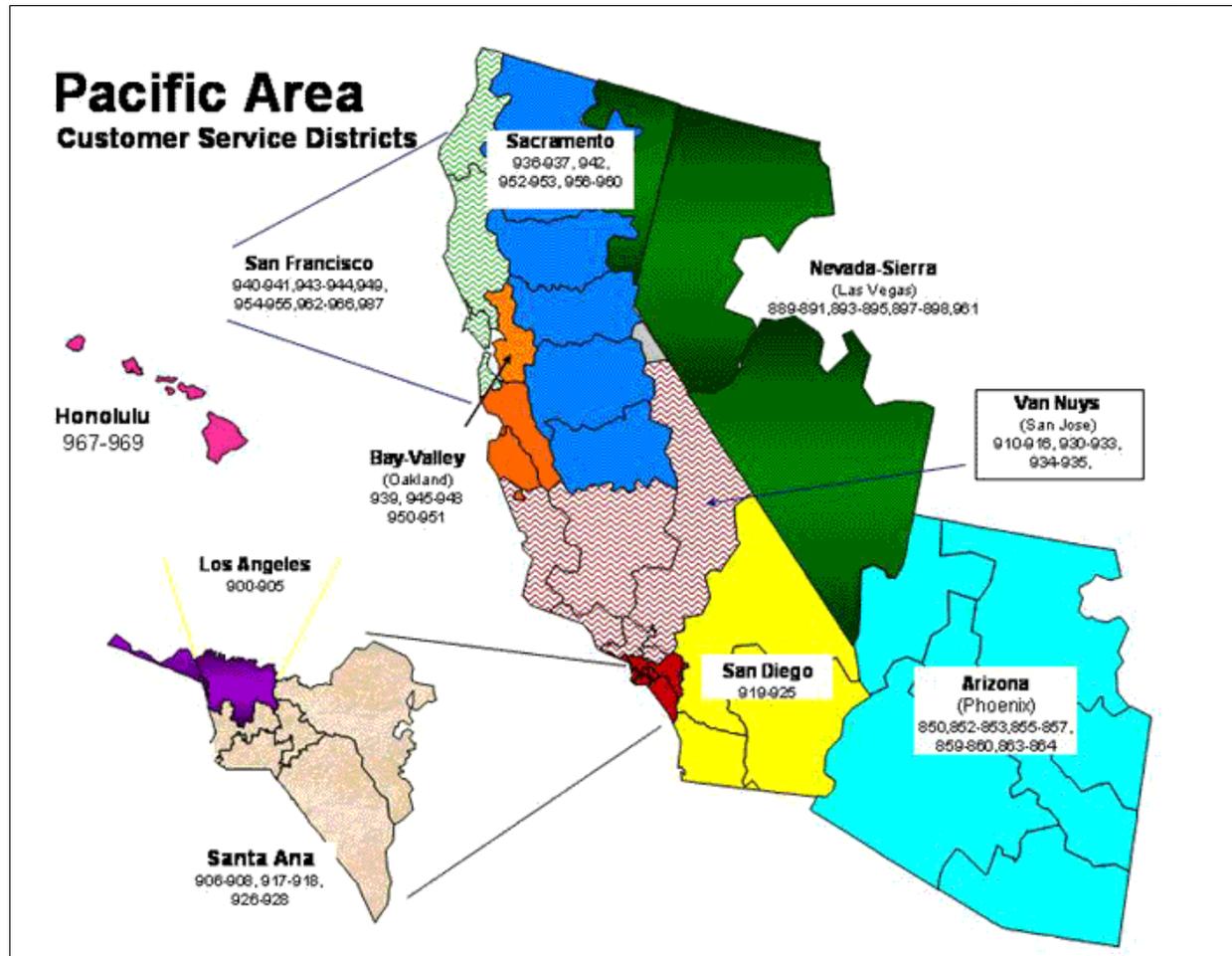
**Management's
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. Management indicated they have already begun to address the recommended workhour reductions. They are also improving their leadership capability and reviewing the low-cost tray sorter requirements.

**Evaluation of
Management's
Comments**

Management's comments are responsive to the audit finding and recommendations. The comments indicate management is taking a proactive approach to improving efficiency. Management's actions taken or planned should correct the issues identified in the finding.

APPENDIX A PACIFIC AREA CUSTOMER SERVICE DISTRICTS BY THREE-DIGIT ZIP CODE AREA



APPENDIX B PRIOR AUDIT COVERAGE

Audit	Report Number	Issued Date	Workhour Savings	Monetary Impact
Washington D.C., BMC ¹⁵	NO-AR-06-003	2/22/2006	400,000	\$118,000,000
Chicago, IL, AMRU ¹⁶	NO-AR-06-002	12/22/2005	3,860	1,100,000
Canton, OH, P&DC ¹⁷	NO-AR-05-013	9/22/2005	202,000	63,000,000
Los Angeles, CA, ISC ¹⁸	NO-AR-05-011	6/17/2005	85,000	26,100,000
Los Angeles, CA, ISC AMRU	NO-AR-05-010	4/28/2005	5,450	1,800,000
San Francisco, CA, AMRU	NO-AR-05-012	9/6/2005	7,757	2,600,000
Akron, OH, P&DC	NO-AR-05-009	3/30/2005	235,000	74,000,000
Mansfield, OH, Main Post Office	NO-AR-05-004	12/8/2004	52,000	17,200,000
New York, NY, ISC	NO-AR-04-009	9/24/2004	320,000	98,000,000
New York, NY, ISC AMRU	NO-AR-04-011	9/24/2004	30,000	9,300,000
San Francisco, CA, ISC and GSA ¹⁹ Facility	NO-AR-04-006	3/31/2004	120,000	44,200,000
Oakland, CA, ISC and the Regatta Facility	NO-AR-04-007	3/31/2004	25,000	17,013,959
Springfield, VA, BMEU ²⁰	NO-AR-04-004	2/9/2004	2,775	969,893
Columbia, MD, BMEU	NO-AR-04-002	12/26/2003	3,960	1,400,000
Southern MD, BMEU	NO-AR-04-001	12/24/2003	20,240	8,400,000
San Francisco, CA, BMEU	AO-AR-03-002	9/25/2003	18,000	6,900,000
Los Angeles, CA, BMEU	AO-AR-03-001	7/31/2003	28,000	9,300,000
Seattle, WA; Minneapolis, MN; and Des Moines, IA, BMEUs	CQ-AR-03-001	3/28/2003	15,053	588,730
Colorado/Wyoming Performance Cluster, BMEUs	CQ-AR-02-001	9/26/2002	15,947	1,000,000
Total Savings			1,590,042	\$500,872,582

¹⁵ Bulk Mail Center

¹⁶ Airmail Records Unit

¹⁷ Processing and Distribution Center

¹⁸ International Service Center

¹⁹ General Services Administration

²⁰ Business Mail Entry Unit

APPENDIX C WORLDWAY AIRPORT MAIL CENTER COST AVOIDANCE (FUNDS PUT TO BETTER USE)

Recommended Action and Employee Category Impacted	Workhour Reduction	Timeframe: 10 Fiscal Years	
		Undiscounted Savings	Discounted Savings (Net Present Value)
Function 1 Mail Processing	700,000	\$246,511,202	\$175,761,332
Function 3B Maintenance	60,000	23,019,293	16,412,648
Total	760,000*	\$269,530,494	\$192,173,980

* Workhours calculated by multiplying number of positions by 2,000 workhours per staff year.

NOTES

- The 760,000 workhour reduction was based on Postal Service management's plan to reduce workhours over a 5-year period, based on FY 2004 usage of approximately 1.5 million workhours.
- The cost avoidance was calculated using the savings in hours multiplied by the escalated labor rate for a 10-year period.
- The net present value was calculated using the discount rate of 5.25 percent for a 10-year period.
- Labor rates were based on the Postal Service's March 2004 published rates for a level 05 (PS-05) mail processing clerk and a level 08 (PS-08) maintenance employee.
- The yearly escalation factor is 2.7 percent, based on the Postal Service's Decision Analysis Factors effective October 2004.

APPENDIX D MANAGEMENT'S COMMENTS

DISTRICT MANAGER
LOS ANGELES



August 30, 2006

KIM H. STROUD
DIRECTOR, AUDIT REPORTING

SUBJECT: Transmittal of Draft Audit Report – Efficiency Review of the Los Angeles, California,
Worldway Airport Mail Center (Report Number NO-AR-06-DRAFT)

This is in response to the July 18 memorandum from Colleen McAntee relative to the subject audit report. The Los Angeles District agrees with the findings and recommendations of the OIG as stated in subject audit report. The OIG efficiency review contained four recommendations and our responses will follow each recommendation:

1. Reduce mail processing and maintenance workhours by 760,000 at Worldway by 2010 which could result in a cost avoidance of \$192 million based on labor savings over a ten year period. In addition, the Los Angeles Processing and Distribution Center should process the volume transfer from Worldway without increasing workhours.

The Los Angeles District agrees with this recommendation and has already begun reducing workhours in Functions 1 and 3 at Worldway ATO and is on track to capture the savings by 2010 without increasing workhours at the Los Angeles P&DC.

2. Evaluate operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload for airport transfer office functions.

We agree and management is focused on matching workhours to workload and will continue to make workhour adjustments as necessary for workload associated with the operations at Worldway ATO.

3. Provide adequate supervision and performance standards and improve employee scheduling.

We agree and Worldway ATO management is actively focused on improving its leadership capability.

4. Eliminate the sack sorter machine and consider obtaining a low-cost tray sorter with automated airline assignment capabilities.

We agree with this recommendation and are currently reviewing the requirements in preparation of developing a Decision Analysis Report (DAR).

Should you have any questions or concerns, please feel free to contact Yvonne Wecker, A/Plant Manager, Worldway ATO at 310-337-8700.


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