



March 31, 2004

SCOTT TUCKER
MANAGER, SAN FRANCISCO DISTRICT

SUBJECT: Audit Report - Efficiency of the San Francisco International Service Center and the General Services Administration Facility
(Report Number NO-AR-04-006)

This report presents the results of our review of two mail processing operations located in the San Francisco District (Project Number 03YG052AC000). Our objectives were to determine the efficiency of work performed by the San Francisco International Service Center (ISC) and to assess the use of the General Services Administration (GSA) facility. This self-initiated audit was conducted jointly with Pacific Area mail processing managers and in cooperation with the manager, San Francisco District. In addition, we developed the GSA review with local management.

The audit revealed that the Postal Service could increase efficiency by:

- Reducing 120,000 workhours at the San Francisco ISC. The financial impact of the workhour reduction could produce a cost avoidance of \$39 million based on labor savings over ten years.
- Transferring mail being processed at the GSA facility in San Francisco to the San Francisco ISC and closing the GSA facility. As a result of these actions, the Postal Service could avoid approximately \$5.2 million in operational costs over ten years.

We made three recommendations to Postal Service management addressing these issues. Management agreed to our findings, recommendations, and monetary impact and has initiatives in progress, completed, or planned addressing the issues in this report. Management's comments and our evaluation of these comments are included in the report.

The 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

Mary W. Demory
Deputy Assistant Inspector General
for Operations and Human Capital

Attachment

cc: John A. Rapp
Al Iniguez
Michael J. Nappi
Kerry L. Wolny
James L. Larkin
Joseph K. Moore
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

The Office of Inspector General assessed two mail processing operations in the San Francisco District. Our objectives were to determine the efficiency of work performed by the San Francisco International Service Center (ISC) and to assess the use of the General Services Administration (GSA) facility. This self-initiated audit was conducted jointly with Pacific Area mail processing managers and in cooperation with the manager, San Francisco District. In addition, we developed the GSA review with local management.

Results in Brief

We concluded that the Postal Service could increase efficiency by:

- Reducing 120,000 workhours at the San Francisco ISC. The financial impact of the workhour reduction could produce a cost avoidance of \$39 million based on labor savings over ten years.
- Transferring mail being processed at the GSA facility in San Francisco to the San Francisco ISC and closing the GSA facility. As a result of these actions, the Postal Service could avoid approximately \$5.2 million in operational 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.

Postal Service management agreed to reduce workhours at the San Francisco ISC by at least 120,000 hours. Workhour reductions commenced in fiscal year (FY) 2003 and completion is expected by the end of FY 2007. The Postal Service has already begun to reduce workhours by approximately 10,000 hours by not filling five vacant positions. They also agreed to terminate the lease on the GSA facility and transfer the mail to the San Francisco ISC for processing.

Summary of Recommendations	We recommend the manager, San Francisco District, reduce 120,000 workhours, periodically evaluate operating efficiency at the San Francisco ISC, and close the GSA facility, as planned.
Summary of Management's Comments	Management agreed with our findings, recommendations and associated monetary impact. Management's comments, in their entirety, are included in Appendix G of this report.
Overall Evaluation of Management's Comments	The management comments reflect that the manager, San Francisco District has been very proactive and aggressive with implementing the recommendations. The San Francisco 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

The Postal Service established international service centers in 1996 to better compete in the growing international mail market. Before 1996, Exchange Offices¹ processed international and military mail.² These Exchange Offices were collocated in processing and distribution centers where domestic mail processing 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 international/military network was established to improve international/military mail service with a dedicated workforce and single-focus management. The Postal Service hoped that 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 at Miami, Florida; Chicago, Illinois; Los Angeles, California; Dallas, Texas; San Francisco and Oakland, California; New York, New York; and Dulles, Virginia.³

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

¹ An International Exchange Office/International Mail Service Center is a post office or airport mail center/facility authorized to exchange international mail and military mail, both air and surface, with another country.

² International mail is mail originating in one country and arriving in another. It is classified as Postal Union Mail (letters and cards and other articles), postal 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.

³ The planned Dulles, Virginia, International Service Center was completed in October 1999, but does not serve as an international service center.

achieve the 2005 projection of \$11.4 billion, based on revenue in 2002 of just \$1.58 billion.

**Objectives, Scope,
and Methodology**

The audit assessed the efficiency of work performed by the San Francisco International Service Center (ISC) and the use of the GSA facility. The manager, San Francisco District, requested that we examine the feasibility of transferring the workload from the GSA facility to the San Francisco ISC. We conducted this audit jointly with Pacific Area mail processing managers and in cooperation with the manager, San Francisco District. In addition, we developed the GSA review with local management.

To assess the efficiency of these two facilities, we observed processing operations, analyzed mail volumes and workhours, and evaluated capacities. In addition, we benchmarked the mail volumes per workhour at the San Francisco ISC with other international service centers.

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 analyze 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 that the data used was unreliable.

This audit was conducted from August 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 workhour efficiency. (See Appendix B for details.)

AUDIT RESULTS

Assessment of Resources Used at the San Francisco International Service Center	<p>The Postal Service could improve the efficiency of processing international and military mail at the San Francisco ISC. Specifically, we found workhours at the San Francisco ISC were excessive in relation to workload, the San Francisco ISC did not meet its productivity targets for machine utilization, and the San Francisco ISC was less efficient than all the other international service centers.</p> <p>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, which included benchmarking operations against other international service centers and domestic plant operations.</p>
Workhours Were Excessive in Relation to Workload	<p>The mail volume (first handling pieces⁵) processed at the San Francisco ISC in FY 2003 was 11.5 million pieces (8.3 percent) lower than in FY 2002. However, during the same period, total workhours used to process this mail was 177,000 hours (25 percent) higher. As a consequence, the Postal Service used more resources to process less mail in FY 2003. The chart below depicts the volume and workhours for both fiscal years.</p>

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

⁵ A first handling piece is a letter, flat, or parcel that receives its initial distribution in a Postal Service facility.

Volume and Workhours	FY 2002	FY 2003	Percentage Increase/Decrease
Volume of First Handling Pieces ⁶	137.7 million	126.2 million	8 percent decrease
Workhours	707,000	884,000	25 percent increase

San Francisco International Service Center Did Not Meet Productivity Targets

The San Francisco ISC has not achieved target productivity levels for each of its mail processing operations over a two-year period. Target productivity levels are based on total pieces of mail that could be processed for each machine or workhour of that particular operation. Overall, in FYs 2002 and 2003, the San Francisco ISC achieved 68 percent and 48 percent of its total targeted productivity levels, respectively.

For example, the delivery barcode sorting operation met 59 percent of its national target level in FY 2002 and 34 percent in FY 2003. The Postal Service should have, but did not, adjust staffing levels after the removal of one delivery barcode sorter. Appendix C shows the percentage of target productivity levels achieved for each mail processing operation.

San Francisco International Service Center Was Less Efficient Than All Other International Service Centers

The San Francisco ISC was less efficient than all other international service centers. The following chart depicts productivity levels using first handling pieces per workhour and total pieces handled⁷ per workhour for the San Francisco ISC as compared to all other international service centers.

⁶ Volume shown includes the total of all types of mail (letter, parcels, and flats). Volume growth can vary within each type of mail and variations can impact workhour efficiency.

⁷ Total pieces handled refer to the number of handlings necessary to distribute each piece of mail from the time of receipt to dispatch, including multiple handlings of each piece.

San Francisco International Service Center Data

FISCAL YEAR	FIRST HANDLING PIECES PER WORKHOUR FOR SAN FRANCISCO	FIRST HANDLING PIECES PER WORKHOUR FOR OTHER SITES	TOTAL PIECES HANDLED PER WORKHOUR FOR SAN FRANCISCO	TOTAL PIECES HANDLED PER WORKHOUR FOR OTHER SITES
2002	194.47	203.66	198.67	229.43
2003	138.06	207.59	159.58	246.54

For FYs 2002 and 2003, first handling pieces per workhour ratios for the San Francisco ISC were 194.47 and 138.06, as compared to the other international service centers⁸ ratios of 203.66 and 207.59, respectively. These ratios show that the San Francisco ISC processed less mail per workhour than the other international service centers. Similar trends were found when total pieces handled per workhour ratio was compared to other centers. Appendix D shows how the San Francisco ISC compared to other international service centers with regard to volumes per workhour for FY 2003.

These conditions resulted because Postal Service managers did not properly adjust workhours as a result of changes in mail volumes. In addition, observations conducted at the San Francisco ISC found that employee productivity could be improved. The Office of Inspector General agreed with Postal Service managers that this is a result of:

- A misalignment between employees' scheduled workhours and mail arrival times.
- Excessive handling of mail.
- Low mailing volumes relative to the number of workhours.

⁸ The other International Service Centers included Miami, Chicago, New York, Los Angeles, and Dallas. The Oakland International Service facility was not included in our analysis because only surface international mail is handled at this facility.

- Managers not evaluating and adjusting staffing levels based on mail volumes.
- Use of employees on limited/light duty assignments.⁹

As a result, we estimated that approximately 120,000 workhours could be reduced by the end of FY 2007 based on mail volumes, targeted productivity levels, comparison to other international service centers, and observations of mail processing operations.

The reduction in workhours by FY 2007 will result in a cost avoidance for the Postal Service of approximately \$39 million.¹⁰ This reduction in workhours includes the absorption of the GSA facility workload.

Management's Actions	To improve productivity, Postal Service management agreed to reduce 120,000 workhours. Workhour reductions commenced in FY 2003 and completion is expected by the end of FY 2007. Postal Service management had already begun to reduce workhours by approximately 10,000 hours by not filling vacant positions. Workhour reductions will be achieved through both employee attrition and termination of casual (temporary) employees. While holding mail volume constant, these actions will significantly raise productivity levels at the San Francisco ISC. Appendix E details the financial impact of workhour reductions at the San Francisco ISC.
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Recommendations	To improve operating efficiency at the San Francisco International Service Center, we recommend the manager, San Francisco District: <ol style="list-style-type: none">1. Reduce 120,000 workhours, as planned.2. Periodically evaluate operating efficiency and staffing at the San Francisco International Service Center to determine whether further workhour adjustments are necessary based on workload.
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⁹ Employees are placed on limited/light duty assignments because of injury and are assigned tasks within their physical limitations.

¹⁰ This calculation of cost saving is consistent with Postal Service cash flow methodology.

Management's Comments	Management agreed with our finding, recommendations and associated monetary impact. The manager, San Francisco District will continue to reduce workhours at the ISC through the end of FY 2007. Postal Service management also will monitor the efficiency of operations on a daily basis and arrange an independent review semiannually to ensure savings are captured.
Evaluation of Management's Comments	Management's actions, taken or planned, should correct the issues identified in the finding.

Assessment of the General Services Administration Facility	<p>Priority Mail processed at the GSA facility¹¹ in San Francisco could be processed more efficiently at the San Francisco ISC. This facility was leased in August 1980 to provide additional work space to process San Francisco mail volume and operates 24 hours a day, 7 days a week.</p> <p>At the GSA facility, Priority Mail, including military Priority Mail, was being processed via manual operations, which is inefficient. We also found that the relatively low mail volume, 276 million pieces in FY 2003, did not justify the cost of the operations. This mail could be processed more efficiently using automated or mechanized equipment and easily absorbed by the San Francisco ISC.</p> <p>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.</p> <p>As a result, the Postal Service could incur unnecessary operational costs of approximately \$5.2 million over ten years by keeping the GSA facility open. Appendix F details the financial impact of closing the GSA facility.</p>
Management's Actions	<p>Postal Service management agreed to terminate the lease, close the GSA facility, and transfer the mail to the San Francisco ISC for processing. The transfer of the GSA facility workload would improve efficiency and plant use in the San Francisco District.</p>
Recommendation	<p>To improve operating efficiency, we recommend the manager, San Francisco District:</p> <ol style="list-style-type: none">3. Transfer the processing of mail from the General Services Administration facility to the San Francisco International Services Center and close the General Services Administration facility, as planned.

¹¹ Our examination of the feasibility of transferring the workload from the GSA facility to the San Francisco ISC was made in cooperation with the manager, San Francisco District.

Management's Comments	Management agreed with our finding, recommendation and associated monetary impact. Postal Service management will transfer GSA operations to the San Francisco ISC in April 2004 and subsequently terminate the GSA lease.
Evaluation of Management's Comments	Management's actions, taken or planned, should correct the issues identified in the finding.

**APPENDIX A
 REVENUE AND VOLUME RATES IN 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 by 8.8 percent between 2001 and 2002, after maintaining a steady increase between 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 over the past five years has shown considerable volatility.

Source: FYs 2000 and 2002 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 business mail entry employees at Denver Bulk Mail Center and Denver General Mail facility were not needed to accept business mailings. Management could save an estimated \$1 million annually if the number of employees were reduced. We recommended that 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 when its planned workhour reductions are fully implemented. 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 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 that 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 that 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 that 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 that 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

**TARGETED PRODUCTIVITY LEVELS ACHIEVED BY EACH TYPE OF MAIL
PROCESSING OPERATION FOR THE SAN FRANCISCO INTERNATIONAL
SERVICE CENTER
FYS 2002 AND 2003**

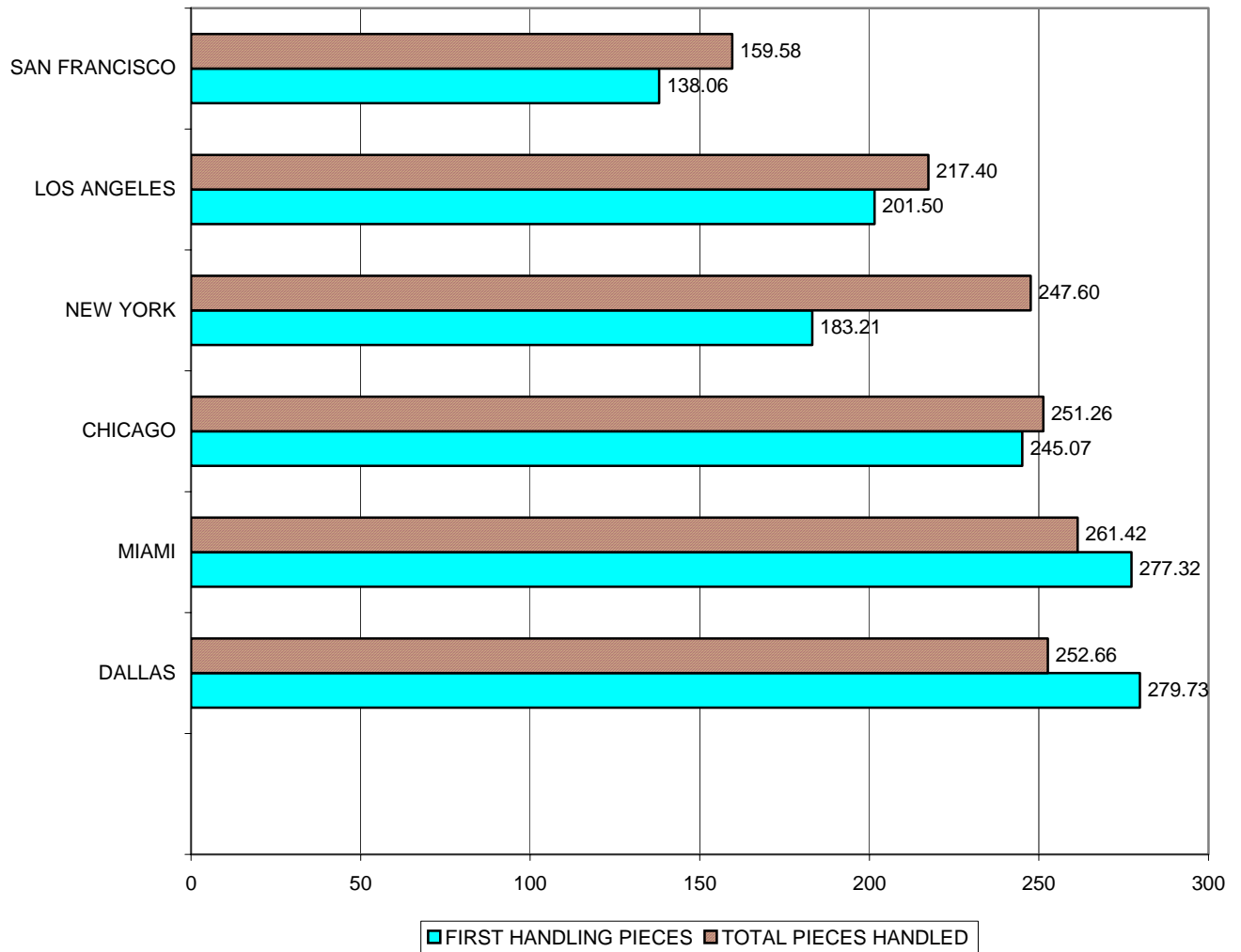
MAIL PROCESSING OPERATION	PIECES PER WORKHOUR			PERCENTAGE OF TARGET	
	2002 Productivity	2003 Productivity	Target	Achieved 2002	Achieved 2003
Flat Sorter Machine 1000	305	275	520	59%	53%
Small Parcel Bundle Sorter	217	188	366	59%	51%
Delivery Barcode Sorter	5,108	2,910	8,629	59%	34%
Linear Integrated Parcel Sorter	157	381	492	32%	77%
Manual Handling of Flats	251	585	627	40%	93%
Manual Handling of Letters	459	336	691	66%	49%
Manual Handling of Parcels	170	101	583	29%	17%
Totals for Operations*	583	415	862	68%	48%

*Totals for operations were determined by total pieces on each of the mail processing operations divided by the total workhours used on each of the mail processing operations.

Source: Management Operating Data System and Breakthrough Productivity Index Targets

APPENDIX D

FY 2003 FIRST HANDLING PIECES AND TOTAL PIECES HANDLED VOLUME PER TOTAL WORKHOURS



Note: The ratios were computed by taking the first handling pieces volume and total handling pieces volume divided by the total workhours for FY 2003.

Source: Web Enterprise Information System.

APPENDIX E

COST AVOIDANCE AT THE SAN FRANCISCO INTERNATIONAL SERVICE CENTER (FUNDS PUT TO BETTER USE)

Year	Yearly Workhour Reduction	Cost Avoidance (Ten Years with Escalation)
FY 2004 (Effective Accounting Period 1)	30,000	\$12,946,376
FY 2005 (Effective Accounting Period 1)	30,000	\$13,270,035
FY 2006 (Effective Accounting Period 1)	30,000	\$13,601,786
FY 2007 (Effective Accounting Period1)	30,000	\$13,941,831
Totals (ten full fiscal years)	120,000	\$53,760,028
	Present Value at 4.5 percent for ten years	\$39,027,390

NOTES

- The 30,000 workhour reduction is based on Postal Service management's plan to reduce 120,000 workhours over a four-year period.
- The cost avoidance was calculated using the hour saving 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.
- Labor rates were based on the Postal Service 2003 published rates for a PS-05 mail processing clerks.
- 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 F

**PROJECTIONS OF COST AVOIDANCE BASED ON CLOSURE OF THE
 GENERAL SERVICES ADMINISTRATION FACILITY
 (FUNDS PUT TO BETTER USE)**

Year	Yearly Lease Savings	Yearly Utilities Savings	Cost Avoidance (Ten Years with Escalation)
FYs 2004 through 2007	\$528,297	\$128,600	\$6,700,656
		Present Value at 4.5 percent for ten years	\$5,233,893

NOTES

- The cost avoidance was calculated using the escalated lease and utility saving over a ten-year period. The first year calculation was based on 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.
- 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 G MANAGEMENT'S COMMENTS

SAN FRANCISCO DISTRICT



March 29, 2004

MEMORANDUM FOR MARY W. DEMORY
Deputy Assistant Inspector General
for Operations and Human Capital

SUBJECT: Draft Audit Report – Efficiency of the San Francisco International Service
Center and the General Services Administration Facility
(Report Number NO-AR-04-DRAFT)

This is a revision to my letter dated March 24, 2004; revision is in italics.

We have reviewed the Draft Audit Report on the Efficiency of the San Francisco ISC and the GSA Facility. We agree to the basic recommendations: the closure of the GSA Facility and a 120,000 workhour reduction at the ISC by the end of FY 2007.

Recommendation [1]:

Reduce 120,000 workhours at the San Francisco ISC by the end of FY 2007.

Response

San Francisco agrees to the workhour reduction. As discussed, the base year will be FY 2003. The ISC began to reduce workhours at the end of FY 2003 by reverting 5 positions. In the last 3 APs of FY 03, the ISC realized a savings of 3,000 workhours. The remaining savings will be versus SPLY with the first year's comparison between FY 2003 and FY 2004. We also agree with the associated economic impact of \$39 million as a result of these hourly reductions.

The achievement of this savings will be spread out as follows:

FY 2003	3,000 hours
FY 2004	45,000 hours
FY 2005	30,000 hours
FY 2006	22,000 hours
FY 2007	20,000 hours

Recommendation [2]:

Periodically evaluate operating efficiency and staffing at the San Francisco International Service Center to determine whether further workhour adjustments are necessary based on workload.

P O Box 885050
San Francisco CA 94188-5050
PHONE: 415-550-5591
FAX: 415-550-5327

Response

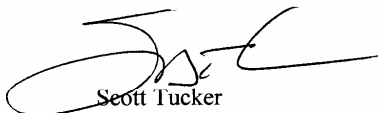
San Francisco agrees to this recommendation. Efficiency of operations is being monitored on a daily basis, to identify opportunities for improvement. An independent review by the SF District In-Plant Support will be conducted semi-annually to ensure savings are being captured.

Recommendation [3]:

Transfer the processing of mail from the General Services Administration facility to the San Francisco International Service Center and close the General Services Administration facility.

Response

San Francisco agrees with the recommendation. The GSA operations will be transferred to the ISC in April, 2004, and the GSA lease terminated at the end of April. *This will result in an annual savings of \$650,000 and a \$5.2 million savings over 10 years.*



Scott Tucker

cc: Kerry Wolny
Jim Larkin