



February 29, 2008

ANTHONY M. PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – St. Louis Airport Mail Center Outsourcing
(Report Number EN-AR-08-002)

This report presents the results of our audit of the outsourcing of some operations at the St. Louis Airport Mail Center (AMC) (Project Number 07XG029EN000). Our objectives were to evaluate the planning, impact, and results of the outsourcing and evaluate compliance with policies and procedures. We conducted this review in response to a request from the Postal Service and in accordance with our Value Proposition Agreement.¹ This is the first in a series of reviews examining outsourcing initiatives.²

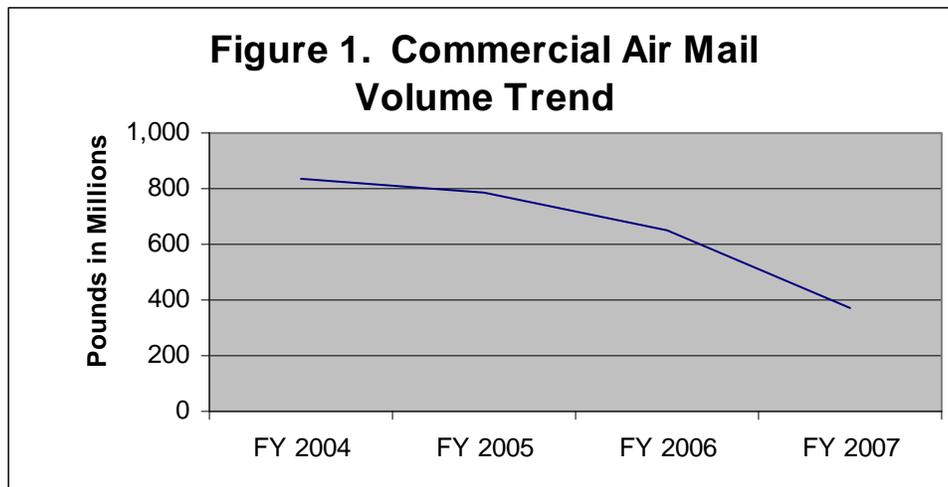
Background

The Postal Service maintains AMCs and airport mail facilities (AMF)³ for the purpose of expediting mail transfer to and from commercial air carriers. This transfer is called the tender and receipt of mail. In many cases, these airport facilities have excess capacity as a result of declining volumes of mail tendered to commercial air carriers. Commercial air volume has declined from approximately 837 million pounds of mail in fiscal year (FY) 2004 to approximately 368 million pounds in FY 2007. Figure 1 shows this trend. To address this issue, the Postal Service began standardizing AMCs by returning non-core AMC operations to processing and distribution centers (P&DC) and bulk mail centers (BMC). This standardization enabled the Postal Service to reduce inefficiency, improve productivity, and reduce costs at AMCs. See Appendix A for additional background information.

¹ A value proposition is a signed agreement between the Office of Inspector General and management to perform one or more specific audits in an agreed-upon time period.

² AMC outsourcing is one of many outsourcing initiatives of the Postal Service. Outsourcing is the use of outside resources to perform activities that internal staff and resources traditionally handle.

³ We are using the term AMC in this report to represent both AMCs and AMFs, which perform essentially the same functions and have the same operations. AMCs are generally larger than AMFs.



Objectives, Scope, and Methodology

We discuss our objectives, scope, and methodology in Appendix B.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objectives of this audit.⁴

Results

Although the decision to outsource some operations at the St. Louis AMC was supported and should reduce costs with minimal impact on service performance, management could have improved planning for this initiative. While management generally complied with policies and procedures, opportunities exist to formalize lessons learned and best practices and enhance guidance for measuring results. This condition occurred because management had not fully developed outsourcing guidance and this was a new initiative. We also found the former AMC building remained on the Postal Service’s records after ownership had been transferred to the city of St. Louis.

Planning, Impacts, and Results

Although the standardization and outsourcing of some operations at the St. Louis AMC met the organization’s strategic goal of realigning the network to reduce costs, management could improve the planning process. The decision to outsource the

⁴ On August 28, 2007, the Government Accountability Office (GAO) announced a review of Postal Service outsourcing. The GAO plans to assess recent trends and future plans in outsourcing; how the Postal Service manages, oversees, and measures performance of outsourcing functions; and estimated cost savings of outsourcing functions.

handling of destinating mail⁵ and close the AMC was supported and should reduce costs with minimal impact on service. However, headquarters management did not provide specific guidance on how to outsource and close the St. Louis AMC.

Planning

- Headquarters management used a strategic (top-down) approach for reviewing alternatives and outsourcing operations at various AMCs, including St. Louis. This approach allowed the Postal Service to conduct more consistent and objective data analysis. Management prepared a comparative analysis that indicated outsourcing the core operations⁶ of dispatch and receipt of mail at the St. Louis AMC would be more efficient and cost-effective than opening and operating an airport transfer center (ATC).⁷ The analysis used an ATC as a baseline for comparison purposes.⁸ The assumption was that the ATC would only perform the core operations of dispatch, receipt, and ramp activities at the facility.
- In addition, Great Lakes Area, Gateway District, and local St. Louis managers developed alternatives for standardizing the St. Louis AMC. These alternatives included keeping the AMC open, converting the AMC to an ATC, and outsourcing AMC core operations and closing the facility. Managers visited Boston and familiarized themselves with the processes involved in the outsourcing and closure of the Boston AMC. They also obtained and reviewed procedures used during the closure of the Grand Rapids AMC. Using this tactical (bottom-up) approach enabled local management to take ownership of the initiative. Local management conducted this research because outsourcing and closing AMCs was a new initiative. The Postal Service did have established guidelines⁹ which provide general procedures to assist management when evaluating a proposed outsourcing initiative. However, headquarters management's input on lessons learned and best practices did not include specific guidance on how to outsource or close a facility.

Management chose to modify the 2006 Commercial Air (CAIR-06) contract¹⁰ and outsource the handling of destinating mail, and subsequently closed the facility. Management solicited the handling of destinating mail at the St. Louis airport

⁵ Outsourcing at St. Louis only covered the handling of destinating mail. Originating mail is processed at local Postal Service facilities. Handling of destinating mail entails receiving incoming mail from air transportation suppliers, scanning and separating mail into ZIP Code ranges (sortation), and containerizing the mail for dispatch to the Postal Service facility for delivery.

⁶ AMC core functions include assigning mail to flights, receiving and dispatching mail to and from air carriers (tender and receipt of mail), accepting and sorting mail to and from plants, performing quality control of air carrier operations, and managing functions specific to airport operations.

⁷ The Postal Service previously considered converting AMCs to ATCs, with responsibility for tendering and receiving mail to commercial airlines.

⁸ In outsourcing guidance, this is referred to as the most efficient internal operation.

⁹ *Guidelines for Considering National Outsourcing Initiatives*, dated December 2005.

¹⁰ CAIR-06 was the current contract for transportation of domestic mail by passenger airlines.

within the CAIR-06 contract. The CAIR-06 contractor, American Airlines, already had a facility on site to manage the outsourced operations.

The entire St. Louis AMC outsourcing process, from initial planning meeting to implementation, took approximately 18 months – from April 2005 to September 2006. See Appendix C for a timeline of the St. Louis AMC outsourcing initiative.

Impacts

- We concluded that standardization and outsourcing of the St. Louis AMC functions, collectively, eliminated excess capacity and had minimal impact on service performance.
 - Excess capacity – Standardization and outsourcing at the St. Louis AMC reduced the number of employees and workhours and permitted elimination of a facility.
 - ◆ Management reduced the staff by 48 employees as a result of AMC standardization¹¹ and outsourcing. At the time management conducted the study that considered alternatives for the St. Louis AMC, 71 employees at the AMC were performing core and non-core AMC operations. The study indicated management would require 28 employees to perform AMC core operations. Those employees would work at the P&DC, BMC, and the airport, reducing the complement by 43 employees. Management subsequently changed the core operations employee requirement¹² to 23, resulting in a total complement reduction of 48 employees.
 - ◆ Management eliminated a facility in a high-cost location as a result of the AMC standardization and outsourcing. The St. Louis AMC building originally belonged to the Postal Service, although the land under the building was leased from the city of St. Louis, the owner of the Lambert-St. Louis International Airport. The lease expired on December 31, 2005, and on January 1, 2006, the city of St. Louis became the owner of the building. At that time, lease payments increased from approximately \$60,000 to approximately \$293,000 annually. The Postal Service leased the facility until October 2006, when it moved all operations to other local facilities and established a contract for handling destinating mail. Even though the Postal Service

¹¹ The standardization process included the identification and transfer of non-core functions to other St. Louis processing facilities. The Postal Service then outsourced AMC core operations required to be conducted at the airport and transferred the remaining core operations to processing facilities.

¹² Seven of the 28 required employees were ramp clerks who would work at an airport facility. At the end of June 2007, only three ramp clerks worked at the contractor's facility at the airport to monitor contractor performance. Also, management determined they would not need the custodian, reducing the employee complement required for AMC core operations to 23.

no longer owned the facility, the building remained on Postal Service records as of mid-October 2007. See the Other Matters section for details.

- Service Performance – We concluded outsourcing some St. Louis AMC operations had minimal impact on service performance. We evaluated service performance for Express Mail® and 2-day and 3-day destinating First-Class Mail® during FY 2005 (before the facility closed), FY 2006 (during the closure process), and FY 2007 (after the facility closed).
 - ◆ Express Mail on-time service performance for FY 2007 (through August 2007) averaged 94.5 percent, which was slightly below FY 2005 and 2006 results. The goal for Express Mail was 96 percent. See Chart 1 in Appendix E for a comparison by fiscal year.
 - ◆ 2-day destinating mail on-time service performance increased from 88.1 percent in FY 2005 to 90.6 percent in FY 2007. The goal was 92 percent. See Chart 2 in Appendix E for a comparison by fiscal year.
 - ◆ 3-day destinating mail on-time service performance improved and exceeded the goal of 90 percent in 2007. Service performance ranged from 87.8 percent in FY 2005 to 90.1 percent in FY 2007. See Chart 3 in Appendix E for a comparison by fiscal year.

The Postal Service measured contractor performance for the St. Louis AMC operations by delivery scans. The contract for handling destinating mail in St. Louis required that each mail handling unit¹³ be scanned, placed into postal containers, and made available for Postal Service employees to pick up within 1 hour after accepting the mail from the air transportation supplier. Mail that is not scanned may result in nonpayment to the contractor. Although the contractor's delivery performance was below the 93 percent on-time standard, delivery performance improved from 85.7 percent in FY 2005 to 88.7 percent in FY 2007. See Chart 4, Appendix F, for contractor performance.

Results

- Our analysis determined that Postal Service cost savings projections were generally supported, but may be underestimated. While management estimated a total cost savings of approximately \$2.3 million, we estimated a total cost savings of approximately \$3.1 million.¹⁴ Table 2, Appendix D, compares Postal Service calculated cost savings to U.S. Postal Service Office of Inspector General (OIG) calculations. We attributed the difference to the following factors:

¹³ A handling unit is defined as an individual package, parcel, letter tray, flat tub, or sack.

¹⁴ We used FY 2005 data to capture all savings associated with the closure of the St. Louis AMC.

- Management used actual lease costs for FY 2005 rather than the higher cost of leasing both the building and land.
- Management calculated labor savings using fully loaded hourly rates for 2,080 hours annually rather than actual costs.
- Management estimated contract costs at approximately 20 million pounds at ██████ per pound. The actual contract cost per pound was ██████ and the number of pounds the contractor handled was less than originally projected.¹⁵

The closure of the St. Louis AMC and outsourcing of the handling of destinating mail reduced costs and improved efficiency without impairing service. Therefore, we concluded the outsourcing was a good business decision.

Recommendation

We recommended the Vice President, Network Operations:

1. Formalize lessons learned and best practices from AMC closures and develop guidance for planning and implementing outsourcing of AMC operations.

Compliance with Policies and Procedures

Management generally complied with outsourcing policies and procedures, including Article 12¹⁶ and Article 32¹⁷ of the national agreement with the unions, although compliance may be tested by arbitration. In June 2006, management advised the unions in accordance with Article 12 that the St. Louis AMC would be closed, jobs would be abolished, and employees would become unassigned regulars. Management met with the unions while developing the comparative analysis for the St. Louis AMC prior to deciding to outsource as required by Article 32 of the national union agreements. In October 2004, management first notified union officials they were reviewing future needs of AMCs. Article 32 requires the Postal Service to consider five factors when considering outsourcing. The Postal Service's and the OIG's consideration of the five factors are described in Appendix G.

¹⁵ After the contract was established, the Postal Service projected the contract cost for FY 2007 would be ██████. Contract costs have not met these projections because the Postal Service has placed more mail volume on Federal Express flights and surface transportation than anticipated. As of August 31, 2007, actual contract costs were only ██████, which we projected to total ██████ by the end of FY 2007.

¹⁶ Article 12 of the Collective Bargaining Agreement applies when a major relocation of employees is planned in major metropolitan areas. The Postal Service must meet with the unions at the national level at least 90 days in advance of the plan's implementation and meet at the regional level in advance (as much as 6 months when possible). When an independent installation is discontinued, full-time and part-time employees will be involuntarily reassigned to continuing installations, to the maximum extent possible.

¹⁷ Article 32 of the Collective Bargaining Agreement between the Postal Service and labor unions requires the Postal Service to meet with unions while developing an initial comparative analysis and consider the unions' views of costs and other factors when considering outsourcing.

The National Postal Mail Handlers Union and the American Postal Workers Union initiated a national dispute regarding the Article 32 process for outsourcing the St. Louis AMC. This dispute has not been arbitrated and is not scheduled for arbitration.

Measuring Results

While management generally complied with outsourcing policy, opportunities exist to enhance guidance for measuring results. Management had not established policies or procedures for determining if outsourcing initiatives achieved intended results. Specifically, management did not require post-implementation reviews (PIR) for outsourcing initiatives and AMC closings. Without a PIR, there was no management accountability or assurance that the outsourcing initiative achieved anticipated results.

The Postal Accountability and Enhancement Act¹⁸ (Postal Act of 2006) requires the Postal Service to establish a facilities plan, which must include information regarding cost-saving initiatives. The Postal Act of 2006 also requires the Postal Service to submit an annual report to Congress on how its decisions have impacted or will impact network rationalization plans. This report must include actions taken to identify excess capacity within the processing, transportation, and distribution networks and implement savings through realigning or consolidating facilities. The report must include overall estimated costs and cost savings.

Comparing projected with actual results after outsourcing and closing an AMC ensures accountability for decision making, helps management meet goals and objectives, and would assist with informing Congress regarding how such actions have impacted network rationalization.

Recommendations

We recommended the Vice President, Network Operations:

2. Establish a post-implementation review program for AMCs that compares anticipated savings with actual results, along with a methodology to calculate savings.

We recommended the Vice President, Great Lakes Area:

3. Conduct a post-implementation review for the St. Louis AMC closure and outsourcing initiative using the guidance established in recommendation 2.

¹⁸ *Postal Accountability and Enhancement Act*, Public Law 109-435, dated December 2006.

Management Comments

Management agreed with our findings and recommendations and will implement corrective action. Management's comments, in their entirety, are included in Appendix H.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. In addition, where appropriate we incorporated management's suggestions to clarify the report. The OIG considers recommendations 2 and 3 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Other Matters

During this audit, an issue came to our attention that warranted management's attention. We are briefly describing the issue so management can review it more thoroughly and take corrective action.

In August 2007, we determined the Postal Service still recorded the St. Louis AMC building on its records as an asset. As of October 15, 2007, the un-depreciated value of the building was \$1,097,120. However, on January 1, 2006, the Postal Service transferred ownership of the St. Louis AMC to the city of St. Louis, Lambert International Airport. At that time, the Postal Service began paying rent for both the building and land. In October 2006, the Postal Service vacated the facility but continued to pay rent through December 2006. Management advised they could not remove the asset from their records until the overpaid rent had been refunded. Because the facility was still on Postal Service records, the Postal Service's assets were overstated by \$1,097,120.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Michael A. Magalski, Director, Network Optimization, or me at (703) 248-2100.

E-Signed by Colleen McAntee 
VERIFY authenticity with Approve!


Colleen A. McAntee
Deputy Assistant Inspector General
for Mission Operations

Attachments

cc: Patrick R. Donahoe
William P. Galligan
Tom A. Samra
Danita Aquiningoc
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APPENDIX A: BACKGROUND

The U.S. Postal Service identified Network Integration and Alignment (NIA) as a strategy in the 2002 *Transformation Plan*.¹⁹ NIA's charter was to create a flexible logistics network that would reduce the Postal Service's and customers' costs, increase operational effectiveness, and improve consistency of service. In 2003, the President's Commission²⁰ found the Postal Service had more facilities than needed and recommended optimizing the facility network.

The *Strategic Transformation Plan 2006-2010*²¹ stated the efforts to create a flexible network to increase productivity and effectiveness — formerly called NIA — would continue as an evolutionary process, called Evolutionary Network Development. One of these efforts was to re-examine the role of AMCs to determine if these facilities could be reduced and better coordinated using third-party facilities. The *2006 Annual Progress Report*²² noted that because of the consolidation of air contractors and expansion of the surface transportation network, the Postal Service was reviewing AMCs. At that time, management was considering contracting out operations at 43 AMCs.

In December 2006, the Postal Act of 2006 established the requirement that the Postal Service provide a facilities plan to include a strategy for rationalizing the facilities network and removing excess processing capacity and space from the network.

The Federal Aviation Administration imposed security restrictions after September 11, 2001, which resulted in the Postal Service no longer using commercial passenger aircraft for Priority Mail®. Consequently, there was a significant decrease in the volume of mail tendered to commercial passenger carriers. Priority Mail was tendered to Federal Express and United Parcel Service and containerized by terminal handling services in specially configured facilities. This contributed to the underutilization of AMC facilities. Prior to the start of this AMC initiative, there were 79 AMCs. These AMCs comprised approximately 12 percent of the facilities within the Postal Service's processing network.

Management implemented a nationwide integrated air strategy in January 2006 which included reducing reliance on passenger airlines, renegotiating and renewing the Federal Express contract, and, where possible, shifting mail moved by air to less costly ground transportation. This strategy would allow the Postal Service to eliminate infrastructure because contractors would perform tender and receipt of mail and other AMC core operations which would reduce or eliminate the need for some AMCs.

¹⁹ *United States Postal Service's Transformation Plan*, dated April 2002.

²⁰ *Report of the President's Commission on the United States Postal Service*, dated July 31, 2003.

²¹ *USPS Strategic Transformation Plan 2006-2010*, dated September 2005.

²² *Strategic Transformation Plan, 2006-2010, 2006 Annual Progress Report*, dated December 2006.

The Postal Service issued a new commercial air contract with seven air carriers in September 2006. These carriers were: American Airlines, American Trans Air, Continental, Jet Blue, Midwest Express, Sun Country, and US Airways/America West. In April 2007, the Postal Service added an eighth air carrier, United Airlines, on a trial basis. The previous commercial air contract used 17 air carriers. At the same time, the Postal Service continued with its air-to-surface initiative which diverted 3-day First-Class Mail volume to surface transportation. This reduction of air carriers and increased use of surface transportation provided an opportunity to use direct tender and receipt of mail.

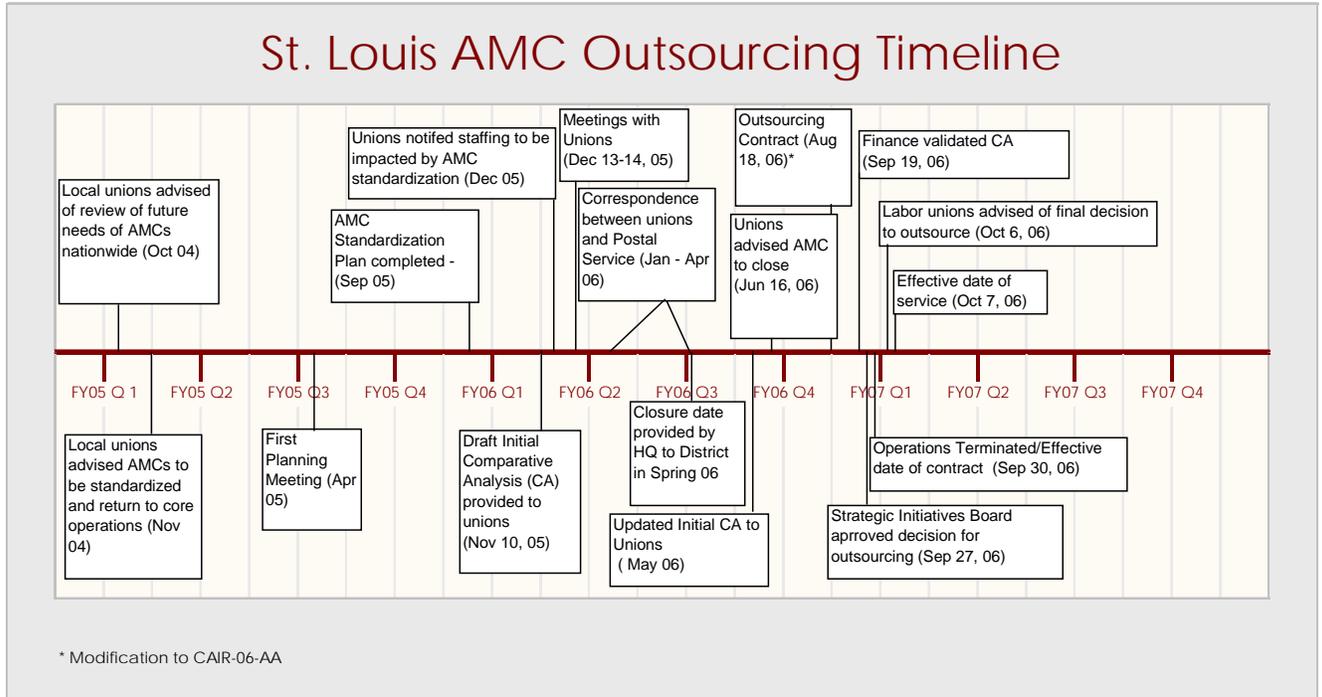
APPENDIX B: OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to evaluate the planning, impacts, and results of the St. Louis AMC outsourcing initiative and evaluate compliance with relevant policies and procedures. To accomplish the objectives, we interviewed Postal Service managers; visited the St. Louis P&DC, BMC, former AMC, and the current contractor's facility; and performed a limited review of Article 12 and Article 32 processes the Postal Service followed for the termination and outsourcing of AMC operations. We also reviewed the outsourcing cost analysis for accuracy and support, service performance before and after the outsourcing of AMC core operations, and workhours before and after the outsourcing. In addition, we reviewed available guidance for outsourcing mail processing operations at AMCs and implications from the Postal Accountability and Enhancement Act.

We relied on Postal Service data systems, including the National Workhour Reporting System, Web Enterprise Information System, 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 management and by consulting different data sources. We found no material differences. Since the comparative analysis that was developed to evaluate AMC outsourcing could not be used to project cost savings, we relied on other documents to complete our analyses.

We conducted this audit from May 2007 through February 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management officials on September 13 and 17, 2007, and included their comments where appropriate.

APPENDIX C: TIMELINE



APPENDIX D: ST. LOUIS AMC STAFFING AND COST SAVINGS

	Prior to Standardization/ Outsourcing	After Standardization/ Outsourcing
General Clerk	2	0
Ramp Clerk	7	3
Transfer Clerk	5	0
Registry Clerk	4	4
Express Mail Clerk	3	3
Automation Clerk	7	0
Custodian	4	0
Air Records Processor	1	0
Mail Handler	32	12
Supervisor Distribution Operations	4	0
Air Transportation Specialist	1	1
Manager AMC	1	0
Total	71	23

	Postal Service	OIG
Facility	\$ 59,575	\$ 293,765
Closing Costs	(30,000)	(30,000)
Labor	3,143,347	2,992,594 ²⁵
Transportation	(42,829)	(42,829)
Contract	(811,951)	(95,865)
Total Cost Savings	\$ 2,318,142	\$ 3,117,665

²³ No AMC employees lost their job as a result of the outsourcing. Management transferred most employees to existing vacancies at other facilities.

²⁴ The OIG validated facility, labor, and contract costs. Validated contract costs include FY 2007 actual through August 31, 2007, and projected for September 2007. In addition, the Postal Service may incur a one-time expense of \$1,097,120 on its financial statements to write-off the book value of the airport facility.

²⁵ The labor savings are based on a reduction of 48 employees.

APPENDIX E: SERVICE PERFORMANCE

Chart 1. Next-Day (Express Mail) On-Time Performance

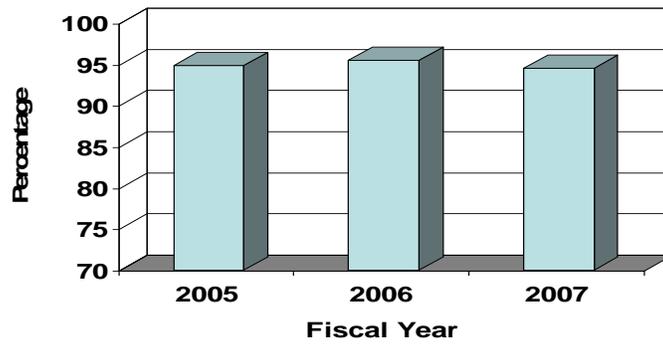
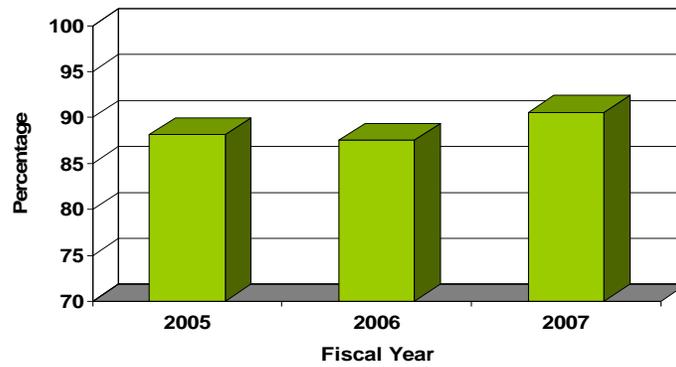
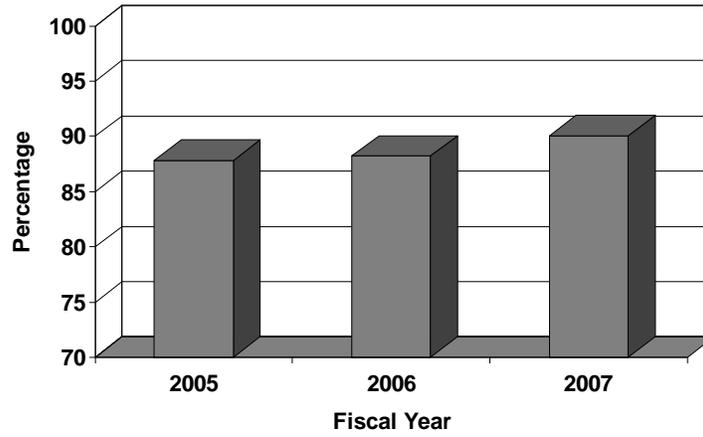


Chart 2. 2-Day Destinating Mail On-Time Performance



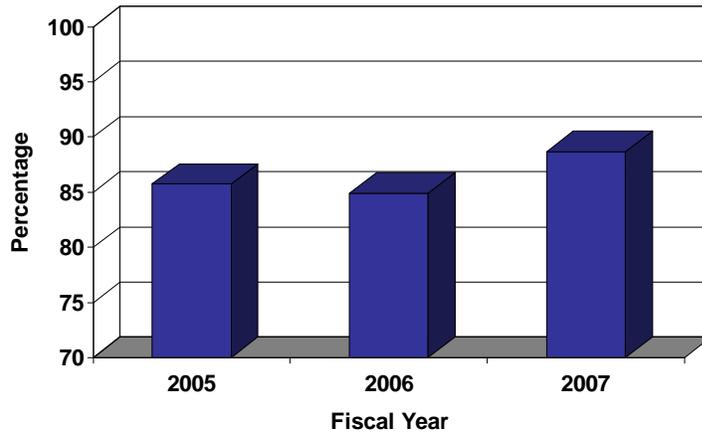
APPENDIX E: SERVICE PERFORMANCE (CONTINUED)

Chart 3. 3-Day Destinating Mail On-Time Performance



APPENDIX F: DELIVERY PERFORMANCE

Chart 4. American Airlines Destinating Mail On-Time Performance



APPENDIX G: FIVE ARTICLE 32 FACTORS

Five Factors		
	Postal Service ²⁶	OIG ²⁷
Public Interest	Primary goal of <i>Transformation Plan</i> is to reduce costs and stabilize rates for customers. Use of a contractor provides a more favorable bottom line for the Postal Service and is in the best interest of the public.	Overall, costs are reduced and service performance was not adversely affected, which serves the public interest.
Cost	Combination of eliminating a costly, oversized Postal Service-maintained facility and properly identifying requirements for a succeeding facility should result in significant reductions in cost.	Outsourcing costs are less than the cost of maintaining, staffing, and operating the facility with Postal Service resources.
Efficiency	Combination of eliminating a costly, oversized Postal Service-maintained facility and properly identifying requirements for a succeeding facility should result in significant efficiency gains.	Mail can be processed with fewer resources, resulting in improved efficiency.
Availability of Equipment	The types and quantity of containers and other equipment used will not change. There should be no impact with either an in-house or outsourced approach.	No impact with either in-house or outsourcing.
Qualification of Employees	Both Postal Service and contractor employees are equally qualified to provide the required services.	Both Postal Service and contractor employees are qualified to tender and receive the mail.
Conclusion	Outsourcing will have an impact on Postal Service employees, but outsourcing will improve processing efficiencies for mail transported by air at a lower cost than using Postal Service labor in a properly sized facility.	Outsourcing is justified when it results in significant savings without a negative impact on service or efficiency.

²⁶ The Postal Service addressed the five factors based on either establishing an ATC using Postal Service employees or outsourcing the entire AMC core operations.

²⁷ The OIG independently assessed the five factors based on outsourcing the handling of destinating mail, reassigning other mail processing functions to other postal facilities, and closing the AMC facility.

APPENDIX H: MANAGEMENT'S COMMENTS

TONY PAJUNAS
VICE PRESIDENT, NETWORK OPERATIONS



February 12, 2008

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – St. Louis Airport Mail Center Outsourcing
(Report Number EN-AR-08-DRAFT)

This is in response to the Draft Audit Report – St. Louis Mail Center Outsourcing dated January 11. Network Operations would like to thank the Office of Inspector General for the time placed on reviewing the STL Airport Mail Center (AMC) outsourcing initiative.

Recommendation 1: Formalize lessons learned and best practices from AMC closures and develop guidance for planning and implementing outsourcing of AMC operations.

Response: The closing of fifty-six (56) Airport Mail Centers has been completed. Network Operations will support the remaining Airport Mail Center closings utilizing lessons learned and best practices from prior facility closings.

Recommendation 2: Establish a post-implementation review program for AMCs that compares anticipated savings with actual results, along with a methodology to calculate savings.

Response: Network Operations agrees with Recommendation 2 and a post-implementation review program will be developed by March 31. Included in the post-implementation review program will be a comparison between the anticipated savings and the actual results with the methodology used to compute the savings.

Recommendation 3: Conduct a post-implementation review for the Saint Louis AMC closure and outsourcing initiative.

Response: Network Operations will provide the post-implementation review program (referenced in Recommendation 2) to the Vice President, Great Lakes Area in support of the completion of Recommendation 3 (see attachment).

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- 2 -

The Postal Service would like to clarify the following findings:

On page 3, paragraph 3, states:

"In addition, Great Lakes Area, Gateway District and Saint Louis local managers developed alternatives for standardizing the Saint Louis AMC. These alternatives included keeping the AMC open, converting the AMC to an airport transfer center (ATC), and outsourcing AMC core operations and closing the facility. Managers visited Boston and familiarized themselves with the processes involved in the outsourcing and closure of the Boston AMC. They also obtained and reviewed procedures used during the closure of the Grand Rapids AMC. Using this tactical (bottom-up) approach enabled local management to take ownership of the initiative. Local management conducted this research because outsourcing and closing of AMCs was a new initiative. Headquarters management had not provided any lessons learned, best practices, or specific guidance on how to outsource or close the Saint Louis AMC."

Network Operations does not agree with the last sentence in the paragraph above. Commercial Air Operations and Shared Networks Managers participated in this process from the ground up, involving local leadership in planning the outsourcing at the air stop. The article 32 process to outsource was managed at the HQ level.

On page 3, paragraph 4, states:

"Management chose to outsource the handling of destinating mail and close the facility. Management solicited the handling of destinating mail at the Saint Louis airport within the 2006 Commercial Air (CAIR-06) contract. The CAIR-06 contractor, American Airlines, already had a facility on-site to manage the outsourced operations. Consequently, the Postal Service modified the CAIR-06 contract to provide additional handling for destinating mail in Saint Louis."

Contracting with American Airlines to handle the destinating mail was not a consequence of the STL airport closure, but was the plan established prior to the facility being closed. This plan was supported and outlined in correspondence dated June 1, 2006 to Lynn Malcolm, Subject: Airport Mail Centers – Outsourcing Consideration, signed by Paul Vogel, former, Vice President, Network Operations Management and concurred by William Galligan Senior Vice President, Operations. A copy of this correspondence was previously provided to the OIG.

Should you have any questions or concerns, please contact Mary T. Taylor, Manager, Commercial Air Operations at (202) 268-6626.



Tony Pajunas

Attachment

cc: Ms. Mallonee
Ms. Taylor

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



January 28, 2008

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SUBJECT: Draft Audit Report – St. Louis AMC Outsourcing (Report # EN-AR-08-DRAFT)

Recommendation 3.

We recommend the Vice President, Great Lakes Area:

Conduct a post-implementation review for the St. Louis AMC closure and outsourcing initiative using the guidance established in recommendation 2.

We agree with this recommendation.

Although the Gateway Cluster performed a post-implementation review we acknowledge that it was created locally and may not cover all the factors that might need to be reviewed based on a national review.

Accordingly, we agree that when the Vice President, Network Operations establishes a national post-implementation review we will perform the review on the St. Louis AMC closure.


for Jo Ann Feindt

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