



September 22, 2006

ANTHONY M. PAJUNAS  
VICE PRESIDENT, NETWORK OPERATIONS MANAGEMENT

SUBJECT: Audit Report – Facility Utilization at the Los Angeles, California, Worldway Airport Mail Center (Report Number NO-AR-06-007)

This report presents the results of our review of facility utilization at the Los Angeles, California, Worldway Airport Mail Center (AMC), located in the Pacific Area (Project Number 05WG012NO001). Our objective was to assess how effectively the Worldway AMC facility was used. This report is the second of two reports on the Worldway AMC. We conducted these audits at the request of the Los Angeles District and the Pacific Area.

We found excess floor space exists for mail processing at the Worldway AMC. As a result, the U.S. Postal Service incurred additional costs unnecessarily. The Postal Service needs to use the vacant floor space available at the Worldway AMC. One alternative would be to collocate the Los Angeles International Service Center at the Worldway AMC. Collocating the two facilities would reduce lease, utility, and transportation costs by almost \$9 million during a 3-year period and could also increase operational processing efficiency and service scores.

We made one recommendation in the report. Management stated they agreed in part with our finding and recommendation and has initiatives 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.

E-Signed by Colleen McAntee   
VERIFY authenticity with Approve!  


Colleen A. McAntee  
Deputy Assistant Inspector General  
for Core Operations

Attachments

cc: Patrick R. Donahoe  
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## EXECUTIVE SUMMARY

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<b>Introduction</b>	<p>The U.S. Postal Service Office of Inspector General assessed how effectively the Worldway Airport Mail Center (AMC) facility was used. The Worldway AMC is in the Pacific Area and is part of the Los Angeles Customer Service District. This audit is one of two reports on the Worldway AMC. We conducted these audits at the request of the Los Angeles Customer Service District Manager and in cooperation with the Pacific Area.</p>
<b>Results in Brief</b>	<p>We found excess floor space exists for mail processing at the Worldway AMC. This condition existed because the U.S. Postal Service did not fully evaluate alternatives for using the space when the facility transitioned to an airport transfer center. Consequently, the Postal Service incurred unnecessary additional costs.</p> <p>One alternative would be to collocate the Los Angeles International Service Center (ISC) at the Worldway AMC. Collocation of the two facilities would reduce lease, utility, and transportation costs by almost \$9 million during a 3-year period. This action may also increase operational processing efficiency and service scores.</p>
<b>Summary of Recommendations</b>	<p>We recommended the Postal Service consider collocating the Los Angeles ISC at the Worldway AMC and use the vacant floor space at the Worldway AMC.</p>
<b>Summary of Management's Comments</b>	<p>Management stated they agreed in part with our finding and recommendation. They agreed to study collocating the Los Angeles ISC mail processing operations at the Worldway AMC. They also agreed to notify the Pacific Area to pursue other options for the vacant floor space if collocation is not viable. Management's comments, in their entirety, are included in Appendix C.</p>
<b>Overall Evaluation of Management's Comments</b>	<p>Management's comments are responsive to our recommendation. Management's planned actions should correct the issues identified in the report.</p>

## INTRODUCTION

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### 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.<sup>1</sup> An AMC's core function is to serve as the transfer point for mail tendered to the airlines. Its primary operations are to assign mail to flights; receive and dispatch mail to and from air carriers; accept and sort mail to and from plants; perform measurement and quality control of air carrier operations; and manage functions specific to airport operations.

In fiscal year (FY) 2005, 35 of these facilities (49 percent) also processed mail. 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 over 340 million first handling pieces (FHP)<sup>2</sup> and used 1.5 million workhours in FY 2004. In April 2005, all automation equipment for mail processing operations was removed from the site as it began the transition to an ATC. However, the Worldway AMC continued to process mail on a sporadic basis for the Los Angeles Bulk Mail Center and the Los Angeles Processing and Distribution Center.

The Postal Service owns the Worldway AMC, but leases the land from the Department of Airports for about \$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.

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### International Service Centers

The Postal Service established international service centers (ISC) in 1996 to better compete in the growing international mail market, with a dedicated workforce and single-focus management of international mail. The Postal Service hoped that this approach would improve service and provide

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<sup>1</sup> 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.

<sup>2</sup> A FHP is a letter, flat, or parcel that receives its initial distribution in a Postal Service facility.

the structure needed to support new products and increase revenue. Before 1996, exchange offices<sup>3</sup> processed international mail.<sup>4</sup> These exchange offices were collocated in processing and distribution centers where domestic mail processing took precedence over international mail.

The Los Angeles ISC is located in the Santa Ana, California, Customer Service District in the Pacific Area. The Postal Service leases this facility for approximately \$1.3 million per year. The building contains 189,388 square feet of interior space, which includes the 26,961 square feet used by the U.S. Customs and Border Protection, Department of Homeland Security.

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**Objective, Scope, and Methodology**

The objective of the audit was to assess how effectively the Worldway AMC facility was used. To accomplish the objective, we interviewed Postal Service officials; analyzed mail volume, workhours, and machine output; reviewed transportation and facility leases; and observed mail processing operations.

We relied on Postal Service data systems, including the National Work Hour Reporting System, Web Enterprise Information System, Web End of Run System, and Management Operating Data 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 several 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.

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**Prior Audit Coverage**

We have issued 20 audit reports on operational efficiency. As a result of these audits, the Postal Service has agreed to reduce approximately 2.4 million workhours.

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<sup>3</sup> An international exchange office or international mail service center is a post office, airport mail center, or facility authorized to exchange international mail, both air and surface, with another country.

<sup>4</sup> International mail is mail originating in one country and arriving in another. It is classified as Postal Union Mail (letters, cards, and other articles), postal parcels, and Express Mail International® Service.

These reductions could produce a cost avoidance of about \$692 million during a 10-year period. Two of these reports covered facility utilization. (See Appendix B for details.)

## AUDIT RESULTS

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### Facility Utilization at the Worldway Airport Mail Center

We found excess space for mail processing existed at the Worldway AMC. In January 2005, all automation equipment for mail processing operations was removed from the site when the Worldway AMC transitioned to an ATC. This change left the second floor empty except for the areas used to secure and process registered mail and to store excess equipment. (See illustration below.)



Illustration 1: Excess space on second floor at Worldway AMC.

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

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### Causes and Impact on Operations

The excess processing space existed because the Postal Service did not fully evaluate alternatives for using the space when the facility transitioned to ATC. Consequently, the Postal Service incurred unnecessary additional costs.

Because of this excess capacity, the Worldway AMC has space to house other mail processing operations. One alternative would be to collocate the Los Angeles, California, ISC.<sup>5</sup> By sharing the Worldway AMC with the Los Angeles ISC, the Postal Service could reduce lease, utility, and

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<sup>5</sup> The Los Angeles ISC currently occupies leased space in a facility in Carson, California. Before leasing the space in Carson, the Los Angeles ISC was located in the Worldway AMC.

transportation costs by approximately \$9 million during the 3 years remaining on the lease. (See Table 1 below.)

<b>Table 1 – Projected Savings from Collocating Los Angeles ISC at Worldway AMC</b>	
Annual Transportation Costs	\$1,102,833
Rent and Utilities Annual Costs	1,846,794
Total Rent, Utility, and Transportation	<u>\$2,949,627</u>
Savings Projected for 3 Years	\$8,848,882

The Postal Service should consider the potential labor impact from housing the ISC and the Worldway AMC in one facility. The Postal Service should also assess the additional costs of relocating the U.S. Customs and Border Protection, Department of Homeland Security, which operationally must be located with the ISC. In addition, domestic and international mail must continue to be processed separately in order to ensure that international mail service has a dedicated workforce and single-focus management.<sup>6</sup>

However, operating efficiency could be improved while still allowing the necessary separation of operational processes. For example:

- Transportation time would be reduced because a 28-mile round trip from the Worldway AMC to the ISC through Los Angeles traffic would be eliminated.
- The operational window of time for processing mail would be expanded because of time saved by not having to transport the mail.
- Transportation would be more efficiently used because trucks that return empty from dropping off international mail from Southern California postal facilities at the ISC could transport domestic mail back to postal facilities from the Worldway AMC.

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<sup>6</sup> A dedicated workforce and single-focus management is part of the Postal Service's approach to improving international mail service and increasing revenue.

- Service scores may improve because delivery units would receive the mail earlier, allowing carriers to start their routes sooner.

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**Recommendation**

We recommend the Vice President, Network Operations Management:

1. Consider collocating the Los Angeles International Service Center's mail processing operations at the Worldway Airport Mail Center. If this is not a viable alternative, notify the Pacific Area to pursue other options for the vacant floor space.

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**Management's  
Comments**

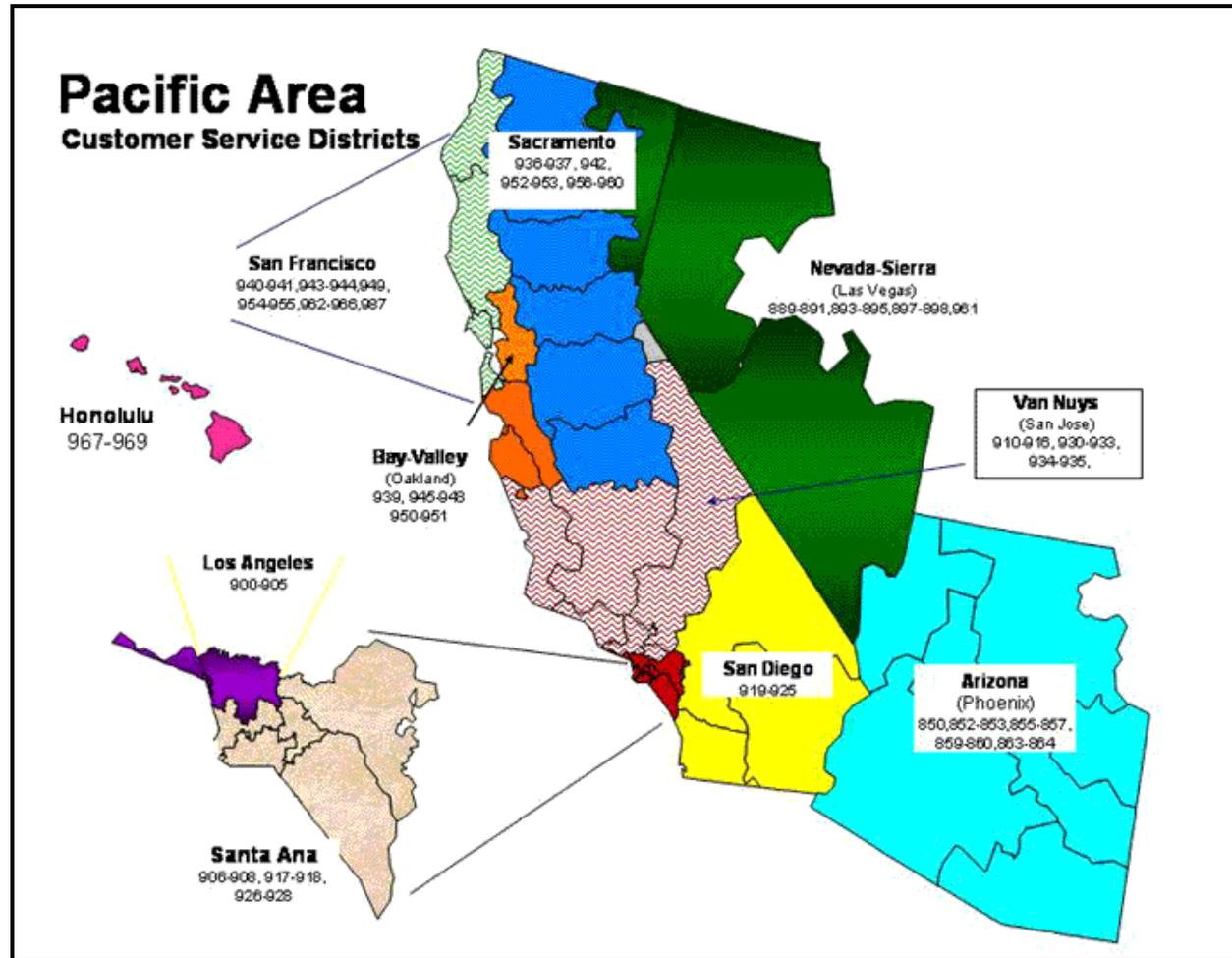
Management stated they agreed in part with our finding and recommendation. They agreed to study collocating the Los Angeles ISC mail processing operations at the Worldway AMC. They also agreed to notify the Pacific Area to pursue other options for the vacant floor space if collocation is not viable.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive to our recommendation. Management's planned actions should correct the issues identified in the report.

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



PACIFIC AREA MAP

## APPENDIX B PRIOR AUDIT COVERAGE

Audit	Report Number	Issued Date	Workhour Savings	Monetary Impact
Worldway AMC, Los Angeles, CA <sup>7</sup>	NO-AR-06-006	09/12/2006	760,000	\$192,000,000
Washington D.C., BMC <sup>8</sup>	NO-AR-06-003	2/22/2006	400,000	118,000,000
Chicago, IL, AMRU <sup>9</sup>	NO-AR-06-002	12/22/2005	3,860	1,100,000
Canton, OH, P&DC <sup>10</sup>	NO-AR-05-013	9/22/2005	202,000	63,000,000
Los Angeles, CA, ISC <sup>11</sup>	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 <sup>12</sup> 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 <sup>13</sup>	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, BMEU	CQ-AR-03-001	3/28/2003	15,053	588,730
Colorado/Wyoming Performance Cluster, BMEU	CQ-AR-02-001	9/26/2002	15,947	1,000,000
<b>Total Savings</b>			<b>2,350,042</b>	<b>\$692,872,582</b>

Note: Two of these reports covered facility utilization, as indicated by the asterisk.

<sup>7</sup> Airport Mail Center

<sup>8</sup> Bulk Mail Center

<sup>9</sup> Airmail Records Unit

<sup>10</sup> Processing and Distribution Center

<sup>11</sup> International Service Center

<sup>12</sup> General Services Administration

<sup>13</sup> Business Mail Entry Unit

## APPENDIX C MANAGEMENT'S COMMENTS

TONY PAJUNAS  
VICE PRESIDENT, NETWORK OPERATIONS



September 1, 2006

KIM H. STROUD  
DIRECTOR, AUDIT REPORTING

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

In response to the July 18 letter from Colleen McAntee, we agree, in part, with the finding and recommendations.

**Recommendation:** We recommend the vice president, Network Operations, consider collocating the Los Angeles International Service Center's (ISC) mail processing operations at the Worldway Airport Mail Center (AMC).

**Response:** We agree that the Postal Service should study collocating the Los Angeles ISC at Worldway AMC. If this is not a viable alternative, USPS HQ will notify the Pacific Area to pursue other options for the vacant floor space.

Should you have any questions or concerns, please feel free to contact John Bonafilia, Manager, Commercial Air Operations, at (202) 268-2784.

A handwritten signature in black ink, appearing to read "Tony Pajunas", written over a circular stamp or seal.

Tony Pajunas

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