OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Efficiency Review of the Los Angeles Network Distribution Center

Audit Report

August 3, 2012

Report Number NO-AR-12-007

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

August 3, 2012

Efficiency Review of the Los Angeles Network Distribution Center

Report Number NO-AR-12-007

BACKGROUND:

This report presents the results of our audit of the Los Angeles Network Distribution Center (NDC) located in the Los Angeles District of the Pacific Area. The U.S. Postal Service faces significant financial challenges. It concluded fiscal year 2011 with a net loss of almost $5.1 billion, despite reducing operating expenses by $4.8 billion. To maximize efficiency, the goal is to process mail with the least amount of resources and still meet service timeframes.

Our objective was to determine the efficiency of operations at the Los Angeles NDC. We performed this audit based on a comparison of all NDCs' productivity.

WHAT THE OIG FOUND:

While the Los Angeles NDC made progress in reducing workhours over the past several years, further opportunities exist for improvement. Specifically, the Los Angeles NDC did not attain the average productivity of all NDCs above the median productivity or take full advantage of existing automation. Consequently, the Los Angeles NDC used 200,019 more workhours than necessary. If the Postal Service eliminated these workhours, there would be an annual avoidance of about $6.5 million in labor costs. Additionally, the Los Angeles NDC damaged a daily average of 3,700 of the 175,000 pieces of mail handled daily. This could adversely impact service and result in about $500,000 in revenue at risk annually.

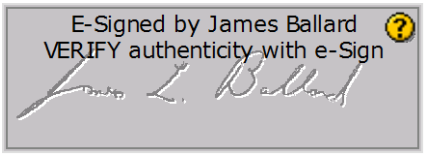
WHAT THE OIG RECOMMENDED:

We recommended the vice president, Pacific Area Operations, instruct Los Angeles NDC management to reduce workhours to produce an annual cost avoidance of $6.5 million, or increase volume by 39 million pieces, or a combination of both. We also recommended periodic evaluation of operating efficiency and staffing at the Los Angeles NDC to determine whether further workhour adjustments are necessary. Additionally, we recommended improving supervision of employees and maintenance of mail processing equipment, maximizing automation, and ensuring there is separation of non-machineable and machineable parcels throughout the processing network.

Link to review the entire report

August 3, 2012

MEMORANDUM FOR: DREW ALIPERTO
VICE PRESIDENT, PACIFIC AREA OPERATIONS



for

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

SUBJECT: Audit Report – Efficiency Review of the Los Angeles Network Distribution Center
(Report Number NO-AR-12-007)

This report presents the results of our audit of the efficiency of the Los Angeles Network Distribution Center (Project Number 12XG010NO000).

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

Attachments

cc: David E. Williams, Jr.
Frank Neri
Clark E. Riley
Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the efficiency of the Los Angeles Network Distribution Center (NDC) (Project Number 12XG0010NO000). Please see Figure1 for a picture of the facility that we audited. Our objective was to determine the efficiency of operations at the Los Angeles NDC. The self-initiated audit addresses operational risk. See Appendix A for additional information about this audit.

The U.S. Postal Service faces significant financial challenges. It concluded fiscal year (FY) 2011 with a net loss of almost $5.1 billion, despite reducing operating expenses by $4.8 billion. In FY 2011, the loss from operations was just over $4.9 billion. The net loss would have been $10.6 billion had it not been for an extension of a provision allowing the Postal Service to defer certain benefit payments.[1] Streamlining the processing network is key to reducing operating costs. Currently, there are 21 NDCs nationwide. NDCs are categorized as Tier 1, Tier 2, or Tier 3, depending on what operations their employees perform. All 21 NDCs are Tier 1. Tier 2 and Tier 3 NDCs act as transfer and consolidation points to other NDCs. The Los Angeles NDC is both a Tier 1 and 2 facility (see Table 12) in the Pacific Area. The Los Angeles NDC processes inbound and outbound mail for processing and distribution centers in the Los Angeles area, as well as mail to and from the San Francisco NDC. In FY 2011, the Los Angeles NDC processed 63.6 million first-handled pieces (FHP[2]) of mail, an increase of 14 percent from the FY 2010 volume of 55.7 million pieces. Also in FY 2011, the on-rolls complement was 726 employees, compared to 736 employees in FY 2010.

[1] Congressional legislation was passed postponing a congressionally mandated payment of $5.5 billion to pre-fund retiree health benefits.
[2] A letter, flat, or parcel that receives its initial distribution at a Postal Service facility. FHP records mail volume in the operation where it receives its first distribution handling.

Figure 1. The Los Angeles NDC

Source: U. S. Postal Service Office of Inspector General (OIG) photograph, February 11, 2012.

We performed this audit based on a comparison of NDCs' productivity. We identified the Los Angeles NDC as having the potential for significant savings through improved efficiency. To maximize efficiency, the goal is to process mail with the least amount of resources and still meet service timeframes.

Conclusion

While the Los Angeles NDC made significant progress in reducing workhours over the past several years, further opportunities exist for improvement. Specifically, the Los Angeles NDC did not attain the average productivity of all NDCs above the median productivity or take full advantage of existing automation. Consequently, the Los Angeles NDC used 200,019 more workhours than necessary, thus missing an annual cost avoidance of about $6.5 million based on mail volume.

These conditions occurred because Los Angeles NDC management did not fully evaluate operational efficiency by benchmarking operations against other NDCs, analyze workhour trends, or always properly supervise employees. In addition, the Los Angeles NDC did not conduct all preventive maintenance routes and maximize the use of automated equipment through installation of a High-Speed Universal Sorter. Consequently, the Los Angeles NDC was using more workhours than necessary to process its mail volume.

To increase productivity to the average productivity of all NDCs above the median productivity, Los Angeles NDC management needs to:

- Reduce workhours by 200,019, which would produce a cost avoidance of about $6.5 million annually (see Appendix C for details).

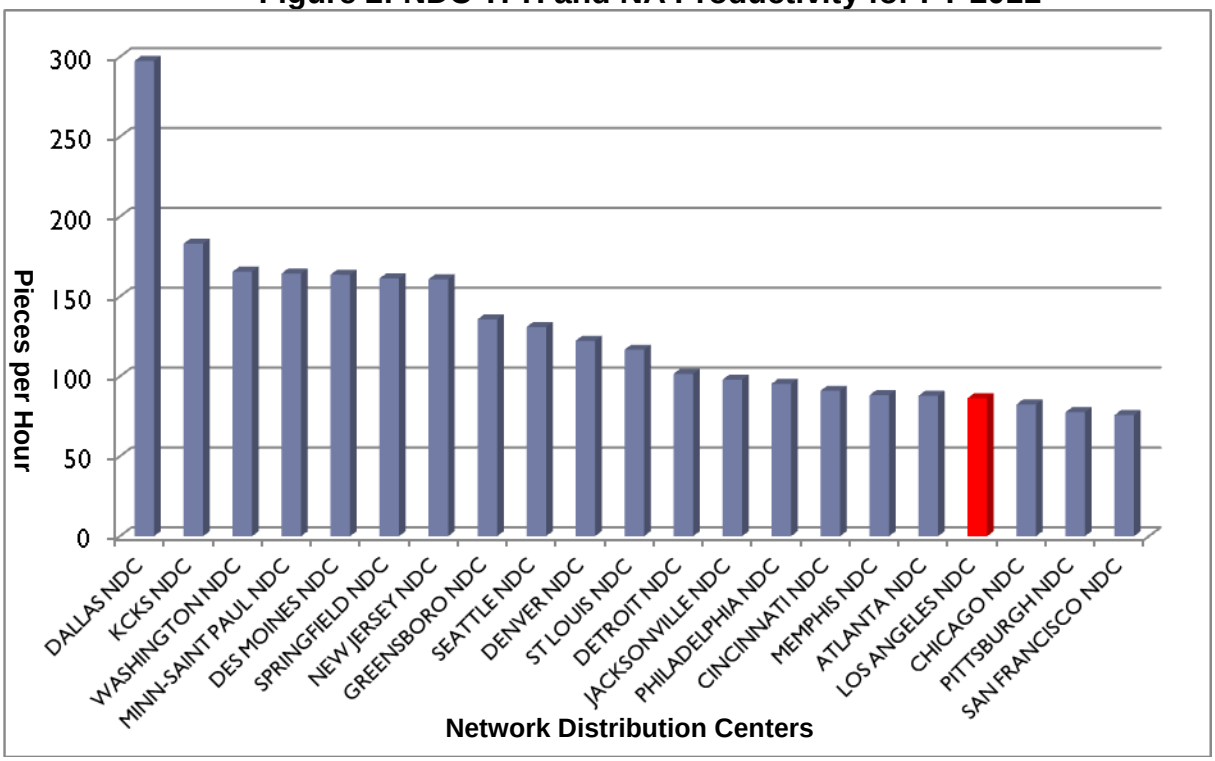
- Continue to increase mail volume by 39 million pieces.
- Combine workhour reductions and mail volumes increases.

Additionally, the Los Angeles NDC damages an average of over 3,700 of the 175,000 pieces of mail handled daily. Comingling of oversized packages by other facilities — combined with a lack of proper maintenance — is the primary reason for the damage. This could adversely impact service and result in about $500,000 in annual revenue at risk.

Comparison to Other Network Distribution Centers

The Los Angeles NDC's total pieces handled (TPH) and non-add[3] (NA) productivity ranks 18 of 21 NDCs, as shown in Figure 2. Comparing the Los Angeles NDC to other NDCs provides a benchmark for operational efficiency. Productivity for the Los Angeles NDC decreased while national averages increased during the period FY 2009 to FY 2011 (see Table 1). Variations in operations performed at the different NDCs require a review of the specific labor distribution codes (LDCs).[4] Raising the Los Angeles NDC's productivity for these comparable operations to above-median levels would require reduction of 200,019 workhours at existing FHP levels.

Figure 2: NDC TPH and NA Productivity for FY 2011



Source: Enterprise Data Warehouse (EDW).

[3] The TPH count in non-distribution operations is recorded as TPH, but not added to the bottom line for mail processing distribution — thus, the name "non-add total pieces handled."

[4] The Postal Service compiles workhour, labor use, and other financial reports for management's use by functional category or LDC.

Table 1: Productivity Comparison

	Median NDC	Los Angeles NDC
FY 2009	104 PPH*	92 PPH
FY 2010	103 PPH	91 PPH
FY 2011	117 PPH	86 PPH
Percentage Increase FYs 2009—2011	12.5%	-6.5%

Source: EDW; *Pieces Per Hour (PPH).

Both national NDCs' and the Los Angeles NDC's handling ratios have shown similar improvements, decreasing from 1.46 times handled to about 1.20 times handled. The handling ratio is the number of times each mailpiece is handled.[5] Generally, the lower the handling ratio, the more efficient the plant. Decreasing the handling ratio helps improve operational efficiency.

Potential Sources of Workhour Reduction

We identified specific mail processing functions where the Los Angeles NDC could improve efficiency. Table 2 shows a complete breakdown of potential workhour savings by LDC. We calculated the potential workhour savings by raising Los Angeles NDC productivity to the average productivity of all NDCs above the median productivity. We calculated LDC 17 and 18 productivity as a percentage of total workhours, as they are ancillary functions, but calculated LDC 13 and 14 productivity as PPH, since mail volume is directly involved. We did not list LDC's where the Los Angeles NDC productivity exceeded the productivity of other NDCs above the median. Several NDCs also have operations not found at the LA NDC.

Table 2: Summary of Potential Workhour Savings

LDC[6]	Potential Workhour Savings
LDC 13 – Parcel Distribution	45,852
LDC 14 – Manual Distribution	92,482
LDC 17 – Allied Operations	47,801
LDC 18 – Miscellaneous Operations	13,884
Total	**200,019**

Source: EDW.

[5] Handling ratio is calculated by dividing TPH by FHP.

[6] The Postal Service uses LDC 13 to record parcel distribution operations and LDC 14 to record manual sortation of letters and flats. LDC 17 records hours in allied operations or mail processing operations other than distribution including mail preparation, presort operations, opening, pouching, and platform operations. LDC 18 records indirect/related workhours including stand-by time, empty equipment processing, office work, and several other activities.

LDC 13 — Parcel Distribution

The Los Angeles NDC can improve the efficiency of parcel distribution. Above median NDCs processed, on average, 289 PPH during FY 2011, while the Los Angeles NDC processed 254 PPH. Increasing the Los Angeles NDC to the average of the above median NDCs could save 45,852 workhours annually (see Table 3).

Table 3: LDC 13 Parcel Distribution Potential Workhour Savings

	Above Median Plants	Los Angeles NDC
LDC 13 Volume	709,191,400	94,964,705
LDC 13 Workhours	2,454,055	374,464
LDC 13 Productivity	289 PPH	254 PPH
FY 2011 Los Angeles LDC13 Workhours	374,464	
Los Angeles NDC Target Workhours*	328,612	
Potential Workhour Savings	(45,852)	

Source: EDW *Target workhours are the number of workhours necessary to raise Los Angeles NDC productivity to the average of the above median NDCs.

Table 4 shows selected operations where the Postal Service can improve productivity. For example, above-median NDCs processed 510 pieces of outgoing mail per hour on the Automated Parcel Bundle Sorter (APBS)[7] while the Los Angeles NDC only processed 412 pieces per hour. Observations at the Los Angeles NDC revealed idle employees on both the high-speed tray sorter and the APBS (see Figures 3 and 4).

Table 4: Selected LDC 13 Operations

Operation Number	Operation Description	Above-Median NDCs	Los Angeles
101	Mechanized Parcel Sorting — Secondary	349 PPH	125 PPH
105	Mechanized Parcel Sorter	287 PPH	193 PPH
135	Automated Parcel Bundle Sorter — Outgoing Standard	510 PPH	412 PPH
198	High-Speed Tray Sorter — Outgoing	168 PPH	126 PPH
199	High-Speed Tray Sorter — Incoming	96 PPH	43 PPH
238	Mechanized Sort — Sack/Outside	170 PPH	118 PPH

[7]The Postal Service uses the APBS to process bundles of flats or letters, Priority Mail® parcels, and Parcel Post. On the APBS machines, all but one of the six induction stations have been modified so that mailpieces can be inducted with no keying required. The operators simply face and place mailpieces on the belt for subsequent reading by the bar code reader. The technology to automate address reading significantly increases throughput and productivity.

Operation Number	Operation Description	Above-Median NDCs	Los Angeles
854	Singulation Scan Induction Unit — Destinating Package Services	315 PPH	247 PPH
856	High-Speed Induction Unit — Outgoing Package Services	556 PPH	389 PPH

Source: EDW.

Figure 3: High-Speed Tray Sorter

Source: OIG photograph, February 15, 2012, 10:10 p.m. While this high-speed tray sorter had two employees loading mail and three or more on each side, the majority of trays went to one run-out,[8] leaving other employees idle. The picture shows that none of the run-outs are full.

[8] A run-out is one separation on the sorter. Each run-out is designated a particular destination, based on the sort plan running at the time.

Figure 4: Automated Parcel Bundle Sorter

Source: OIG photograph, February 15, 2012, 10:27 p.m. There is no mail on the APBS; therefore, four clerks sit idle. Even though it is an APBS and capable of reading barcodes, employees still key every mailpiece. Management stated the machine does not have the proper software for all the necessary mail sorts/separations.

LDC 14 — Manual Distribution

The Los Angeles NDC has the greatest opportunity to save workhours through improved efficiency of manual distribution. Above median NDCs process, on average, 173 PPH, while the Los Angeles NDC processes 68 PPH. Increasing the Los Angeles NDC to the average of the above median NDCs could save 92,482 workhours annually (see Table 5).

Table 5: LDC 14 — Manual Distribution Potential Workhour Savings

	Above Median NDCs	Los Angeles NDC
LDC 14 Volume	38,382,740	10,358,990
LDC 14 Workhours	221,229	152,183
LDC 14 Productivity	173	68
FY 2011 Los Angeles NDC, LDC 14 Workhours	152,183	
Los Angeles NDC Target Workhours*	59,701	
Potential Workhour Savings	(92,482)	

Source: EDW.

For example, in one manual operation, the Los Angeles NDC productivity for operation 100, Manual Parcels – Outgoing, was 68 PPH, while the above median NDC average was 84 PPH. Observations revealed overstaffed operations and idle employees using

antiquated sorting methods (see Figure 5). Installation of the High-Speed Universal Sorter[9], approved in a July 2010 Decision Analysis Report, could substantially reduce manual processing hours.

Figure 5: Non-Machineable Other Operations at the Los Angeles NDC

Source: OIG photograph, February 11, 2012, 5:42 p.m. One or two employees load parcels on the belt. When the parcels arrive at the center, several mail handlers move the parcels to the correct leg, then into the correct container. In this instance, the two mail handlers loading mail temporarily relocated elsewhere, leaving eight mail handlers idle.

LDC 17 — Allied Operations

Allied operations provide another opportunity for the Los Angeles NDC to reduce workhours. LDC 17 (or allied operations) includes mail preparation, including presort, opening, pouching, and platform operations. During FY 2011, the Los Angeles NDC used over 50 percent of its processing workhours on LDC 17, while the above-median average NDCs, on average, used just over 46 percent of their workhours on allied labor. Reducing LDC 17 workhours by 47,801 would enable the Los Angeles NDC to raise productivity to the average of the above median NDCs (see Table 6). Also, Table 7 provides information on specific allied operations within LDC 17 with the greatest opportunity for savings.

[9] The High-Speed Universal Sorter will automate sortation of many manual parcels, thereby saving a projected 21,150 hours annually.

Table 6: LDC 17 — Allied Operations Potential Workhour Savings

	Above Median NDCs	Los Angeles NDC
LDC 17 Workhours	4,157,928	646,354
Total Workhours	8,969,578	1,291,213
LDC 17 Percentage to Total Workhours	46.36%	50.06%
FY 2011 Los Angeles NDC LDC17 Workhours	646,354	
Los Angeles NDC Target Workhours*	598,553	
Potential Workhour Savings	(47,801)	

Source: EDW.

Table 7: LDC 17 — Productivities for Allied Operations

Operation Number	Operation Description	Above Median NDCs	Los Angeles NDC
210	Platform — Inbound	12.36%	22.62%
230	Equipment Operator — Forklift	15.73%	16.07%

Source: EDW.

During our observations we noted idle employees (see Figures 6 and 7).

Figure 6: Four Idle Employees at the Inbound Dock

Source: OIG photograph, February 15, 2012, 11:01 p.m.

Figure 7: Three Idle Employees

Source: OIG photograph, February 11, 2012, 5:21 p.m.

LDC 18 — Miscellaneous Operations

Miscellaneous mail processing operations are recorded in LDC 18 and include:

- Stand-by time.
- Empty equipment processing.
- Office work and several other activities.

The Los Angeles NDC used 5.47 percent of mail processing workhours in LDC 18 during FY 2011, while the average of the above-median NDCs used 4.40 percent. Reducing workhours in miscellaneous operations by 13,884 would enable the Los Angeles NDC to achieve the average productivity of the above-median average NDCs (see Table 8). In addition, Table 9 provides information on specific miscellaneous operations where workhours can be reduced.

Table 8: LDC 18 — Miscellaneous Operations Potential Workhour Savings

	Above Median NDCs	Los Angeles NDC
LDC 18 Workhours	567,108	70,659
Total Workhours	12,897,637	1,291,213
LDC 18 Percentage to Total Workhours	4.40%	5.47%
FY 2011 Los Angeles NDC LDC 18 Workhours	70,659	
Los Angeles NDC Target Workhours*	56,775	
Potential Workhour Savings	(13,884)	

Source: EDW.

Table 9: Productivities for Miscellaneous Operations

Operation Number	Operation Description	Above Median NDCs	Los Angeles NDC
554	Office Work and Records – Mail Processing	0.36%	.062%
560	Miscellaneous Activities – Mail Processing	0.71%	1.42%

Source: EDW.

Employee Complement

While the Los Angeles NDC has reduced staffing levels over the last few years, increasing productivity to the median NDC will require additional reductions. There are 711 mail processing employees at the Los Angeles NDC, 619 of whom are career employees and 92 of whom are non-career employees (see Table 10). To reduce the recommended number of workhours, management would have to reduce the number of employees by about 115. We found that 31 percent of career employees (109) at the Los Angeles NDC are eligible to retire. With a reduction of the 92 non-career employees and the national attrition rate of 5 percent (or 31 career employees), the Los Angeles NDC could achieve the recommended workhour savings during the next fiscal year (see Table 11).

Table 10: Complement Summary

WebCOINS March 8, 2012	
Clerk – Career	192
Clerk – Postal Support Employee	38
Clerk – Non-Traditional Full-Time	0
Mail Handler – Career	401
Mail Handler – Part-Time Flexible	26
Mail Handler – Casual	54
Total	711
Total Career Employees	619

Source: Complement Information System (WebCOINS).

Table 11: Potential Savings Through Attrition

	Employees	Annual Workhours*	Projected Workhour Savings
FY 2013 Non-Career Reduction	92	160,264	160,264
FY 2013 Anticipated Retirements	31	54,002	214,266

Source: EDW. *We calculated annual workhours by multiplying the annual anticipated retirements by 1,742 annual workhours.

Maintenance

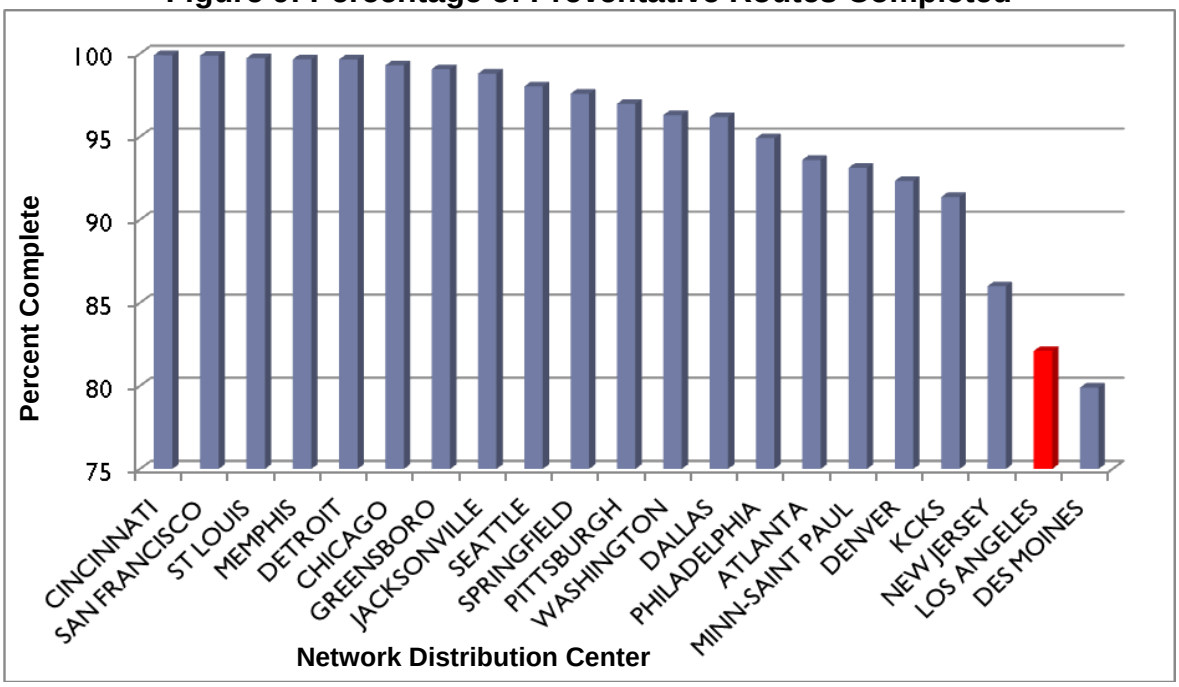
Opportunities exist at the Los Angeles NDC to improve efficiency through improved maintenance of operating systems. During observations, we noted parcels on the parcel sorting machine were not always properly centered on the sorting tray. This can cause parcels to either drop in the wrong container or be rejected; thereby, requiring additional handling (see Figure 8). A review of preventative maintenance at the Los Angeles NDC revealed that, during FY 2011, they completed just 82 percent of preventative maintenance[10] routes while the national average completion rate was over 95 percent (see Figure 9).

Figure 8: A Package Sitting on Two Trays on the Parcel Sorter

Source: OIG photograph, February 13, 2012, 10:56 p.m. The parcel could drop in the wrong container or end up in the reject bin.

[10] The scheduled systematic inspection and servicing of equipment to maintain its optimum condition. It is also an essential factor contributing to the effective and efficient operation of the automated and mechanized mail processing system used at postal facilities. This maintenance helps keep machine error rates low and throughput high and reduces unplanned downtime. The installation head must ensure that maintenance schedules are established and strictly followed.

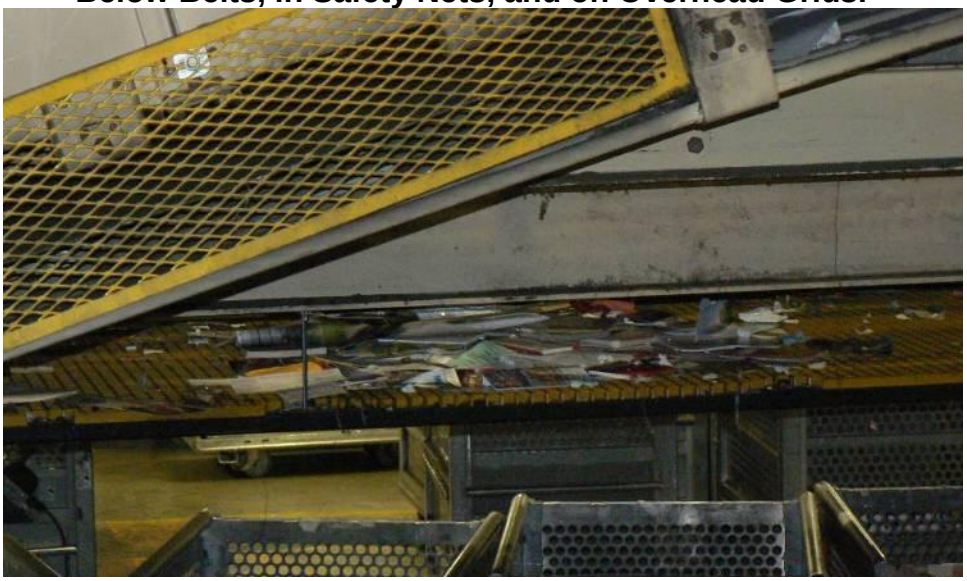
Figure 9: Percentage of Preventative Routes Completed



Source: EDW.

We also observed mailpieces below belts, in safety nets, on top of ceiling grids, and in other places. Failure to properly perform daily mail sweeps prevents the timely delivery of mail (see Figure 10). During the audit, management took action to improve maintenance through increased mail sweeps.

Figure 10: Mailpieces as old as 2007 Found Below Belts, in Safety Nets, and on Overhead Grids.[11]



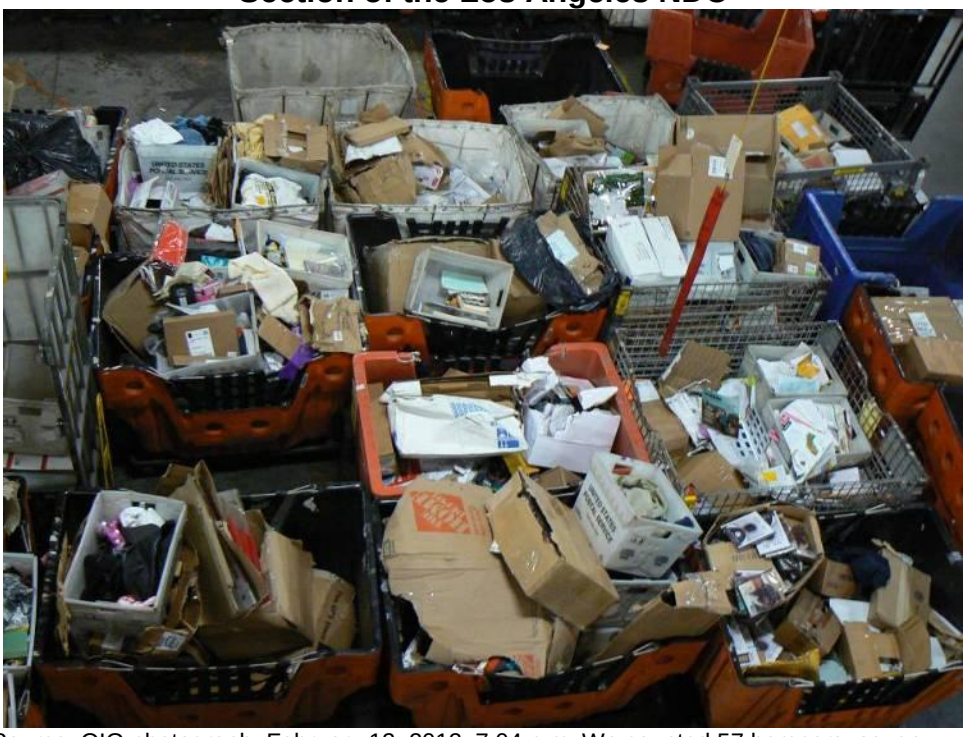
Source: OIG photograph, February 15, 2012, 6:29 a.m.

[11] Mail sweeps are scheduled to be conducted daily. Any mailpieces found are entered back into the mailstream for processing and delivery.

Mail Damage

During observations at the Los Angeles NDC, we noted an excessive quantity of damaged mail (see Figure 11). Management stated that improper comingling of oversized packages by other facilities was the primary reason. We also noted a lack of proper equipment maintenance as a contributing factor. Additionally, parcels were not always repaired promptly; thereby, increasing the likelihood of contents separating from the container. The Los Angeles NDC damaged, on average, about 1,669 letters, 1,920 flats, and 130 parcels of the 175,000 mailpieces handled daily. Damaging customers' mail places Postal Service revenue at risk as customers may elect to use other vendors to ship their mail. Potential loss of revenue associated with this mail is about $500,000 annually.[12]

Figure 11: Damaged Mail Collected in the Rewrap Section of the Los Angeles NDC



Source: OIG photograph, February 12, 2012, 7:04 p.m. We counted 57 hampers, seven automated postal centers, and 14 wire containers with damaged mail.

Causes and Impacts on Operations

Management at the Los Angeles NDC addressed operational efficiency by reducing workhours while volume increased. As a result, they reduced FY 2011 workhours by about 40,000 (or 3 percent) from FY 2009 levels, even while volume increased by

[12] Based on a 2-month mailpiece count conducted February through April, 2012, a daily average of 1,669 letters, 1,920 flats, and 130 parcels are damaged at the Los Angeles NDC. We based piece rates on Postal Service Finance Cost and Revenue Analysis for FY 2010. Revenue for a letter is $0.191, $0.366 for a flat, and $2.299 per parcel. We based the revenue at risk on the loss of customer mailings projected over a 2-year period.

13.6 percent. However, Postal Service managers had not fully evaluated operational efficiency by benchmarking operations against other NDCs, analyzed workhour trends, or always properly supervised employees.

Additionally, observations revealed that management at the Los Angeles NDC did not fully maximize the use of available automation options, such as installing a High-Speed Universal Sorter. We also found that employees did not always complete preventive maintenance of the equipment and facility cleaning, prohibiting the efficient processing and flow of mail. Consequently, the Los Angeles NDC was using more workhours than necessary to process its mail volume. Appendix B provides some suggestions to improve Los Angeles NDC efficiency. Best practices are not recommendations and management may or may not implement them at their discretion.

To increase productivity to the average productivity of all NDCs above the median productivity, Los Angeles NDC management needs to reduce workhours by 200,019. This would produce a cost avoidance of about $6.5 million annually. See Appendix C for details.

Recommendations

We recommend the vice president, Pacific Area Operations, instruct Los Angeles NDC management to:

1. Reduce workhours by 200,019 by fiscal year 2017 to produce an annual cost avoidance of about $6.5 million, or increase volume by 39 million pieces, or combine workhour reductions and mail volume increases that will achieve the above-average median productivity level of 117 pieces per hour.

2. Periodically evaluate operating efficiency and staffing at the Los Angeles Network Distribution Center to determine whether further workhour adjustments are necessary based on workload.

3. Improve supervision of employees to ensure all employees are fully engaged.

4. Improve maintenance of mail processing equipment.

5. Maximize the utilization of automated equipment by installing a High-Speed Universal Sorter.

6. Ensure there is separation of non-machineable and machineable parcels throughout the processing network.

Management's Comments

Management agreed with the recommendations in the report. Although management disagreed with the cost savings, they agreed with the workhour savings. Specifically, management stated that:

- The Pacific Area agrees there are opportunities to increase efficiency and reduce 200,019 workhours by FY 2017.
- The Pacific Area will monitor efficiency and conduct business reviews of the Los Angeles NDC.
- Supervisors will receive additional training in accountability, labor relations, union contracts, communications, and employee oversight.
- The Los Angeles NDC has implemented a new, more robust maintenance program.
- The High-Speed Universal Sorter has been approved and is scheduled for installation in October 2012.
- The Pacific Area will reissue procedures on parcel separations. Incoming containers will be monitored for compliance.

See Appendix D for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report. We based the cost savings calculation on the reduction of 200,019 workhours over a 2-year period multiplied by the escalated labor rate discounted over a 2-year period.

The OIG considers recommendation 1 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 Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Additional Information

Background

NDCs are highly mechanized and/or automated mail processing plants that are part of the National Distribution System. These facilities distribute Parcel Post, Media Mail, Standard Mail, and Periodicals in bulk form. Each NDC serves as the distribution hub for all ground shipments either originating or destinating at one of the hundreds of Post Office locations within its service area and each facility is linked via ground transportation to key service area facilities, as well as other NDC plants through a tiered system.

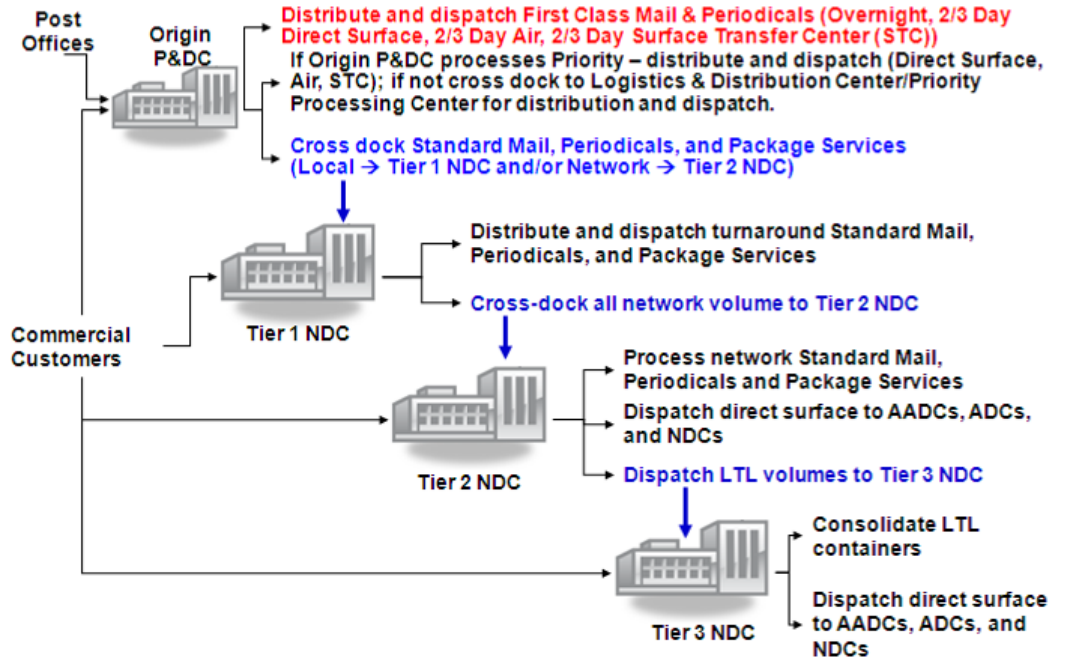
NDCs are categorized as Tier 1, Tier 2, or Tier 3, depending on what operations they perform. Currently, there are 21 NDCs nationwide. All 21 NDCs are Tier 1. Tier 2 and 3 sites act as transfer and consolidation points to other NDCs (see Table 12 and Figure 12). The Los Angeles NDC is a Tier 1 and Tier 2 facility in the Pacific Area. The Los Angeles NDC processes inbound and outbound mail for processing and distribution centers in the Los Angeles area, as well as mail to and from the San Francisco NDC. In FY 2011, the Los Angeles NDC processed 63.6 million pieces of mail, an increase of 14 percent from the FY 2010 volume of 55.7 million pieces. In FY 2011, the on-rolls complement was 726 employees, compared to 736 employees in FY 2010.

Table 12: NDC Tier Designations

Tier 1	Tier 2	Tier 3
Springfield	New Jersey	Pittsburgh
Philadelphia	New Jersey	Pittsburgh
New Jersey	New Jersey	Pittsburgh
Pittsburgh	Pittsburgh	Pittsburgh
Detroit	Pittsburgh	Pittsburgh
Chicago* (East)	Pittsburgh	Pittsburgh
Cincinnati* (East)	Pittsburgh	Pittsburgh
Dallas	Dallas	Memphis
Jacksonville	Jacksonville	Memphis
Washington, D.C.	Greensboro	Memphis
Greensboro	Greensboro	Memphis
Atlanta	Memphis	Memphis
Memphis	Memphis	Memphis
St. Louis* (East)	Memphis	Memphis
Kansas City	Des Moines	Des Moines
Minneapolis/St. Paul	Des Moines	Des Moines
Des Moines	Des Moines	Des Moines
Cincinnati* (West)	Des Moines	Des Moines
St. Louis* (West)	Des Moines	Des Moines
Chicago* (West)	Des Moines	Des Moines
Denver	Denver	Denver
Los Angeles	Los Angeles	Denver
San Francisco* (South)	Los Angeles	Denver
Seattle	Seattle	Denver
San Francisco* (North)	Seattle	Denver

* Served by two Tier 2 NDCs, depending on where the mail is coming from or going.

Figure 12: Mail Flow in the NDC Network



Source: USPS Network Operations. An AADC is an Automated Area Distribution Center and an ADC is an Area Distribution Center.

Title 39 U.S.C. §403 (a) states "The Postal Service shall plan, develop, promote, and provide adequate and efficient postal services . . . ." The *U.S. Postal Service Transformation Plan* also recommends that the Postal Service improve productivity. The Postal and Accountability Enhancement Act, P.L. 109-435, Title II, dated December 20, 2006, highlights ". . . the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services . . ."

Objective, Scope, and Methodology

Our objective was to assess the efficiency of operations performed by the Los Angeles NDC. To assess efficiency, we observed mail processing operations, analyzed mail volume and workhours, evaluated machine utilization, interviewed Postal Service officials, and benchmarked achievement to target productivities with similar-sized plants.

We relied on Postal Service operational systems, including the Management Operating Data System, Web Flash Reports, the Enterprise Data Warehouse, and the Web End-of-Run System to analyze mail volume and workhours. We checked the accuracy of data by confirming our analysis and results with Postal Service managers and found no material differences.

We conducted this performance audit from January through August 2012 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a

reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on June 20, 2012, and included their comments where appropriate.

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

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (In millions	Report Results
Efficiency Review of the Cleveland OH Processing and Distribution Center	NO-AR-12-005	6/5/2012	$22,747,745	We found the Cleveland P&DC did not attain the efficiency achieved by other large P&DCs or take full advantage of existing automation. Increasing operational efficiency at the Cleveland P&DC by reducing 352,388 mail processing workhours could produce a cost avoidance of $23 million in labor savings over a 2-year period. Management agreed with the recommendations.
Assessment of Overall Plant Efficiency 2012	NO-MA-12-001	4/27/2012	$664,997,872	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume because of poor economic conditions, or achieved all possible efficiencies in mail processing operations. The Postal Service could improve operational efficiency by reducing more than 14.2 million workhours by the end of FY 2014. Management agreed with the recommendations.

Report Title	Report Number	Final Report Date	Monetary Impact (In millions	Report Results
Assessment of Overall Plant Efficiency 2011	NO-MA-11-004	5/20/2011	$647,586,823	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume because of poor economic conditions or achieved all possible efficiencies in mail processing operations. Management agreed they could improve operational efficiency by reducing more than 14 million workhours by the end of FY 2013. This would allow the Postal Service to achieve at least median productivity levels in the network and avoid costs of more than $647.5 million based on workhour savings for 1 year.
Houston, TX Processing and Distribution Center Mail Consolidation	NO-AR-11-004	12/14/2010	$189,744,682	We found a business case exists to consolidate the Houston P&DC's mail processing operations into the North Houston P&DC, provided the facility is expanded. Management agreed with the recommendations and will pursue expansion of the North Houston P&DC and consolidate the Houston P&DC's mail processing operations. The expansion and consolidation is expected to be completed by the end of FY 2013, pending an economic analysis study and approval of capital funding by the Capital Investment Committee.
Assessment of Overall Plant Efficiency 2010	NO-MA-10-001	6/11/2010	$743,961,610	We found the Postal Service had not yet fully adjusted workhours in response to declining mail volume as a result of poor economic conditions or achieved all possible efficiencies in mail processing operations. Management agreed with the findings, recommendations, and monetary impact.
Dallas Processing and Distribution Center Outgoing Mail Consolidation	NO-AR-10-003	2/24/2010	$114,041,172	We concluded that a business case exists to support consolidating the Dallas P&DC's outgoing mail operation into the North Texas P&DC. Management agreed with the recommendations and is taking steps to consolidate Dallas P&DC outgoing mail operations into the North Texas P&DC.

Report Title	Report Number	Final Report Date	Monetary Impact (In millions	Report Results
Assessment of Overall Plant Efficiency	NO-MA-09-002	5/8/2009	$969,495,708	We found management has not yet fully adjusted workhours in response to changes in workload or achieved all possible efficiencies in mail processing operations provided by opportunities, such as the introduction of additional automation. Management agreed with the recommendations and monetary impact.

Appendix B: Los Angeles Network Distribution Center Suggestions for Improving Efficiency[13]

- Perform daily mail sweeps.
- Adjust employee schedules to match mail flow and workload.
- Monitor jam rates on equipment.
- Assign maintenance staff to machines frequently needing repairs.
- Improve scheduling of preventative maintenance.
- Clean and rope off finalized operations.
- Remove empty equipment from under sorting equipment.
- Ensure color-code tags are complete.
- Review employee clock rings for accuracy.
- Assign employees secondary duties during down time.
- Maximize use of automation.
- Involve the Business Service Network in improving mail quality.
- Approve overtime in small increments rather than in whole hours.
- Monitor times and locations of employee breaks.
- Have supervisors move with employees when assigning them to other operations.
- Have supervisors meet employees at the time clock when they clock in.
- Ensure employees remain busy until the end of their tour.
- Coordinate tow operator trips to move mail on all trips.
- Align dock assignments to minimize movement of mail through the plant.

[13] These items present options to management as possible sources of workhour reductions. These options are not recommendations and management may or may not implement them at their discretion.

Appendix C: Monetary and Other Impacts

Monetary Impacts

Recommendation 1	Impact Category	Amount
Cost Savings	Funds Put to Better Use[14]	$13,036,879

Summary of Calculations

- We based the cost savings calculation on the reduction of 200,019 workhours over a 2-year period multiplied by the escalated labor rate discounted over a 2-year period. Annual cost savings would be $6,518,440.
- We calculated the net present value using the discount rate of 2.6 percent over a 2-year period.
- We based labor rates on the Los Angeles NDC Labor Utilization Reporting System for total function one.
- The yearly escalation factor is 1.8 percent, based on the Postal Service's Decision Analysis Factors effective November 2011.

Other Impacts

Recommendation 1	Impact Category	Amount
Damaged Mail	Revenue at Risk[15]	$964,678

Summary of Calculations

- We based the revenue at risk calculation on the loss of customers mailing a daily average of 1,669 letters, 1,920 flats and 130 parcels, projected over a 2-year period.
- We based piece rates on Postal Service Finance Cost and Revenue Analysis for FY 2010. Revenue for a letter is $0.191, $0.366 for a flat, and $2.299 per parcel.
- We conducted the piece counts from February through April 2012.

[14] Funds that could be used more efficiently by implementing recommended actions.
[15] Revenue the Postal Service is at risk of losing (for example, when a mailer seeks alternative solutions for services currently provided by the Postal Service).

Appendix D: Management's Comments

DREW T. ALIPERTO
VICE PRESIDENT, PACIFIC AREA OPERATIONS
UNITED STATES POSTAL SERVICE

July 25, 2012

LUCINE WILLIS
DIRECTOR AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report Efficiency Review of the Los Angeles Network Distribution Center (Report Number NO-AR-12-DRAFT)

We have reviewed the above referenced and dispositioned our response for the six recommendations at the Los Angeles NDC within Pacific Area Operations. While the Pacific Area is in agreement that there is opportunity, we concur with the findings but do not agree with the cost savings.

To improve efficiency at the Los Angeles Network Distribution Center, we recommend the vice president, Pacific Area Operations; instruct Los Angeles NDC management to:

First Recommendation: Reduce work hours by 200,019 by fiscal year 2017 to produce an annual cost avoidance of about $6.5 million, or increase volume by 39 million pieces, or combine work hour reductions and mail volume increases that will achieve the above average median productivity level of 117 pieces per hour.

Actions:
The Pacific Area concurs there are opportunities for better NDC processing efficiencies and work hour reduction opportunities. We agree with the 200,019 work hour savings by 2017. In order to significantly reduce work hours and increase mail piece throughput, the HSUS must be installed in addition to planned equipment moves to capture full potential. See the attached LSS Project for potential savings. Work hour impacts start on July 28, 2012. They will continue to be reduced throughout the calendar year and be at full impact of this plan by February 1, 2017.

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

Actions:
The Pacific Area concurs with periodically evaluating efficiencies within district operations, and in addition, the Area conducts regular business reviews with each district and in these reviews efficiencies are reviewed for each plant in that district every 8 weeks. Most recent,

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the Pacific Area has conducted and revised the staffing and scheduling for the Los Angeles NDC in order to further reduce work hours. The final plan will be submitted for approval by August 3, 2012.

Recommendation #3. Improve supervision of employees to ensure all employees are fully engaged.

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

- Training of SDO local team likely topics
- Holding employees accountable
- Labor Relations Training
- Understanding the Contracts JCEM
- Communication Skills
- SDO Oversight techniques

MDOs will monitor the performance of their operations to ensure all employees are gainfully employed and reduce work hours. Training will be ongoing. In-Plant Suport and the Senior MDO will be creating a curriculum by August 15, 2012.

Recommendation # 4. Improve maintenance of mail processing equipment.

Actions:
The Pacific Area concurs resulting in Maintenance implementing new, more robust process for the NDC mail search and debris cleaning has already been completed June 5, 2012. Below are a few examples of that outcome. The NDC has several hundred pictures in two binders to illustrate the continued success. The NDC created routes on each tour to ensure the steel is clean and the Mail Searches are done every day in all areas in the steel.

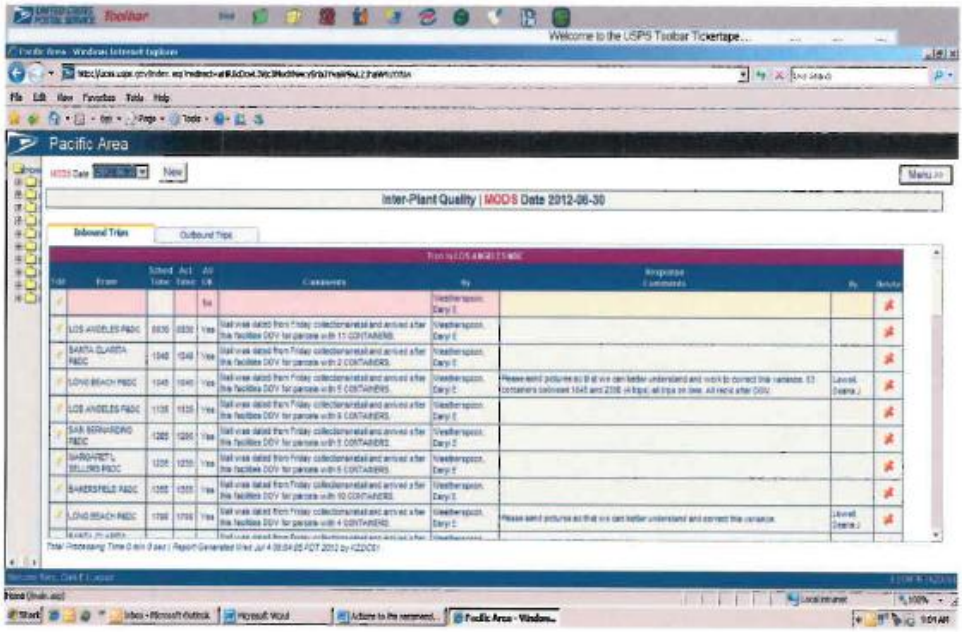
5. Maximize the utilization of automated equipment by installing a High-Speed Universal Sorter.

Actions:
The Pacific Area concurs. The HSUS sorter has been approved and is due to be contracted as of July 19 and the install will be finalized by the end of November, 2012. The NDC is moving operations and providing the site prep for the electrical to prepare for its installation.

6. Ensure there is separation of non-machineable and machineable parcels throughout the processing network.

Actions:
The Pacific Area concurs and will re-issue the SOP on RDC separations to the field. The NDC will utilize the IPQ process on all inbound parcel trips for arrival time and will be expanded to mail makeup by August 1, 2012.

Below is an example of the Pacific Area IPQ website and how it is utilized to address variances. The NDC will utilize this platform to list variances of mail make up from each plant on a daily basis.



Below is the new Claims and Inquiry area where the damaged mail on hand is reduced.

The THS is required to separate any damaged parcels they find during the de-console operation and placard for re-wrap. This will reduce the amount of MRC mail going to Atlanta.

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

For additional information, please contact Belinda Olson at 858-674-3110.

Drew Aliperto

Attachment