



March 31, 2004

WINTON A. BURNETT
MANAGER, BAY-VALLEY DISTRICT

SUBJECT: Audit Report - Efficiency of the Oakland International
Service Facility and the Regatta Facility
(Report Number NO-AR-04-007)

This report presents the results of our self-initiated audit of two processing operations in the Bay-Valley District (Project Number 04YG005NO000). Our objectives were to determine the efficiency of work performed by the Oakland International Service Facility (ISF) and to assess the use of the Regatta facility. We conducted this audit jointly with Pacific Area mail processing managers and in cooperation with the manager, Bay-Valley District.

We concluded that Postal Service could increase efficiency at the Oakland ISF and the Regatta facility by:

- Reducing 25,000 workhours. This reduction could produce a cost avoidance of approximately \$8.2 million over ten years.
- Transferring military surface mail processed at the Regatta facility to the Oakland ISF and closing the Regatta facility. As a result of these actions, the Postal Service could avoid approximately \$3.4 million in facility costs, and approximately \$5.4 million in labor costs over ten years.

We made three recommendations to Postal Service management addressing these issues. Management agreed with our findings and recommendations 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 Office of Inspector General (OIG) considers recommendations 1 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.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Robert J. Batta, director, Network Operations - Processing, at (703) 248-2100 or me at (703) 248-2300.

/s/ Mary W. Demory

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EXECUTIVE SUMMARY

Introduction

The Office of Inspector General (OIG) assessed the operations at two facilities within the Bay-Valley District. Our objectives were to determine the efficiency of work performed by the Oakland International Service Facility (ISF) and to assess the use of the Regatta facility. We conducted this self-initiated audit jointly with Pacific Area mail processing managers and in cooperation with the managers, Bay-Valley District.

Results in Brief

We concluded that Postal Service could increase efficiency at the Oakland ISF and the Regatta facility by:

- Reducing 25,000 workhours. This reduction could produce a cost avoidance of approximately \$8.2 million over ten years.
- Transferring military surface mail processed at the Regatta facility to the Oakland ISF and closing the Regatta facility. As a result of these actions, the Postal Service could avoid approximately \$3.4 million in facility costs, and approximately \$5.4 million in labor costs over ten years.

Postal Service management addressed operational efficiency through the budget process focusing on workhour utilization against the plan. However, Postal Service management had not evaluated operational efficiency in the manner carried out by this audit, which included benchmarking operations against other international service centers and domestic plant operations.

During the audit, Postal Service management agreed to reduce workhours at the Oakland ISF by 25,000 hours by the end of fiscal year (FY) 2006. They also agreed to close the Regatta facility and transfer the workload and workhour budget to the Oakland ISF, reducing Regatta's workhour budget by 15,000 hours by the end of FY 2006.

Summary of Recommendations

We recommended the manager, Bay-Valley District, reduce workhours at the Oakland ISF, periodically evaluate operating efficiency, and close the Regatta facility and transfer the mail volume and workhour budget to the Oakland ISF.

Summary of Management's Comments	Management agreed with our findings and recommendations. Management's comments, in their entirety, are included in Appendix E of this report.
Overall Evaluation of Management's Comments	Management's comments reflect that the manager, Bay-Valley District has been very proactive and aggressive with implementing the recommendations. The Bay-Valley District is also committed to continually improving their operations as made evident by their participation and cooperation with the joint effort process. Management's actions, taken or planned, should correct the issues identified in the findings.

INTRODUCTION

Background

International service centers were established in 1996 to allow the Postal Service to better compete in the growing international mail market. Before 1996, international and military mail¹ was processed by Exchange Offices.² These Exchange Offices were collocated in processing and distribution centers where processing domestic mail took precedence over international mail.

On August 5, 1997, the Board of Governors approved \$146.9 million in capital investments funding and \$129.7 million (undiscounted) for lease expense funding to establish a network dedicated to processing international and military mail. The Postal Service established this network to improve international and military mail service by providing a dedicated workforce and single-focus management. Postal Service management hoped this approach would lead to service improvements and provide the necessary structure to support new products and increase revenue. In response to this marketing and sales plan, international service centers were established in Miami, Florida; Chicago, Illinois; Los Angeles, California; Dallas, Texas; San Francisco, California; New York, New York; Dulles, Virginia; and Oakland, California.³

However, the implementation of this marketing plan did not increase volume or revenue as projected. International mail volume declined 16.5 percent in fiscal years (FY) 2001 to 2002, while revenue declined by 8.8 percent. Appendix A shows growth rate percentages of revenue and volume from FYs 1998 through 2002. In 1996, Coopers and Lybrand, LLP, conducted a study for the Postal Service which projected that international mail revenue would be \$6.1 billion in 2000 and \$11.4 billion by the year 2005. However, actual revenue in 2000 was \$1.66 billion, which represented a shortfall of 73 percent of the projected amount. It is unlikely the Postal Service will achieve the

¹ International mail is mail originating in one country and destinating in another. It is classified as Postal Union Mail (letters, cards, and other articles), Postal Service parcels, and Express Mail International Service. Military mail is mail addressed to or mailed from a military unit located outside the continental United States or between two military units overseas.

² An International Exchange Office/International Mail Service Center is a post office or airport mail center or facility authorized to exchange international mail and military mail, both air and surface, with another country.

³ The planned Dulles, Virginia, ISC facility was completed in October 1999, but does not serve as an international service center. The Oakland, California, facility is identified as an ISF and began operations in October 2001.

2005 projection of \$11.4 billion, based on revenue in
FY 2002 of \$1.58 billion.

**Objectives, Scope,
and Methodology**

The audit assessed the efficiency of work performed by the Oakland ISF and the use of the Regatta facility. We conducted this audit jointly with Pacific Area mail processing managers and in cooperation with Oakland plant management.

To assess the efficiency of these two facilities, we observed processing operations, analyzed mail volumes, workhour usage, and evaluated capacities.

We relied on Postal Service operational systems, including the National Workhour Reporting System, the Management Operating Data System, the Web Enterprise Information System, and the Web End-of-Run System to perform our analysis of mailings and workhours. We did not test the validity of controls over these systems. However, we checked the accuracy of data by confirming our analysis and results with Postal Service managers. Nothing came to our attention to suggest the data used was unreliable.

This audit was conducted from October 2003 through March 2004, 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 conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We have issued seven prior audit reports on the efficiency of business mail entry unit clerks. (See Appendix B for details.)

AUDIT RESULTS

**Assessment of
Resources Used at the
Oakland International
Service Facility**

The Postal Service could improve the efficiency of processing international and military mail at the Oakland ISF. Specifically, we found that from FYs 2002 to 2003, productivity at the Oakland ISF decreased. This occurred because of constant changes in mail operations during the three years the facility has been open, disparities between employee work schedules and mail flow, and a large percentage of limited and light duty assignments, and a high level of sick leave usage.

Title 39, U.S.C., Chapter 4, Section 403 states, "The Postal Service shall plan, develop, promote and provide adequate and efficient postal services. . . ." Postal Service management addressed operational efficiency through the budget process focusing on workhour utilization against the plan.⁴ However, Postal Service management had not evaluated operational efficiency in the manner carried out by this audit.

**Productivity Decreased
from FYs 2002 to 2003**

The Oakland ISF was generally less efficient from FYs 2002 to 2003. For example, productivity on the small parcel and bundle sorter dropped from 151 pieces per hour in FY 2002 to 120 pieces per hour in FY 2003. The table below shows these productivity changes:

MAIL PROCESSING OPERATION	ACTUAL PRODUCTIVITY (PIECES PER WORKHOUR)		PERCENTAGE OF FY 2002 PRODUCTIVITY ACHIEVED IN 2003
	FY 2002	FY 2003	
Flat Sorting Machine 1000	312	299	95.8
Small Parcel and Bundle Sorter	151	120	79.5
Linear Integrated Parcel Sorter	25	22	88.0
Flats Manual	145	40	27.6
Parcels Manual	20	33	165.0

⁴ The budget process takes into account productivity requirements, volume, and cost reduction initiatives.

Through observations and discussions with management officials at the Oakland ISF, we found that several factors contributed to this decline.

Management stated that during its three-year history, the Oakland ISF has been in a state of constant change and has incorporated new operations each year. In addition, sortation plans at the Oakland ISF doubled between calendar years 2002 and 2003 to support new operations. Management further stated that the 2003 productivity was less than 2002 due to staff training and development of workflow design changes. However, they have identified inefficiencies in mail flow and operations and expect to achieve our recommended workhour reductions over the next three years.

At the Oakland ISF, employee work schedules were not coordinated with mail flow to optimize work efficiency. We found that employees were not always clocked into the operations in which they were working. For example, in at least three separate operations, employee timecards did not reflect the actual employees assigned to that operation. Management agreed with our assessment and stated that action would be taken to correct this deficiency.

Low productivity could also be attributed to the high number of employees on limited or light duty assignments⁵ and the high level of sick leave usage. During FY 2002, the Oakland ISF had 22 employees (12 percent) on limited or light duty. In FY 2003, this number had increased to 26 employees (15 percent).⁶ In addition, management stated that sick leave usage contributed to lowered productivity. Approximately one-third of the workforce had less than 100 hours of accrued sick leave.⁷ However, in 2003, management had reduced sick leave usage by 17.1 percent over 2002.

⁵ Employees are placed on limited duty assignments because of on-the-job injuries and are assigned tasks within their physical limitations. Employees are placed on light duty assignments because of off-the-job injuries and may be assigned tasks within their physical limitations, if available. Generally these employees are assigned to new positions requiring additional training.

⁶ At the time of our visit in November 2003, the Oakland ISF had 178 employees and no part-time flexible, casual, or temporary employees.

⁷ A full-time employee can accrue 104 hours of sick leave per year.

We determined that as a result of these factors, the Postal Service inefficiently processed mail at the Oakland ISF. In addition to the efficiencies management has already gained, we estimate that approximately 25,000 workhours could be eliminated by the end of FY 2006. This could be accomplished by periodically evaluating mail processing operations, better aligning employee work schedules with mail flow, and continuing to reduce light and limited duty assignments and sick leave. The reduction in workhours by FY 2006 will result in a cost avoidance for the Postal Service of approximately \$8.2 million. Appendix C details the financial impact of workhour reductions at the Oakland ISF.

Management's Actions	To improve productivity, management agreed to eliminate at least 25,000 workhours at the Oakland ISF by the end of FY 2006. Workhour reductions would be achieved through employee attrition and productivity increases.
Recommendations	To improve operating efficiency at the Oakland International Service Facility, we recommend the manager, Bay-Valley District: <ol style="list-style-type: none">1. Eliminate 25,000 workhours as planned.2. Periodically evaluate operating efficiency and staffing at the Oakland International Service Facility to determine whether further workhour adjustments are necessary based on workload.
Management's Comments	Management agreed with our finding, recommendations, and associated economic impact.
Evaluation of Management's Comments	Management's actions, taken or planned, should correct the issues identified in the findings.

**Assessment of the
Regatta Facility**

Military surface mail⁸ processed at the Regatta facility in Oakland, California, could be processed more efficiently at the Oakland ISF. Our review noted the following inefficiencies at the Regatta facility:

- The facility was being used to manually process military surface mail, which is inefficient.
- The facility was in operation for only one tour, Monday through Friday from 6:30 a.m. to 3:00 p.m.
- The facility is 18 miles from the Oakland ISF.
- The facility processed 6.8 million pounds of military surface mail in 2003, an amount that could be easily absorbed by the Oakland ISF.

We concluded that this mail could be processed more efficiently using automated or mechanized equipment available at the Oakland ISF.

Title 39, U.S.C., Chapter 4, Section 403 states, "The Postal Service shall plan, develop, promote and provide adequate and efficient postal services. . . ." Postal Service management addressed operational efficiency through the budget process focusing on workhour utilization against the plan. However, Postal Service management had not evaluated operational efficiency in the manner carried out by this audit.

Facility Cost Avoidance

The Postal Service could avoid facility costs of approximately \$3.4 million over ten years by closing the Regatta facility. Appendix D summarizes the financial impact of closing the Regatta facility.

**Transfer of Regatta
Workload to Oakland
International Service
Facility**

Postal Service managers believe that by the end of 2006, they can reduce the number of workhours needed to process the Regatta facility mail volumes, currently 38,500 workhours annually, by 15,000 hours. They stated that the workhours can be reduced in three equal increments of 5,000 hours each. The Oakland ISF will absorb the remaining workhours, along with Regatta's mail volume.

⁸ Military surface mail is mail that is transported by any mode other than air such as sea, rail, or highway.

The transfer of the Regatta facility workload should improve plant and equipment efficiency in the Bay-Valley District and save approximately \$5.4 million over ten years. Appendix D summarizes the financial impact of transferring the Regatta facility workload to the Oakland ISF.

Management's Actions	During our review, Postal Service management agreed to terminate the lease, close the Regatta facility, and transfer the mail to the Oakland ISF for processing. Management further agreed they would reduce the current annual workhour budget by 15,000 hours by the end of 2006.
Recommendation	To improve operating efficiency, we recommend the manager, Bay-Valley District: 3. Close the Regatta facility as planned and transfer the mail volume and workhour budget to the Oakland International Service Facility.
Management's Comments	Management agreed with our finding and recommendation except that Building 512 will be closed instead of the Regatta facility. Management indicated that Building 512 is similar to the Regatta facility with regard to operating cost.
Evaluation of Management's Comments	Management's actions, taken or planned, should correct the issues identified in the findings.

APPENDIX A

REVENUE AND GROWTH RATE PERCENTAGES FYs 1998 TO 2002

Revenue	1998	1999	2000	2001	2002
First-Class Mail	1.40%	3.20%	1.70%	1.00%	1.70%
Standard Mail (A)	6.40%	5.40%	5.20%	3.40%	0.70%
Priority Mail	8.60%	8.30%	6.70%	1.60%	-3.90%
Standard Mail (B)	7.80%	4.20%	4.60%	4.30%	4.30%
Periodicals Mail	0.20%	2.10%	2.60%	1.60%	-1.80%
<i>International Mail</i>	<i>-0.90%</i>	<i>1.80%</i>	<i>1.80%</i>	<i>4.50%</i>	<i>-8.80%</i>

International mail revenue declined 8.8 percent between FYs 2001 and 2002, after maintaining a steady increase between FYs 1999 and 2001.

Volume	1998	1999	2000	2001	2002
First-Class Mail	0.80%	1.50%	1.60%	0.10%	-1.20%
Standard Mail (A)	6.80%	3.80%	5.10%	-0.10%	-3.00%
Priority Mail	9.90%	1.30%	2.80%	-8.60%	-10.70%
Standard Mail (B)	3.50%	1.90%	8.20%	-3.10%	-1.60%
Periodicals Mail	-0.90%	-0.40%	0.90%	-2.80%	-3.80%
<i>International Mail</i>	<i>-6.20%</i>	<i>9.20%</i>	<i>6.70%</i>	<i>-1.50%</i>	<i>-16.50%</i>

The growth pattern in international mail volume over the past five years has shown considerable volatility.

SOURCE: These percentages were calculated based on operating statistics from Postal Service annual reports.

APPENDIX B

PRIOR AUDIT COVERAGE

Work Performed by Business Mail Entry Employees in the Colorado/Wyoming Performance Cluster (Report Number CQ-AR-02-001, September 26, 2002), found that many of the business mail entry employees at the Denver Bulk Mail Center and Denver General Mail Facility were not needed to accept business mailings. Management could save an estimated \$1 million annually by reducing the number of employees. We recommended management oversee the consolidation of business mail entry operations and reduce staff as planned, and reevaluate staffing to determine whether further staff reductions were necessary. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Work Performed by Business Mail Entry Employees in the Seattle, Minneapolis, and Des Moines Bulk Mail Centers (Report Number CQ-AR-03-001, March 28, 2003), found that these facilities should reduce the workhours necessary to accept business mailings. Management could save an estimated \$588,730 through the end of FY 2005 by reducing its workhours as planned. We recommended that senior plant managers at the Seattle, Minneapolis, and Des Moines Bulk Mail Centers reduce hours, reevaluate staffing needs periodically, and ensure that appropriately trained personnel perform acceptance functions. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District (Report Number AO-AR-03-001, July 31, 2003), found that the district should reduce the workhours necessary to accept business mailings. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 28,800 hours by the end of FY 2005. This reduction in workhours could produce an estimated cost avoidance of approximately \$9.26 million over ten years. We recommended that the manager, Los Angeles District, reduce hours and reevaluate staffing needs periodically. Management agreed with our recommendations and has initiatives in progress addressing the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks Within the San Francisco District (Report Number AO-AR-03-002, September 25, 2003), found that the district should reduce the workhours necessary to accept business mailings in the San Francisco Business Mail Entry Unit. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 18,000 hours by the end of FY 2006. This reduction in workhours could produce an estimated cost avoidance of approximately \$6.9 million over ten years. We recommended the manager, San Francisco District, reduce hours as planned and reevaluate staffing needs periodically. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks at the Southern Maryland Business Mail Entry Unit (Report Number NO-AR-04-001, December 24, 2003), found that the district should reduce the workhours necessary to accept business mailings in the Southern Maryland Business Mail Entry Unit. During the audit, Postal Service management agreed to aggressively reduce business mail entry workhours by 20,240 hours by the end of FY 2006. This reduction in workhours could produce an estimated cost avoidance of approximately \$8.4 million over ten years. We recommended the manager, Capitol District, reduce hours as planned and reevaluate staffing needs periodically. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks in the Columbia, Maryland, Business Mail Entry Unit (Report Number NO-AR-04-002, December 26, 2003), found that the district should reduce the workhours necessary to accept business mailings in the Columbia, Maryland, Business Mail Entry Unit. During the audit, Postal Service management agreed to reduce business mail entry workhours by 3,960 hours by the end of FY 2005. This reduction in workhours could produce an estimated cost avoidance of approximately \$1.4 million over ten years. We recommended the manager, Baltimore District, reduce hours as planned and periodically reevaluate staffing. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Efficiency of Work Performed by Business Mail Entry Clerks in the Springfield, Virginia, Business Mail Entry Unit (Report Number NO-AR-04-004, February 9, 2004), found that the district should reduce the workhours necessary to accept business mailings in the Springfield, Virginia, Business Mail Entry Unit. During the audit, Postal Service management agreed to reduce business mail entry workhours by 2,775 hours by the end of FY 2006. This reduction in workhours could produce an estimated cost avoidance of \$969,893 over ten years. We recommended the manager, Northern Virginia District, reduce hours as planned and periodically reevaluate staffing. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

APPENDIX C

COST AVOIDANCE AT THE OAKLAND INTERNATIONAL SERVICE FACILITY

(FUNDS PUT TO BETTER USE)

Year	Yearly Reduction in Workhours	Cost Avoidance (Ten Years with Escalation)
FY 2004	8,334	\$3,596,216
FY 2005	8,333	\$3,686,121
FY 2006	8,333	\$3,778,274
Totals (ten fiscal years)	25,000	\$11,060,611
Net Present Value at 4.5 Percent for Ten Fiscal Years		\$8,208,753

NOTES

- The 8,333 hour reduction was based on Postal Service management's plan to reduce workhours by 25,000 over a three-year period.
- The cost avoidance was calculated using the hour saving time multiplied by the escalated labor rate over a ten-year period.
- The net present value was calculated using the discount rate of 4.5 percent over a ten-year period.
- The labor rates were based on the Postal Service 2003 Published Rates for a PS-05 mail processing clerk.
- The yearly escalation factor is 2.5 percent.
- The Postal Service cost of borrowing is 4.5 percent.

FUNDS PUT TO BETTER USE -- Funds that can be used more efficiently by implementing recommended actions.

APPENDIX D

PROJECTIONS OF COST AVOIDANCE BASED ON CLOSURE OF THE REGATTA FACILITY (FUNDS PUT TO BETTER USE)

Facility Savings	Cost Avoidance (Ten Years with Escalation)	Net Present Value of Savings at 4.5 Percent for Ten Years
Facility Savings – Rent	\$ 3,294,451	
Facility Savings – Utilities	\$ 892,345	
Facility Savings – Taxes	\$ 230,587	
Total Facility Savings	\$ 4,417,383	\$3,398,430

REGATTA FACILITY COST AVOIDANCE FOR LABOR (FUNDS PUT TO BETTER USE)

Beginning Year	Total Reduction in Workhour	Cost Avoidance (Ten Years)
FY 2007	15,000	\$6,970,915
Net Present Value at 4.5 Percent for Ten Years		\$5,406,776

NOTES

- Cost avoidance was calculated using the escalated lease and utility savings over a ten-year period. The first year calculation includes nine months.
- The net present value was calculated using the discount rate of 4.5 percent over a ten-year period.
- The yearly escalation factor is 0.80 percent for lease cost and 0.50 percent for utilities.
- The Postal Service cost of borrowing is 4.5 percent.

FUNDS PUT TO BETTER USE -- Funds that can be used more efficiently by implementing recommended actions.

APPENDIX E. MANAGEMENT'S COMMENTS

AL INIGUEZ
VICE PRESIDENT
PACIFIC AREA OPERATIONS



March 29, 2004

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SUBJECT: RESPONSE - EFFICIENCY OF THE OAKLAND INTERNATIONAL SERVICE
FACILITY AND REGATTA FACILITY

We have reviewed the Office of Inspector General's report regarding the consolidation of military operations at the Regatta Facility into the Oakland International Service Facility and concur with the findings with a minor modification.

Recommendation #1: Reduction of 25,000 work hours at the Oakland ISF by the end of fiscal year (FY) 2006. This reduction will be accomplished through operational efficiency improvements.

We agree with this recommendation and associated economic impacts.

Recommendation #2: Periodically evaluate operating efficiency and staffing at the Oakland ISF to determine further work hour adjustments as necessary based on workload.

We agree with this recommendation and associated economic impacts.

Recommendation #3: Transferring military surface mail processing at the Regatta facility to the Oakland ISF and closing the Regatta military operations. In addition to the transfer of the mail volume and processing activities, the work hour budget will be transferred to the Oakland ISF. This will yield a reduction of 15,000 work hours by the end of FY 2006.

We agree with this recommendation and associated economic impacts with the exception of retaining the Regatta Facility as an annex for the Oakland Processing and Distribution Center. The Oakland P&DC has closed the current annex located at Building 512 for a savings of \$323,000 per annum.

The transfer of Military Surface operations to the Oakland ISF will commence on June 1, 2004. Actions are being implemented to abolish existing positions at the Regatta Facility and should be finalized by June 25, 2004 in alignment with NCBA requirements. Additional positions will be created at the Oakland ISF consistent with the recommendations of the OIG to support military processing operations. Work hour budget for the remainder of FY 2004 for Military operations at Regatta will be transferred to the Oakland ISF effective June 1, 2004.

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We would like to thank the OIG team for their thoroughness and efforts in working with the local management team to identify savings through improving efficiencies.



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For

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