



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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**Efficiency of the Los Angeles, CA  
International Service Center**

**Audit Report**

September 21, 2012

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Report Number NO-AR-12-009



## **BACKGROUND:**

The U.S. Postal Service continues to face significant financial challenges. The Postal Service concluded the first 2 quarters of fiscal year (FY) 2012 with net losses of more than \$6.4 billion. In addition, the operating revenue for the 1st 2 quarters declined by \$207 million from the same period last year. The Postal Service is aggressively pursuing new revenue streams and reducing costs in areas within its control. Maximizing mail processing efficiency is critical in that regard.

The Los Angeles International Service Center (ISC) is located in the Pacific Area and is responsible for receiving, processing, and dispatching international import and export mail. It processed more than 51 million mailpieces in FY 2011, an increase of 11.5 percent from FY 2010.

Our objective was to evaluate the efficiency of the work performed by the Los Angeles ISC.

## **WHAT THE OIG FOUND:**

Although management at the Los Angeles ISC has made progress in improving productivity in FY 2012, further opportunities exist for improvement.

The Los Angeles ISC management did not fully evaluate operational efficiency and staffing based on workload,

establish realistic productivity goals or targets, or always properly supervise employees. In addition, management did not maximize the use of automated and mechanized equipment. Consequently, the Los Angeles ISC used more workhours than necessary to process its mail volume.

We estimate that management at the Los Angeles ISC could further improve productivity by reducing 63,170 workhours. If they avoid these workhours, the Postal Service could save almost \$2.2 million annually.

## **WHAT THE OIG RECOMMENDED:**

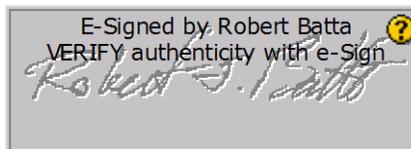
We recommended the plant manager, Los Angeles ISC, reduce 63,170 workhours with an associated economic impact of almost \$2.2 million annually, or increase mail volume by 3.1 million pieces, or a combination of both. We also recommended the plant manager periodically evaluate operating efficiency and staffing at the Los Angeles ISC to determine whether further workhour adjustments are necessary based on workload. Finally, we recommended that management maximize the use of automated and mechanized equipment, establish realistic productivity goals or targets, and improve supervision of employees.

[Link to review the entire report](#)



September 21, 2012

**MEMORANDUM FOR:** JOHN W. HOLDEN  
PLANT MANAGER, LOS ANGELES, CA  
INTERNATIONAL SERVICE CENTER



**FROM:** Robert J. Batta  
Deputy Assistant Inspector General  
for Mission Operations

**SUBJECT:** Audit Report – Efficiency of the Los Angeles, CA  
International Service Center  
(Report Number NO-AR-12-009)

This report presents the results of our audit of the Efficiency of the Los Angeles, CA International Service Center (Project Number 12XG020NO000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact James L. Ballard, director, Network Processing, or me at 703-248-2100.

Attachments

cc: Megan Brennan  
David E. Williams, Jr.  
Drew Aliperto  
Eduardo H. Ruiz, Jr.  
Brent Raney  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the efficiency of the Los Angeles, CA International Service Center (ISC) (Project Number 12XG020NO000). Our objective was to evaluate the efficiency of the work performed by the Los Angeles ISC. This audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

We performed this audit based on a previous audit,<sup>1</sup> in which we found the Los Angeles ISC could improve operational efficiency. That report indicated the Los Angeles ISC generally did not meet productivity targets, adjust workhours in relation to changes in workload, fully employ mechanized equipment, or attain the level of efficiency of other centers. Because of significant operational changes at the Los Angeles ISC,<sup>2</sup> the recommendations in that report were closed with the agreement that we would conduct another audit.

The Postal Service continues to face significant financial challenges. The Postal Service concluded the 1st 2 quarters of fiscal year (FY) 2012 with net losses of more than \$6.4 billion. In addition, the operating revenue for the 1st 2 quarters declined by \$207 million from the same period last year (SPLY). Current financial projections indicate that the Postal Service will not be able to make a required \$5.6 billion prefunding payment for retiree health benefits that is due by September 30, 2012. The Postal Service is aggressively pursuing new revenue streams and reducing costs in areas within its control. Maximizing mail processing efficiency is critical in that regard.

The Los Angeles ISC is located in the Pacific Area and is responsible for receiving, processing, and dispatching international import and export mail. The Los Angeles ISC also processes military mail, Express Mail, and Registered Mail. There are five ISCs, located in New York, Miami, Chicago, Los Angeles, and San Francisco. The Los Angeles ISC processed more than 51 million mailpieces in FY 2011, an increase of 11.5 percent from FY 2010.

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<sup>1</sup> *Efficiency of the Los Angeles International Service Center* (Report Number NO-AR-05-011, dated June 17, 2005).

<sup>2</sup> The type of mail processed at the Los Angeles ISC has changed since 2009. Processing of export letters and flats was moved to the New York ISC. Mail volumes added to the Los Angeles ISC were military letters and flats, military parcels, and import parcels.

### Illustration 1. The Los Angeles ISC



Source: U.S. Postal Service Office of Inspector General (OIG);  
June 9, 2012; 5:22 p.m. Front of the Los Angeles ISC.

### Conclusion

Although management at the Los Angeles ISC has made progress in improving productivity in FY 2012, further opportunities exist for improvement. We estimate that management could improve productivity by reducing 63,170 workhours,<sup>3</sup> resulting in a potential savings of almost \$2.2 million annually.

This condition occurred because Los Angeles ISC management did not fully evaluate operational efficiency and staffing based on workload, establish realistic productivity goals or targets, or always properly supervise employees. In addition, Los Angeles ISC management did not maximize the use of automated and mechanized equipment. Consequently, the Los Angeles ISC used more workhours than necessary to process its mail volume.

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<sup>3</sup> This estimate is based on achieving 90 percent of the productivity achieved on Saturday. Based on our analysis and discussions with management, this appeared to be a reasonable productivity goal.

To increase productivity, Los Angeles ISC management should:

- Reduce workhours by 63,170 based on FY 2011 usage or
- Increase mail volume by 3.1 million mailpieces, or
- Combine workhour reductions and increase mail volume.

### Trends in Volume, Workhours, and Productivity

The Los Angeles ISC experienced a significant decline in first-handling pieces (FHP)<sup>4</sup> volume of more than 50 percent from FY 2009 to FY 2010 and, as a result, FHP productivity decreased sharply by 55.7 percent. This volume decline occurred because international letter and flat mail processing moved from the Los Angeles ISC to the New York ISC.

From FY 2010 to FY 2011, FHP volume at the Los Angeles ISC increased by 11.5 percent due to the addition of military mail processing at the Los Angeles ISC. During this same period, overtime workhours increased from 55,663 to 116,746, or 73.2 percent (see Table 1).

**Table 1. Trends at the Los Angeles ISC**

FY	FHP	Percent Change FHP Volume	Workhours	FHP Productivity	Percent Change FHP Productivity	Overtime Workhours	Percent Overtime	Percent Change Overtime
2009	92,166,532	N/A	791,303	116.5	N/A	58,863	7.44%	N/A
2010	45,786,475	(50.3%)	887,974	51.6	(55.7%)	55,663	6.27%	(15.7%)
2011	51,053,705	11.5%	1,075,551	47.5	(7.9%)	116,746	10.85%	73.2%

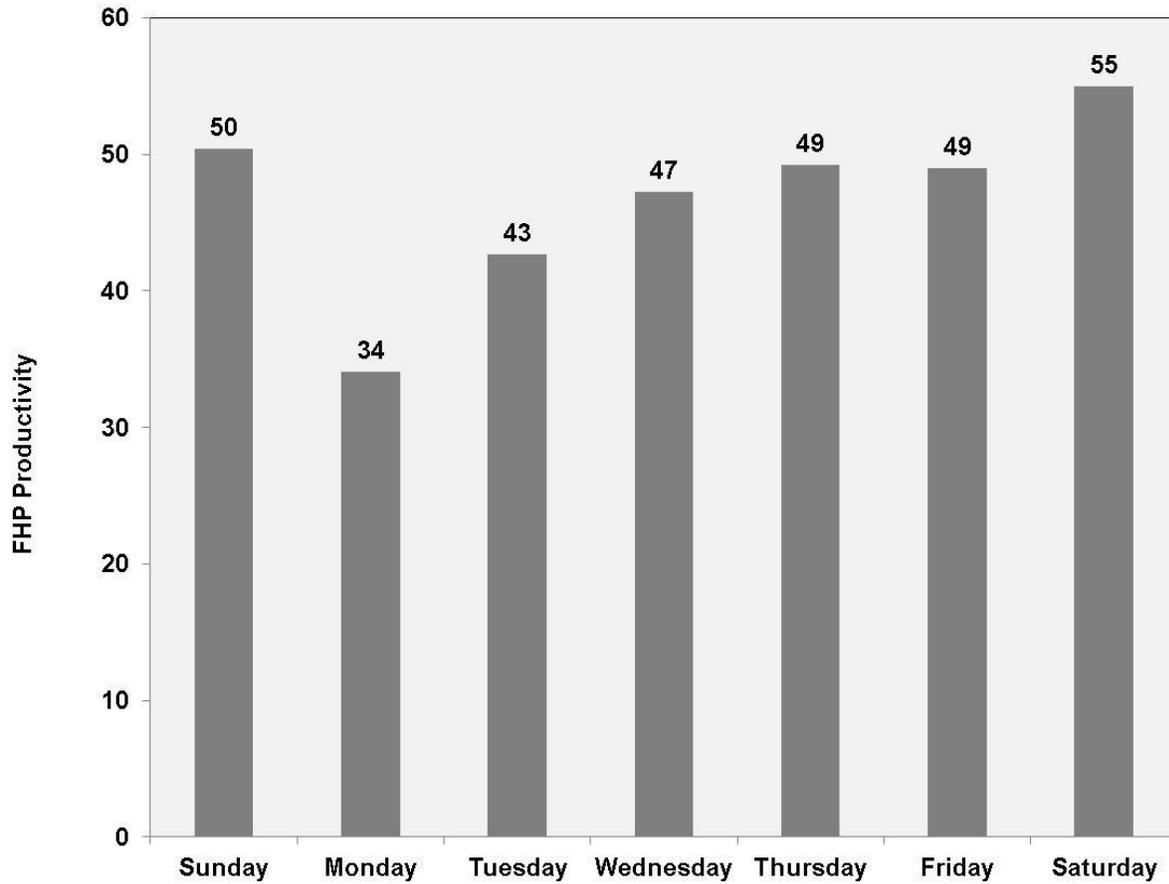
Sources: Electronic Data Warehouse (EDW) and OIG, as of June, 2012.  
N/A: Not Applicable

### Productivity by Day of the Week

We calculated FHP productivity for the Los Angeles ISC by day of the week and found that employees were most productive on Saturday working 55 mailpieces per workhour. Monday had the lowest productivity at 34 mailpieces per workhour (see [Chart 1](#)).

<sup>4</sup> A first handling piece is a letter, flat, or parcel that receives its initial distribution at a Postal Service facility. FHP records mail volume in the operation where it receives its first distribution handling.

Chart 1. FHP Productivity by Week Day



Sources: EDW and OIG, as of June 2012.

### Opportunity Workhours

If the Los Angeles ISC achieved just 90 percent of the demonstrated Saturday FHP productivity level of 55 pieces per workhour, it could save 63,170 workhours per year based on FY 2011 usage. This would require management at the Los Angeles ISC to improve FHP productivity to 49 pieces per workhour Monday through Friday (see [Table 2](#)).

**Table 2. Opportunity Workhours**

Day	FHP Volume	FHP Productivity	Workhours	Earned Workhours at 90 Percent of Saturday Productivity	Opportunity Workhours	Projected Productivity
Saturday	8,528,994	55	155,149	155,149	-	55
Sunday	6,181,778	50	122,670	122,670	-	50
Monday	3,383,633	34	99,318	68,390	30,928	49
Tuesday	6,606,002	43	154,808	133,520	21,288	49
Wednesday	8,617,242	47	182,400	174,171	8,229	49
Thursday	8,972,495	49	182,229	181,352	877	49
Friday	8,763,561	49	178,977	177,129	1,848	49
<b>TOTAL</b>	<b>51,053,705</b>	<b>47</b>	<b>1,075,551</b>	<b>1,012,381</b>	<b>63,170</b>	<b>50</b>

Sources: EDW and OIG, as of June, 2012.

We identified several potential sources of workhour reductions (see [Appendix B](#)).

**Additional Volume**

The Los Angeles ISC could also improve productivity by increasing the FHP volume of mail processed if workhours remained constant. We calculated the additional volume needed to achieve 90 percent of the Saturday FHP productivity level and found that the Los Angeles ISC would need to process 3,125,361 additional mailpieces per year (see Table 3).

**Table 3. Additional Volume**

Day	FHP Volume	FHP Productivity	Workhours	Earned volume at 90 percent of Saturday Productivity	Additional Volume	Projected Productivity
Saturday	8,528,994	55	155,149	8,528,994	-	55
Sunday	6,181,778	50	122,670	6,181,778	-	50
Monday	3,383,633	34	99,318	4,913,821	1,530,188	49
Tuesday	6,606,002	43	154,808	7,659,223	1,053,221	49
Wednesday	8,617,242	47	182,400	9,024,355	407,113	49
Thursday	8,972,495	49	182,229	9,015,895	43,400	49
Friday	8,763,561	49	178,977	8,855,000	91,439	49
<b>TOTAL</b>	<b>51,053,705</b>	<b>47</b>	<b>1,075,551</b>	<b>54,179,066</b>	<b>3,125,361</b>	<b>50</b>

Sources: EDW and OIG, as of June, 2012.

## Productivity Targets

We found that none of the five ISCs were achieving the Postal Service's mail processing variance<sup>5</sup> (MPV) productivity targets. The targets are not realistic for ISCs as none of the five ISCs is achieving even half of the target levels. Management at the Los Angeles ISC should develop realistic productivity goals or targets for ISC operations and mail types. We will address this issue in a future capping report. See Table 4.

**Table 4. Percent Achievement to Targets**

ISC	Percent Achievement to Targets
Chicago	29.31%
Los Angeles	27.88%
Miami	28.34%
New York	37.51%
San Francisco	49.55%

Source: Postal Service MPV, as of June, 2012.

## Employee Complement

The Los Angeles ISC has reduced staffing from FY 2010 to FY 2011, but increasing FHP productivity to 90 percent of the Saturday productivity level will require additional reductions. There are 451 career mail processing employees at the Los Angeles ISC, and we found that 168 or 37.3 percent of these employees are currently eligible to retire (see Table 5).

**Table 5. Employee Complement Summary**

Employee Type	Number of Career Employees	Retirement Eligible Employees	Percentage Eligible to Retire
Management	20	5	25.0%
Clerks	303	138	45.5%
Mail Handlers	128	25	19.5%
<b>TOTAL</b>	<b>451</b>	<b>168</b>	<b>37.3%</b>

Source: Web Complement Information System, as of May, 2012.

<sup>5</sup> Variance programs are management models that provide complement, workhour, productivity, and workload analyses. Variance models calculate actual vs. earned performance against standardized target productivity expectations and trends performance from national results to the unit level.

While the Los Angeles ISC has reduced staffing from FY 2010 to FY 2011, additional reductions are necessary. Of the 569 mail processing employees at the Los Angeles ISC, 451 are career employees and 118 are non-career employees. We found that 168 career employees (37.3 percent) at the Los Angeles ISC are eligible to retire. With the national attrition rate of 5 percent per year (23 career employees), the Los Angeles ISC could achieve the recommended workhour savings of 63,170 within 2 years (see Table 6).

**Table 6. Potential Savings from Retirements**

<b>FY 2013</b>	<b>Employees</b>	<b>Projected Workhour Savings per Year</b>
Anticipated Retirements	23	39,348

Source: OIG, as of May 2012.

### Causes and Impacts on Operations

Management at the Los Angeles ISC addressed operational efficiency by comparing performance to SPLY. Our observations revealed that productivity was low at the Los Angeles ISC because management did not: fully evaluate operational efficiency by analyzing workhour trends and adjusting workhours to workload, maximize the use of automated and mechanized equipment, establish realistic productivity goals or targets, and properly supervise its employees. As a result, management at the Los Angeles ISC used more workhours than necessary to process its mail volume.

### Recommendations

We recommend the plant manager, Los Angeles International Service Center perform the following by fiscal year 2014:

1. Achieve a cost avoidance of about \$4.3 million over 2 years by:
  - Reducing workhours by 63,170 or
  - Increasing mail volume by 3.1 million pieces, or
  - Combining workhour reductions and additional mail volume to result in an equivalent productivity improvement.
2. Periodically evaluate operating efficiency and staffing at the Los Angeles International Service Center to determine whether further workhour adjustments are necessary based on workload.

3. Maximize the use of automated and mechanized equipment.
4. Establish realistic productivity goals or targets.
5. Improve supervision of employees to ensure all employees are fully engaged.

### **Management's Comments**

Management agreed with the recommendations in the report. Specifically, in response to recommendation 1, management stated that, effective November 1, 2012, they will increase mail volume by 15.6 million pieces per year and save 63,170 workhours by 2014. In response to recommendation 2, effective August 20, 2012, management began periodically evaluating efficiencies and integrating the ISCs into their baseline staffing model. In response to recommendation 3, effective August 24, 2012, management began performing process studies to analyze underutilized mechanization. In response to recommendation 4, effective August 20, 2012, management began establishing productivity goals through a comprehensive series of Lean Six Sigma projects. In response to recommendation 5, management will monitor operation to ensure that all employees are gainfully employed. Additionally, management will create a supervisor training curriculum and conduct training as necessary.

See [Appendix D](#) for management's comments, in their entirety.

### **Evaluation of Management's Comments**

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

## Appendix A: Additional Information

### Background

ISCs distribute and dispatch international mail received from a designated service area to specific foreign countries or to gateway exchange offices. The Postal Service established ISCs in 1996 to better compete in the growing international mail market. Before 1996, exchange offices<sup>6</sup> processed international mail.<sup>7</sup> These exchange offices were collocated at processing and distribution centers where domestic mail processing took precedence over international mail. There are currently five ISCs, located in New York, Miami, Chicago, Los Angeles, and San Francisco.

The Los Angeles ISC is the gateway office for international mail for the South Pacific and South East Asia. The Los Angeles ISC is responsible for receiving, processing, and dispatching international import and export volumes. The Los Angeles ISC is also responsible for processing military mail. Military mail is mail addressed to or mailed from a military unit located outside the continental U.S. or mail that goes between two military units overseas. Military mail service is an extension of domestic mail service. Use of an Army Post Office /Fleet Post Office ZIP Code constitutes a military address for overseas military mail.

The Postal Service leases the Los Angeles ISC. The building has 371,453 square feet (SF) of interior space, with an enclosed platform area of 11,386 SF, on a site with dimensions of 353,375 SF.

### Objective, Scope, and Methodology

Our objective was to assess the efficiency of operations at the Los Angeles ISC. To assess the efficiency of the Los Angeles ISC, we observed mail processing operations, analyzed mail volumes and workhours, evaluated machine utilization, and interviewed Postal Service officials.

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<sup>6</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>7</sup>International mail originates in one country and arrives in another. It is classified as Postal Union Mail (letters, cards, and other articles), postal parcels, and Express Mail International<sup>®</sup> service.

We relied on Postal Service operating systems, including the EDW,<sup>8</sup> the Mail Processing Variance System, eFLASH,<sup>9</sup> the Web Complement Information System,<sup>10</sup> the Web Mail Condition Reporting System (WebMCRS),<sup>11</sup> and the Web End-of-Run System<sup>12</sup> to analyze mail volume, workhours, and employee complement. We checked the accuracy of data by confirming our analysis and results with Postal Service managers and found no material differences.

We conducted this performance audit from April through September 2012 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on August 28, 2012, and included their comments where appropriate.

We assessed the reliability of computer-generated data by interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

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<sup>8</sup>A collection of data from many sources, which is stored in a single place for reporting and analysis.

<sup>9</sup>The eFLASH application is a weekly operating reporting management system. It combines data from delivery, mail processing, employee relations, labor relations, and finance.

<sup>10</sup>A web-based tool for managing and tracking complement that provides easy access to information about employees, their work assignments, and on-rolls vs. authorized complement levels by operational unit.

<sup>11</sup>A repository for information related to facility conditions. A daily snapshot of conditions at facilities throughout the nation is taken at the time of day mail volume is at its lowest. Information relating to conditions at that time, as well as prior day's processing, is reported. This information is available to management at all levels for analysis, forecasting, and planning.

<sup>12</sup>Provides the capability to reproduce, archive, or summarize any or all information captured during a mail processing machine run and to present this information in report-form. Web End of Run reports can be used to measure machine performance, to track machine location, and for planning or trend purposes.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Efficiency of the Los Angeles International Service Center</i>	NO-AR-05-011	6/17/2005	\$26,075,474	We found the Los Angeles ISC generally did not meet productivity targets, adjust workhours in relation to changes in workload, fully employ mechanized equipment, or attain the level of efficiency achieved by other centers. Management acknowledged our recommendations and agreed that a combination of workhour reductions, an increase in mail volume, and consolidation of volume could also achieve higher efficiency levels.
<i>Mail Condition Reporting at the Los Angeles International Service Center</i>	NO-AR-07-010	9/24/2007	None	We found improvements could be made in procedures for reporting inbound parcels and plan failures for each processing operation. Management acknowledged the audit results and implemented processes to remedy and/or correct the incompleteness and inaccuracy of WebMCRS data by providing the recommended training.

## Appendix B: Sources of Workhour Reductions

### Reduction in Overtime

We compared overtime usage at the five ISCs and found that the Los Angeles ISC was tied for the highest overtime rate with the Chicago ISC at 10.9 percent for FY 2011. The median overtime rate for the five ISCs was 6 percent (see Table 7).

**Table 7. ISC Overtime Rates for FY 2011**

ISC	Workhours	Overtime Workhours	Percent Overtime	Opportunity Workhours by Achieving the Median Overtime Rate of 6 Percent
<b>Chicago</b>	922,002	100,747	10.9%	45,427
<b>Los Angeles</b>	1,075,551	116,746	10.9%	52,213
<b>Miami</b>	473,544	16,278	3.4%	0
<b>New York</b>	2,201,473	132,860	6.0%	0
<b>San Francisco</b>	642,344	22,981	3.6%	0

Sources: EDW and OIG.

Management at the Los Angeles ISC uses the eFLASH report to compare their workhour performance to the SPLY and is not actively adjusting workhours to workload. Management has made progress in FY 2012 year-to-date through June 29 by reducing overtime by 5.5 percent compared to SPLY. However, the overtime rate remains high at 10.43 percent. If Los Angeles ISC management reduced the overtime rate to the median level of 6 percent, 52,213 workhours per year could be saved.

We also found that mail processing supervisors routinely call 2 hours of overtime Wednesday through Saturday, because these are the higher volume days. Posting non-traditional, full-time employee 4-day, 10-hour day schedules could help reduce overtime.

### Mechanized and Automated Letter and Flats Processing

We analyzed the capacity for each type of equipment at the Los Angeles ISC and found that excess capacity exists on all equipment types. The Delivery Barcode Sorter Input Output Subsystem (DIOSS)<sup>13</sup> and the Upgraded Flat Sorting Machine 1000 (UFSM

<sup>13</sup> A multifunction letter mail processing system based on the Delivery Barcode Sorter with additional components for optical character recognition and image lift to the input subsystem as well as supporting output subsystem capabilities to spray barcodes on mail.

1000)<sup>14</sup> were the most underused, with 74 percent excess capacity, running just a few hours on Tour 1 (see [Illustration 2](#)). UFSM 1000 operation could be improved, as employees took too long to set up the equipment and did not feed mail properly. See [Illustration 3](#) and [Illustration 4](#).

### Illustration 2. DIOSS Operation



Source OIG; June 10, 2012; 1:07 a.m. The DIOSS sorting military letter mail; this machine is only used a few hours per day on Tour 1.

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<sup>14</sup> A flat-sorting machine that can sort non-barcoded mail and barcoded mail using a high-speed feeder and an optical character reader.

### Illustration 3. UFSM 1000 Operation



Source: OIG; June 9, 2012; 11:47 p.m. A clerk spent an hour setting up the UFSM 1000 to process a relatively small amount of mail.

### Illustration 4. UFSM 1000 Feeding Operation



Source: OIG; June 10, 2012; 1:14 a.m. The clerk feeds a few pieces at a time from the flat tub rather than filling the console and allowing the feed arm to advance the mail. The arm is resting on an upside down tray.

## Mechanized Parcel Distribution

Employees on the Automated Parcel and Bundle Sorter (APBS)<sup>15</sup> machine were allowed by supervisors to key every piece of mail rather than scanning mail with barcodes. Increasing the amount of mail scanned on the APBS will reduce workhours and increase productivity (see Illustration 5).

### Illustration 5. APBS Keying



Source: OIG; June 5, 2012; 10:31 a.m. All six keying positions are staffed on APBS #2. Employees key every mailpiece, although the machine is equipped with barcode scanners.

Often, we found that the APBS was staffed with too many keyers. There are six keying positions on the APBS. If the first four keyers fill the transport belt with parcels, the last two are not productive, because they are waiting for an opening on the belt to induct mail (see [Illustration 6](#)).

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<sup>15</sup> An upgraded Small Parcel and Bundle Sorter with a new control system, barcode and optical character reader technology, and improved induction stations.

### Illustration 6. APBS Staffing



Source: OIG; June 5, 2012; 10:35 a.m. The belt is full before reaching keyers #5 and #6. Keyer #6 is watching the belt, waiting for parcels to move on so she can begin keying again.

We observed staffing and scheduling of employees on the parcel sorting machine (PSM)<sup>16</sup> was inconsistent with mail volume. Keyers and sweepers were often idle (see [Illustration 7](#) and [Illustration 8](#)).

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<sup>16</sup> A large machine that sorts and discharges parcels from transport trays to separations.

### Illustration 7. PSM Staffing



Source: OIG; June 8, 2012; 11:45 a.m. The PSM staffed with four keyers and only enough mail to keep one employee busy. Other keyers were idle.

### Illustration 8. Idle Employee at the PSM



Source: OIG; June 5, 2012; 12:24 p.m. An employee below the PSM reading a book.

## Mechanized Sack Distribution

The sack sorting machine (SSM)<sup>17</sup> operation could be improved. Coordination between the sack keying area and the sack run outs on the first floor was inadequate. Often, sacks were available to be keyed, and either no keyers or too few keyers were available, while employees at the sack run out belts were idle. We consistently observed the employees on run out belts waiting for sacks. We observed as few as one or two keyers with six employees at the run out belts. See Illustration 9 and [Illustration 10](#).

### Illustration 9. SSM Keying



Source: OIG; June 10, 2012; 6:57 p.m. The SSM is full of sacks, and there are only two keyers (not shown).

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<sup>17</sup> A mechanized, operator-controlled machine that sorts sacks of mail.

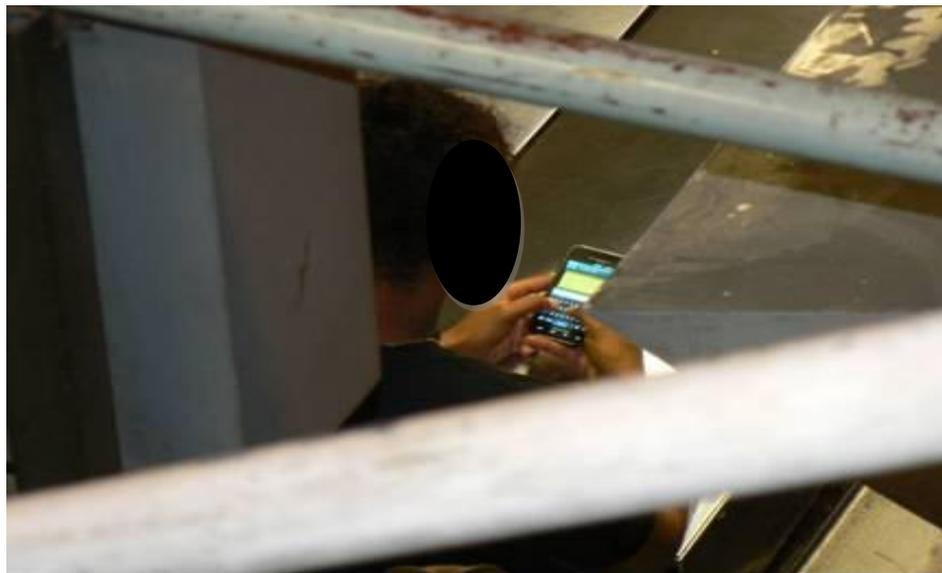
### Illustration 10. Idle Employees at SSM Run Out Belts



Source: OIG; June 6, 2012; 10:04 p.m. Sacks end up on one of several run out belts on the first floor. Here, three employees stand idle at one of the belts, waiting for sacks.

We also found there were times when the keyers were idle, and the run out belts were not staffed. See Illustration 11 and [Illustration 12](#).

### Illustration 11. SSM Keyer Idle



Source: OIG; June 10, 2012; 1:36 p.m. One of the three keyers on the SSM sits and types text messages because of lack of mail.

### Illustration 12. SSM Run Outs Not Properly Staffed



Source: OIG; June 10, 2012; 7:00 p.m. Mail backing up and falling off the run out belts onto the floor.

Lastly, the employee rotation on the sack sorter was lacking as the keyers left the sack sorter to staff the run out belts, and then the employees on the run out belts would leave to staff the keying operation. This rotation should be the other way around, with the keyers being relieved to maintain throughput on the SSM.

#### Manual Operations

Efficiency of the manual military pouching operation could be improved. The pouch racks are arranged in large U-shaped configurations, and the clerks must walk a long distance to place parcels in pouches. If management made more separations on the primary sort, the clerks could be more productive by sorting parcels to fewer racks at a time. Management should also consider staffing some mail handlers to pull, dispatch, and re-hang pouches so that clerks can continuously sort parcels without stopping to pull full pouches. There was no sense of urgency in the pouching operation and there was a lack of supervision during our observations. See [Illustration 13](#).

### Illustration 13. Military Pouch Racks



Source: OIG; June 5, 2012; 11:54 a.m. Military parcel pouch racks. There are more than 500 separations for military mail.

Machineable military letters and flats available on Tour 2 are sorted manually. Management at the Los Angeles ISC should maximize the use of automated and mechanized equipment by processing all machineable letters and flats on the DIOSS and UFSM 1000, respectively, on Tour 1. The Tour 2 manual operation could be eliminated, thereby reducing workhours (see [Illustration 14](#)).

### Illustration 14. Military Manual Cases



Source: OIG; June 9, 2012; 11:37 a.m. A clerk working machineable mail into a manual distribution case. The clerk only picked up a few mailpieces at a time rather than a handful.

### Appendix C: Monetary Impacts

Recommendation	Impact Category	Amount
1	Funds Put to Better Use <sup>18</sup>	\$4,318,829

#### Summary of Calculations

- We based cost savings calculation on the reduction of 63,170 workhours over a 10-year period multiplied by the escalated labor rate discounted over a 10-year period. We then calculated the average annual discounted savings over a 2-year period. Annual cost savings would be \$2,159,414.
- We calculated the net present value using the discount rate of 2.6 percent.
- We based labor rate on the Los Angeles ISC Labor Utilization Reporting System salary and benefits rate for total mail processing.
- The yearly escalation factor is 1.8 percent, based on the Postal Service's Decision Analysis Factors, effective November 2011.

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<sup>18</sup> Funds that could be used more efficiently by implementing recommended actions.

## Appendix D: Management's Comments

DREW T. ALIPERTO  
VICE PRESIDENT, PACIFIC AREA OPERATIONS



September 14, 2012

LUCINE WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Audit Report Efficiency of the Los Angeles International Service Center  
(Project Number 12XG020NO000)

We have reviewed the above referenced and dispositioned our response for the five recommendations at the Los Angeles ISC within Pacific Area Operations. The Pacific Area is in agreement that there is opportunity, and concurs with the findings for workhour cost savings.

**To improve efficiency at the Los Angeles International Service Center, we recommend the vice president, Pacific Area Operations; instruct Los Angeles ISC management to:**

**First Recommendation:** Reduce work hours by 63,170 by fiscal year 2014 to produce an annual cost avoidance of about \$4.3 million, or increase volume by 3.1 million pieces, or combine work hour reductions and mail volume increase to achieve 90% of the Saturday productivity level of 55 pieces per workhour.

**Actions:**

The Pacific Area concurs there are opportunities for better ISC processing efficiencies and workhour reduction opportunities. We agree with the 63,170 workhour savings by 2014.

On August 18, 2012 we will begin processing Import SPRS that are currently processed at the Santa Clarita Plant. A conservative estimated volume has the volumes at 50,000 pc a day, 6 days a week. This will result in an increase of 15.6 million FHP pieces a year. Anticipated completion date, November 1, 2012

**Recommendation #2:** Periodically evaluate operating efficiency and staffing at the Los Angeles ISC to determine whether further work hour adjustments are necessary based on workload.

**Actions:**

The Pacific Area concurs with periodically evaluating efficiencies within district operations and has now integrating the ISCs into our Baseline Staffing Model program as well bringing them into the Area LSS program. Without a standardized BPI/MPV table for ISCs we will have to rely on individual LSS based projects to create the continuous improvement targets.

Military manual rack bids will be abolished and reposted as APBS/ rack bids. This will give us the flexibility to process the Military secondary's on the APBS utilizing the employees who are already experienced working the military parcels  
We began this process on August 20, 2012.

11255 RANCHO CARMEL DR  
SAN DIEGO CA 92197-0100  
858-674-3100  
FAX: 858-674-3101  
www.usps.com

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**Recommendation #3.** Maximize the use of automated and mechanized equipment.

**Actions:**

The Pacific Area concurs and the following are actions the Los Angeles ISC will perform:

Through focused process studies to analyze underutilized mechanization some of the manual sortations are due to the very low pieces per separation vs. the number of separations/secondary sort programs that would be needed to finalize. Particularly the military operations which require a more manual sortation process. The setup and sweep overhead must be considered when evaluating the cost benefit analysis of automation.

Will initiate a Lean Six Sigma project to review "Opening Unit (RVS) operations and attempt to streamline the operation. The continuous improvement initiatives will commence on August 24, 2012.

**Recommendation # 4.** Establish productivity goals or targets.

**Actions:**

The Pacific Area concurs with the need to establish productivity goals to make a more robust processing operations environment. Due to the variance in the equipment sets and processes creating these targets will likely require a comprehensive series of LSS projects at each operation. This is to begin August 20, 2012.

**Recommendation # 5.** Improve supervision of employees to ensure that all employees are fully engaged

**Actions:**

The Pacific Area concurs. The ISC layout impedes supervisory control due to the multi-floor layout and visual blocks created by the infrastructure. This is another project for both span of control and appropriate staffing ratios.

MDOs will monitor the performance of their operations to ensure all employees are gainfully employed and reduce work hours.

Training will be ongoing as supervisors will be held accountable. In-Plant Support and the Senior MDO will be creating a curriculum by August 20, 2012.

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

  
Drew T. Aliperto

cc: Sally K. Haring