



June 17, 2005

WILLIAM ALMARAZ  
MANAGER, LOS ANGELES DISTRICT

SUBJECT: Audit Report - Efficiency of the Los Angeles International Service Center  
(Report Number NO-AR-05-011)

This report presents the results of our review of the Los Angeles International Service Center (ISC) located in the Los Angeles District in the Pacific Area (Project Number 04YG037NO000). This is our third report on the efficiency of ISCs. Our objective was to assess operational efficiency at the Los Angeles ISC. We conducted this audit in cooperation with the Pacific Area manager of Operations Support and the manager, Los Angeles District.

The Los Angeles ISC had reduced workhours, but it could further improve operational efficiency. 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. The Los Angeles ISC could begin to improve efficiency by reducing 85,000 workhours based on workhour usage in fiscal year 2004. This reduction could produce a cost avoidance of approximately \$26.1 million based on labor savings over a ten-year period. We will report approximately \$26.1 million of funds put to better use in our Semiannual Report to Congress.

We made three recommendations to Postal Service management addressing these issues. Management agreed with our findings, recommendations, and monetary impact and has initiatives 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 recommendation 1 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. This recommendation should not be closed in the follow-up tracking system until the OIG provides written confirmation the recommendation 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  
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#### Attachments

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## EXECUTIVE SUMMARY

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### Introduction

The Office of Inspector General assessed mail processing operational efficiency at the Los Angeles, California, International Service Center (ISC) located in the Los Angeles District in the Pacific Area.

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### Results in Brief

The Los Angeles ISC had reduced workhours, but it could further improve operational efficiency. 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.

These conditions occurred because of high management turnover,<sup>1</sup> which resulted in inconsistent and incomplete reviews of operational efficiencies. Consequently, the Los Angeles ISC used more workhours than needed to process mail volumes.

The Postal Service could increase operational efficiency at the Los Angeles ISC by reducing 85,000 mail processing workhours. This reduction could produce a cost avoidance of approximately \$26.1 million based on labor savings over a ten-year period.

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### Summary of Recommendations

We recommended the manager, Los Angeles ISC, reduce 85,000 mail processing workhours based on workhour usage in fiscal year 2004 and periodically evaluate operating efficiencies at the Los Angeles ISC. We also recommended the Los Angeles ISC obtain a Linear Integrated Parcel Sorter, two universal dumpers, a small parcel bundle sorter extension, and additional belts.

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<sup>1</sup>Since fiscal year (FY) 1999, 13 different people have held the Los Angeles ISC manager position.

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**Summary of  
Management's  
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. Management's response indicated that a combination of workhour reductions, an increase in mail volume, and consolidation of volumes could also achieve higher efficiency levels. Furthermore, management agreed to pursue the deployment of a Linear Integrated Parcel Sorter, two universal dumpers, a small parcel bundle sorter extension, and additional belts. Management's comments, in their entirety, are included in Appendix F of this report.

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**Overall Evaluation of  
Management's  
Comments**

Management's comments are responsive to the recommendations and reflect that management is taking a proactive approach to improving efficiency. Management's planned actions should correct the issues identified in the report.

## INTRODUCTION

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### Background

The Postal Service established international service centers (ISC) in 1996 to better compete in the growing international mail market. Before 1996, exchange offices<sup>2</sup> processed international mail.<sup>3</sup> 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 mail. The international network was established to improve international mail service with a dedicated workforce and single-focus management of international mail. The Postal Service hoped that this approach would improve service and provide the structure needed to support new products and increase revenue. In response to this marketing and sales plan, ISCs were established in Miami, Florida; Chicago, Illinois; Los Angeles and San Francisco, California; Dallas, Texas; New York, New York; and Dulles, Virginia.<sup>4</sup> In addition, two surface facilities that transport mail over water—which are known as international service facilities—were established in Oakland, California, and Jersey City, New Jersey.

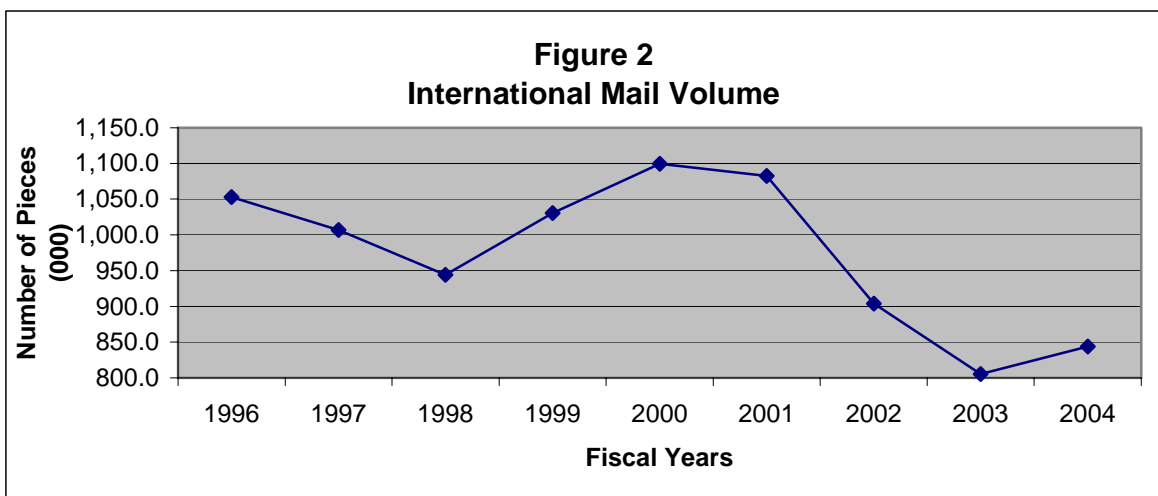
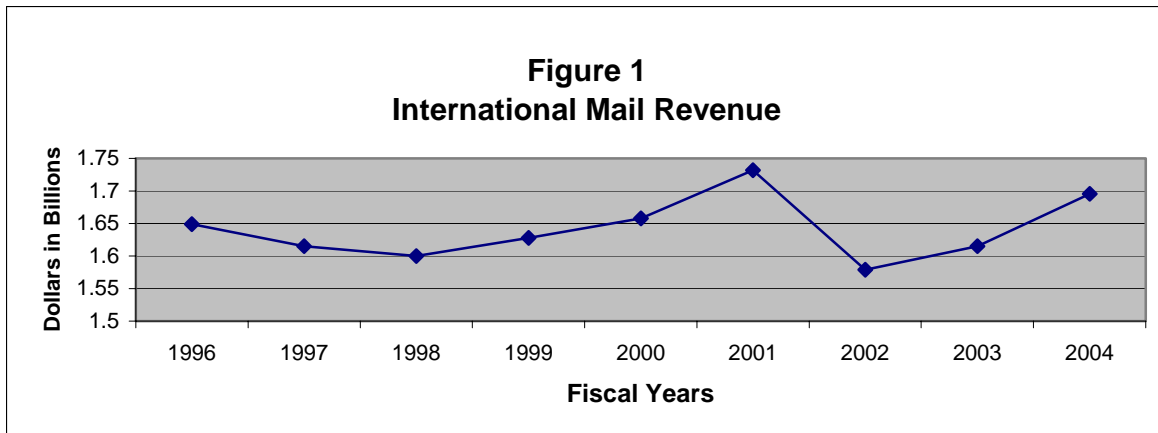
However, mail volume or revenue did not increase as outlined in the marketing and sales plan. The volume of international mail declined by 20 percent and revenue increased by 3 percent from fiscal years (FY) 1996 to 2004. Figure 1, International Mail Revenue, and Figure 2, International Mail Volume, show the volume and revenue trends.

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<sup>2</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>3</sup>International mail is mail originating in one country and arriving in another. It is classified as Postal Union Mail (letters, cards, and other articles), postal parcels, and Express Mail International Service.

<sup>4</sup>The planned Dulles, Virginia, ISC was completed in October 1999, but does not serve as an ISC. The Dallas ISC was closed by the Postal Service in accounting period 7 of FY 2004 because expected increases in mail volume did not occur.



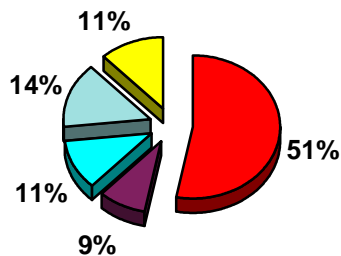
In March 1996, Coopers & Lybrand, L.L.P., conducted a study on behalf of the Postal Service. The study projected international mail revenue at \$6.1 billion in FY 2000 and \$11.4 billion in FY 2005. However, actual revenue in FY 2000 was \$1.66 billion, a shortfall of 73 percent of the projected amount. It is unlikely that the Postal Service will achieve the FY 2005 projection of \$11.4 billion, based on FY 2004 revenue of \$1.7 billion.

The Los Angeles ISC is one of the smaller facilities in the international network. In FY 2004, the Los Angeles ISC processed nearly 79 million pieces, or 9 percent of the total international mail volume. In addition, the Los Angeles ISC used approximately 454,387 hours, or 9 percent of the total international workhours to process this mail.

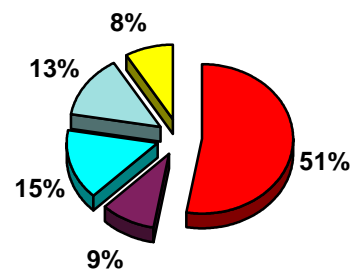


Figure 3, First Handling Pieces, FYs 2003 Through 2004, and Figure 4, Workhours, FYs 2003 Through 2004, show the percentage of total volume and hours used at each ISC.

**Figure 3  
First Handling Pieces,  
FYs 2003 Through 2004**



**Figure 4  
Workhours,  
FYs 2003 Through 2004**



Note: We excluded Dallas from the charts above because it was closed in FY 2004; thus, the percentage totals do not equal 100.

**Objective, Scope, and Methodology**

The audit assessed operational efficiency at the Los Angeles ISC. We observed processing operations, analyzed mail volumes and workhours, interviewed officials, evaluated machine utilization, and benchmarked mail volumes by workhour with other ISCs. We also reviewed applicable Postal Service handbooks and regulations, including Handbook M-32, Management Operation Data System; Postal Bulletins; and Title 39, United States Code (U.S.C.).

To analyze mail volume and workhours, we used 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. We checked the accuracy of data by confirming our analysis and results with Postal Service managers and found no material differences.

This audit was conducted from November 2004 through June 2005 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.

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**Prior Audit Coverage**

We have issued 14 audit reports on workhour efficiency. Appendix A summarizes the findings of these reports.

## AUDIT RESULTS

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### Assessment of Resources at the Los Angeles ISC

Resources at the Los Angeles ISC could be used more efficiently. The Los Angeles ISC generally did not:

- Meet productivity targets.
- Adjust workhours in relation to changes in workload.
- Fully employ the mechanized equipment necessary to efficiently process mail.
- Attain the level of efficiency achieved by other centers.

Management at the Los Angeles ISC had addressed operational efficiency, but could further improve efficiency by reducing 85,000 workhours, based on FY 2004 workhour usage.

Title 39, U.S.C., Chapter 4, Section 403, states, “The Postal Service shall plan, develop, promote and provide adequate and efficient postal services. . . .”

Because of high management turnover, Postal Service management had not updated mail arrival profiles, reviewed transportation schedules, benchmarked operations against other ISCs, evaluated machine utilization, assessed equipment needs, or analyzed trends. Consequently, the Los Angeles ISC used more workhours than needed to process its mail volume.

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### Los Angeles ISC Generally Did Not Meet Productivity Targets

The Los Angeles ISC has not achieved target productivity levels over a two-year period for any of its mail processing operations, with the exception of the small parcel bundle sorter (SPBS). Target productivity levels are based on total pieces of mail that could be processed for each machine or workhour of an operation. In FY 2004, the Los Angeles ISC achieved 50 percent of its total targeted productivity levels.

For example, the flat sorting operation achieved 64 percent of its national target level in FY 2003, but only 52 percent in FY 2004. Appendix B shows the percentage of target

productivity levels achieved for each operation and the associated potential workhour savings

Workhours Were Excessive in Relation to Workload

The Los Angeles ISC did not adjust workhours for changes in workload. The mail volume (first handling pieces) processed at the Los Angeles ISC decreased by 16.1 million pieces (17 percent) from FYs 2003 to 2004; however, workhours decreased by 18,524 (or just 4 percent) during the same period.

**Figure 5  
Los Angeles ISC Trend Analysis**

FY	Volume (000)	Hours
2003	95,290	472,911
2004	79,179	454,387
Percent Change	-17%	-4%

The excessive use of workhours in relation to volume resulted from moving import operations<sup>5</sup> and the associated mail volume to another facility. Although management had begun reducing workhours by eliminating eight positions at the end of FY 2004, opportunities exist to reduce workhours further.

Lack of Mechanization

The Los Angeles ISC could improve productivity and reduce workhours by using mechanized equipment.<sup>6</sup> Mechanized equipment will generally process more volume per workhour than manual sortation. We found that:

- Large parcels were sorted manually because the ISC had no mechanized equipment such as a Linear Integrated Parcel Sorter to sort large parcels.<sup>7</sup>
- The Customs Unit hamper dumper<sup>8</sup> was seldom used, since it was not capable of dumping mail that

<sup>5</sup>Import operations sort mail that originated outside the customs territory of the United States (e.g., outside the 50 states, the District of Columbia, and Puerto Rico).

<sup>6</sup>Mechanization equipment (parcel sorters, flat sorting machines, canceling machines, and culling machines) requires operator input on each mailpiece and is used to sort letters, flats, and parcels. Automation equipment (barcode sorters and multiline optical character readers) uses technology to sort mail with little operator intervention.

<sup>7</sup>A Linear Integrated Parcel Sorter is used to sort parcels.

<sup>8</sup>The hamper dumper is mechanized equipment that is used to dump mail from hampers onto a conveyor belt. Illustration 4 is a photograph of a hamper dumper.

normally arrived in over-the-road and all-purpose containers. As a result, employees manually dumped mail on the customs belt. The addition of two universal dumpers would allow mail to be mechanically dumped on the customs belt, streamlining this process.

- Additional employees were needed in the SPBS area to pull bins that filled up quickly and to manually process low-density mail where machine separations did not exist. An extension to the SPBS machine would provide additional separations and allow this mail to be worked more efficiently.
- The Central Dispatch Unit could be improved by the use of mechanized belts. This would allow mail to be moved more efficiently and facilitate the consolidation of some of the dispatch operational setups.<sup>9</sup>
- Illustrations 1 through 7 show opportunities where mechanized equipment could assist the Los Angeles ISC in reducing workhours.

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<sup>9</sup>The Central Dispatch Unit is the area at the Los Angeles ISC where mail is readied and loaded for transportation.



Illustration 1. Parcels must be worked manually because there is no Linear Integrated Parcel Sorter at the Los Angeles ISC.



Illustration 2. Parcels awaiting manual processing.





Illustration 3. Manual sorting of parcels. A Linear Integrated Parcel Sorter would streamline this process.



Illustration 4. The current hamper dumper in the Customs Unit was seldom used because mail normally arrived in over-the-road and all-purpose containers. The hamper dumper cannot take mail from these types of containers and dump it onto a conveyor belt to begin processing.



Illustration 5. Mail in the Customs Unit awaiting manual processing. The addition of two universal dumpers would streamline this process.



Illustration 6. After the operators key parcels (see Illustration 7), the parcels move down a conveyor belt and fall into separation bins based on ZIP Codes.<sup>10</sup> Parcels that are addressed to ZIP Codes that do not have individual bin separations fall into the red hamper. As seen above, the red hamper is half full and will need to be replaced soon. Additional employees will be needed to pull bins that fill up quickly and manually process mail where individual bins do not exist. An extension to the SPBS would provide additional separation bins and allow this mail to be worked more efficiently.

<sup>10</sup>The SPBS sorts small parcels, irregular parcel post, bundles of mail, and Priority Mail into as many as 100 separations or outgoing addresses, which would not include all possible outgoing ZIP Codes.





Illustration 7. This picture shows an operator keying parcels on the SPBS. (See Illustration 6.)

Los Angeles ISC Less Efficient Than Other ISCs

The Los Angeles ISC was generally less efficient than other ISCs. The following figure shows productivity levels using first handling pieces per workhour for the Los Angeles ISC compared to other ISCs. For FYs 2003 and 2004, first handling pieces per workhour ratios for the Los Angeles ISC were 201.50 and 174.25 compared to the average of other ISCs' ratios of 210.91 for FY 2003 and 203.23 for FY 2004.

**Figure 6  
Los Angeles ISC Volume Data**

FISCAL YEAR	FIRST HANDLING PIECES PER WORKHOUR FOR LOS ANGELES	FIRST HANDLING PIECES PER WORKHOUR FOR OTHER SITES
2003	201.50	210.91
2004	174.25	203.23

These ratios show that the Los Angeles ISC processed less mail per workhour than the average processed by other ISCs. Appendix C shows how the Los Angeles ISC compared to other ISCs with regard to first handling pieces per workhour for FY 2004.

In addition, the Los Angeles ISC used more workhours in Labor Distribution Code (LDC) 17 than any other ISC used in FY 2004. LDC 17 is defined as Mail Processing Other Direct Operations.<sup>11</sup> LDC 17 workhours used by the Los Angeles ISC accounted for 47 percent of total mail processing workhours, compared to the 34 percent average used by other ISCs. This means that the LA ISC is using 13 percent more workhours than other ISCs in this area. See Appendix D.

Reasons for and Impact of Inefficiencies

Since FY 1999, 13 different people have held the Los Angeles ISC manager position. During our review, the current manager had only been in place for two weeks, and there had already been three different managers since January 2004.

<sup>11</sup>The activities in LDC 17 include all hours of employees involved in mail processing operations such as mail preparation, presort operations, tray and sleeving, opening, pouching, and platform operations.

Because of high management turnover, mail processing supervisors and employees were often unaware of the current targets and goals for their units. We also found that Postal Service managers had not evaluated operational efficiency by:

- Updating mail arrival profiles.
- Reviewing transportation schedules.
- Extensively analyzing operations.
- Evaluating machine utilization.
- Assessing equipment needs.
- Comprehensively benchmarking operations against similar-sized facilities.

Consequently, the Los Angeles ISC used more workhours than needed to process its mail volume.

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**Recommendations**

To improve operating efficiency, we recommend the manager, Los Angeles District:

1. Reduce mail processing workhours by 85,000, based on FY 2004 workhours. This will produce a cost avoidance of approximately \$26.1 million, based on labor savings over a ten-year period.
2. Periodically evaluate operating efficiency and staffing to determine whether further workhour adjustments are necessary based on workload.
3. Obtain a Linear Integrated Parcel System, two universal dumpers, a small parcel bundle sorter extension, and additional belts.

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**Management's  
Comments**

Management agreed with our finding, recommendations, and associated monetary impact. Management's response indicated that a combination of workhour reductions, an increase in mail volume, and consolidation

of volumes could also achieve higher efficiency levels. Furthermore, management agreed to pursue the deployment of a Linear Integrated Parcel Sorter, two universal dumpers, a small parcel bundle sorter extension, and additional belts. Management agreed to implement the recommendations by FY 2010.

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**Evaluation of  
Management's  
Comments**

Management's comments are responsive and reflect that management is taking a proactive approach in the implementation of our three recommendations. Management's planned actions should correct the issues identified in the finding.

## APPENDIX A. PRIOR AUDIT COVERAGE

Efficiency of the Airmail Records Unit at the Los Angeles International Service Center (Report Number NO-AR-05-010, April 28, 2005). We found the Los Angeles ISC could improve the efficiency of the airmail records unit by reducing workhours by 5,450. A reduction of 5,450 workhours could produce a cost avoidance of over \$1.8 million, based on labor savings over ten years. We made three recommendations to Postal Service management addressing these issues. Management agreed with our finding, recommendations, and monetary impact and has initiatives planned addressing the issues we identified.

Efficiency Review of the Akron, Ohio, Processing and Distribution Center (Report Number NO-AR-05-009, March 30, 2005). We found the Akron Processing and Distribution Center could improve operational efficiency by reducing 235,000 workhours. This reduction could produce a cost avoidance of approximately \$74 million, based on a labor savings over ten years. We made two recommendations to Postal Service management addressing these issues. Management agreed with our findings, recommendations, and associated monetary impact and has initiatives planned addressing the issues we identified.

Efficiency Review of the Mansfield, Ohio, Main Post Office (Report Number NO-AR-05-004, December 8, 2004). We found the Mansfield Main Post Office (MPO) could improve operational efficiency by reducing 24,000 mail processing workhours, based on the assumption that mail volume will not significantly change from FY 2003 levels. This would allow the Mansfield MPO to achieve 90 percent of its targeted goals and could produce a cost avoidance of approximately \$7.6 million, based on labor savings over ten years. We also concluded that a favorable business case exists to move the Mansfield MPO's outgoing mail operations to the Akron Processing and Distribution Center. This consolidation would save an additional 28,000 workhours at the Mansfield MPO, improve network efficiencies, and potentially upgrade delivery service. This workhour reduction could produce a cost avoidance of over \$9.6 million based on labor savings over ten years. We made four recommendations in the report. Management agreed with our findings, recommendations, and monetary impact and has initiatives in progress or planned addressing the issues we identified.

Efficiency of the New York International Service Center (Report Number NO-AR-04-009, September 24, 2004). We found the New York ISC could improve the efficiency of processing international and military mail by reducing employee workhours by 326,000 and increasing supervisory workhours by 6,000, for a net reduction of 320,000 workhours. This reduction of 320,000 workhours could produce a cost avoidance of more than \$98 million, based on labor savings over ten years. We made two recommendations to Postal Service management addressing these issues. Management agreed with our finding, recommendations, and monetary impact and has initiatives in progress or planned addressing the issues we identified.

Efficiency of the Airmail Records Unit at the New York International Service Center (Report Number NO-AR-04-011, September 24, 2004). We found the New York ISC could improve the efficiency of the airmail records unit by reducing workhours by 30,000. Management should also consider outsourcing the airmail records unit, since this operation is not core to New York ISC's mission of processing international mail. A reduction of 30,000 workhours could produce a cost avoidance of over \$9 million, based on labor savings over ten years. We made two recommendations to Postal Service management addressing these issues. Management agreed with our finding, recommendations, and monetary impact and has initiatives in progress or planned addressing the issues we identified.

Efficiency of the San Francisco International Service Center and the General Services Administration Facility (Report Number NO-AR-04-006, March 31, 2004). We found 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. The reduced 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 we identified.

Efficiency of the Oakland International Service Facility and the Regatta Facility (Report Number NO-AR-04-007, March 31, 2004). We found 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 International Service Facility by 25,000 by the end of FY 2006. The reduced 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. 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 we identified.

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). We found that the district should reduce the workhours necessary to accept business mailings in the Springfield, Virginia, Business Mail Entry Unit (BMEU). During the audit, Postal Service management agreed to reduce business mail entry workhours by 2,775 by the

end of FY 2006. The reduced workhours could produce an estimated cost avoidance of approximately \$969,000 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 we identified.

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). We found the district should reduce the workhours necessary to accept business mailings in the Columbia, Maryland, BMEU. During the audit, Postal Service management agreed to reduce business mail entry workhours by 3,960 by the end of FY 2005. The reduced 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 we identified.

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). We found the district should reduce the workhours necessary to accept business mailings in the Southern Maryland BMEU. During the audit, Postal Service management agreed to reduce business mail entry workhours by 20,240 by the end of FY 2006. The reduced 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 we identified.

Efficiency of Work Performed by Business Mail Entry Clerks Within the San Francisco District (Report Number AO-AR-03-002, September 25, 2003). We found the district should reduce the workhours necessary to accept business mailings in the San Francisco BMEU. During the audit, Postal Service management agreed to reduce business mail entry workhours by 18,000 by the end of FY 2006. The reduced 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 we identified.

Efficiency of Work Performed by Business Mail Entry Clerks Within the Los Angeles District (Report Number AO-AR-03-001, July 31, 2003). We found the district should reduce the workhours necessary to accept business mailings. During the audit, Postal Service management agreed to reduce business mail entry workhours by 28,800 by the end of FY 2005. The reduced 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 we identified.

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). We found that these facilities should reduce the workhours necessary to accept business mailings. Management could save an estimated \$588,000 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 (BMCs) 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 we identified.

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



**APPENDIX B. TARGETED PRODUCTIVITY LEVELS ACHIEVED BY EACH TYPE OF MAIL  
PROCESSING OPERATION<sup>12</sup> AND POTENTIAL HOUR SAVINGS  
BASED ON PERCENTAGE OF ACHIEVEMENT TO TARGET,  
FYS 2003 AND 2004**

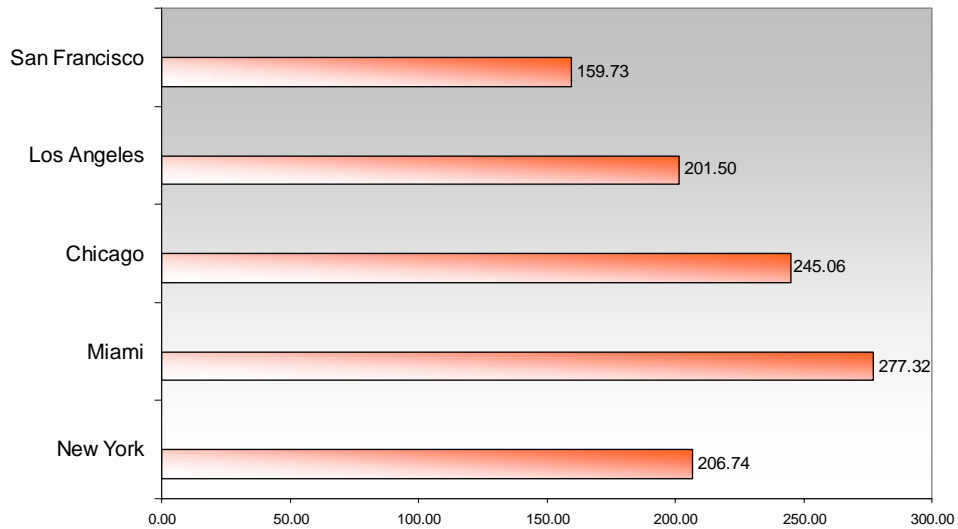
SUMMARY DATA	PIECES PER WORKHOUR PRODUCTIVITY		Target	PERCENT OF TARGET ACHIEVED		FY 2004 POTENTIAL WORKHOUR SAVINGS BASED ON TARGET ACHIEVED			
	2003	2004		2003	2004	100%	90%	80%	70%
	<u>Machine</u>								
DIOSS	3,530	4,232	9,082	39%	47%	8,255	7,455	6,454	5,168
UFSM 1000	331	269	520	64%	52%	20,243	17,833	14,821	10,948
SPBS	237	309	366	65%	85%	4,973	1,947	(1,836)	(6,700)
Manual Letters, Flats and Parcels	210	258	691	30%	37%	22,662	21,164	19,291	16,882
<b>LA ISC Totals</b>	695	763	2,665	44%	50%	56,133	48,398	38,729	26,298
LDC 17	N/A	N/A	156,264	N/A	N/A	58,018	52,216	46,415	40,613
<b>LA ISC Total with LDC 17</b>	N/A	N/A	N/A	N/A	N/A	114,151	100,614	85,144	66,911

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.

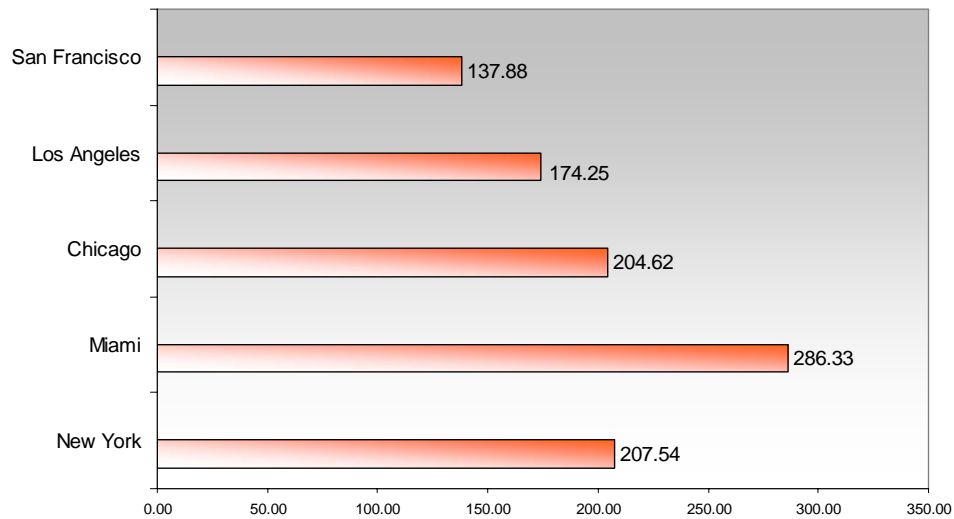
Source: Management Operating Data System and Breakthrough Productivity Index Targets.

<sup>12</sup>Machines include the Delivery Barcode Sorter Input/Output Subsystem (DIOSS), the Upgraded Flat Sorting Machine (UFSM 1000), and the SPBS. The LDC 17 includes all nonsupervisory hours of employees involved in mail processing operations other than distribution.

### APPENDIX C. FY 2003 FIRST HANDLING PIECES BY TOTAL WORKHOURS<sup>13</sup>



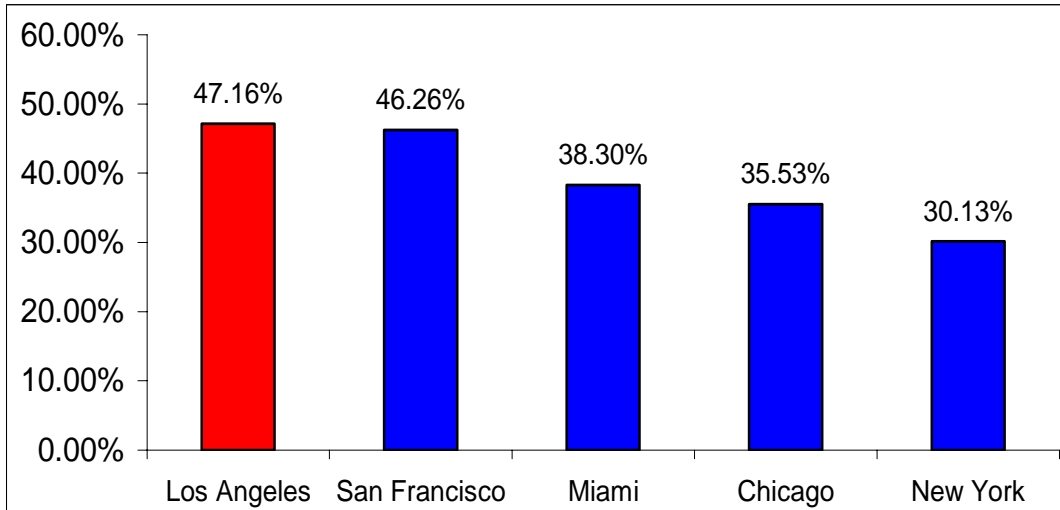
### FY 2004 FIRST HANDLING PIECES BY TOTAL WORKHOURS



<sup>13</sup>We computed these ratios by dividing the first handling pieces volume and total handling pieces volume by the total workhours for FY 2004. The Dallas ISC was not included in this comparison because it closed in accounting period 7 of FY 2004. Source: Web Enterprise Information System.

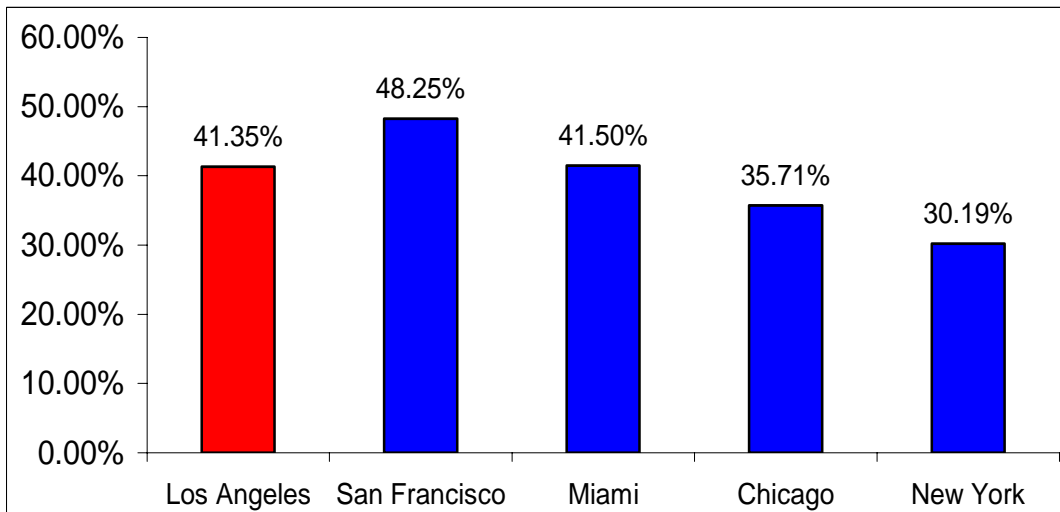
### APPENDIX D. LDC 17 WORKHOURS AS A PERCENTAGE OF TOTAL FUNCTION 1 (MAIL PROCESSING) WORKHOURS FOR FYS 2004 AND 2003

**FY 2004**



Note: Average LDC 17 workhours in FY 2004 (excluding Los Angeles and Dallas) was 34.39 percent of total function 1 (mail processing) workhours.

**FY 2003**



Note: Average LDC 17 workhours in FY 2003 (excluding Los Angeles and Dallas) was 35.29 percent of total function 1 (mail processing) workhours.

**APPENDIX E  
COST AVOIDANCE AT THE LOS ANGELES ISC  
(FUNDS PUT TO BETTER USE)**

Recommended Action and Employee Category Affected	Workhour Reduction	Timeframe: Ten Fiscal Years for Each Annual Action	
		Undiscounted Savings	Discounted Savings (Net Present Value)
<b>Reduction:</b> Mail Processing Clerks <sup>14</sup>	85,000	\$38,397,576	\$26,075,474
<b>Total</b>	<b>85,000</b>	<b>\$38,397,576</b>	<b>\$26,075,474</b>

**Notes**

- Cost avoidance was calculated using the workhour reduction multiplied by the fully loaded labor rate.
- Labor cost was escalated at 2.7 percent.
- Net Present Value was calculated using the discount rate of 5 percent.
- Fully loaded labor rates are based on the Postal Service's FY 2004 published rates.
- Labor cost escalation was based on the Postal Service's FY 2004 published Decision Analysis Factors.

**Funds Put To Better Use:** Funds that can be used more efficiently by implementing recommended actions.

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<sup>14</sup>Level 5.

## APPENDIX F. MANAGEMENT'S COMMENTS

DISTRICT MANAGER  
LOS ANGELES DISTRICT



June 2, 2005


MEMORANDUM FOR: Kim H. Stroud  
Director, Audit Operations

SUBJECT: Response OIG Audit Report—Efficiency of the Los Angeles  
International Service Center (Report Number NO-AR-05-Draft)

I have reviewed the proposed draft report regarding the Los Angeles International Service Center, dated May 3, 2005. The audit, states that the Office of Inspector General's objective was, "to determine the operational efficiency of the Los Angeles International Service Center."

We agree with the audit findings; specifically the fact that the Los Angeles International Service Center could improve efficiency by reducing 85,000, to the FY04 base, by FY 2010. However, the level of efficiency required could also be achieved by volume growth and workload credits resulting from new operational requirements. Furthermore, consolidation of volumes could also provide necessary economies of scale conducive to attaining higher efficiency levels. Additionally, as stated in the report's recommendations, we agree that it will be necessary to pursue deployment of mechanized equipment—Linear Integrated Parcel Sorting machine, SPBS extension, Universal Dumpers—in order to attain the potential efficient conducive to proportional workhour reductions. We are currently pursuing the deployment of the equipment recommended and implementing productivity improvement initiatives.

The Los Angeles International Service Center will improve operational efficiencies through improved productivities, equipment deployments, volume increases and workload credits resulting in an 85,000 workhour reduction, or equivalent efficiency gains as the OIG proposed recommendation.

  
William Almaraz  
District Manager  
Los Angeles District

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