

GAO

Report to Congressional Committees

August 1989

POSTAL SERVICE

**Preliminary Report on
Compliance With 1989
Budget Reduction
Mandate**





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-232239

August 30, 1989

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

This report is provided in accordance with subsection 6003 (c)(3) of Public Law 100-203, the Omnibus Budget Reconciliation Act of 1987. The subsection requires the General Accounting Office to submit a preliminary report to you on the extent of compliance by the United States Postal Service with its plan to reduce its fiscal year 1989 operating budget by \$270 million. The act also requires that we submit a final report on compliance to you on October 31, 1989.

Background

The Postal Service's fiscal year 1989 cost reduction plan, submitted to you on October 3, 1988, contains 12 cost-cutting initiatives. Six of these began in fiscal year 1988, when the Postal Service was required by the act to save \$160 million. They include cost reductions for administrative personnel, travel, training, and supplies and services; shifting some mail to less expensive or less frequent transportation modes; efficiencies in mail processing; and elimination of Sunday mail collections. These items were addressed in our reports on the Service's compliance with the act in fiscal year 1988.¹ New items include deployment and upgrading of mail processing equipment; additional transportation initiatives; and a reduction in merit salary increases. Since the new items represent savings that were not originally reflected in the Service's 1989 operating budget, they are countable as omnibus savings. However, they were existing opportunities which required no changes to operational or management plans already in place. The Postal Service believed that the 12 initiatives would save \$288 million—a buffer of \$18 million above the required amount. In a required interim report on the status of the 1989 plan, the Postal Service reported to you on March 3, 1989, that the required savings were being accomplished.

¹Postal Service: Preliminary Report on Compliance With 1988 Budget Reduction Mandate (GAO/GGD-88-121, Sept. 1, 1988); and Postal Service: Final Report on Compliance With the 1988 Budget Reduction Mandate (GAO/GGD-89-25, Oct. 31, 1988).

The Assistant Postmaster General, Department of the Controller, reviewed a draft of this report and suggested clarifications that have been incorporated where appropriate.

We are sending copies of this report to the Postmaster General, congressional committees, and other interested parties. Major contributors to this report are listed in the appendix. If you have any questions, please call me on 275-8676.



L. Nye Stevens
Director, Government Business
Operations Issues

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Approach

To carry out our reporting responsibilities, we are assessing the reasonableness of the Postal Service's cost savings calculations. Where applicable, we have extended our analyses from last year to determine whether the initiatives are achieving the necessary savings from the 1989 operating budget of the Service. To evaluate the impact on labor costs of the mail processing equipment, we are analyzing selected work-hour and volume statistics for 1988 and 1989.

Our work, which began in December 1988, is being done at the Postal Service headquarters in Washington, D.C., and selected field offices. The Audit Division of the Postal Inspection Service is also reviewing the Postal Service's compliance with the Budget Reconciliation Act. We are working with the Inspection Service again this year and will consider their reports when making our final compliance determination on October 31, 1989.

Interim Findings

We have identified or estimated savings that are occurring from most of the cost reduction initiatives in the Service's 1989 plan. These include savings in administrative and transportation costs; in elimination of Sunday collections; and in merit salary increases, which comprise \$232 million of the \$288 million in the Service's savings plan. Our analyses of work hours and workload has not yet allowed us to isolate and verify the \$56 million in claimed savings from the deployment and upgrading of mail processing equipment. Such programs are subject to comprehensive post-audit reviews to confirm expected savings. However, verification of these savings during the year of installation has been difficult because the specific operations affected by the equipment are also affected by changes in the operating environment, such as workload growth, and shifts of work hours to other direct or indirect work.

It is possible that the Service could achieve the savings target and comply with the act without including any amounts associated with the mail processing equipment. Projected savings from all other initiatives appear likely to exceed their planned levels in total. Last year the Service achieved its savings goal without considering savings from the curtailment of window services, which, similar to the mail processing equipment, relied on a reduction in work hours that we could not confirm.

