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Testimony

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Postal Service Operations

Statement of
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Before the
Subcommittee on Postal Operations and Services
Subcommittee on Postal Personnel and Modernization
Committee on Post Office and Civil Service
House of Representatives



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POSTAL SERVICE OPERATIONS

SUMMARY OF STATEMENT BY
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In response to numerous requests from congressional committees, GAO has reviewed a variety of postal service operations that contribute to postal oversight by Congress.

The Postal Service has taken action in response to GAO recommendations during the past year that addressed the following issues:

--policy implementation and cost savings in the use of cluster boxes for delivery of mail to new residential addresses;

--increasing the use of automated equipment to process ZIP + 4 mail that was given postage discounts but often handled like undiscounted mail; and

--strengthening postal procurement operations, in which GAO's review revealed several recurring weaknesses in procurements of \$1 million or more despite the general application of acceptable internal controls.

GAO is currently evaluating compliance with the operating budget reductions mandated by the Budget Reconciliation Act of 1987. In addition, GAO is analyzing the postal headquarters operating budget for possible reduction opportunities, since all reductions for fiscal year 1988 were levied on field offices. The Postal Service considered and rejected a number of alternative budget cuts in devising its plan, such as closing smaller post offices and air terminal hubs, consolidating processing operations, and changing its policy on delivery to the customer's door.

Other work GAO is currently doing at congressional request includes reviews of real estate, personnel, optical character reader procurement, and contingency planning.

Messrs. Chairmen and Members of the Committees:

We are pleased to be here today to contribute to your oversight of the Postal Service. The past few years have been, for the Postal Service, a time of change and challenge, that continues today. There has been an intensified effort by some to "privatize" the postal function. Restrictions have been placed on the operating and capital budgets for fiscal years 1988 and 1989. There have been widespread complaints from postal customers who had just experienced a curtailment of services while paying more for postage, and from local communities abruptly seeing postponement of plans for construction of a new post office. There have been four Postmaster Generals since 1985.

All of these things have occurred within an environment that has seen the volume of mail increase, the number of employees increase, and the cost of processing the mail increase. Yet, the goal of the Postal Service should remain the same--to assure that the customers get the best possible service at the lowest possible price. Dealing with all of these issues will be a challenge that will require continued cooperation between management and labor to address the issues effectively so that quality service can be provided at a reasonable price.

Before discussing a matter that has received considerable attention--the effect of the Omnibus Budget Reconciliation Act of

1987 (Public Law 100-203) on the Postal Service--I would like to make you aware of the range of our postal work and summarize some recent reports issued to committees of Congress.

GAO WORK

For the past several years all of our available staffing resources in the postal area have been applied to responding to specific congressional requests. Our on-going congressional request assignments deal with a variety of subjects. For your Committees we are working on acquisition of land for post offices, employee discipline, treatment of employees injured on duty, mailings of religious organizations, and how the Postal Service dealt with the Edmond, Oklahoma, tragedy. For other congressional requesters we are looking at how applicants for postal employment are screened, the management of employees during their probationary period, the procurement of multiline optical character readers, and the reduction in window service hours in Ohio. In addition, we recently began the compliance evaluation required by the Budget Reconciliation Act, and related work on the headquarters budget. Before commenting more on this work I would like to briefly summarize some recent reports we have issued.

Cluster Mailbox Delivery

In June 1987 and February 1988, we reported on the use of cluster mail boxes for new residential addresses. Cluster boxes are pedestal-mounted units which are located outdoors and are used to consolidate mail delivery at a single point for either 8, 12, or 16 houses. Each house served by a cluster box is required to pick up mail from its own separate, locked compartment.

In June 1987 we reported on compliance with Postal Service policy which stipulates that cluster mailbox delivery is to be offered as one of three mail delivery options available to new housing areas. Mail delivery to curbside boxes or to mailboxes located behind the sidewalk are the other two options that should be offered to the developer who, for new addresses, is considered by the Postal Service to be the postal "customer."

We found that the Postal Service was not consistently adhering to its policy of offering a choice between cluster boxes and other delivery options. The Postal Service agreed to check adherence to its policy periodically, and to revise a standard consent document to clearly disclose to developers the availability of two delivery options in addition to cluster boxes.

Our second report on cluster boxes provided comparative cost data for mail delivery to residential addresses. We confirmed that

the use of cluster boxes reduces mail delivery costs for residential customers living in detached homes and townhouses. The savings amount to about \$10 annually for each address.

Processing of ZIP + 4 Letters

In 1983, the Service implemented the ZIP + 4 program to reduce the cost of processing First-Class letters and cards. The program features a 9-digit Zip Code, which businesses are encouraged to use, and automated equipment--optical character readers and bar code readers. With the automated equipment, letters addressed with the ZIP + 4 code can be automatically sorted to carrier routes and the resultant savings are shared with mailers by providing a postage discount of 0.5 cent or 0.9 cent per letter.

In October 1987, we reported that, over an 18-month period, the Postal Service provided about \$25 million in postage discounts on ZIP + 4 mail that was not automatically sorted to carrier routes. Many letters were not processed automatically because the mail processing centers which did the sorting were not automated. At automated centers, reasons for not automatically sorting ZIP + 4 mail to carrier routes included not having procedures in place to capture all of the mail that could be automated and optical character readers rejecting letters as unreadable.

Field operations managers have been told to monitor the volumes of ZIP + 4 mail available for automated processing. Other improvements promised by the Postmaster General include the training of more automation readability specialists to improve the machine readability of mail and evaluating the accuracy of ZIP + 4 codes mailers and vendors are assigning to address lists.

Labor-management relations

In March 1988, we reported on labor-management problems at the Simi Valley, California, Post Office. We found that employee grievances were often not promptly resolved, required meetings designed to improve labor-management interaction and communication were not being held, and functions directly affecting employees' welfare and morale, such as prescribed reviews of mail delivery routes, were not being conducted. Improvements in labor-management relations occurred after a change in Simi Valley Post Office management.

Procurement

Last week we reported on the Postal Service's procurement function which is one of the largest in the federal government. The Service annually purchases goods and services valued at about \$4 billion. We found that several accepted controls to help deter fraud and assure that the Service was getting its money's

worth were routinely applied to contracts. Despite the application of acceptable internal controls, we identified five recurring weaknesses in postal procurement practices and determined that 44 of the 109 large dollar contracts (\$1 million or more) we examined had one or more of these weaknesses. Correcting these weaknesses would improve contracting practices and result in dollar savings. The Postal Service accepted our findings and said corrective actions have been taken or are underway in response to our recommendations.

BUDGET REDUCTIONS

Let me turn now to the effect of the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203) on the Postal Service. As you know, for the first time since postal reorganization in 1970, last December's Budget Reconciliation Act imposed mandatory restrictions on the capital and operating budgets of the Postal Service for fiscal years 1988 and 1989.

Capital Budget

Capital investment commitments were restricted to \$625 million in fiscal year 1988 and \$1,995 million in fiscal year 1989. Restricting commitments at these levels lowered planned commitments by \$1.7 billion (73 percent) in 1988 and \$635 million (24 percent) in 1989. To lower 1988 commitments to the required

level the Service made across-the-board reductions with the greatest impact on facilities where planned commitments were reduced 79 percent, from \$1.7 billion to \$356 million.

Operating Budget

The required reductions in the operating budget were \$160 million in fiscal year 1988 and \$270 million in 1989. Plans showing how the Service intends to achieve the required savings must be submitted to Congress and we are required to report to Congress on the Service's compliance with those plans.

We are now reviewing the implementation of the 1988 plan. I will explain how the plan was developed, the budget items that the Postal Service selected to reduce and the amounts, and some items that it did not choose to reduce.

The 1988 spending reduction plan was prepared by a working group under the direction of the Senior Assistant Postmaster General for Operations. Teams were formed to identify and set priorities for potential actions which would produce the desired savings. Through a series of meetings involving headquarters and field personnel, various alternatives were discussed, modified and adopted or rejected. The Service had to take into account that by the time the Act passed, the fiscal year was nearly one-fourth over. Thus, the working group emphasized prospective

changes that could be quickly implemented and would produce immediate savings. The 1988 plan, submitted to Congress in February, is attached to my statement. The dollar amounts for the 10 cost reduction actions are Postal Service estimates that were not included in the submitted plan. As shown, anticipated savings from the planned actions total \$173.8 million - a buffer of \$13.8 million above the required amount. Over \$100 million of the anticipated savings are expected to come from two of the actions--reductions in such administrative costs as training and travel, and in window service hours. Also, all of the reductions were levied on budgets of the Service's field offices. The Headquarters 1988 administrative budget, \$1.0 billion, an increase of 7 percent over 1987, was not reduced. We are currently analyzing this budget for possible reduction opportunities.

COST REDUCTION ACTIONS CONSIDERED
AND REJECTED

The Postal Service considered many other cost savings measures before adopting those listed in the plan. Some of these alternatives are under consideration for possible implementation in fiscal year 1989, when the operating budget has to be reduced \$270 million. In general, the Postal Service rejected these changes in fiscal year 1988 because they would not produce enough verifiable savings, would take too long to implement, would be counter to service improvements that the Postal Service had

achieved, or would be too unpopular. Options considered in the latter group included closing small post offices, switching from door to curb delivery, and centralizing all new deliveries to cluster boxes. Options that were not adopted because they were counter to service improvements included closing air terminal hubs in Nevada and Indiana, and merging mail of different classes into a single stream at certain processing points. Another proposed change involved holding some letter mail an extra day at processing points to maximize the use of available automated equipment. While the Postal Service estimated this could save \$130 million in 1988, it considered the effect on mail service to be a major drawback. However, the Service is still considering the proposal for 1989.

In the personnel area the Service considered offering early retirement and increasing the use of temporary, or casual, personnel. The possible savings from early retirements were not considered large enough compared to the potential disruption from the loss of the Service's most skilled employees. The Service also saw as a disadvantage the requirement that it would have to offer early retirements across-the-board and would not be able to target them where it believed they would be most cost-effective.

Greater use of casual employees would save money because they are paid less than permanent employees and they receive no benefits. While the maximum number of casual employees is generally limited

by collective bargaining agreements to five percent of the workforce, the Postal Service is presently below this ceiling. Service officials considered what would be necessary to maximize the use of casuals as a cost reduction measure, and concluded that at this time casual utilization was at its highest practical level.

In line with the Reconciliation Act requirement that we determine if the Postal Service carried out its cost reduction responsibilities, we are currently looking at how the various reduction actions can be best documented and measured.

That concludes my prepared statement, Messrs. Chairmen. My colleagues and I would be pleased to answer any questions you may have.



IMPLEMENTATION PLAN

FISCAL YEAR 1988

OPERATING BUDGET REDUCTIONS

PUBLIC LAW 100-203

*United States Postal Service
Washington, D.C.*

**IMPLEMENTATION PLAN
FISCAL YEAR 1988
OPERATING BUDGET REDUCTIONS
PUBLIC LAW 100-203**

(\$ Millions)

- 1) Initiate Servicewide Administrative Cost Reduction Program** \$67.1

Institute significant reductions in administrative personnel costs, travel, training and supplies and services budgets. Activities affected by personnel cost reductions are finance, human resources, marketing, and general administrative. This action does not impact Postmasters. These costs generally support postal operations but do not directly involve the processing and delivery of mail.

- 2) Reduce and Centralize the Innovation Fund** \$7.4

The purpose of the innovation fund is to encourage research and development projects in the field at a no cost / no risk condition to field operating budgets. These funds have been reduced. However, limited funds are still available to encourage projects.

- 3) Carrier Route Information System Sortation** \$13.6

We intend to implement nationally a locally researched and developed effort that increases the sorting capability of our single-line optical character readers. The Carrier Route Information Sortation System requires minimal investment and will pay for itself almost immediately.

**IMPLEMENTATION PLAN
FISCAL YEAR 1988
OPERATING BUDGET REDUCTIONS
PUBLIC LAW 100-203**

(\$ Millions)

4) Convert Some Air Transportation to Highway Transportation \$10.0

Conversion to cheaper highway transportation will reduce overall transportation costs. This action is expected to result in minimal service impact but will involve a significant reduction in operating flexibility and some potential risk due to longer ground transport times.

5) Eliminate Selected AMTRAK Service \$2.0

Contracts for dedicated space on AMTRAK trains will be terminated and mail will be diverted to more fully utilize existing ground transportation. No service deterioration is anticipated.

6) Increase Load Requirements for BMC Rail/Highway Vans Transportation \$11.2

Bulk mail center rail and highway van dispatch procedures will be revised to encourage increased van utilization. BMC vans are currently dispatched according to specific schedules linked to service expectations regardless of whether they are loaded to capacity. Some vans will now be delayed for dispatch until they are full, but will not be held beyond an additional 24 hours. Some deterioration in Bulk Business Mail Service is anticipated.

**IMPLEMENTATION PLAN
FISCAL YEAR 1988
OPERATING BUDGET REDUCTIONS
PUBLIC LAW 100-203**

(\$ Millions)

- 7) Eliminate ZIP+4 Look-Up Service Provided Through
Computer Forwarding Sites** \$2.0

Suspend ZIP+4 look-up service associated with change of address requests processed by computer forwarding sites.

- 8) Elimination of Outgoing Distribution on Sundays** \$18.0

Eliminate outgoing distribution on Sunday. This action essentially eliminates the collection and processing of outgoing mail on Sunday. This action would not affect Express Mail, drop-ship arrangements, and some platform operations.

- 9) Close Selected Retail Operations and Reduce Collections** \$2.5

Service reductions were implemented the days following Christmas and New Years.

- 10) Reduction in Window Service Hours** \$40.0

Reduce window service hours up to 10%. This roughly equates to all offices losing about 1/2 day's service per week. The field has been instructed to accomplish this reduction while considering local service needs. While minimized, some inconvenience to the public will occur.

TOTAL \$173.8