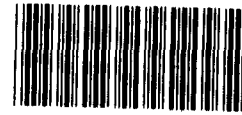


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Postal Service Oversight

Statement of L. Nye Stevens
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Operations Issues
General Government Division

Before the Subcommittee on Federal Services,
Post Office & Civil Service
United States Senate



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POSTAL SERVICE OVERSIGHT

SUMMARY OF STATEMENT BY
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OPERATIONS ISSUES
GENERAL GOVERNMENT DIVISION
U.S. GENERAL ACCOUNTING OFFICE

The Postal Service's financial performance in 1989 was disappointing, largely because the Service failed to accomplish workforce reductions it anticipated when it filed for the April 1988 rate increase. The overrun of 38,000 workyears, mostly in mail processing, cost the Service about \$1.3 billion. Although controls on the size of the workforce have slowed cost growth, a deficit from \$1.4 billion to \$1.6 billion is still expected this year.

GAO agrees with the Postmaster General that meeting his objective of holding annual cost increases to 1 percent below the inflation rate through 1995 will require higher productivity and restraint in the growth of labor costs. GAO's analysis of 1988-89 costs at 114 of the largest mail processing facilities showed that productivity improvement savings of \$138 million were dwarfed by an increase in costs attributable to volume growth (\$147 million) and to growth in per hour labor costs (\$435 million).

The outcome of the Postal Service's 1990 labor negotiations and the rate changes requested for early 1991 will, in GAO's opinion, be critical for determining whether the Service can remain competitive with other forms of information transmission as it enters its third decade as an independent public enterprise. Rate concessions and incentives for mailers to help automate the mail will be of no benefit to financial performance unless the Postal Service can manage a timely and comprehensive transition from manual and mechanical sorting.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to contribute to your oversight of the Postal Service. While the past year has been one of challenge and controversy for the Postal Service, the Service faces a critical juncture in 1990 as it addresses disappointing financial performance, a newly filed rate case, and a new round of bargaining with its unions.

Today I would like to summarize our work at the Postal Service over the past year, describe the Service's recent financial performance, and comment briefly on the competitive challenge the Service faces in coming years.

GAO's POSTAL WORK

The past year has witnessed a burgeoning of congressional interest in and scrutiny of postal matters as befits a \$40 billion public enterprise that touches most Americans nearly every day. To respond to that interest and the growing number of congressional requests, we issued 10 reports on postal matters over the past year and these are listed in Appendix I to my statement. They fall broadly under the categories of labor relations, real estate, and operations.

Labor Relations

We issued reports on labor/management relations at post offices in Oklahoma City and Indianapolis. In both of these cases, we found that increased attention from top management and perhaps the presence of our auditors improved the climate by the time our review was completed.

Both of these reports stemmed from employee complaints to their members of Congress about local work conditions. While this work contributes to improved labor/management relations, we would prefer to work with the oversight committees to identify broader problems and potential solutions to them.

An example of this broader focus was our May 1989 report on postal disciplinary practices, showing a wide variation among divisions in penalties imposed for similar infractions with the same history of prior discipline. We found that supervisors had not been provided with clear guidance on how they should consider a number of factors inherent to deciding on the application of discipline. We concluded that clarification of instructions on which infractions are major or minor, when to hold predisciplinary discussions, how to consider prior infractions, and responsibilities of concurring officials, should enhance the consistency of disciplinary actions.

In a congressional hearing last September, we summarized a review of Service management of work-related injuries based on work at four postal divisions which showed a wide range of performance in controlling lost work days due to accidents. We recommended several ways to expand controls over lost workdays and continuation of pay during injury-related absences, strengthen the management of limited-duty assignments, and improve the accuracy and comprehensiveness of accident reporting.

Real Estate

In September 1989, we reported that sites acquired for new post offices may be larger than needed. We found that the Service projected its site size requirements for 10 years out, then routinely added a standard 50-percent growth factor for another 10 years, advertised for sites still larger than the combined 20-year land requirements, and then usually purchased sites that exceeded both its projected needs and advertised size requirements. When alternative sites were available for purchase, the Service generally selected the larger, more costly sites without requiring site selection committees to document why less expensive alternative sites were less desirable.

The Postal Service's response to this report was very positive. Directives have been issued to stop the use of a standard 50-percent growth factor, to not advertise for sites larger than

requirements, and to require that the basis for selection decisions be documented.

We also issued a report to this Subcommittee in December on the process by which the Service estimated construction costs and on actions by the Board of Governors in questioning costs of 10 of the larger construction projects. We found that in the aggregate the cost estimates were a reasonable approximation of final costs.

Service and Administrative Operations

Of local interest, we reported in June 1989 to Congressman Frank Wolf that the Postal Service allowed mail delivery services at post offices in northern Virginia to become a major management problem before taking corrective action.

In October 1989, we completed reporting required by the Omnibus Budget Reconciliation Act of 1987. The Act required the Postal Service to reduce budgeted operating costs by \$160 million in fiscal year 1988 and \$270 million in fiscal year 1989, and make corresponding payments to the Employees Health Benefits Fund. While we could not verify savings expected from reductions in operational workhours, other initiatives--mainly in the transportation and administrative area and not all of them a direct result of the Reconciliation Act--produced documented

operating cost reductions in the requisite amounts. The Service overspent its reduced budget but the Reconciliation Act did not specify a starting figure or place a ceiling on expenditures. Thus, we concluded that the Service was in compliance with the Act for both years.

In October 1989 and March 1990, we provided you information on travel expenses incurred by postal managers. In October we reported on the use of first-class travel by top postal management. There were no written guidelines on such travel at that time. Our March report covered costs of meetings and conferences, some of which were held in resort areas and involved high costs for food and beverages. Postal management has taken action to tighten up internal spending guidelines, apparently in recognition that the public wants assurance that postage revenues are treated with a degree of frugality comparable to their expectations for tax revenues.

In December 1989 we reported on a deterioration in the relationship between the Postal Service and its primary supplier of postage stamps, the U.S. Bureau of Engraving and Printing. The relationship remains a tenuous one, and the Postal Service is evaluating an expanded role for the private sector in postage stamp production.

FINANCIAL PERFORMANCE AND OBSTACLES

TO FUTURE IMPROVEMENT

The seeds for the disappointing performance in 1989 were sown by the forecast that was the basis for the April 1988 postal rate increase to a 25-cent first class postage stamp. Although the Service accurately estimated revenues and volume, there was an overrun of 4.4 percent or about \$1.65 billion above the projected amounts on the cost side. The major cause of the overrun was the Service's failure to accomplish the workforce reductions anticipated when the rate increase was requested. Most of the reductions were expected to come from the deployment of labor saving equipment such as optical character readers. The predicted workforce level for 1989 was 797,000 workyears. Utilization during the year, however, totaled 835,000 workyears; about 5 percent more than predicted. At an average pay and benefit cost of about \$35,000 per work year in 1989, the overrun of 38,000 workyears cost the Postal Service, and ultimately will cost postal customers, about \$1.34 billion.

The disappointing financial performance of 1989 will continue into 1990. Controls on the size of the workforce were instituted in 1989. Financial performance started to improve late in the year and is continuing into this year. As of March 9, 1990, both expenses and workhours are slightly below budgeted

amounts. The number of workhours used is less (1.3 percent) than the amount used for the same period last year.

Despite improving financial performance in 1990, a significant net loss is projected (\$1.4 to \$1.6 billion) and current postal rates, set in April 1988, are scheduled to increase early in 1991. The Postmaster General has acknowledged that the increase, which will exceed inflation, is "too much, too soon."

To offset this increase, the Postmaster General has set for the Service an objective of holding average yearly cost increases to 1 percent below inflation through 1995. The Postmaster General believes that this will require higher productivity gains than have been achieved in recent times and restraint of growth in work hour costs. We agree that low productivity and growth in labor costs are major obstacles to the level of financial improvement the Postmaster General is aiming for.

Labor Productivity and Costs

About 83 cents of every dollar spent by the Postal Service is for labor. For the past 5 years the average annual growth in the cost of salaries and benefits was about \$2 billion--from \$22.2 billion in 1984 to \$32.4 billion last year. Salary costs accounted for about \$6 billion of this (a 32 percent increase) while the increased cost of benefits accounted for \$4 billion.

The average postal salary increased by 16 percent from 1984 to 1989 (from \$24,738 to \$28,689). During the same period, average benefits for postal employees grew by 88 percent, or from \$3,381 in 1984 to \$6,356 in 1989, bringing the total pay and benefits package to an average of \$35,045 per employee last year.

To gain insight into the factors that influence postal costs, we analyzed the change in operating costs from 1988 to 1989 at 114 of the largest mail processing facilities. Specifically, using increases in mail processing and distribution costs, we apportioned the change among three factors: (1) increased mail volume, (2) increased per hour labor costs, and (3) productivity, whether improving or declining.

Mail processing and distribution costs at these facilities increased a net \$444.9 million from 1988 to 1989. We estimate that \$138.2 million was saved due to improvements in mail processing and distribution, but this savings was dwarfed by higher costs associated with increased mail volume and labor. Specifically, costs increased \$148.6 million because of higher volume and \$434.5 million due to the increase in per hour labor cost. In terms of 1988 levels, productivity improvement resulted in a savings of 2.1 percent, higher volume increased costs 2.2 percent, and the per hour increase in labor raised costs by 6.5 percent.

An impediment to increased productivity is that postal managers do not or are unable to, because of current work rules, effectively match staffing levels with work load. The introduction of automated equipment has made this mismatch more evident.

In December of 1989, the Postal Inspection Service reported the results of a national audit of the optical character reader and bar code sorter automation program. At 22 sites reviewed, only about a third of the workhour savings forecast from the equipment was being attained. This shortfall in savings was attributed to poor management and utilization of automated equipment. For example, at 20 sites, mail which should have been processed by automated equipment was diverted to less efficient mechanized and manual processing to keep employees busy. The inspectors said that managers did not or were unable to, because of work rules, reduce staffing levels in mechanized or manual operations.

Such situations occur in part because mail processing operations are not yet fully automated and the Service must operate dual systems--mechanized (letter sorting machines) and automated (optical character readers). If there is not enough work for both systems, managers have too many employees working a fixed 8-hour schedule because of the "90-10" work rule. At post offices which use more than 200 work years the workforce split between

full-time regular employees and part-time employees must be at least 90 percent full-time and no more than 10 percent part-time.

The transition from a mechanized system to automation is also creating other dilemmas for the Postal Service. To keep the mechanized system operational there is a constant need for operators of letter sorting machines. But the employees hired today as operators of letter sorting machines may not be needed when the Service completes system-wide implementation of letter mail automation, which is expected to start during 1994. Also, the Service's rate structure proposed for 1991 contains a number of incentives for business mailers to prepare their mail for automated processing. These have a cost. Whatever final form these concessions take, the future financial performance of the Postal Service is dependent on its ability to actively manage and capture productivity savings that automation will only theoretically make possible.

COMPETITIVE CHALLENGE

The Postal Service will soon mark its twentieth anniversary under reorganization. It has lost most of the parcel post business and competitors now dominate the overnight delivery market. On the other hand, volume has grown and postage rates remain lower than in other industrialized countries. We believe that the labor negotiations this year and the outcome of the rate

case will be of critical importance in determining the competitiveness of the Postal Service in a rapidly changing information transmission environment. We also believe Congress will eventually have to take stock of the overall competitiveness of the Postal Service and we stand ready to assist you in such an evaluation.

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That concludes my prepared statement, Mr. Chairman. We would be pleased to respond to any questions you may have.

LIST OF GAO REPORTS ON THE POSTAL SERVICE

May 1989 -- April 1990

<u>DATE</u>	<u>REPORT TITLE</u>	<u>REPORT NO.</u>
5/19/89	Discipline Practices Vary	GAO/GGD-89-79
6/16/89	Progress Made in Restoring Deteriorated Northern Virginia Mail Service	GAO/GGD-89-88
9/28/89	Postal Service Management of Work- Related Injuries	GAO/T-GGD-89-41
9/29/89	Sites for New Post Offices May Be Larger Than Needed	GAO/GGD-89-130
10/20/89	First-Class Air Travel by Top Postal Management	GAO/GGD-90-22FS
10/27/89	Improved Labor/Management Relations at the Oklahoma City Post Office	GAO/GGD-90-02
10/31/89	Final Report on Compliance With 1989 Budget Reduction Mandate	GAO/GGD-90-26
12/12/89	Postage Stamp Production: Bureau of Engraving and Printing's Future Role	GAO/GGD-90-25
12/19/89	Estimating the Cost of Construction Projects	GAO/GGD-90-28BR
3/9/90	Postal Service: Cost of Meetings and Conferences	GAO/GGD-90-66FS
4/16/90	Employee-Management Relations At The Indianapolis Post Office Are Strained	GAO/GGD-90-63