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The Honorable William F. Bolger
Postmaster General
United States Postal Service

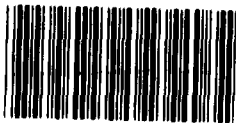
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Dear Mr. Bolger:

We recently completed a limited assessment of the Postal Service's Area Mail Processing Program--a program designed primarily to reduce labor costs by consolidating mail processing functions. While our work supported our earlier belief that the program's concept is sound, it also indicated that the Service may not be maximizing the program's savings. More savings might have been realized if the Service (1) had developed better plans and (2) had performed post-evaluations which would have assessed actual savings achieved and identified necessary corrective measures.

In response to individual congressional requests, we previously evaluated the Service's plans for implementing area mail processing in several offices to determine the reasonableness of estimated savings, the potential effect on mail service, and the impact on employees. Although our evaluations took place before the plans were implemented, we found that the consolidations were economically justified and that the area mail processing concept was sound. There were indications, however, that the area mail processing plans were inadequate and that estimated savings might not be fully realized.

Recently, we reviewed 34 area mail processing plans from the 5 postal regions and conducted post-evaluations for 3 of these plans. We found that the plans were inadequate because they lacked the complete and accurate data management needed to assess either the potential benefits or the actual accomplishments of area mail processing. The inadequate plans stemmed from vague guidelines from headquarters which have been inconsistently applied by the Service's five regions.



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We also found that estimated savings were not fully realized. Lacking a post-evaluation requirement, the Service was unable to determine the actual savings achieved and services provided and had no basis for identifying needed corrective actions.

For the three implemented plans we reviewed in detail, we found no deterioration of mail service, primarily because no major transportation scheduling changes were made for collecting and dispatching mail. Such changes were minimal because of the dense population and good highway network in the three areas.

The Service should revise its guidelines for planning and implementing area mail processing to (1) clearly specify the factors that should be included in an area mail processing plan and (2) establish a standard methodology for calculating the costs or savings associated with area mail processing. Also, the Service should require post-evaluations of implemented area mail processing plans to identify problems and take corrective actions needed to realize full program benefits.

Our review was conducted at the Postal Service's Headquarters, Washington, D.C., and at three of its five regional offices. In addition we obtained information from the other two regional offices. We analyzed 34 regional area mail processing plans and the implementation of 3 of these plans at postal facilities in the Eastern and Northeastern postal regions.

AREA MAIL PROCESSING--
A MAJOR COST REDUCTION
PROGRAM

Since reorganization, the Postal Service has tried to improve productivity and reduce labor costs, which account for over 85 percent of the Service's \$15 billion budget. A major effort in this direction has been the implementation of a nationwide program known as area mail processing. Under this concept, mail processed at several associate offices 1/

1/An office located within the boundary of a management sectional center, usually receiving and dispatching all classes of mail from and to the management sectional center. A management sectional center is a postal facility responsible for all post offices within assigned ZIP Code areas.

within an area is consolidated in a central processing facility ^{2/}, sometimes referred to as an area mail processing center, for processing and dispatch. This allows the Service to mechanize operations, increase worker productivity, reduce personnel costs, and make more efficient use of transportation while improving or maintaining the quality of mail service. The Service began the nationwide program in 1971, and, as of fiscal year 1978, has implemented approximately 395 area mail processing plans.

VAGUE GUIDELINES HAVE LED
TO INADEQUATE PLANS

Postal Service Headquarters has delegated the authority for approval of area mail processing plans to the regions, but has provided little guidance or monitoring. Headquarters instructions to the regions are vague in that they do not specify the factors that should be considered when calculating the costs and savings associated with area mail processing. The plans we reviewed frequently failed to include such relevant factors as identifying vacant positions for excess employees, new mechanization, detailed mail volumes, productivity rates, and transportation scheduling changes. They also lacked sufficient detail to enable management to make a decision as to the accuracy of projected costs or savings.

Our review of 34 recent regional plans showed a wide variation among the Service's 5 regions in the content of area mail processing plans. For example, the method generally used by the regions to determine labor savings consists of comparing the number of hours used to manually sort the affected mail to the projected number of hours needed for mechanized sorting. However, most regions' plans do not contain detailed volume counts, productivity rates, or work-hours to support their calculations. The Southern Region did attempt to identify the workload and staff-hours at the affected associate office by conducting a detailed volume and work-hour count for a 2-week period. This region used these same volume counts to provide the basis for determining the increased workload at the area mail processing center.

Many of the regions' plans did not include potential cost increases or decreases from transportation changes. The Central Region's plans included detailed transportation

2/Generally a mechanized facility for processing incoming and outgoing mail for a number of local post offices in a designated service area.

schedules but often failed to include the cost. Other regions' plans frequently failed to address the transportation aspect. Usually when it was mentioned, the plans lacked both detailed schedules and costs or savings associated with any transportation changes. Also, none of the regions considered the cost of mechanization in their plans even though in many of them, it was an important and costly factor of area mail processing.

Another important aspect of area mail processing which the plans frequently ignored was whether the quality of mail service would be maintained. Although the plans stated that service would be maintained, they did not specify what, if any, transportation scheduling changes were needed to implement the plans.

Omitting relevant factors and not providing sufficient detail for calculations results in inaccurate plans, as demonstrated by the three plans we reviewed in detail.

One Eastern Region plan estimated an annual savings of \$103,869. Our review indicated a savings potential of \$188,581. The original plan was in error because:

- Labor savings were underestimated by \$106,257 because the labor costs at the central processing facility were incorrectly calculated.
- Transportation savings of \$2,268 were not included in the proposal.
- New mechanization costing \$23,840 was not included. The mechanization was partially justified by the mail volume of the associate office being consolidated.

Another Eastern Region plan estimated a savings of \$27,223 in labor costs. However, we were unable to determine the accuracy of the plan because supporting documentation was not available for us to determine how the savings were calculated.

A Northeast Region plan also had a number of discrepancies. The September 1977 plan approved by the region consisted of two phases. Subsequently, a decision was made to implement only one of the phases. Although postal officials were aware that an updated plan was needed, they had never prepared one. As a result of our review, a revised plan was prepared by postal officials on September 12, 1978--almost 9 months

after implementation. This revised plan, however, was still inadequate. Our analysis revealed an annual savings of \$549,240 rather than the \$603,308 projected in the revised plan. The revised plan was in error for the following reasons:

- Labor savings were overstated by \$25,331 because the plan overstated the positions to be eliminated.
- Transportation changes resulted in an annual savings of \$71,990 rather than the \$60,034 projected in the revised plan. Further, the plan failed to include the one time penalty expense of \$20,022, incurred when transportation contracts were terminated.
- New mechanization costing \$40,693--which was partially justified by the mail volume of the associate office being consolidated--was not included. Also, an expense of \$2,548, incurred for moving two facer-canceler machines to the area mail processing center was not included.

The Western Region realized the need for thorough and consistent analyses. In November 1977 it issued a handbook specifying a method to be used in preparing area mail processing plans. The Eastern Region is revising its guidelines along the same lines as the Western Region.

On February 27, 1978, Postal Service Headquarters issued updated instructions on area mail processing. A major revision in the new instructions is the requirement for a preimplementation cost audit of the impact on affected associate offices and central processing facilities. However, the instructions fail to provide a standard method for calculating the costs and benefits of an area mail processing plan. As a result, there is no assurance of nationwide consistency of plans.

ESTIMATED SAVINGS
MAY NOT BE REALIZED

While the concept of area mail processing is sound, the program may not be maximizing savings, as intended. Of the three plans reviewed, one achieved the estimated savings while the other two achieved only 2 and 48 percent of the Service's estimated savings. Savings were not fully achieved because the Service did not require post-evaluations to ensure that the area mail processing plans were properly

implemented and that projected savings were realized. Post-evaluations can identify problems for management so that corrective actions can be taken.

One plan we reviewed estimated an annual savings of \$27,223, but only \$393 had been realized in the first year. Most of the savings was lost because the budget of the associate office being consolidated was not reduced by \$19,445 and the postmaster used these funds for unauthorized services. As a result of our review, action was taken to prevent future losses.

Another plan estimated annual labor savings of \$210,154; however, only \$112,057 was realized in the first year after area mail processing was implemented because approval and implementation of the plan was delayed. During the delay, a number of positions at the associate office were vacated through attrition and were not filled. Consequently, part of the mail had to be transferred to the central processing facility for processing. This required the use of overtime and ultimately reduced the estimated savings by 52 percent.

The plan we reviewed that achieved the estimated savings did so because the sectional center manager monitored the actual work-hours at the associate office being consolidated before and after the implementation of the plan and reduced the budget to reflect the lower workload. Further, he made sure that all excess personnel were reassigned to vacant positions. As a result, this consolidation realized savings of \$526,670.

The regions we visited all recognized the importance of post-evaluations for providing management with reliable data on the success and/or failure of individual area mail processing plans. To date, however, only the Eastern Region has developed post-evaluation procedures.

QUALITY OF MAIL SERVICE MAINTAINED

The quality of mail service for the three area mail processing plans we reviewed was maintained because there were no major transportation scheduling changes for the collection and dispatch of mail. Also, the plans encompassed densely populated areas with major highways. While service was maintained in these instances, the same might not be true of other area mail processing consolidations.

This assumption is based on our review of 34 plans from the Service's five regions. The plans often failed to discuss the effects of transportation scheduling changes on mail service. Such information is especially important when (1) a plan is for a sparsely populated area, (2) major highways are not readily available, and (3) the topography and climate of an area are not suitable for reliable transportation. The lack of such data leaves management with only a guess as to whether mail service will be maintained.

Before approving an area mail processing plan, management should have sufficient data to determine what effect the plan will have on mail service. Further, a determination as to whether mail service has been maintained should be included as part of the post-evaluations.

CONCLUSION

Presently, Service management lacks the proper data to determine how successful or unsuccessful area mail processing has been. Plans for area mail processing do not accurately project potential achievements, and without post-evaluations, management does not know the realistic accomplishments of the program.)

✓ Each of the Service's five regions applies different criteria and calculations when justifying area mail processing plans. The Service's guidelines for planning and implementing area mail processing do not specify the type of information that should be included in a plan, such as (1) mechanization needed, (2) detailed volume and productivity figures, (3) transportation scheduling changes, and (4) vacant positions for excess employees. Also, the guidelines do not establish a standard methodology for calculating the costs or savings attributable to area mail processing. As a result, estimated savings are inaccurate, leaving management with a false impression as to the benefits and accomplishments of the program,

✓ Without post-evaluations, potential savings from area mail processing have eroded without management's knowledge. Savings have been lost because budgets were not reduced, employees were not reassigned to vacant positions, and plans were not being approved in a timely manner. While these problems do not reflect on the soundness of the area mail processing concept, they may be preventing the program from maximizing savings. Without post-evaluations, problems go undetected by management, resulting in the failure to achieve all possible savings.)

RECOMMENDATIONS

The Service should provide its management with a sound basis for approving area mail processing plans while at the same time providing realistic estimates. We therefore recommend that you revise the guidelines for planning and implementing area mail processing to (1) ^{GAO}

- (1) - clearly specify the factors that should be included in an area mail processing plan and
- (2) - establish a standard methodology for calculating the costs or savings of area mail processing.

Further, we recommend that ^{the Service} you require post-evaluations to identify problems and take corrective actions needed to realize full program benefits.

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Our conclusions and recommendations have been discussed with headquarters and regional officials. They concurred with our findings and are presently working on corrective actions to implement the recommendations in this report. As a result of this cooperation, we are discontinuing work on area mail processing for the present.

Copies of this report are being sent to the Chairman, House Committee on Post Office and Civil Service; Chairman, Subcommittee on Energy, Nuclear Proliferation, and Federal Services, Senate Committee on Governmental Affairs; Chairman, House Committee on Government Operations; Director, Office of Management and Budget; and to the Chairmen of the appropriate subcommittees of the House and Senate Committees on Appropriations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We would be happy to meet with you or your staff to discuss this matter further if you so desire. Also, we would appreciate being informed of changes made in the area mail processing program.

Sincerely yours,

A. R. Voss

Allen R. Voss
Director

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