



September 24, 2004

THOMAS A. GUTTADAURO
MANAGER, NEW YORK INTERNATIONAL SERVICE CENTER

SUBJECT: Audit Report - Efficiency of the Airmail Records Unit at the New York
International Service Center (Report Number NO-AR-04-011)

This report presents the results of our audit of the Airmail Records Unit (AMRU) at the New York International Service Center (ISC) located in the New York Metro Area (Project Number 04YG008NO001). Our objective was to determine the efficiency of work performed at the New York ISC. The Managing Director, International Network Operations, requested the audit of the ISC, which we conducted jointly with New York Metro Area mail processing managers and in cooperation with the Manager, New York ISC.

The New York ISC could improve the efficiency of the AMRU by reducing workhours by 30,000. Management should also consider outsourcing the AMRU, since this operation is not core to New York ISC's mission of processing international mail. A 30,000-hour reduction in workhours could produce a cost avoidance of \$9,248,967 based on labor savings over a ten-year period. These funds represent funds put to better use for the Postal Service and will be reported as such in the September 2004 Semiannual Report to Congress.

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

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 audit. If you have any questions or need additional information, please contact Robert J. Batta, Director, Network Operations - Processing, or me at (703) 248-2300.

/s/ Mary W. Demory

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

Attachment

cc: John A. Rapp
Mary Anne Gibbons
David L. Solomon
Paul E. Vogel
Michael J. Nappi
Steven J. Forte
Steven R. Phelps

TABLE OF CONTENTS

Executive Summary	i
Part I	
Introduction	1
Background	1
Objective, Scope, and Methodology	1
Prior Audit Coverage	2
Part II	
Audit Results	3
Assessment of the Airmail Records Unit	3
Recommendations	4
Management's Comments	4
Evaluation of Management's Comments	5
Appendix A. Prior Audit Coverage	6
Appendix B. Cost Avoidance at the Airmail Records Unit, New York International Service Center (Funds Put to Better Use)	9
Appendix C. Management's Comments	10

EXECUTIVE SUMMARY

Introduction

The Office of Inspector General assessed the operations of the Airmail Records Unit (AMRU) at the New York International Service Center (ISC) located in the New York Metro Area. Our objective was to determine the efficiency of work performed at the New York ISC. The Managing Director, International Network Operations, requested the audit of the ISC, which we conducted jointly with New York Metro Area mail processing managers and in cooperation with the Manager, New York ISC.

Results in Brief

The New York ISC could improve efficiency by reducing workhours in the AMRU by 30,000. Management should also consider outsourcing the AMRU, since this operation is not core to the New York ISC's mission of processing international mail. A 30,000 workhour reduction could produce a cost avoidance of \$9,248,967 based on labor savings over a ten-year period. These funds represent funds put to better use for the Postal Service and will be reported as such in the September 2004 Semiannual Report to Congress.

Postal Service management had addressed operational efficiency by adjusting their actual workhours to match the number of workhours planned for in the budget process. As a result, they reduced fiscal year (FY) 2003 workhours by 8 percent from FY 2002 levels. However, Postal Service management had not evaluated operational efficiency by examining productivity per employee or using available automation.

Postal Service management agreed to reduce AMRU workhours by 30,000 at the New York ISC by the end of FY 2009. They also agreed to consider outsourcing the AMRU.

Summary of Recommendations

We recommended the Manager, New York ISC, reduce workhours at the AMRU by 30,000, or outsource this operation. Workhour reductions are based on FY 2003 workhour usage, with reductions to begin in FY 2004 and be completed by the end of FY 2009.

Summary of Management's Comments	Management agreed with our finding, recommendations, and associated monetary impact. Postal Service agreed to request additional resources to remove excess equipment and improve controls and provide instructions on MERLIN overwrites. Management's comments, in their entirety, are included in Appendix C of this report.
Overall Evaluation of Management's Comments	Management's comments reflect that the Manager, New York ISC, has been very proactive and aggressive with implementing the recommendations. They are 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 this report.

INTRODUCTION

Background

When the Postal Service established the International Service Centers (ISC) Network in 1996, it absorbed the operations of the Airmail Records Units (AMRU), which existed as part of the International Exchange Offices before the creation of the Network.¹ The AMRUs were established to provide a communications link between foreign postal administrations and the Postal Service wherever there is an exchange of international mail. AMRUs are the first point of contact for questions about the transport and delivery of international mail.

AMRUs handle all matters involving international mail for their International Exchange Offices.² One of their main functions is to communicate with foreign postal administrations and reconcile incoming international documents. These units are repositories for all inbound mail records and are responsible for any research and adjustments made to inbound or outbound mail records. The information maintained by the AMRUs is transmitted to the International Accounting Branch in St. Louis, Missouri, for processing and payment to transportation carriers and foreign postal administrations.

AMRUs are located in Los Angeles, California; Chicago, Illinois; San Francisco, California; Fort Worth, Texas; Honolulu, Hawaii; Jamaica, New York; Jersey City, New Jersey; Miami, Florida; Oakland, California; San Juan, Puerto Rico; and Seattle, Washington. About 100 people are employed in these AMRUs. Although these units previously reported to finance offices, as of October 2003, they report to International Network Operations.

Objective, Scope, and Methodology

The audit assessed the efficiency of the AMRU at the New York ISC. The Managing Director, International Network Operations, requested the audit of the ISC, which we conducted jointly with New York Metro Area mail processing managers and in cooperation with the Manager, New York ISC.

¹ AMRUs are also referred to as International Records Units.

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

To assess the efficiency of the New York ISC, we observed operations at the AMRU, analyzed mail volumes and workhours, interviewed Postal Service employees, and evaluated employee efficiency.

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.

This audit was conducted from April through September 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 observations and conclusions with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We have issued two audit reports on workhour efficiency at ISCs and seven reports on efficiency at business mail entry units. (See Appendix A for details.)

AUDIT RESULTS

Assessment of the Airmail Records Unit	<p>Although the Postal Service reduced workhours by 8 percent in 2003, international mail records processed and maintained at the AMRU could be processed more efficiently. Inefficiencies occurred because the unit did not meet productivity goals; need certain positions; or use automation equipment available to them. Management should also consider outsourcing the AMRU since this operation is not core to the New York ISC's mission of processing international mail.</p> <p>Title 39, United States Code, Chapter 4, Section 403, states, "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services . . . to provide types of mail service to meet the needs of different categories of mail and mail users."</p>
Airmail Records Unit Did Not Meet Productivity Goal	<p>The AMRU was processing international mail records inefficiently. Production reports obtained during our review showed that productivity in the unit was about 13 records per employee per day. This level of production is significantly below the goal of 50 records per employee per day set by ISC management. This level of production would reduce workhours by approximately 45,000. However, the goal of 50 records per day may not be immediately attainable. A goal of 25 records per day, and a corresponding workhour reduction of 25,000 hours, is more realistic.</p>
Unnecessary Positions	<p>The two positions currently in place for the translators were obsolete because translation software was in use. Additionally, the position of receptionist was unnecessary. Observations showed that the receptionist was handling records nine times before forwarding them to a processing clerk for review. This amount of handling is unnecessary and may create backlogs. Eliminating these three positions could save approximately 5,000 workhours.</p>
Available Automation Equipment Not Used	<p>An imaging system on-site, purchased in 1999 for approximately \$93,000, could be used to automate and store all records received and processed by the AMRU. This equipment was not used because training had not been provided.</p>

We estimated the AMRU could reduce workhours by 30,000 by the end of FY 2009. This 30,000 workhour reduction could produce a cost avoidance of over \$9 million based on labor savings over a ten-year period. (See Appendix B for details.)

Illustration 1. Airmail Records Unit at the New York ISC.
The work at this unit could be automated to reduce workhours.



Recommendations

To improve operating efficiency at the Airmail Records Unit, we recommend the Manager, New York International Service Center:

1. Reduce workhours by 30,000; this will result in a cost savings of approximately \$9 million over a ten-year period.
2. Consider outsourcing the Airmail Records Unit operation.

**Management's
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. The Manager, New York ISC, made a commitment to reduce workhours by 30,000 at the AMRU over the next several years. New York ISC management also committed to continue exploring the feasibility of outsourcing the AMRU operation.

**Evaluation of
Management's
Comments**

Management's comments reflect that the Manager, New York ISC, has been very proactive and aggressive with implementing the recommendations. The New York ISC management 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 finding.

APPENDIX A

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), reported 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 if the number of employees was reduced. 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), reported 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 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), reported 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 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), reported 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), reported 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, Capital 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), reported 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), reported 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.

Efficiency of the San Francisco International Service Center and the General Services Administration Facility (Report Number NO-AR-04-006, March 31, 2004), reported the district should reduce the workhours necessary to process mail at the San Francisco ISC, transfer mail from the General Services Administration (GSA) Facility to the San Francisco ISC, and close the GSA facility. During the audit, Postal Service management agreed to reduce mail processing workhours at the San Francisco ISC by 120,000 hours by the end of FY 2007. This reduction in workhours could produce an estimated cost avoidance of approximately \$39 million over ten years. In addition, management agreed to close the GSA facility, which could produce a cost avoidance of

approximately \$5.2 million over ten years. We recommended the Manager, San Francisco District, reduce hours as planned, close the GSA facility, and periodically reevaluate staffing. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

Efficiency of the Oakland International Service Facility and the Regatta Facility (Report Number NO-AR-04-007, March 31, 2004), reported the district should reduce the workhours necessary to process mail at the Oakland International Service Facility, transfer mail from the Regatta Facility, and close the Regatta Facility. During the audit, Postal Service management agreed to reduce mail processing workhours at the Oakland ISC by 25,000 hours by the end of FY 2006. This reduction in workhours could produce an estimated cost avoidance of approximately \$5.4 million over ten years. In addition, management agreed to close Building 512 rather than the Regatta Facility due to an early termination of the Building 512 lease. The closure of Building 512 could produce a cost avoidance of approximately \$3.4 million. We recommended the Manager, Oakland District, reduce hours as planned, close Building 512, and periodically reevaluate staffing. Management agreed, and the actions taken and planned were responsive to the issues identified in the report.

APPENDIX B

COST AVOIDANCE AT THE AIRMAIL RECORDS UNIT, NEW YORK INTERNATIONAL SERVICE CENTER (FUNDS PUT TO BETTER USE)

Employee Category	Total Workhour Reduction (Increase)	Undiscounted Total Savings or (Costs) (Ten Years – 2.7 Percent Escalation Rate)	Discounted Total Savings or (Costs) (Ten Year – 5 Percent Discount Rate)
Airmail Records Unit Clerks (PS-5). Yearly reduction of 6,000 hours over five years	30,000	\$13,350,593	\$9,248,967

Notes

- The total workhour reduction is based on decreasing AMRU hours by 30,000.
- Workhour reductions are based on Postal Service management's plan to reduce 30,000 workhours over a five-year period from FYs 2005 to 2009, based on FY 2003 workhour usage of 60,871.
- We calculated cost avoidance using the hour savings multiplied by the escalated labor rate over a ten-year period.
- We calculated the net present value using the discount rate of 5 percent over a ten-year period. The yearly escalation factor is 2.7 percent.
- Labor rates were based on the Postal Service's 2003 published rates for a PS-05 Mail Processing Clerk.

Funds Put to Better Use -- Funds that can be used more efficiently by implementing recommended actions.

APPENDIX C. MANAGEMENT'S COMMENTS

MANAGER, OPERATIONS SUPPORT
NEW YORK METRO AREA



September 13, 2004

MARY W. DEMORY
DEPUTY ASSISTANT INSPECTOR GENERAL
FOR OPERATIONS AND HUMAN CAPITAL
OFFICE OF INSPECTOR GENERAL

SUBJECT: Efficiency of the New York International Service Center
(Report Number NO-AR-04-Draft)

At the request of the Manager, International Network Operations, the Office of the Inspector General (OIG) performed an efficiency audit of the Airmail Records Unit (AMRU) at the New York International Service Center (NY ISC) in April / May 2004. This audit was conducted jointly with representatives of the OIG, New York Metro Area, and NY ISC mail processing managers. The observations and findings were determined by this group in a cooperative effort and management agrees with these results.

Specifically, the audit identified a potential workhour savings of thirty thousand (30,000), producing a cost avoidance of \$9 million over ten years that management agrees is fair, reasonable, and attainable over the ten year period.

The following will address each individual finding and recommendation:

Recommendation #1:

Reduce workhours by 30,000; this will result in a cost savings of approximately \$9 million over a ten year period.

Response

The NY ISC has reduced workhours in AMRU by eight percent (8%) from FY2002 through FY2003. Management foresees similar reductions for the next several years and agrees that the recommended reduction of 30,000 workhours over a ten year period is attainable.

The Plant Manager of the NY ISC will be responsible for achieving these savings through the implementation of the following initiatives:

- 1- management of employee performance and productivity, ongoing,
- 2- management of weekly On-Hand and Processed BV and document report in coordination with International Networks Operations group in Headquarters, ongoing, and
- 3- continue working with Information Systems, International Platform group in developing automated processing of international records through the Receipt Verification System (RVS) back office initiative, not determined.

142-02 20TH AVENUE
FLUSHING, NY 11351-0100
(718) 321-5750
FAX: (718) 321-7149

- 2 -

Recommendation #2:

Consider outsourcing the Airmail Records Unit operation.


Response:

The Manager, International Network Operations and Plant Manager NY ISC have discussed the possibility of this initiative and management agrees to continue exploring the feasibility of outsourcing.

The Plant Manager of the NY ISC will be responsible to continue the feasibility study of this initiative in coordination with the International Network Operations group in Headquarters. As there are AMRUs at the other ISCs and BMC, ultimately, the decision to outsource the AMRU operations will be a national decision made by Headquarters.

As this report is a product of the cooperative effort by the OIG and USPS management, there is no proprietary or other business information that is exempt from disclosure under the Freedom of Information Act (FOIA).

If you have questions or require additional information, please contact me at 718.321.5750.


Steven J. Forte

cc: David L. Solomon