

GGD-76-61

3-5-76

093782



UNITED STATES
GENERAL ACCOUNTING OFFICE

A Summary Of Observations
On Postal Service
Operations From
July 1971 To January 1976

GGD-76-61

~~707291~~

MARCH 5, 1976

093782



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114874

The General Accounting Office testified on February 20, 1976, before the Senate Committee on Post Office and Civil Service on certain proposed changes to the Postal Reorganization Act. As an addendum to our statement, we prepared a document entitled "A Summary of Observations on Postal Service Operations From July 1971 to January 1976" which presents our views on the success of the Postal Service in achieving the four principal objectives of the act, namely,

- to provide the American people with good mail service,
- to charge the public reasonable rates and fees for this service,
- to have postal revenues cover postal costs; that is, to achieve self-sufficiency, and
- to bring the wages and working conditions of the postal worker to levels comparable to those of the private sector.

We have had a continuing audit effort at the Postal Service since its inception on July 1, 1971. In addition to issuing 126 reports on various aspects of the agency's activities during the past 4-1/2 years, we have testified before various committees of the Congress on eight occasions, and given numerous briefings to Members and their staffs.

The information we developed in the course of this work sheds light on the problems and accomplishments of the Postal Service in achieving the goals of postal reorganization.

James B. Stacks
Comptroller General
of the United States

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

FOR RELEASE ON DELIVERY
Expected at 10 a.m., EST
Friday, February 20, 1976

STATEMENT OF
WILLIAM J. ANDERSON, DEPUTY DIRECTOR
GENERAL GOVERNMENT DIVISION
BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES SENATE
ON THE
UNITED STATES POSTAL SERVICE

Mr. Chairman and Members of the Committee:

I appreciate your invitation to present you with yet another set of views on what ails the United States Postal Service and what remedies seem indicated by the prognosis. At our appearance here 3 weeks ago, we expressed to you our belief that (1) Postal Service self-sufficiency, although a desirable objective, may not be attainable, and (2) the agency's independence has advantages, even in the absence of self-sufficiency.

This second appearance is welcomed because it gives us an opportunity to further elaborate on the reasons for the positions we expressed in our earlier testimony. And this can best be accomplished by reviewing the first 4-1/2 years of the Postal Service's existence, and looking at what the agency's progress has been in terms of the major objectives set for it by the Postal Reorganization Act.

We have prepared a paper, Mr. Chairman, entitled " A Summary of Observations on Postal Service Operations from July 1971 to January 1976," which comments on these matters, primarily by reference to the 126 reports we have issued on Postal Service affairs since the agency came into existence on July 1, 1971.

My statement today will summarize the contents of the longer document and we leave to your discretion whether you make the latter a part of the record. It was, frankly, prepared not so much for the knowledgeable Members of this Committee but for the information of your colleagues who have not followed the activities of the Postal Service as closely as yourselves. We intend to provide a copy to each Member of Congress in the near future.

The four major goals set forth in the Postal Reorganization Act were

- To provide the American people with good mail service,
- To charge the public reasonable rates and fees for this service,
- To have postal revenues cover postal costs; that is, to achieve self-sufficiency, and
- To bring the wages and working conditions of the postal worker to levels comparable to those of the private sector.

After discussing the Service's progress and problems in moving toward each of these objectives, I will give the

reasons why, in light of this information, we endorse the provisions of S. 2844 concerning short-term financial relief, expedition of the ratemaking process, and establishment of a Commission on Postal Service.

Quality of Mail Service

Overall, service today is not as good as it was before postal reorganization--in terms of timeliness of delivery, and in terms of the bundle of other services provided by the Postal Service.

In 1969 the average time to deliver first-class mail was 1.5 days. In 1971, largely as a result of the turbulence caused by the impending reorganization, average delivery time rose as high as 2 days. Four and one-half years later, the average has been reduced to about 1.65 days--better than in 1971, but not as good as in 1969.

Regarding other services, the agency has cut back on business deliveries, mail collections, and Saturday window service.

The Postal Service asserts that its service today is good, pointing out that it is now consistently meeting its delivery standards for overnight delivery 95 percent of the time (our report on the Service's Origin-Destination Information System concluded that although local performance statistics had certain weaknesses, the nationwide figures were reliable). On the other hand, (1) the agency's consumer advocate continues to receive hundreds of complaints weekly, (2) hardly a day

passes without an article critical of postal service appearing in one of the Nation's newspapers, and (3) Members of Congress continue to request us to take a look at the quality of mail service in their constituencies because of citizen complaints.

Who is right? Everyone!

It is a fact that overall the mail is moving well, although not as well as in 1969. It's also, unfortunately, probably correct to state that more mail is being delayed for longer periods than was the case a few years ago. And the part that isn't moving well, despite being proportionately small, still adds up to several billion pieces in the course of a year.

Our reviews indicate that a significant cause of these delays is missent mail. As discussed in our October 1974 report to the Congress entitled "Missent Mail--A Contributing Factor to Mail Delay and Increased Costs," there is an inanimate culprit--the multiposition letter sorting machine, the LSM. We point out in the report that our test of LSM operations at three post offices showed that about 7 percent of outgoing mail was being missent.

The Postal Service has been increasing the number of LSMs in use. It estimates that 60 percent of all letter mail was sorted on these machines during 1975. Based on our findings, it follows that the amount of missent mail has been increasing apace with the addition of this equipment.

The Postal Service has taken a number of actions to reduce the amount of missent mail. We're hopeful the Service will be successful in reducing the incidence of missending, but considering the billions of pieces being processed and the proneness of humans to err, we suspect that there will continue to be a substantial amount of misdirected mail as long as these machines are in use.

It would be unfair to the Service not to recognize that these problems have largely resulted from the agency's efforts to cut costs and improve productivity. They have succeeded to a certain extent, but there has been a price.

Reasonableness of rates

The Postal Reorganization Act sought good service and at reasonable prices. Once again, controversy. What are reasonable rates?

The general public may have already indicated their answer to this question. In 1975, mail volume dropped by 832 million pieces--the first such peace time decline since the depression.

One measure of the reasonableness of rates may be the cost of a unit of first-class postage in other countries. Recently, we compared data concerning revenue, expenses, and certain operational data for 10 major foreign postal systems with similar data for the Postal Service.

Using the foreign exchange rate prevailing on February 3, 1976, we observed that 9 of the 10 countries charged more

than 13 cents for a unit of first-class postage. The average rate prevailing in these 9 countries was 19 cents.

Another useful measure in evaluating rates is the time a factory worker must work to purchase postage for a letter. Americans work 1 minute and 22 seconds. The average for the other 10 countries is 2 minutes and 39 seconds, ranging from 54 seconds for Canadians to 4 minutes, 36 seconds for Britishers.

We also showed, incidentally, that the productivity of American postal workers in terms of letters per man-year exceeded those of all the other countries.

What does it all add up to? Well, in our opinion, it leads to the conclusion that the postage rate, at least for first-class mail, is reasonable--could increase and still be reasonable.

But being reasonable and being acceptable are two different things. The use of the mails by the public is decreasing in apparent response to higher rates. Certain businesses such as publications and mail order houses see the very economics of their operations and, because of higher costs, the marketability of their products as being severely threatened by the continuing increases in rates.

Self-sufficiency

Another objective of reorganization was to have the Postal Service ultimately pay its own way. Of all the act's objectives, this appears the least likely of fulfillment.

In the first 4 years of its existence, the Postal Service had revenues of \$35.3 billion from the sale of its postal services. Its costs during the same period were \$43.4 billion. Federal appropriations during the 4 years totaled \$6.5 billion.

The Service's assets exceeded its liabilities by \$1.7 billion when it started in business. By the end of fiscal year 1976, it is estimated that liabilities will exceed assets by \$1.3 billion--a \$3 billion cumulative loss, over and above the \$6.5 billion contributed by the Federal Government.

Inflation, failure to achieve planned productivity gains, unexpectedly low revenue because of volume drops, and the Service's inability to raise rates as quickly as necessary combined to undo the Service's financial plans.

The most ominous of the Service's problems was the drop in mail volume. Heretofore, the Service's and our own long-range forecasts of the feasibility of self-sufficiency were based on a continued growth in mail volume. In the past, this volume has consistently increased in, essentially, direct proportion to increases in the amount of disposable income and number of households.

As we pointed out in our testimony last month, this new phenomenon indicates that the demand for mail services is not as inelastic as previously thought. Costs, however, can be expected to continue their inexorable climb because

no real breakthroughs in productivity improvement appear imminent and wages--the major component of postal service costs--can be expected to keep pace with anticipated future inflation.

The consequence of the confluence of these two conditions is that, if the Postal Service is left to its own devices, postage rates will increase at a faster rate than costs generally, probably further decreasing the use of the mails, causing rates to increase even more rapidly, causing volume to further decrease, etcetera, etcetera. In the words of the Postmaster General to you last month, "It is a vicious circle."

And as Mr. Bailar pointed out, technological changes are aggravating the situation. Electronic funds transfer is increasing in usage, the use of computer terminals for direct exchange of information is on the upswing.

The outlook for self-sufficiency is not favorable.

Upgrading the postal worker

The Postal Reorganization Act tasked the Postal Service with:

- achieving and maintaining compensation for its employees comparable to the rates and types of compensation paid in the private sector, and
- providing desirable working conditions for its employees.

The Postal Service has achieved its objective of comparable compensation--too well in the eyes of some observers.

Last year, the Postal Service compared its workers' wages with those of workers in 14 top industries having strong unions and high wages, represented by organizations such as the United Steel Workers, United Auto Workers, Teamsters, and Communication Workers. They found that postal workers were averaging \$8.05 per hour (including fringes) versus \$8.04 per hour for the industrial workers.

The postal worker has done especially well in comparison with his fellows in the Civil Service. Formerly, the wages of the rank and file postal worker approximated that of a GS-5, step 5. In 1971, the postal worker was making \$8,012 and the GS-5 \$7,862. Next month, when the new salary increase under the current contract goes in effect, the postal worker will be making \$12,634 versus the GS-5's \$10,117. Including fringes, the respective figures are \$14,769 versus \$12,403. Over the 5-year period, including fringes, postal wages grew 65 percent, and those of the GS-5, 29 percent.

There are many who consider the postal worker to be overpaid and who are critical of Postal Service management for agreeing to such liberal increases. There is no doubt the postal worker has done well. Whether he has done too well is a subjective judgment. These wages and benefits were arrived at through collective bargaining and there is little basis on which to retrospectively judge whether the Service's representatives yielded positions they should have held.

Working conditions improvement is more susceptible of evaluation. In early 1972, the Service initiated a program that had the objective of having at least 95 percent of postal employees housed in adequate facilities by June 30, 1975. We reported in December 1974 that the program was adversely affected by management problems. Corrective actions were taken.

The program was subsequently completed at a total cost of \$260 million. According to the Postal Service, at the end of fiscal year 1975, 87 percent of postal employees were housed in fully adequate space or in buildings being upgraded. Another 12 percent were in buildings scheduled for replacement.

The Service has also had programs to reduce the number of accidents suffered by its employees. These have had success--the number of industrial and vehicle accidents decreased from 71,500 in 1971 to 56,400 in 1975--a drop of 21 percent.

- - - - -

Mr. Chairman, that's our overview of what the Postal Service has been about these past 4-1/2 years. Now I'd like to return to the question of what this all means in terms of S. 2844.

First, we believe it is clear the Postal Service needs the financial relief that would be provided by the bill. The agency is in severe financial straits; it foresees a need in the coming months to borrow as much as \$500 million

to meet its operating expenses--over and above the \$1 billion already borrowed for this purpose. The Service is in a deficit position; its future ability to service its growing debt is subject to question.

Second, we endorse the bill's intent to expedite the ratemaking process. One of the causes of the Service's present liquidity problems was its inability to increase rates sooner than it did because action on an earlier request took 23 months to complete--a period during which costs increased significantly.

However, as we stated in our earlier testimony, we disagree with that part of S. 2844 which prevents the Service from imposing temporary rates. Events have shown that postal costs are volatile, and we believe that the Service should be able to raise its rates in response to sudden and unforeseen increases in its costs.

Finally, Mr. Chairman, we endorse the establishment of a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of the Service's expenses should be supported by appropriations. It is abundantly clear that this is the most critical issue to be resolved concerning the future operations of the Postal Service.

That concludes my statement, Mr. Chairman. We will be happy to answer any questions you may have.

C o n t e n t s

		<u>Page</u>
CHAPTER		
1	A FRAMEWORK FOR EVALUATING THE POSTAL SERVICE	1
	Genesis of the Postal Service	1
	Objectives of the Postal Service	3
2	QUALITY OF MAIL SERVICE	4
	Delivery standards	4
	How successful has the Postal Service been in meeting its delivery standards?	4
	Are delivery performance statistics reliable?	5
	If mail service is good, why all the complaints?	8
	Other perceptions of quality mail service	9
	Where to from here?	11
	First-class improvement program	11
	Service in rural America	12
	Curbside and cluster box delivery	13
	Mechanization	14
	Conclusion	15
3	ARE POSTAL RATES REASONABLE AND EQUITABLE?	17
	What are reasonable rates?	17
	Comparison of domestic and foreign rates	18
	Consumer price index/rates relationship	23
	What are equitable rates?	23
	Future rates	26
	Postal Rate Commission/Postal Service relationship	27
	Timeliness of rate cases	28
4	BALANCING COSTS AND REVENUES	30
	Present financial condition	30
	Use of debt financing	32
	Conclusion	33
	Reasons for deficits	34
	Impact of inflation on Postal Service employee compensa- tion costs	34

CHAPTER		<u>Page</u>
4 (cont'd.)	Increased fuel and gasoline prices	34
	Higher employee pay required by the Act	35
	What has the Service done to cut costs?	35
	Investment in new plant and equipment	35
	Productivity improvements	36
	Other labor economy measures	37
	Improved procurement practices	37
	Sole-source contracting and cost overruns	38
	Automatic data processing equipment purchases	39
	Professional services	40
	Mail transportation contracting	40
	Vehicle procurement	41
	Mechanization improvements	41
	National bulk mail system	42
	Other mechanization efforts	43
	Conclusion	44
5	PERSONNEL COMPENSATION AND WORKING CONDITIONS	45
	Employee compensation	45
	Career advancement	47
	Working conditions improvement program	47
	Employee accidents	48
	Conclusion	49
APPENDIX		
I	A listing by job classification of GAO reports issued on Postal Service operations	50
II	Digests of selected GAO reports	69
III	Chronology of GAO testimony on Postal Service operations before Senate and House committees	94

CHAPTER 1
A FRAMEWORK FOR EVALUATING
THE POSTAL SERVICE

Both before and after passage of the Postal Reorganization Act, GAO has maintained a strong audit presence in postal operations. During the period of the Postal Service's existence, about 225 staff-years of effort have been spent auditing postal operations. GAO has issued 126 reports on a wide range of postal topics during the period--11 were issued to the Congress, 74 were in response to requests of Committees or Members of Congress, and 41 were addressed to the Postmaster General or other Postal Service officials. A complete list of the reports issued is provided in appendix I; excerpts from selected reports are provided in appendix II.

The Comptroller General and other GAO officials have, on eight occasions, testified before Senate and House committees and subcommittees on the Postal Service's operations such as the financial status of the Service, savings available in postal operations in rural America, and procurement and contracting activities. (See appendix III.) GAO has also responded to numerous requests from the general public on various matters concerning the Postal Service.

Moreover, in this case, we believe the whole is more than the sum of the parts. Through its continuous monitoring of postal operations, GAO has gained insights into the Postal Service's problems that go beyond written reports on individual subjects.

The purpose then of this staff paper is simply to bring together in one document the sum of GAO's experience and expertise in postal operations to assist Members of the Congress in their efforts to find solutions to the Postal Service's problems.

GENESIS OF THE POSTAL SERVICE

In the years preceding the Postal Reorganization Act, the Post Office Department was engaged in what the Postmaster General termed a "race with catastrophe." In December 1963 and in October 1966 major breakdowns in the postal system resulted in millions of parcels and letters being delayed for extended periods. While the immediate causes of these breakdowns were identifiable and correctable, they were merely symptomatic of an organization that was in deep trouble. The Post Office Department's difficulties were caused by a series of inter-related problems including

- a management system that rendered impotent those in a position of responsibility,
- an antiquated physical plant incapable of handling the ever increasing volume of mail,
- a lack of mechanization necessitating vast armies of people to move the mails, and
- a workforce that suffered from poor pay, poor working conditions, poor career opportunities, and poor morale.

Recognizing the malaise inherent in the Post Office Department, the President established the Commission on Postal Organization in 1967.

In its 1968 report, the Commission recommended the establishment of an independent postal service free of the operating constraints that had plagued the Post Office Department. These constraints were best expressed in a short exchange between the Postmaster General and the Chairman of the Post Office's appropriations subcommittee:

Mr. Steed: General. . . would this be a fair summary: that at the present time, as the manager of the Post Office Department, you have no control over your workload, you have no control over the rates of revenue, you have no control over the pay rates of the employees that you employ, you have very little control over the conditions of the service of these employees, you have virtually no control, by the nature of it, of your physical facilities, and you have only a limited control, at best, over the transportation facilities that you are compelled to use--all of which adds up to a staggering amount of "no control" in terms of the duties you have to perform. . .

Mr. O'Brien: Mr. Chairman, I would have to generally agree with your premise. . . that is a staggering list of "no control." I don't know [whether] it has ever been put that succinctly to me. If it had been at an appropriate time, perhaps I wouldn't be sitting here.

The Congress was persuaded by the arguments advanced for an independent Postal Service and passed the Postal Reorganization Act in August 1970. The Postal Service began operations in July 1971, amidst high expectations of improved performance. In essence, it was felt that with independence, management would be able to cure the

ills of the postal system through the application of business-like practices.

Turning around the Postal Service is not an easy task considering it

- processes about 90 billion pieces of mail a year;
- employs 700,000;
- uses 220,000 vehicles;
- operates 40,000 post offices, stations, and branches;
- and
- spends about \$13 billion a year.

OBJECTIVES OF THE POSTAL SERVICE

As embodied in the Reorganization Act, the objectives of the Postal Service can be summarized as

- providing quality mail service,
- charging reasonable and equitable rates,
- attaining financial self-sufficiency, and
- providing fair treatment of employees.

A reasoned evaluation of the Postal Service's first 4-1/2 years of operation would of necessity require an evaluation of its performance in meeting each of these four objectives. From our work, we observe that:

- mail delivery standards, as established by the Postal Service, are generally being met,
- rates may be getting close to the unacceptable range,
- self-sufficiency has not been attained and there are no immediate prospects of doing so, and
- the lot of the postal employee has been greatly improved.

The remaining sections of this staff report go into detail on GAO's findings and conclusions regarding the Service's performance and what might be done in each of these important areas.

CHAPTER 2

QUALITY OF MAIL SERVICE

One of the major goals of the Postal Reorganization Act is good quality mail service. But what is quality mail service, and how do you measure it? The Postal Service answers these questions largely in terms of its success in meeting delivery performance standards established for first-class mail. It is currently meeting or exceeding these standards for the majority of such mail.

The Postal Service believes that mail service is good, the best in the world. Yet widespread discontent is evident from daily newspaper articles and continuing customer complaints to the Service and to their elected representatives.

DELIVERY STANDARDS

To provide quality mail delivery, the Service established the following standards for first-class mail:

- 1-day (overnight) delivery within local areas (generally within sectional centers and among adjoining sectional centers).
- 2-day delivery within a 600-mile radius.
- 3-day delivery to all other areas.

These standards apply only to mail which has the proper address and ZIP code and which is posted by the last mail pickup time--generally 5 p.m. The statistics indicating the extent of the Service's achievement of these goals are collected and analyzed under what is called the "Origin-Destination Information System" (ODIS).

How Successful Has The Postal Service Been In Meeting Its Delivery Standards?

The Postal Service's standards for first-class mail in overnight areas were established in fiscal year 1972 and in 2- and 3-day areas about a year later. During the first year, about 94 percent of stamped first-class mail destined for local delivery was delivered overnight. Since then, delivery performance has improved and the Service consistently achieves its 95-percent goal. During the two quarters ending September 30, 1975, the Service achieved 96 percent on overnight delivery nationwide.

It has been less successful in 2-day and 3-day areas where delivery performance averaged in the mid to high 80's

initially. Performance has improved steadily. For the same two quarters, the Service achieved 94 percent in 2-day areas and 92 and 93 percent in 3-day areas, the highest delivery percentages to date.

In order to compare first-class mail delivery performance before and after the postal reorganization, we used average time to delivery, the only continuing measure of first-class mail service available. As shown on the graph below, first-class mail service has improved since July 1, 1971, when the postal reorganization became fully effective but is still not as good as the service provided during the last half of fiscal year 1969 under the former Post Office Department.

First-class mail service deteriorated to its lowest point in the first quarter following enactment of the act (the quarter ending December 1970) but has continually improved since that time. According to postal officials, the deterioration of service was caused by uncertainties surrounding the postal reorganization, management emphasis on cost reductions rather than on customer service, increases in mail volume, and changes in the processing of first-class mail.

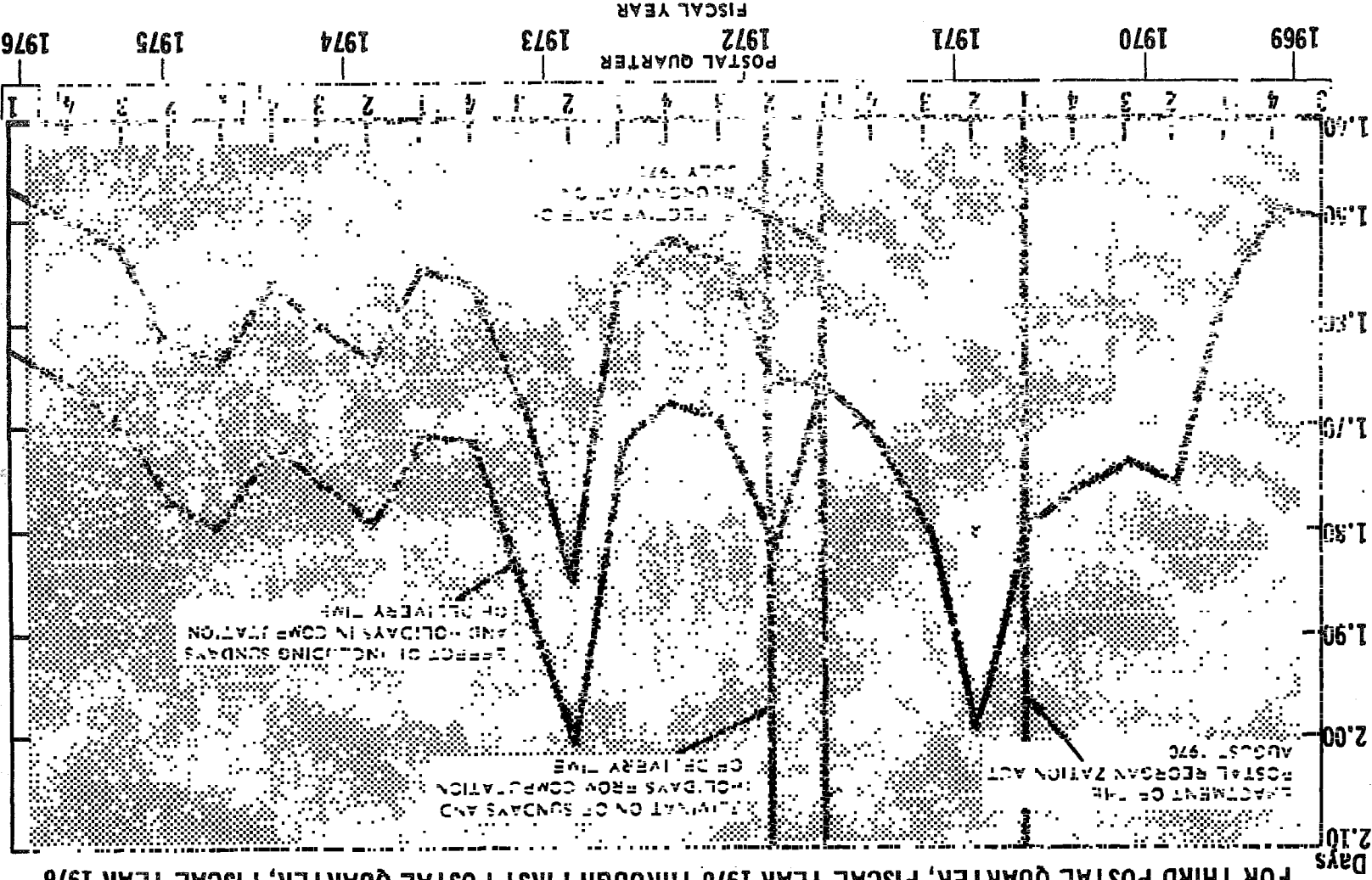
At the beginning of the first postal quarter of fiscal year 1972, the Postal Service discontinued considering Sundays and holidays in computing the average number of days to deliver local first-class mail; at the beginning of the second postal quarter of fiscal year 1972, this procedure was expanded to cover all first-class mail. Eliminating Sundays and holidays in the computations understates the delivery time, the effect of which is contrasted on the graph in solid and broken lines.

For example, before July 1971, first-class mail postmarked on Friday and received at a delivery point on Monday was counted as receiving 3-day service; however, at the beginning of the second postal quarter of fiscal year 1972, all first-class mail postmarked on Friday and received at a delivery point on Monday was counted as receiving 2-day service. Eliminating Sundays and holidays in computing the average time to deliver first-class mail understates actual delivery time by an average 0.16 days.

Are Delivery Performance Statistics Reliable?

Since frequent reference is made to ODIS statistics as a measure of the quality of mail service, we looked into the accuracy and reliability of the system. In our report to the Congress entitled, "System for Measuring Mail Delivery Performance--Its Accuracy and Limits" (GGD-75-109, 10-17-75)

U.S. POSTAL SERVICE
AVERAGE DAYS TO DELIVER FIRST-CLASS MAIL (note a)
FOR THIRD POSTAL QUARTER, FISCAL YEAR 1970 THROUGH FIRST POSTAL QUARTER, FISCAL YEAR 1976



*BASED ON A STANDARDIZED MAILING DISTANCE OF 258 MILES

we pointed out that ODIS does provide a reliable measure of first-class mail delivery performance on a nationwide basis within the specifications established by the Service. That is, as pointed out above, it includes only stamped first-class mail which is properly addressed, ZIP coded, and deposited prior to the last mail pickup time--generally 5 p.m.

Delivery time is measured from the date mail is post-marked to the date it reaches the last delivery unit before being placed into the addressee's hands. Delays can occur prior to postmarking and in delivery which ODIS would not recognize. And, ODIS does not provide a reliable measure of other first-class mail (metered, permit, and Government). However, we have no reason to believe that this mail moves any differently than stamped.

The most important delivery statistic to the Service is overnight delivery. The geographic areas committed for overnight deliveries are determined by local postal management. Overnight commitments range from local metropolitan areas to an entire state or more. Generally, however, commitments are made to only those areas where postal management expects to meet its goal 95 percent of the time. The Service is continually expanding the overnight delivery areas which now include over 50 percent of first-class mail volume. The First-Class Improvement Program, currently being tested by the Service, will further expand overnight delivery areas as well as 2-day delivery areas. This program is discussed in more detail later in the report (see p. 11).

Although ODIS statistics are reliable on a nationwide basis, there are weaknesses in ODIS which make local overnight delivery performance statistics less reliable. Examples include

- ODIS can be manipulated at the local level.
- Samples for local areas may be too small for reliable biweekly performance reports.
- The system has a flaw resulting from dual purpose measurement of mail delivery performance and volume.
- Inadequately trained clerks make many data-recording errors. A well-trained, independent cadre would be the most effective way of assuring that tests are properly and accurately taken.
- Some data on the characteristics of sample mail is lost during the processing of data collection forms at Service headquarters.

Because of the large amount of data collected and the relatively small amounts of erroneously recorded and lost data, nationwide statistics are not greatly affected.

We made a number of recommendations to the Service for improving the accuracy and reliability of local delivery performance statistics. The Service concurred with our recommendations and has taken or begun corrective action on each.

IF MAIL SERVICE IS GOOD,
WHY ALL THE COMPLAINTS?

The Service is achieving high marks on delivery performance. Why then the seemingly widespread dissatisfaction with the quality of service as expressed through customer complaints, critical newspaper articles, and continued requests to us by Members of Congress to take a look at the quality of mail service in their constituencies? The volume of such complaints has prompted individual Members and oversight committees to request us to look into the quality of mail service in 17 cities or states.

Who's right? Everyone!

It's a fact that the mail is moving well. It's also, unfortunately, probably correct to state that more mail is being delayed for longer periods than was the case a few years ago. The explanation is obviously that although most of the mail is moving well, the part that isn't, despite being proportionately small, still adds up to several billion potential complaints a year. For example, even if the Service delivered 95 percent of the 51.4 billion pieces of first-class mail handled during fiscal year 1975 on time, 2.6 billion pieces would be late. Customer concern for delayed mail is substantiated in the early results of the Service's national customer complaint program. Complaints resulting from delayed mail led the list. Our reviews indicate that a substantial part of the delays is caused by missent mail.

As discussed in our October 1974 report to the Congress entitled "Missent Mail--A Contributing Factor to Mail Delay and Increased Costs," the multi-position letter sorting machine operation is largely to blame.

Before the Service began using letter sorting machines in the 1960's, it sorted all mail by hand. Today, it sorts less than half the letters manually in 49 and 77 bin cases of a type used when Benjamin Franklin was Postmaster General. Because of the limited capacity of these cases, several sorts are often necessary to properly distribute letters by hand. The hand-sorting rate is about 30 letters per minute.

The machines have increased the letter-sorting rate per operator to about 60 letters per minute and the distribution capacity to 277 bins. Thus, the need for several sortings of a letter has been reduced and productivity has been greatly increased. The 12 machine operators can process up to 43,200 letters per hour.

Our test of sorting machine operations at three post offices, however, showed that about 7 percent of outgoing mail was being missent. The delay in delivering missent mail is a major reason why the Service has not achieved its delivery standards in 2-day and 3-day areas.

Currently, about 60 percent of the 51 billion pieces of first-class mail are being processed on letter sorting machines. The Service is constantly adding more machines around the country to further mechanize the sorting of mail to speed deliveries and cut labor costs. At the time of reorganization, the Service had about 280 letter sorting machines. Today, including those on order, the Service has 712 such machines.

It follows that as more multi-position letter sorting machines are added, and more mail is processed on them, the amount of missent mail will rise proportionately-- unless, and we stress "unless," the Postal Service can solve this problem. In response to the recommendations in our report, the Service has taken actions which have reduced the amount of missent mail. Examples include

- design changes to reduce both machine and operator errors,
- improved overall working conditions,
- established work standards,
- implemented quality control programs for improving letter-sorting machine output, and
- removing and expeditiously forwarding missent mail.

OTHER PERCEPTIONS OF QUALITY MAIL SERVICE

An exact definition of what constitutes quality mail service is hard to come by because the needs and perceptions of mail users differ. As we pointed out earlier, the Postal Service measures it in terms of delivery time for first-class mail. First-class mail accounts for 60 percent of total mail volume. It is probably the most important and certainly the most visible and easiest of the classes to

measure because of the postmark date. The Service gets more complaints about first class than any other class.

But complaints are also filed concerning the other three classes of mail; the dozen or more special services (express mail, special delivery, etc.); hours of collections, window service, and deliveries; and any number of other things. Obviously, some people do not measure the quality of mail service strictly in terms of first-class mail delivery speed.

As we pointed out in our report to the Congress entitled "Problems Affecting Mail Service And Improvements Being Taken" (B-114874, dated March 20, 1974) the Service took a number of economy measures at the time of reorganization which have affected the quality of mail service. They include

- reducing collection services,
- reducing delivery services, and
- curtailing Saturday window service.

People's perception of service deterioration is often caused by a misunderstanding of postal operations. The Service's area mail processing program, implemented in 1971, is a good example.

The objectives of the program are to achieve (1) more efficient processing through use of mechanized equipment, (2) better use of existing and planned facilities, and (3) better use of manpower. To achieve these objectives, all mail originating within a specified geographic area is consolidated at a sectional center facility for processing and for dispatch to its destination, a fairly radical change from the previous method whereby most mail was sorted locally.

The massing of mail at large facilities under area mail processing to take advantage of mechanization to reduce labor costs, although conceptually sound, resulted in numerous complaints. Many people could not accept the idea that it was cost effective to truck the mail over long distances to the mail processing facility only to be returned to the same locale to be delivered.

To get a better feel for the extent of customer dissatisfaction and to better direct its effort to solving problems, the Service instituted a nationwide consumer service system in the Fall of 1975. The Postmaster General stated that once established, the system would demonstrate both the Service's willingness to solve people's problems and the overall high quality of its service.

The key to the new system is the Consumer Service Card. The Consumer Service Card is a two-piece card--two postcards with carbon paper between them. It is bound with a detachable tab which, when pulled, removes the carbon paper and leaves two mailable, prepaid cards.

The card allows not only for complaints, but also for information requests, suggestions, and other comments, including compliments. One card goes to the local postmaster or station or branch manager, who has full responsibility for handling the complaint or inquiry. The other goes to the Office of Consumer Affairs in Washington, D.C., where the information is extracted to create an index of consumer satisfaction. Both halves of the card carry a unique serial number.

After acting satisfactorily on an individual Service Card, the postmaster jots an explanation of how the problem was handled on the reverse side of his copy of the card and mails it to Washington. The case is then marked closed.

Preliminary returns indicate fewer complaints than expected by the Service. During the first 7 weeks of the program, more than 148,000 consumer cards arrived at headquarters of which about 88.2 percent had complaints. It is still too early, however, to draw any conclusions on whether the volume of complaints indicate general satisfaction of customers with the quality of mail service.

WHERE TO FROM HERE?

What avenues are open to the Postal Service in the near future if it is to improve service and control rising costs? Obviously, a breakthrough in mechanization would be necessary to effect any substantial reduction in labor, which accounts for over 85 percent of the Service's expenditures. What then is the Service doing and what more can be done?

The Postal Service recently implemented its new First-Class Improvement Program and announced other service changes currently in process or under study. Some involve altering the form of services provided, but not the quality, such as closing small post offices and providing an alternative service. One proposal under study--eliminating delivery one day a week--would reduce the quality of mail service in the eyes of many. The Service estimates savings of about \$350 million would result if 5-day delivery was instituted.

First-Class Improvement Program

On October 11, 1975, the Service implemented the "First-Class Improvement Program" (FCIP), a test plan to upgrade

first-class mail service to achieve delivery equal to or better than airmail. Prior to the new program, airmail service was destined for 1- to 2-day delivery while first-class mail was destined for 1- to 3-day delivery depending on distance and available transportation. Under FCIP, 90 percent of all first-class mail weighing 13 ounces or less is programmed for next and second day delivery. For the mailing public, the practical effect of FCIP is that there no longer will be an advantage in purchasing airmail postage for domestic delivery.

The Service estimates that it will save \$90 to \$96 million by implementing FCIP because airmail will no longer be collected, handled, and processed separately from first-class mail. An independent study by the Postal Rate Commission concluded the Service might expect to achieve a net annual saving of at least \$88 million.

Because airmail and first-class mail will be receiving essentially the same level of service, the existence of two separate rate categories is planned to be discontinued if FCIP is determined successful. Cost, revenue, volume, and service data will be evaluated throughout the test period and within 9 months the Service will provide the Postal Rate Commission with its final evaluation of the program. This report will indicate (1) whether the program has succeeded in increasing the speed of delivery for first-class mail to the point where the need for airmail service no longer exists, (2) whether additional steps should be taken to improve the speed of delivery for first-class mail, and (3) whether some form of separately processed mail, such as an express service, is warranted.

Service In Rural America

In response to our report entitled "\$100 Million Could Be Saved Annually In Postal Operations In Rural America Without Affecting The Quality Of Service," the Service has begun to identify which small post offices could be closed without impairing service to their customers.

Mail service to rural areas is provided through 18,300 small offices (formerly referred to as third- and fourth-class post offices); 2,100 contractor operated facilities; and 30,700 rural routes. About 4 million families are served by the facilities. About 12 million families are given rural box delivery by rural carriers who are postal employees or contract carriers.

As we pointed out in our report, as many as 12,000 offices could be closed and mail services continued through an equally satisfactory but less costly alternative. The change amounts to little more than giving 2 million rural

families essentially the same type of service provided to the 12 million other rural families, and the Service's annual costs could be reduced by about \$100 million.

Unfortunately, when the report was released, some persons got the impression that we were advocating the wholesale, indiscriminate closure of small post offices to save money. This is not true. We are aware of the need to act judiciously in this matter.

Our concern about the impact of closing small post offices led us into 28 states in which we talked to hundreds of people most affected--the rural customer.

During our review, we personally asked hundreds of rural customers how their mail service was affected when their post offices were closed. These customers reside in 32 communities in 28 states all across the country. Communities selected were such that the postal customers could remember the service provided by their old post office and yet have sufficient experience with their new service to make a reasonable comparison. Given the geographic spread of the communities, we feel that the results are indicative of the nationwide attitudes of rural postal customers.

The results of our review were overwhelming. Ninety-one percent of all customers interviewed felt their new mail service was as good as, and in a number of instances better, than the service provided by their former post offices.

Curbside And Cluster Box Delivery

In another area of mail delivery the Service instituted a new policy of providing only curbside or cluster box delivery to new housing developments. Developments currently receiving door-to-door service would not be affected. The Service estimates that the average door-to-door delivery costs \$49, while curbside and cluster box deliveries average \$39 and \$24, respectively.

During the past 5 years, motorized delivery and improved methods have allowed the Service to handle a 13-percent increase in delivery points, while reducing the number of carriers and drivers by almost 5 percent. The Service estimated that delivering to curbside and cluster boxes could reduce fuel costs and save the Service \$115 million by 1980.

The Service has met with strong opposition to this policy in many local areas, some in the form of ordinances which prohibit residents from installing curbside boxes. S. 2844 would restrict the Service's use of cluster boxes

in any case in which a unit of local government does not specifically approve the use of such cluster box delivery service. The Service is opposed to this proposal.

Mechanization

To speed mail deliveries, increase productivity, and reduce costs, the Service is steadily increasing the amount of mail being sorted on letter sorting machines. Two changes in the mail distribution system have enabled the Service to do this--the Managed Mail Program, implemented in February 1970, and Area Mail Processing, implemented in February 1971. Under the Managed Mail Program, post offices sort mail going out of State to large, mechanized facilities in each State designated as State distribution centers. At the State distribution center, mail is sorted and sent to the other mechanized facilities in the State for processing and delivery. Previously, post offices sorted mail directly to the individual mechanized facilities in the destination State.

Under Area Mail Processing, all mail originating within a specified geographic area is consolidated at a mechanized facility for processing and for dispatch to its destination. The objectives of mail massing under Area Mail Processing are to achieve (1) more efficient processing through use of mechanized equipment, (2) better use of existing and planned facilities, and (3) better use of manpower.

In fiscal year 1972, about 35 percent of letter mail was sorted by machine; whereas, in fiscal year 1975, about 60 percent was machine sorted. We believe that more emphasis should be placed on standardizing both the size of letters and ZIP code placement to further increase the benefits of mechanization. The Service has been reluctant to move in this direction because of possible adverse reaction from the public.

Japan and the Soviet Union are developing systems which require standardization of envelope sizes and the use of preprinted blocks for address codes which are optically read. With this system, handwritten script can be optically read. The optical character reader currently in use in our system can only be used with certain typed addresses. The Soviet and Japanese systems overcome the principal problem of where to look on the envelope for the material to be read. A further refinement would be to expand the number of digits in the ZIP code to allow for optical secondary sorting--sorting down to the sequence of individual addresses within a delivery route.

The Postal Service is also continuing to test a system known as Letter Mail Code Sort System. In this system,

a machine-readable code is imprinted on an envelope the first time the address is read, either by a postal worker or an optical character reader. With this imprint, the letter can be sorted by machine at all subsequent processing points.

This mail processing equipment was to be an integral part of a highly mechanized mail processing system--the Preferential Mail System--which the Service had under study. At the request of the Chairman, Senate Post Office and Civil Service Committee, we examined the program and issued a report--"Observations On The Preferential Mail System" (B-114874, Oct. 30, 1973).

The Service originally estimated--based largely on studies made by private firms--that the proposed system would reduce operating cost by about \$1 billion a year. The basic concept of the system provided for about 180 highly mechanized processing centers, as opposed to the less mechanized 588 centers the system then had.

Our report concluded that the new type of equipment had not been proven in the field, the economic advantages of the new equipment were overstated in a study contracted for by the Service, the advantages of 180 centers vs. 588 centers were also overstated in the study, and the massing of mail at 180 processing centers could cause mail service quality to deteriorate.

The report noted that the Service had deferred implementation of the Preferential Mail System until the Letter Mail Code Sort System had been successfully demonstrated and the Service had proved that it has the technical and managerial ability to implement the National Bulk Mail System. We concluded that, overall, the Service's decision to defer action was appropriate.

CONCLUSION

At present, quality of mail service equates with speed of delivery for first-class mail. The Postal Service has established reasonable delivery standards for first-class mail; it is consistently meeting or exceeding a 95-percent delivery goal in overnight delivery areas which accounts for the majority of this mail. It is approaching this goal in other areas.

What about the future? The Postmaster General has questioned whether the present structure of traditional postal services is essential or even relevant to future national needs. In fiscal year 1975, letter mail volume dropped. Was the drop a sign of dissatisfaction with

present postal services, inroads made by more advanced technology, or merely the manifestation of a stagnant economy?

The recent drop in volume coupled with forecasts of continuing inflation and technological developments in communications which might affect demand for traditional postal services were topics of general discussion in the January 6, 1976, meeting of the Board of Governors. As a result, the Board requested that a report on planning for the Postal Service's future be presented at the next meeting. If the Service is to remain a viable part of American society, it must continue to keep abreast of society's needs.

CHAPTER 3

ARE POSTAL RATES REASONABLE

AND EQUITABLE?

Much of the criticism of the Postal Service centers on the fact that postal rates have increased dramatically since reorganization. In 1971, a unit of first-class mail cost \$.08, increased to \$.10 in 1974, and in 1975 increased, on a temporary basis, to the current rate of \$.13. First-class rates tell only one side of the story, however. Rates for other classes of mail have increased even more rapidly. On the basis of complaints raised with each postage hike, indications are that rates may be getting close to the unacceptable range.

The furor over the present rates can be attributed, in part, to the historically low rates that prevailed for newspapers and magazines. Congress had, in the past, subsidized such rates. Under reorganization, these rates have been climbing to bear their full share of the costs. The increases have hurt some concerns.

Section 3621 of the Postal Reorganization Act provides (in part) that:

"***Postal rates and fees shall be reasonable and equitable and sufficient to enable the Postal Service under honest, efficient, and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States. Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service."

To fulfill what it sees as its mandate under the act, the Postal Service filed a request with the Postal Rate Commission on September 18, 1975, for a permanent rate increase averaging 26 percent and which would provide an estimated \$2.4 billion in additional revenues. This is the third rate increase proposed since passage of the Postal Reorganization Act in 1970.

WHAT ARE REASONABLE RATES?

The obvious question to be answered is what are reasonable rates?

In one sense, the general public may have already indicated their answer to the question. In fiscal year 1975, mail volume dropped by 832 million pieces. This is the first time since the Depression that peace time mail volume has failed to increase and may be the beginning of things to come. In recent congressional testimony, the Postmaster General questioned the validity of the assumption behind the Reorganization Act that mail volume would continue to increase indefinitely and stated that if rates continue to rise, large-volume mailers would find more economical alternatives to the Postal Service.

He also observed that unless the pace of rate increases is slackened, the Postal Service may be caught in a vicious cycle of rate increases to compensate for volume decreases brought on by rate increases.

Accepting the fact that there is general unhappiness with the way rates have been going, the question remains as to how well the Postal Service is doing. There are some other indicators.

Comparison of Domestic and Foreign Rates

One indication of reasonable rates may be the cost of a unit of first-class postage in other countries. In a recent report (GGD-76-35, Dec. 11, 1975), we compared data concerning revenue, expenses, and some operational data for 10 major foreign postal systems with similar data for the Service. We have since updated these figures.

Using the foreign exchange rate prevailing on February 3, 1976, and a 13-cent first class rate for the United States, we found a range in price from 23.0 cents for Sweden to 8.0 cents (the only rate lower than the United States) for Canada. We also found that, overall, the Service:

- handles from 5 to 56 times more letter mail,
- handles more letters per postal employee, and
- covers a larger geographical area.

Another useful measure in evaluating postal systems may be the time a factory worker must work to purchase postage for a letter. Of the citizens of the 10 countries, only the Canadians work less time for postage than do U.S. workers. This could change, however, if postal charges are increased in Canada because of wage negotiations resulting from the postal workers' strike.

Comparisons of postal efficiency based solely on postal rates, however, are of doubtful validity because the rates are based on different operations and financing. For example, some countries

- combine telecommunications, financial (savings accounts and life insurance), or radio functions with postal operations.

- erase their postal deficit, if any, either by revenues generated by the other functions or a Government subsidy.

- conversely, use excess postal revenues, if any, to eliminate deficits in the other functions.

Accordingly, stamp prices may not be established strictly on the basis of postal expenses. More detailed comparisons of various statistics are in the following tables.

CHANGES IN SELECTED COUNTRIES'
LETTER POSTAGE FOR THE 17 MONTHS
ENDED FEBRUARY 1976

<u>Country</u>	<u>Cost of letter postage</u> <u>(national currency)</u>		<u>Percentage</u> <u>change</u>
	<u>August 30, 1974</u>	<u>February 3, 1976</u>	
Australia	.07 dollars	.18 dollars	157
Belgium	5.00 francs	6.50 francs	30
Canada	.08 dollars	.08 dollars	--
France	.50 francs	.80 francs	60
Japan	20.00 yen	50.00 yen	150
Netherlands	.40 guilders	.50 guilders	25
Sweden	.75 kronas	1.00 kronas	33
Switzerland	.30 francs	.40 francs	33
United Kingdom	.045 pounds	.085 pounds	89
United States	.10 dollars	.13 dollars	30
West Germany	.50 marks	.50 marks	--

a
Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased rates.

b
Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

SELECTED COUNTRIES' ESTIMATED LETTER POSTAGE

FEBRUARY 1976

	<u>Estimated letter postage in national currency</u>	<u>Estimated letter postage in U.S. cents (note a)</u>
Australia	.18 dollars	22.9
Belgium	6.50 francs	16.7
Canada	^b .08 dollars	8.0
France	.80 francs	18.0
Japan	50.00 yen	16.6
Netherlands	^c .50 guilders	20.7
Sweden	1.00 kronas	23.0
Switzerland	.40 francs	15.5
United Kingdom	.085 pounds	17.3
United States	.13 dollars	13.0
West Germany	.50 marks	19.5

^a Using foreign exchange rate prevailing on Feb. 3, 1976.

^b Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased rates.

^c Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

MINUTES OF WORKTIME REQUIRED
IN SELECTED COUNTRIES TO EARN
THE COST OF LETTER POSTAGE

<u>Country</u>	a Estimated compensation per hour	Estimated cost of letter postage in national currency <u>February 3, 1976</u>	Minutes of work- time required to earn the cost of <u>letter postage</u>
Australia	2.99 dollars	.18 dollars	3 min. 37 sec.
Belgium	202.30 francs	6.50 francs	1 min. 56 sec.
Canada	5.35 dollars	^b .08 dollars	54 sec.
France	16.25 francs	.80 francs	2 min. 57 sec.
Japan	782.00 yen	50.00 yen	3 min. 50 sec.
Netherlands	13.24 guilders	^c .50 guilders	2 min. 16 sec.
Sweden	24.29 kronas	1.00 kronas	2 min. 28 sec.
Switzerland	14.36 francs	.40 francs	1 min. 40 sec.
United Kingdom	1.108 pounds	.085 pounds	4 min. 36 sec.
United States	5.70 dollars	.13 dollars	1 min. 22 sec.
West Germany	13.67 marks	.50 marks	2 min. 12 sec.

a
Preliminary estimates from U.S. Bureau of Labor Statistics for 1974. Represents wages of manufacturing workers and value of fringe benefits.

b
Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased costs.

c
Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

Consumer Price Index/Rates
Relationship

Another indication of reasonable rates may be how rate increases compare with increases in the Consumer Price Index (CPI). As presented in its 1973-1974 annual report, the Postal Service compared the price of first-class postage with the CPI and found that first-class postage had risen historically at a lesser rate than the CPI. The base year for beginning the comparison was 1933. Had first-class postage followed the CPI

in 1958, instead of	4 cents	it would have been	6.4 cents
" 1963, " "	5 cents	" " " "	6.7 cents
" 1968, " "	6 cents	" " " "	7.6 cents
" 1971, " "	8 cents	" " " "	8.9 cents
" 1974, " "	10 cents	" " " "	10.7 cents

Over more recent years, the price of postage has increased more rapidly than most other prices. As a consequence, the CPI component for postage has, in fiscal year 1974, increased to 175.4 percent of base year 1967 (1967=100). By year's end, the overall CPI indicator for the economy stood at 147.1 of base year 1967. (See p. 27 for a further discussion of the use of indexing.)

WHAT ARE EQUITABLE RATES?

In the Postal Reorganization Act, the Congress established the principles upon which equitable postal rates are to be based. With respect to the Postal Service's costs, the Congress specifically provided that the Postal Rate Commission was required to insure that each class of mail or type of mail service bears the direct and indirect costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type.

In its report explaining the Reorganization Act, the Senate Post Office and Civil Service Committee took note of the fact that there was a strong temptation to resolve the financial problems of the Post Office by charging the lion's share of all operational costs to first-class mail. The Committee believed that an independent Postal Rate Commission was needed to prevent such an imposition on first-class mail users.

The reason for the Committee's concern can readily be seen in the findings of the President's Commission on Postal Organization. The President's Commission criticized the

Post Office's Cost Ascertainment System because only 17 percent of total postal costs were directly identifiable with classes of mail. The remaining 83 percent of total costs were allocated to the classes of mail on the basis of one or more judgmental allocations. The large proportion of total costs judgmentally allocated, made it impossible to determine whether a particular class of mail paid its true costs.

In 1969, the Post Office Department took steps to improve its costing methods by developing a system to provide cost data on a continuing basis for postal ratemaking. Using the new costing system, the Postal Service filed its first proposal for increased rates with the Postal Rate Commission in 1971. Under this proposal, about half of the Service's total costs were attributed to the various classes of mail.

Much controversy was generated by the Service's costing methods revolving around charges that the method used resulted in some classes of mail not paying their true costs.

The Commission's Chief Administrative Law Judge stated that the Service's costing method gave the Service too much latitude to distribute large amounts of costs on the basis of judgments that were largely subjective and that the scope for judgment in setting rates should be reduced. He stated also that distributing billions of dollars on the basis of thinly supported judgments was not acceptable. He did, however, allow the cost allocations presented by the Service to stand with only minimum changes, on the basis that the record in the case did not permit the determination of rates on what should have been the proper basis. He indicated that he would expect better cost data in the next rate case.

Subsequently, the Service was taken to court by intervenors (mail users) in the 1971 rate case. The Chief Judge of the United States Court of Appeals for the District of Columbia, in an opinion upholding the increased postal rates, commented adversely on the Service's costing procedures. He said the Service's response to the act's requirement that costs be properly attributed, "* * * was questionable at best."

In the second rate case filed in September 1973, no change was made in the Service's costing criteria.

The presiding Administrative Law Judge found that the Service used the same costing methodology as in the first case with the result that one class of mailers were paying higher rates than necessary to the benefit of other mailers who were thus paying lower rates. To rectify the inequities

he believed existed, the Judge attributed an additional 25 percent of costs to the various classes of mail based on data made available to him by the Service. The Judge published his decision in May 1975, recommending a reduction in first-class mail rates and increases in other classes.

In its recommended decision, the Commission rejected the Law Judge's findings and generally agreed with the Service's costing methods. The Commission stated that by building on the Service's methods it had managed to raise the attributable cost level to 52.5 percent. An appeal in this rate case contesting the Service's and the Commission's costing methodology is currently pending in the U.S. Court of Appeals for the District of Columbia.

The Service, in its third filing for new rate increases in September 1975, broadened somewhat its definition of attributable costs. The new definition increased to 56 percent the proportion of total costs attributed to the classes of mail.

In December 1975, several intervenors in the third rate case also filed suit against the Service challenging the methodology used in determining rate increases under the second rate case and challenging the temporary rate increases proposed by the Service following the second rate case. In January 1976, these cases were consolidated for purposes of an appellate argument to be held in February.

A detailed explanation of why the Service's methods continue to be challenged is complex, requiring lengthy explanations involving accounting and economic theory. However, a few examples showing how the Service's definition of attributable costs can be construed as resulting in users of one class of mail paying for costs incurred for the benefit of users of another class should illustrate why the controversy remains and is likely to remain.

The Service has invested about \$1 billion in a new bulk mail system. The bulk mail system will handle some second-, third-, and fourth-class mail, but no first-class mail. Under the Service's costing methods, first-class mail will be charged with about 29 percent of the bulk mail system's costs. Why? Because the Service treats about 50 percent of the bulk mail system's costs as institutional costs--costs of the enterprise as a whole--of which about 58 percent is allocated to first-class mail.

Similarly, letter sorting machines are used 90 percent of the time to process first-class mail and 10 percent of the time for single piece third-class mail. Some

of the costs of these machines are considered institutional costs and are charged not only to first- and third-class mail but to the other classes of mail as well, even though the machines are not used to process this mail.

Thus, the controversy continues as do the charges that certain classes of mail subsidize others.

FUTURE RATES

The previous sections discussed conditions as they exist today. What about the future?

We estimated in February 1975, that depending on productivity gains and inflation pressures, a unit of first-class postage could cost as much as 36 cents in 1984. This was discussed in our report to the House Post Office and Civil Service Committee "Forecast of Postal Service Self-Sufficiency Potential" (GGD-75-58, Feb. 20, 1975). In a more recent report, (GGD-76-19, Dec. 5, 1975), we updated our projections through 1978 to reflect a decrease in the estimate of growth of disposable personal income, a major factor in the projection of volume, and an increase in the estimate of future inflation.

Our forecast for fiscal year 1978, which assumes a total of 95.63 billion pieces of mail, an inflation rate of 8 percent, and annual productivity increases of 0.7 percent, indicates that with subsidies of zero and \$1 billion, the price of first-class postage would have to be \$0.18 and \$0.16, respectively, to recover expenses. The effect of inflation can be seen by considering that in terms of 1975 dollars, these figures would be \$0.14 and \$0.12, respectively. The Postmaster General has estimated that under the current appropriations system, first-class postage will be 23 cents in 1981. Conversely, if first-class postage rates were held to 13 cents, the Congress would be requested to appropriate \$8.5 billion by 1981.

In other sections of this report, we discuss why the annual cost of operating the Postal Service has risen by about \$3.5 billion since reorganization and why the price of a unit of first-class postage has risen from 6 to 13 cents over the same period.

Historically, the costs of operating the postal system have been split between the mail user and the taxpayer. However, a new wrinkle was introduced by passage of the Postal Reorganization Act. To that time, the Federal subsidy was a residual--the difference between the revenues generated by the congressionally authorized rate structure and the expenses of operating the Post Office Department.

In contrast, today the rates are, in effect, the residual. The amount of the Federal subsidy is largely fixed, being based on specific provisions of the Postal Reorganization Act. With no change in this principle, the reasonableness of rates could be considered academic in that you must recover costs.

A pending bill, S. 2844, would establish a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of the Service's expenses should be supported by appropriations. We endorse such a study.

Ideally, the calculated public service subsidy would be the difference between the revenues generated by reasonable postage rates and the cost of operating the Postal Service. But again the question is what are reasonable postage rates? It is very possible that after the Commission determines what public service subsidies should be, the residual costs would still be high enough to require postage rates considered unacceptably high in some quarters.

We are currently studying the pros and cons of tying postage rates to some index--perhaps the Consumer Price Index. Presumably, rates moving with prices generally will be more palatable to the public. Indexing would serve the dual purpose of setting an "acceptable" level of rates and providing a basis for determining the amount of the Federal subsidies--which would be an amount equal to Postal Service expenses less index-derived revenue. Of course, Congress may choose not to subsidize part or all of the public service expenses.

We expect that our study will shed light on whether indexing is a feasible alternative to the existing rate-making procedures. One problem to be overcome is that indexing would probably give the Postal Service appropriated funds to cover the shortfall between revenue and expenses and, as such, provisions would have to be made to measure the effectiveness of management's actions.

POSTAL RATE COMMISSION/POSTAL SERVICE RELATIONSHIP

In 1970, the Congress made a judgment that rates and classifications should be based on a more elaborate and exact analysis than the time and staff resources of the Legislative Branch could provide. The Postal Reorganization Act was designed to take the whole question of mail rates and classification out of the political process, and to have these matters determined on the basis of an evidentiary record by an independent commission, selected on the basis of professional qualifications. Under the act, it is the Commission

that furnishes the only formal opportunity for users of the mails and other members of the public (1) to present their views on postal rates and classifications, (2) to question and evaluate the data submitted by the Service, and (3) to offer rebuttal evidence.

The legislative history of the act makes it clear that in creating the independent, bipartisan Postal Rate Commission, the Congress intended the Commission to serve as a "true partner" of the Governors of the Postal Service. The Senate Post Office and Civil Service Committee noted that if a bureaucratic struggle developed between the Commission and the Service, then the whole theory of independent ratemaking will have failed.

The need for a close working relationship was closely tied to the concern that ratemaking must be timely. Both Senate and House committees noted that since the Postal Service was a labor-intensive organization, it was important for the Commission to act promptly on rate requests.

Timeliness of Rate Cases

Since inception of the Postal Rate Commission, two rate increases have been completed. The first case took 17 months and the second 23 months. A third request is now in process.

In the Service's 1975 Annual Report, the Postmaster General stated:

"Rate relief did not take place during Fiscal 1975, and as a result, the Postal Service experienced a financial crisis that could have been avoided had the ratemaking process responded to the realities of the times.

Without question, postal rate revision calls for careful deliberation that uncovers the facts and preserves the right of all parties to be heard. The proceedings before the Postal Rate Commission, however, were prolonged to the point of threatening the economic future of the Postal Service."

In a statement before the Senate Committee on Post Office and Civil Service, the Postmaster General said that one of the major factors in the grave financial condition of the Service is the breakdown in the ratemaking process established under the Postal Reorganization Act. He stated further that if the Service's request for a 10-cent first-class stamp had been approved in a reasonable time, it would have been able to obtain a 13-cent first-class stamp in July 1975, and would not have the better-than-a-billion dollar deficit it accrued in the first half of fiscal year 1976.

These themes have been repeated often by many Service officials in many forums.

The Postal Rate Commission, while agreeing that there is a problem with the length of proceedings, feels the central reason is an inadequate Postal Service data base. It is the Commission's position that substantial expenditures of time are required by parties to obtain from the Service information they need to present evidence addressed to:

- (1) the revenue requirements of the Postal Service, and
- (2) the method it uses to allocate costs to the various classes of mail.

The Postal Service does not agree with this position. The Service believes that many of the interrogatories filed with them are trivial and unrelated to the issues at hand. It is clear that the goal of speedy rate deliberations has not been achieved. For the third rate case, the Commission made a number of changes intended to speed up the ratemaking process. Foremost is the decision of the Commission to hear the case directly, eliminating the role of the Administrative Law Judge.

Only time will tell if this will have a significant favorable effect.

CHAPTER 4

BALANCING COSTS AND REVENUES

The Postal Service is in very poor financial condition, as the data in this chapter will show. The questions that need to be asked as a result of the Service's inability to balance costs and revenues are

- Does the financial condition of the Service reveal some fundamental flaw in the thinking that an independent postal management team would be able to better control costs?
- What are the future prospects of the Service in reaching self-sufficiency?

Much of the criticism of the Service centers on the fact that the business-like practices that were supposed to be brought to bear on postal problems have not controlled costs or eliminated deficits. In assessing management's performance over the past 4-1/2 years, some distinction needs to be made between costs that were controllable by management and those that were not. In subsequent sections we attempt to do this.

Whether Postal Service self-sufficiency remains a viable long-term goal is a much more difficult question and one we are not in a position to address. In the short-run, self-sufficiency is clearly not possible without higher rates and/or less service.

To some, the failure of the Service to achieve self-sufficiency either now or in the future carries with it the failure of the idea that an independent Postal Service is a better way of providing service than existed previously. We hope that the information we can bring to bear on this issue will aid the Congress in deciding the future course and shape of the Postal Service.

PRESENT FINANCIAL CONDITION

The Service has lost money every year since its creation as shown in the table below:

STATEMENT OF OPERATIONS

	<u>FY ENDING JUNE 30</u>			
	<u>75</u>	<u>74</u>	<u>73</u>	<u>72</u>
	-----a/(millions)-----			
OPERATING REVENUE				
Mail Revenue				
--postage	\$ 9160.5	\$ 8184.7	\$7603.7	\$7261.5
--Federal Government payment	484.1	470.8	404.0	294.0
Special Services	370.5	352.8	332.2	343.7
Government Appropriations				
--public service cost	920.0	920.0	920.0	920.0
--revenue foregone	612.9	497.0	457.5	441.2
--other	--	b/ 333.4	108.1	63.0
Total Revenue	<u>\$11548.1</u>	<u>\$10758.8</u>	<u>\$9824.5</u>	<u>\$9308.4</u>
 OPERATING EXPENSE				
Compensation and Employees Benefits	\$10805.4	\$ 9641.6	\$8450.9	\$8145.5
Other Expenses	1768.8	1653.8	1475.5	1439.8
Total Operating Expenses	<u>\$12574.2</u>	<u>\$11295.3</u>	<u>\$9926.4</u>	<u>\$9585.4</u>
 OPERATING LOSS	 <u>\$ 1026.1</u>	 <u>\$ 536.6</u>	 <u>\$ 101.9</u>	 <u>\$ 277.0</u>
 OTHER INCOME				
Interest Income	\$ 109.2	\$ 116.5	\$ 106.1	\$ 108.6
Interest Expense	71.9	18.3	17.2	7.1
Total Other Income	<u>\$ 37.3</u>	<u>\$ 98.2</u>	<u>\$ 88.9</u>	<u>\$ 101.6</u>
 NET LOSS	 <u>\$ 988.8</u>	 <u>\$ 438.4</u>	 <u>\$ 13.0</u>	 <u>\$ 175.4</u>

a/ Columns may not foot due to rounding.

b/ Appropriations to offset (1) delay in implementation of temporary rate increases and (2) Civil Service retirement expenses.

On July 1, 1971, the Postal Service commenced operations with an equity (an excess of assets over liabilities) of \$1.7 billion. By June 30, 1975, the Service's equity balance had shrunk to \$190 million. It is expected to continue to decrease dramatically.

The changes in assets and liabilities and its effect on the Service's equity are detailed in the following table:

ANALYSIS OF INCREASES AND DECREASES

IN ASSETS, LIABILITIES, AND EQUITY

OF POSTAL SERVICE

<u>Fiscal year</u>	<u>Assets</u>	<u>Increase</u>	<u>Liabilities</u>	<u>Increase</u>	<u>Equity</u>
	------(billions)-----				
1971	\$ 3.4	\$ --	\$ 1.7	\$ --	\$ 1.7
1972	4.7	1.3	3.2	1.5	1.5
1973	5.6	.9	4.0	.8	1.6
1974	6.8	1.2	5.7	1.7	1.1
1975	7.5	.7	7.3	1.6	.2
1976 (est.)	9.9	2.4	11.2	3.9	(1.3)
1977 (est.)	10.7	.8	13.5	2.3	(2.8)

The Postal Service was in a negative equity position, \$831 million, at December 31, 1975. In the private sector, an excess of liabilities over assets, coupled with revenues that regularly fail to cover expenses, strongly suggest that the entity is bankrupt.

The Postal Service's equity is not quite like that of a corporate entity since about \$1.5 billion of the Service's liabilities are held by the Federal Financing Bank of the U.S. Treasury, another Government entity.

Use of Debt Financing

In order to absorb its continuing deficits and to maintain the level of assets necessary to support adequate service to the public, the Postal Service resorted to borrowing. There is currently outstanding over \$1.75 billion of debt incurred to meet operating expenses and capital

expenditures. Two promissory notes of \$500 million each, for operating expenses, are held by the Federal Financing Bank. Another \$500 million promissory note also held by FFB is for capital expenditures. The repayment schedule of these three notes follows:

Debt Financing Repayment Schedule
to Federal Financing Bank

<u>Repayment schedule</u>	<u>Three promissory notes of \$500 million</u>		
	<u>May 30</u>	<u>July 11</u>	<u>May 30</u>
	<u>a/ 1975</u>	<u>b/ 1975</u>	<u>1975</u>
	----- (millions) -----		
May 30, 1976	\$ --	\$200	\$ 20
May 30, 1977	--	200	20
May 30, 1978	200	100	20
May 30, 1979	200	--	20
May 30, 1980	100	--	20
May 30, 1981-85			400

a/ This debt incurred in FY 1974 at a high interest rate of 9.3 percent was due June 30, 1975; refinanced on May 30, 1975.

b/ One-year note "rolled-over" at July 11, 1975.

Additional long-term debt consists of \$250 million of 6-7/8 percent Postal Service bonds issued February 1, 1972, under a trust indenture secured by a first lien on revenue, income, fees, and appropriations; and mortgages payable of \$33.4 million secured by land and buildings. Interest on these mortgages range from 4 to 8 percent maturing from 1976 through 1998.

CONCLUSION

A reduction in equity represents a reduction in the assets of the system as a whole. Consequently, the Service is consuming its capital structure and, over time, there will be little or no money available for maintenance of plant and equipment let alone improvements. The future prospect is poorer service, higher rates to be borne by the users of the mails, or an increase in the Federal subsidy.

REASONS FOR DEFICITS

Chapter 3 outlined the increases in rates that have occurred since reorganization. Obviously, cost increases have greatly exceeded the revenue that increasing rates have generated. Why have costs increased so fast?

Impact of Inflation on Postal Service Employee Compensation Costs

The largest deficits occurred during the time (fiscal years 1974 and 1975) that inflation reached a nearly unprecedented rate. This had particular significance because cost-of-living pay adjustments for most postal workers are pegged to movements in the Consumer Price Index. With personnel costs representing 86 percent of the Service's expenses, large CPI increases have a significant impact on postal salary costs.

The Index increased 11 percent in FY 1974 and 9.3 percent in FY 1975 compared to increases of 2.9 percent in FY 1972 and 5.9 in FY 1973. The cost-of-living allowances based on the CPI resulted in increases in total pay to postal employees of \$987 million in the last 2 years. The Service's expenses for salaries and fringe benefits are shown below.

Salaries and Benefits

<u>Fiscal year</u>	<u>Amount</u>	<u>Percent of total expenses</u>
1975	\$10,805,408	85.9
1974	9,641,557	85.3
1973	8,450,914	85.1
1972	8,145,538	84.9

The increase in employee compensation is particularly significant since the Service used about 50,000 man-years less in 1975 than in 1971 when it began operations.

Increased Fuel and Gasoline Prices

As the operator of one of the world's largest vehicle fleets, the Service has been hit hard by the increases in gasoline prices. The Service consumes about 350 million gallons of gasoline in its owned, leased, and contracted vehicles. A 1-cent increase in gasoline prices adds about \$3.5 million to the Service's annual costs. Since 1971, the cost of gasoline to the Service has increased about 20 cents a gallon.

Similarly, the Service operates about 30,000 buildings. Since 1971, fuel costs have increased about 69 percent.

Higher Employee Pay
Required by the Act

The Reorganization Act requires the Service to compensate postal workers at rates comparable to those paid in private industry. The compensation for about 620,000 postal workers moreover, is determined through the collective bargaining process and three labor agreements have been negotiated by the Service since reorganization. Prior to reorganization, postal workers' pay was linked to the pay of a GS-5 civil servant.

In fiscal year 1975, the higher rates of pay negotiated by the postal unions increased the Service's costs by about \$1.25 billion more than it would have been under the pay system used before reorganization.

Under the terms of the latest contract, postal workers will receive pay increases in March and November 1976 and July 1977.

WHAT HAS THE SERVICE
DONE TO CUT COSTS?

The President's Commission on Postal Organization recognized that rate increases in an era of rising costs cannot be entirely avoided. However, it believed that in a well managed postal service, the need for rate increases could be largely offset by operating efficiencies. This belief was founded on the Commission's findings of obsolete work methods and the lack of mechanical aids for employees in the Post Office Department.

Since much of the improvements necessitated investments in new facilities and equipment, the Commission recognized that the full savings would not be realized for several years.

Investment in New
Plant and Equipment

The old Post Office Department had not received adequate funds for capital investment to modernize its plant and equipment. As a consequence, the Service has had to spend billions of dollars in a short time period to upgrade its plant and equipment, as indicated by the chart below:

Capital Investment Commitments

Fiscal years 1971-75

<u>Category</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
	----- (thousands) -----				
Construction and building improvements	\$114,609	\$392,712	\$484,764	\$285,942	\$472,677
Mail processing equipment	67,823	258,439	231,398	63,869	134,782
Vehicles	28,255	44,018	43,098	59,208	78,123
Customer services equipment	4,519	6,535	8,850	13,401	17,440
Postal support equipment	<u>20,196</u>	<u>22,168</u>	<u>34,786</u>	<u>41,492</u>	<u>32,094</u>
	<u>\$235,402</u>	<u>\$723,872</u>	<u>\$802,896</u>	<u>\$463,912</u>	<u>\$735,116</u>

In fiscal year 1976 the Service expects to invest another \$954 million.

Productivity Improvements

Overall, the Service has made gains in productivity since the reorganization. In fiscal year 1971, 723,500 man-years were used to move 87 billion pieces of mail or 120,212 pieces per man-year. In fiscal year 1975, 693,000 man-years were used to move 89 billion pieces of mail or 128,764 per man-year. Had the productivity increase not occurred it would have taken 50,000 more man-years in fiscal year 1975 to move the mail.

The Postal Service, through the implementation of two major new programs to increase productivity--the Productivity Improvement Program and the Letter Carrier Route Evaluation System--anticipates further decreases in staff requirements.

The Productivity Improvement Program (PIP) is presently being tested in various post offices throughout the Nation. The objectives of this program are to:

- develop the capability to implement and maintain a computer model to calculate optimum mail processing staffing levels,

- maximize mail processing operations through mechanization,
- install a system to measure and evaluate cost saving methods, and
- identify opportunities for methods improvements.

The effectiveness of this program has yet to be determined due to its limited implementation.

Another efficiency program which has been tested by the Service is the Letter Carrier Route Evaluation System (LCRES). This system is intended to standardize letter carrier delivery routes in a metropolitan area, evening out the workload of letter carriers, thus allowing the Service to utilize its manpower more efficiently to meet delivery needs. LCRES has been tested in Kokomo, Indiana, and Portland, Oregon. At present, nationwide implementation of LCRES is the subject of an arbitration proceeding between the Postal Service and the National Association of Letter Carriers.

Other Labor Economy Measures

Other ways in which the Service is trying to reduce its labor costs is through the reassignment of excess craft employees and reduction of overtime. The Service has established a new Excess Craft Employee Reporting Procedure to enable it to systematically adjust its manpower requirements to fit the actual workload at every postal installation. Under the new system, understaffed offices will be brought up to strength by reassigning excess employees from other offices rather than hiring new employees.

Improved Procurement Practices

Procurement in the Postal Service is big business--well in excess of \$1 billion annually. Service contracting covers a wide variety of goods and services including: land acquisition, construction of buildings, mail processing equipment, vehicles, customer service, professional services, support services, building supplies, printing, fuel and utilities just to mention a few.

The Service's procurement policies and procedures emanate from the authority contained in section 410 of the Reorganization Act. Basically, this section exempted the Service from Federal laws relating to contracts with a few exceptions such as those laws pertaining to labor, civil rights, and criminality. As a result, the Service was given wide latitude in the conduct of its procurement activities.

Though the Service was given considerable freedom, its procurement policies and regulations closely parallel those of other Federal agencies.

Since reorganization, we have continually devoted part of our audit effort to procurement. Overall, our reviews have shown the Service record to be mixed--disclosing both good and bad aspects. Generally, problems we have noted occurred because (1) procedures were not followed and/or (2) the procedures were not adequate. When we have pointed out problems to the Service, it has instituted corrective actions. Some of our major efforts in the past are discussed below.

Sole-source contracting and cost overruns

This review was undertaken because of allegations that the Service was awarding an excessive number of sole-source contracts and that cost overruns were occurring on these contracts. The review was restricted to the headquarters contracting activities of the Procurement and Supply Department.

Sole-source contracts totaling \$98 million represented 25 percent by number and 44 percent by dollar value of total contract awards. A wide variety of goods and services were procured on a sole-source basis--from complex items such as Mark II Facer Cancellers to simple items such as office furniture and letter mail tray covers. Two reasons frequently used to justify sole source were:

- the item was urgently needed, and/or
- a particular contractor was the only source of supply.

We concluded, in certain cases, these justifications were questionable and that the Service could have avoided going sole source.

Cost overruns on sole-source contracts were not excessive. The \$28.2 million cost growth on 9 contracts we reviewed was caused by:

- definitization of letter contracts (\$18.3 million)
- changes to scope of work (\$7.5 million)
- cost overrun (\$2.4 million)

The Service instituted several corrective actions:

- establishing an office to identify future needs earlier so as to avoid the urgent needs;

--vesting sole authority for approving sole-source contracts over \$5,000 with Assistant Postmaster General, Procurement and Supply Department;

--establishing a policy to secure data rights to avoid being forced to obtain items from the previous supplier.

We noted some basic problem areas in procurement of developmental equipment. Briefly these were: (1) no high-level review committee with authority to modify or terminate programs moving in questionable directions or showing little progress or potential, (2) test and evaluation activities being largely under control of project management rather than being independent, and (3) lack of periodic cost benefit analyses to provide top management with information to evaluate programs in terms of costs to be incurred and benefits to be realized.

Postal officials told us that although mistakes were made in the accelerated effort to develop mechanization, lessons were learned from the experience and corrective actions were taken including:

--requiring more careful, formal justification for procurement actions;

--separating, organizationally, the testing and evaluation function; and

--requiring a verification of cost-benefit analysis.

Automatic data processing equipment purchases

We were requested to determine whether contracts for automatic data processing equipment for Postal Data Centers in St. Louis and New York City were fairly awarded. In both procurements, we found no evidence that the Service attempted to rig the awards. However, we did note some deficiencies.

In the St. Louis procurement, the request for proposal did not adequately describe the workload to be processed on vendor equipment and provide information on the criteria to be used to evaluate proposals. These deficiencies worked to the advantage of the vendor awarded the contract.

In the New York procurement, the request for proposal did not (1) adequately describe the workload requirements and the benchmark demonstration to be performed on vendor equipment or (2) provide information on the criteria to be used to evaluate vendor proposals.

As a result of the deficiencies, the Service revised its policies and procedures for selecting automatic data processing equipment.

Professional services

Our report on contract awards for advertising and promotional services demonstrates that questionable procurements may result when established procurement policy and procedures are bypassed.

Altogether, one contractor was paid a total of \$815,000 under four contracts, three purchase orders, and five claims. The initial contract was justified on the basis that the company was the only source. However, the Service did not attempt to locate other potential sources as required by regulations. The contractor acknowledged that other firms could have performed the work. Subsequent arrangements with the contractor were justified on the basis of the company's knowledge of postal operations and the high quality of its work.

The five claims were for projects undertaken on the basis of oral understandings which were not corroborated in formal contracts. In four of the five claims, the Service paid the contractor amounts shown on its invoices without audit to determine their reasonableness.

For the four formal contracts awarded the contractor, the cost and price data submitted was not sufficiently detailed to determine the reasonableness of proposed prices. Two of the contracts exceeded \$100,000, and audits were required but not performed.

The contracts discussed above along with several other professional services contracts were the subject of considerable adverse publicity because of the personal involvement of senior postal officials.

Mail transportation contracting

The Service uses contracted vehicle service as one means to transport mail between postal and private facilities. The bulk of the contracts, referred to as star routes, are for moving mail between cities and between post offices. Other star routes move mail between post offices and transportation terminals, airports, and postal and private stations. There are about 14,000 star route contracts throughout the country. Expenditures for these contracts totaled \$262 million in fiscal year 1973.

The Service was not promptly identifying opportunities to improve the routing of a star route vehicles. As a result, the Service was incurring unnecessary costs and fuel use. For example, the sectional center facilities at Rockford and Springfield, Illinois, could have saved about \$185,000 and 88,000 gallons of fuel annually by better coordination of their star routes.

We recommended that the Service issue instructions requiring periodic reviews of star routes and that the requisite procedures be covered in appropriate Postal Service training programs. We further recommended that the Service consider centralizing the review at a level higher than the sectional center facilities to

- provide independent analysis of the need for routes,
- eliminate jurisdictional problems involving different fiscal and contracting authorities, and
- build a degree of expertise for the personnel reviewing the star routes.

Service corrective actions included revised procedures for reviewing star routes and covering the review procedures in Service training programs. The Service is experimenting with centralizing star route contracting and administration.

Vehicle procurement

We reviewed a Service decision to purchase 35,695 1/4-ton vehicles for approximately \$102 million. The purpose of our review was to determine if (1) the cost benefit analyses used to justify the purchase were prepared properly and (2) the most economical procurement method was adopted.

We found that the cost benefit analyses were prepared using an accepted method. Also, the decision to purchase, rather than lease, was the more economical alternative.

Mechanization Improvements

The Service's primary research and development effort is geared toward mechanizing the mail stream. While productivity improvement can be achieved to some degree through better methods and management, the majority of future savings are expected to come through mechanization. The payout in mechanization, it is hoped, will take the form of increased speed and efficiency while at the same time reducing labor costs.

Chapter 2 discussed the advances made by the Service in mechanizing letter sorting operations. Some other mechanization efforts are discussed below.

National bulk mail system

The Postal Service is investing about \$1 billion in the National Bulk Mail System (NBMS)--a nationwide system for processing bulk mail. The NBMS represents the Service's first-scale attempt to develop a mechanized nationwide mail processing system. The system, approved on March 11, 1971, will consist of 21 bulk mail centers and 12 auxiliary service facilities located throughout the country. Its original estimated cost was \$950 million.

A 1970 study by a consulting firm to determine the benefits to be derived by a bulk mail system showed that such a national system would save about \$300 million annually. This savings determination was based on an analysis of what the 1969 actual bulk mail costs would have been had the bulk mail system been in operation at that time. On the basis of a June 1972 consultant's study, the Service stated the system would increase revenues and reduce costs by about \$500 million by 1984.

In GAO's report "Observations and Questions on the Development of the New National Bulk Mail System" (B-114874, Nov. 1, 1974), we stated that the Service's projection of \$500 million may prove correct, but it is far from certain for two reasons:

- The uncertainty of the Service's future share of the parcel delivery market and future revenues.
- The uncertainty of the accuracy of the Service's prediction of how the new system will affect its overall costs.

The Service expects the NBMS to be completely operational on March 27, 1976. The estimated cost to complete the system is about \$997 million, \$47 million more than the original estimate of \$950 million.

The Service lowered the estimated annual benefits to be realized from the system to \$209 million on March 4, 1975, and to \$149 million on July 1, 1975. On October 7, 1975, the Assistant Postmaster General, Bulk Mail Processing Department, stated that benefits from NBMS should exceed \$138 million annually, if parcel post volumes did not fall below 400 million pieces, and if bulk second- and third-class volumes did not drop below anticipated levels, for an investment return in excess of 10 percent.

Annual benefits of \$138 million would be a decrease of 54 percent in the original annual benefits estimate of \$300 million.

Other mechanization efforts

In testimony before the Subcommittee on Postal Facilities, Mail, and Labor Management, House Post Office and Civil Service Committee, in August 1974 we discussed the air culler, advanced facer canceller, and advanced optical character reader; three pieces of equipment being developed to reduce labor requirements.

To that time, the Service had spent about \$43.4 million developing these machines. Our general observations were that:

- none of the machines were suitable for full-scale production and deployment within the postal system, and
- all three had manpower requirements similar to existing alternatives and therefore did not appear to offer substantive manpower savings.

The ongoing mechanization program is divided into the following areas:

- Letter Mail
- Flats, Small Parcels, and Rolls
- Bulk Mail
- Transportation and Containerization
- Point-of-Sale
- Advanced Mail
- Technology Research

The long-range goal in transportation and containerization is to develop containers compatible with transportation (material handling equipment and vehicles). The Service's view is that containerization can improve productivity, while transportation improvements can achieve dollar savings primarily through reductions in fuel costs. An example of the Service effort is the use of electronic delivery vehicles. Currently, 350 1/4-ton electric vehicles are being field tested to determine whether they will be an economical alternative to the gasoline powered jeeps. Tentative plans call for the purchase of 1,000 additional vehicles in fiscal year 1976 and 5,000 in fiscal year 1977.

Under the Flats, Small Parcels, and Rolls (FSPR) Program, two proto-types have been developed--the envelope flat sorter and a small parcels and rolls sorter. The Service has plans to deploy these items.

The Point-of-Sale program involves developing self service equipment, window operations equipment, and delivery services equipment. Examples of Service equipment include stamp and coin vending machines and neighborhood "cluster boxes."

The Advanced Mail and Technology Research programs are really the "think tank" programs. The concept here is to evaluate new technologies in terms of potential Postal Service applications. For example, the Service is now studying the feasibility of an electronic message service system.

CONCLUSION

The 126 GAO reports demonstrate that there is much management can and should do to make the Service more efficient and effective. On the other hand, the facts, as we see them, do show that much of the Service's financial problems were beyond its control.

CHAPTER 5

PERSONNEL COMPENSATION AND WORKING CONDITIONS

The Postal Reorganization Act tasked the Postal Service with

- achieving and maintaining compensation for its employees comparable to the rates and types of compensation paid in the private sector,
- providing all employees with opportunities for career advancements and achievements of worthwhile and satisfying careers, and
- providing desirable working conditions for its employees.

Since reorganization, the Postal Service has been successful in increasing employee compensation, establishing a comprehensive training program, improving working conditions, and reducing employee accidents. The impact of salary increases on the Service's goal of self-sufficiency was discussed in chapter 4.

EMPLOYEE COMPENSATION

The Act authorized employees to organize and bargain collectively with management on matters related to wages and hours. The first collective bargaining agreement was completed on November 18, 1970, and expired July 20, 1971. There have been three labor contracts since that time as follows:

<u>From</u>	<u>To</u>	<u>Term</u>
7/21/71	7/20/73	2 years
7/21/73	7/20/75	2 years
7/21/75	7/20/78	3 years

The Service conducted a study of compensation costs and occupational wage rates that covered 67 companies in manufacturing and nonmanufacturing industries during the period November 18, 1974, to February 7, 1975. According to the study, the average straight-time pay plus benefit cost for Service bargaining unit employees was \$8.05 per hour and the average wage for employees in the industries surveyed was \$8.04 per hour as shown below.

Comparison of Compensation Costs in the
Service With that in 14 Selected Industries

February 1975

	<u>Postal Service</u>	<u>Private sector</u>
Straight-time pay	\$ 6.02	\$ 5.55
Total benefits	<u>2.03</u>	<u>2.49</u>
Total Compensation	\$ <u>8.05</u> -----	\$ <u>8.04</u> -----

The survey results indicated that there was little difference in compensation costs between the Service and the private sector.

As a matter of interest, GAO has traced the compensation growth for employees of the Service. The following table shows salary growth for Service employees since reorganization. It also shows the salary growth for General Schedule employees, grade 5/step 5 and for Postal Service Schedule employees, grade 5/step 5 (the former equivalent point in the General Schedule and Service scales).

<u>Salary Growth Since Postal Reorganization</u>				Percent increase from 7/71 to 3/76
	<u>July 1, 1971</u> (note a)	<u>July 21, 1975</u> (note b)	<u>March 21, 1976</u> (note c)	
Postal Service				
Average Salary				
w/o fringes	\$8,694	\$13,254	\$13,650	57.00
w/fringes	9,746	15,493	15,957	63.73
Grade 5/step 5				
w/o fringes	\$8,012	\$12,238	\$12,634	57.69
w/fringes	8,981	14,306 (note d)	14,769 (note d)	64.45
General Schedule				
w/o fringes	\$7,862	\$ 9,632	\$10,117	28.68
w/fringes	8,813	11,809	12,403	40.73

- a/ Compensation prior to collective bargaining.
- b/ Date of first increase under current contract.
- c/ Date of second increase under current contract.
- d/ Does not reflect a contribution for retirement benefits as complete as the General Schedule.

By the end of the current contract period, July 1978, we estimate the average compensation and benefit costs per labor agreement employee will be \$18,700.

Since reorganization, total employee salaries and benefits costs have increased \$3.5 billion or 47 percent. This expense, as a percent of total postal expenses, has increased from 83.3 in 1971 to about 86 percent in 1975. Coupled with the compensation and benefit increases is the "no lay-off" clause. This package would certainly seem to give postal union employees a financial standing comparable to that of employees in the private sector of the economy.

CAREER ADVANCEMENT

The Postal Service training program is designed to increase employee opportunity for advancement and the professionalism of the organization. The Service's program is carried out through its Postal Employee Development Centers located in the larger and geographically acceptable post offices, Technical Center in Oklahoma, and Training and Development Institute in Maryland.

The Development Centers are the basic units in the Service's program. The centers, of which there were 170 in fiscal 1975, use self-learning techniques to enable employees to improve their general education or develop specific skills for better-paying jobs. An estimated 354,000 employees--over half the postal workforce--took courses at centers during 1975.

The Technical Center teaches advanced technical skills and the Development Institute specializes in management instruction. In 1975, the Institute started a new management development program designed to insure that all city-delivery supervisors, managers, and postmasters receive thorough training when they are appointed to a new management position. In fiscal year 1975, 55,342 employees attended the Center and 67,569 attended the Institute.

WORKING CONDITIONS IMPROVEMENT PROGRAM

The adequacy of many postal facilities had been a long-standing problem. The President's Commission on Postal Organization in its June 1968 report stated:

"Though some modern post offices are pleasant enough places to work, working conditions in many are appalling. * * * Dirty facilities, crowded and noisy work areas, inadequate locker space and rest rooms, and poor lighting and cooling systems are common."

Recognizing the problem, the Service, in early 1972, started a multi-million dollar effort--the Working Conditions Improvement Program (WCIP)--that had the objective of having at least 95 percent of postal employees housed in adequate facilities by June 30, 1975. The program's importance, as expressed by headquarters management, was such that it had a priority second only to expeditious and economic delivery of the mails. The program tackled problems ranging from poor lighting and ventilation on the workroom floor to sprucing up employee locker rooms.

On December 16, 1974, GAO reported to the Postmaster General that the program was not well managed in its early stages. As a result, its progress was hindered by problems that could have been avoided or ameliorated by better planning and execution. The problems inhibiting WCIP's progress during its early stages were:

- insufficient staffing and direction to effectively execute the program,
- inadequate reporting procedures for informing management of program progress,
- a need for improved identification of needed facility improvements,
- a need to obtain employee views on required facility improvement,
- inadequate guidance on improving leased facilities, and
- a need to insure that improvements are made in order of their priority.

Program management improved considerably during our review, to some extent, as a result of GAO discussions with and suggestions to postal managers.

The WCIP was completed in fiscal year 1975 with a total commitment of \$260 million. At the end of the fiscal year, 87 percent of postal employees were housed in fully adequate space or in buildings being upgraded. Another 12 percent were in buildings scheduled for replacement.

EMPLOYEE ACCIDENTS

The Service has taken action to reduce the number of accidents involving its employees. This includes the Service's efforts to modernize facilities, improve working conditions, and increase employees' awareness of safety.

The following table shows the number of industrial and vehicle accidents in the Service from fiscal year 1971 (pre-postal reorganization) to fiscal year 1975.

Postal Service Accident Statistics

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Number of accidents:					
Industrial	49,517	45,229	46,868	51,766	45,962
Vehicle	22,035	19,786	16,328	12,398	10,408

While there has been a favorable trend in the number of accidents, the cost of accidents including medical cost, payments for lost time, and property damage has risen steadily as shown in the following table.

Total Cost of Accidents

1972	\$18,336,805
1973	20,601,800
1974	21,280,104
1975	23,147,345

CONCLUSION

In many ways the post office is a better employer and a better place to work than it was prior to the reorganization. The amounts expended by the Service show that it is working to fulfill the objectives of the Postal Reorganization Act.

A LISTING
--BY JOB CLASSIFICATION--
OF
GAO REPORTS ISSUED
ON
POSTAL SERVICE OPERATIONS

- - - - -
FISCAL YEAR 1972

THROUGH

JANUARY 31, 1976

<u>JOB CLASSIFICATION</u>	<u>PAGES</u>
QUALITY OF MAIL SERVICE	52 - 55
FACILITIES, VEHICLES, AND EQUIPMENT	56 - 62
PERSONNEL	63
FINANCE AND SPECIAL STUDIES	64 - 68

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1972</u>			
Implementation of the bulk mail facility concept, Pittsburgh, PA (Request of Congressman H. R. Gross)	171594		9-07-71
Questionable savings attributed to Key Cities Program	--		5-04-72
Survey of the transportation activities of the Post Office Department	114874		6-29-72
<u>FISCAL YEAR 1973</u>			
Determination of whether the Postal Service has improved first-class mail service (Request of Congressman H. R. Gross)	114874		12-01-72
Quality of mail service in Florida (Request of Congressman Paul G. Rogers)	114874		5-02-73
Quality of mail service in Texas (Request of Senator Lloyd M. Bentsen)	114874		5-15-73
Examination of selected aspects of the preferential mail system (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	171594		6-25-73
Survey of Self-Service Postal Center Program	--		9-21-72
Mail forwarded or returned to patrons	--		10-31-72
Evaluation of the letter mail code sort system prototype	114874		11-08-72

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1973 (cont'd.)</u>			
Service-wide mail containeri- zation program needed	114874		1-18-73
Survey of the area and managed mail processing programs	--		2-08-73
Survey of damaged and lost parcels	--		3-13-73
Survey of registered and COD mail	--		3-19-73
<u>FISCAL YEAR 1974</u>			
Review of air mail improvement program	114874	8-06-73	
Problems affecting mail service and improvements being taken	114874	3-20-74	
Review status of mail service (Request of Chairman, House Post Office and Civil Service Committee)			
New York	114874		7-20-73
Miami	114874		10-02-73
Boston	114874		10-11-73
Detroit	114874		10-19-73
San Francisco	114874		1-03-74
Denver	114874		1-04-74
Honolulu	114874		1-07-74
Los Angeles	114874		1-09-74
New Orleans	114874		3-08-74
Review quality of mail service in Delaware (Request of Cong- ressman Pierre S. du Pont)	114874		7-26-73
Review handling of publications at Texarkana Sectional Center Facility (Request of Congress- man Wright Patman)	114874		9-28-73

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1974 (cont'd.)</u>			
Review quality of mail service in Alaska (Request of Senator Mike Gravel)	114874		10-26-73
Observations on the Preferen- tial Mail System (Request of Chairman, Senate Commit- tee on Post Office and Civil Service)	114874		10-30-73
Postal Service actions on problems cited in GAO report on mail service in Florida (Request of Congressman Paul G. Rogers)	114874		3-12-74
Results of GAO test mailings during 1973 Christmas period	--		6-19-74
Review of letter sorting machine operations in Detroit	--		6-28-74
<u>FISCAL YEAR 1975</u>			
Missent mail--a contributing factor to mail delay and increased costs	GGD-75-002 114874		10-22-74
Observations and questions on the development of the new National Bulk Mail System	GGD-75-31 114874		11-01-74
\$100 million could be saved annually in postal opera- tions in rural America with- out affecting the quality of service	GGD-75-87 114874		6-04-75
Problems affecting mail ser- vice in New Haven, CT (Re- quest of Congressman Robert N. Giaimo)	GGD-75-020 114874		9-04-74

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1975 (cont'd.)</u>			
Information on certain costs of the National Bulk Mail System (Request of Congressman H. R. Gross)	GGD-75-042 114874		11-12-74
Review of airmail and first- class delivery times (Request of Senator Eagleton)	GGD-75-047 114874		12-17-74
Survey of the reliability of air transportation of mail	--		8-14-74
Report on improved mail ser- vice - 1973 Christmas period over 1972 Christmas period	114874		10-23-74
<u>FISCAL YEAR 1976</u>			
System for measuring mail delivery performance--its accuracy and limits	GGD-75-109 114874	10-17-75	
Quality of mail service in New Mexico (Request of Chairman, Subcommittee on Treasury, Postal Service and General Government, Senate Committee on Appropriations)	GGD-76-6 114874		11-04-75
Potential for savings through consolidating certain mail operations in the San Francisco and Seattle Postal Concentration Centers	--		0-17-75
Need to formulate policies and procedures which would ensure evaluation of trade- offs between transportation savings and service impact	--		11-07-75

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committee or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1972</u>			
Contract for study of suitable interior finishes (Request of Congressman H. R. Gross)	172134		7-12-71
Planning a new postal facility in Charlotte Amalie, St. Thomas, Virgin Islands (Request of Chairman, Subcommittee on Public Buildings and Grounds, House Committee on Public Works)	171594		8-16-71
Site selection and contract awards for construction and mechanization of New York Bulk and Foreign Mail Facility (Request of Congressman H. R. Gross)	171594		10-29-71
Transfer of postal building site acquisition and construction responsibilities (Request of Chairman, Senate Committee on Post Office and Civil Service)	172186		11-03-71
Leasing vs buying Postal Service vehicle maintenance facility in New York City (Request of Congresswoman Bella S. Abzug)	114874		2-14-72
Selection of a new facility site in Thousand Oaks, CA (Request of Senators Alan Cranston and John V. Tunney)	171594		2-17-72
Examination of selected terminated architect-engineering design contracts (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	171594		6-13-72

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1972 (cont'd.)</u>			
Leasing vs buying vehicle maintenance facility in New York City (Request of Congresswoman Bella S. Abzug, and Senators Jacob K. Javits and James L. Buckley)	114874		6-16-72
Contract award and administration procedures	--		8-18-71
Vehicle maintenance program, San Francisco region	--		2-14-72
Procurement of security containers and safes to reduce burglary losses	--		4-17-72
Survey of vehicle utilization in Chicago area	--		4-18-72
<u>FISCAL YEAR 1973</u>			
Economies of a decision by the Postal Service to abrogate an existing lease arrangement - South Boston Postal Annex Addition, Boston, MA (Request of Congressman James B. Burke)	145650		12-29-72
Review of the purchase of a new Postal Service Headquarters (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	114874		1-05-73

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
Selection of bulk mail facilities in Memphis, TN, and Philadelphia, PA (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	114874		1-30-73
Examination of the promotional activities of the U.S. Postal Service (Request of Congressman John M. Murphy)	114874		6-12-73
<u>FISCAL YEAR 1974</u>			
Examination of construction contract awarded for Des Moines, Iowa, Bulk Mail Facility (Request of Chairman, House Committee on Post Office and Civil Service)	171594		7-19-73
Justification for leasing foreign-made vehicles (Request of Congressman Henry S. Reuss)	167196		9-05-73
Review of site selection, Cuba City, Wisconsin (Request of Congressman Vernon W. Thomson)	171594		9-19-73
Facility site selection procedures at Cincinnati, Ohio (Request of Congressman William J. Keating)	114874		10-19-73

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1974 (cont'd.)</u>			
Review of costs for Head- quarter's furnishings (Request of Senators Robert P. Griffin and John C. Stennis, and Congressmen Charles E. Bennett and H. R. Gross)	114874		12-14-73
Review of cost of kitchens for Board of Governors and for Postmaster General (Request of Senator Alan Cranston)	114874		2-12-74
Review of contracts with Burnaford and Company (Request of Senator Alan Cranston)	114874		6-12-74
Review of Postal Service's \$3.8 million advertising campaign (Request of Senator Alan Cranston)	114874		6-25-74
Review of expenditures to furnish and equip Postmaster General's new office (Request of Senator Sam Nunn)	114874		6-27-74
Economic analysis on Letter Sorting Machines in Western Region	--		8-06-73
Need for improved security measures at, and a consoli- dation of, the St. Louis ADP facility	--		2-28-74

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1975</u>			
Observations on Procurement of equipment for Postal Data Centers (Request of Chairman, House Committee on Post Office and Civil Service) St. Louis, MO	GGD-74-098 180235		7-17-74
New York, NY	GGD-74-099 180235		7-19-74
Review of site acquisition for Kansas City Bulk Mail Facil- ity (Request of Congressman Larry Winn, Jr.)	GGD-74-102 171594		7-17-74
Need for a review mechanism for contracted vehicle service	114874		7-03-74
Problems affecting operations at the St. Louis Postal Data Center	180235		12-10-74
Review of working conditions improvement program	114874		12-16-74
Observations on sole-source procurement and overruns (Request of Chairman, House Post Office and Civil Ser- vice Committee)	GGD-75-81 171594		5-09-75
Review of policies regarding neighborhood collection and delivery boxes (Request of Senator Alan Cranston)	GGD-75-92 114874		6-09-75

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committee or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1976</u>			
Review site selection for new San Antonio postal facility (Request of Congressman Henry Gonzalez)	171594		8-11-75
Large contract for purchase of letter sorting machines by U.S. Postal Service (Request of Senator Stuart Symington)	GGD-75-100 173423		8-26-75
Efforts to develop improved mail processing equipment have not succeeded to date (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-96 114874		9-19-75
Automotive Parts Distribution System (Request of Chairman, Subcommittee on Environmental Problems Affecting Small Business, House Permanent Select Committee on Small Business) (addressed to Chairman, House Committee on Small Business)	GGD-76-13 114874		11-05-75
Use of commercial facilities for the maintenance of postal vehicles (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-76-30 114874		12-23-75

FACILITIES, VEHICLES, AND EQUIPMENT

<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u>	
		<u>Committee or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1976 (cont'd.)</u>			
postal Service justified in purchasing mail delivery vehicles (Request of Chairman, House Committee on post Office and Civil Service)	GGD-76-40 114874		1-09-76

PERSONNEL

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u>	
			<u>Committees or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1972</u>				
Payroll activities at Atlanta Postal Data Center and Atlanta and Columbus, GA, and Greenville, SC, post offices	--			1-18-72
<u>FISCAL YEAR 1973</u>				
Examination into statements concerning use of overtime instead of replacing em- ployees who retire (Request of Congressman Edwin B. Forsythe)	114874		11-20-72	
Administration of sick leave within the Postal Service needs improvement	114874			2-28-73
<u>FISCAL YEAR 1974</u>				
Survey of Postal Service Training Programs	--			7-31-73
Procedures to reimburse Department of Labor for Workmen's Compensation paid to postal employees	--			10-25-73
Findings on Groettum-type overtime compensation	--			10-30-73

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u>	
			<u>Committees or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1972</u>				
Need to evaluate and improve postal source data system before further expansion	114874	7-01-71		
Need to increase rates to recover cost of providing service to commercial firms renting multiple post office boxes	114874	7-19-71		
Need to recover the costs of processing business reply mail	114874	10-28-71		
Determination of nonprofit organizations' eligibility for reduced postage rates should be improved	114874	4-04-72		
Research and engineering activities	--			1-28-72
Postal rates should be adjusted to recover costs of providing priority handling to publications	114874			3-23-72
Policies followed in selling and exchanging ZIP code directories	--			4-28-72
<u>FISCAL YEAR 1973</u>				
Improvements needed in collection of data for the U.S. Postal Service's revenue and cost analysis system	114874	2-20-73		
Examination into the rationale for engaging a firm of certified public accountants (Request of Congressman H. R. Gross)	114874		9-07-72	

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1973 (cont'd.)</u>			
Examination of statements concerning Postal Service authority to sell bonds (Request of Senator Alan Bible)	114874		12-13-72
Comparison of budgeted and actual obligations, fiscal year 1972 (Request of Congressman H. R. Gross)	114874		1-18-73
Evaluation of Postal Service opinion concerning possible conflict of interest on the part of Ernst & Ernst (Request of Congressman H. R. Gross)	114874		2-20-73
Comments on senders of third-class mail paying return postage (Request of Senator Mike Gravel)	114874		5-10-73
Survey of the Customer Cooperation Programs	--		10-26-72
Cash management practices	--		11-30-72
<u>FISCAL YEAR 1974</u>			
Information on law enforcement activities of the Postal Service (Request of Chairman, House Committee on Post Office and Civil Service)	114874		2-14-74
Cost reduction reporting program	--		7-31-73
Inspection Service's consumer protection activities relating to mail fraud	--		10-30-73
Variations in cost effectiveness of post offices during 1973 Christmas period	--		4-22-74

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Addressee and date issued</u>	
		<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1975</u>			
Report on second- and third-class mail rates and regulations (Request of Senator Alan Cranston)	GGD-74-097 114874		7-17-74
Examination of Capital Investment Program (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-017 119600		8-22-74
Analysis of Public Service Costs (Request of Congressman Edward J. Derwinski)	GGD-75-025 114874		10-09-74
Observations on sales of postal-related products and photocopy services (Request of Chairman, House Committee on Post Office and Civil Service; Senators Alan Cranston, Pete V. Domenici, Barry Goldwater, Sam Nunn, and Congressman John J. Rhodes)	GGD-75-29 114874		10-10-74
Profitability of sales of printed return address envelopes (Request of Chairman, Subcommittee on Environmental Problems Affecting Small Business) (Congressman Hungate)	GGD-75-62 114874		2-13-75
Review of billing system for DOD mail usage (Request of staff of Senate Committee on Appropriations)	GGD-75-1 182343		2-20-75
Forecast of Postal Service self-sufficiency potential (Request of staff of House Committee on Post Office and Civil Service)	GGD-75-58 114874		2-20-75

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u>	
			<u>Committees or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1975 (cont'd.)</u>				
Survey of Postal Service's collection of customs duties	--			7-26-74
Survey of impact of new postal products and services on revenue, customers, and existing postal products	--			8-23-74
Survey of Postal Service procurement and material management	--			1-09-75
Assessment and collection of fourth-class mail revenues	--			5-19-75
<u>FISCAL YEAR 1976</u>				
Federal agencies could do more to economize on mailing costs (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-99 114874			8-25-75
Estimates of mail volume, expenses, and first-class postage under various subsidies for FY 76, 77, and 78 (Request of Congressman Leo Ryan)	GGD-76-19 114874			12-05-75
Statistical Comparison of U.S. Postal Service with Selected Foreign Postal Systems (Request of Rep. Donald M. Fraser) (22388)	GGD-76-35 114874			12-11-75
Alleged mismanagement of the District of Columbia's City Post Office (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-76-41 114874			1-20-76

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued Committees or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1976 (cont'd.)</u>				
Alleged improprieties at the Eugene, Oregon, Post Office (Joint request of Senator Mark O. Hatfield and Cong- ressman James Weaver)	GGD-76-39 114874			1-30-76

DIGESTS
OF
SELECTED GAO REPORTS

ACQUISITION AND USE OF
POSTAL SOURCE DATA SYSTEM

In a report to the Congress, we stated that the Post Office Department began a multimillion dollar program to install a nationwide automated data collection and processing system, the Postal Source Data System (PSDS), which was to provide postal management with more timely and accurate information on employee time and attendance, labor hour distribution, and mail volumes processed than was possible under manual data systems. PSDS was to be installed initially in 75 of the largest post offices but the Department later made plans to install PSDS in 35 other large post offices.

The Department estimated in 1966 that (1) the total acquisition cost of PSDS would be \$30.2 million and (2) it would be fully operational in the initial 75 post offices by November 1968. The Department predicted that savings would average \$7.2 million annually, during each of the first 5 years of PSDS operations.

Despite the lack of sufficient data on the feasibility of proposed system and the types and quantities of equipment needed and contrary to the recommendation of its own study groups, the Department awarded a \$22.7 million contract for the purchase and nationwide installation of equipment for PSDS. The premature award of the contract resulted in acquisition of unneeded electronic data collection equipment costing \$1.2 million and of other equipment that was not used for substantial periods of time.

As of November 20, 1970, a fully operational system had not been implemented at 9 of the initial 75 post offices, including two of the largest in the country--New York, N.Y.; and Washington, D.C. PSDS acquisition costs at the initial 75 offices had reached \$44.5 million by February 1971, an increase of \$14.3 million over the original estimate.

We believed that the predicted savings would not be realized. Annual employee costs, as of October 1970, for authorized PSDS positions had exceeded the Department's original estimate of \$5.5 million by at least \$14.1 million. Increased costs also resulted from diversion of other postal employees from their regular duties to operate the system.

Other annual operational costs, for such items as supplies and services, maintenance, and amortization of equipment, had exceeded the Department's original estimate of \$9.1 million by at least \$7.9 million.

The reports generated by PSDS at the time of our review were less timely, less meaningful, and less accurate than reports available prior to installation of PSDS and therefore, were less useful to postal management.

Despite the many deficiencies in the system, the Department continued expanding PSDS to additional post offices.

We recommended that the Postmaster General (1) suspend the expansion program pending a comprehensive evaluation and cost-benefit study of PSDS and (2) curtail the procurement of equipment and software for the system and keep operational costs to a minimum pending the outcome of the evaluation and study.

The Postmaster General concurred generally with our recommendation that further expansion of PSDS be suspended pending a comprehensive evaluation and cost-benefit study of the system. He stated, however, that expansion of PSDS to 110 post offices would continue because the equipment had been purchased and the preparatory work at the offices was underway. We believed that it was neither a desirable nor a judicious use of funds to expand the system to 110 offices. Future expansion of PSDS, beyond the 110 offices, would depend on the outcome of a major review of the Service's management information needs which was planned for completion in late 1972. (B-114874, July 1, 1971)

MULTIPLE POST OFFICE BOX RENTALS

In a report to the Congress, we stated that many commercial firms receiving large volumes of mail had been renting numerous post-office boxes (multiple boxes). Each box was designated by a firm as the address to which its customers and other correspondents were to send particular types of business mail. In many instances there was no actual lock-box, but mail addressed to a box number was sorted and placed in a mail bag for pickup by the addressee. Boxes rented under these circumstances were referred to as phantom boxes.

The costs of providing commercial firms with multiple and phantom boxes at 80 selected large post offices exceeded the revenues by about \$3.1 million annually. These additional costs primarily consisted of increased clerical cost of sorting a large volume of mail sent to recipients with numerous post office boxes.

The Postmaster General advised us that the box rental policy would be revised to recover the costs of multiple and phantom box services. On July 1, 1975, the Postal Service revised box rental rates to cover the costs attributable to such. The Service anticipates increased annual revenues of \$40 million. (B-114874, July 19, 1971)

COST OF PROCESSING BUSINESS REPLY MAIL

Our report to the Congress noted that the Congress intended that fees charged for business reply mail service be adequate for recovering the cost of this service. Although Postal Service costs had increased, the fees had not been changed since they were established by law in 1958.

The Postal Service was not recovering the cost of providing the business reply mail service because personnel costs had increased significantly from the time the fees were established. The average direct labor cost for each piece of business reply mail exceeded the average fee by .9 cent at 13 postal facilities located in seven cities. The Postal Service processed 733 million pieces of business reply mail during fiscal year 1970.

We recommended that the Postal Service determine the nationwide cost of the business reply mail service and propose to the Postal Rate Commission appropriate fee adjustments to recover the costs of providing this service. The Postmaster General stated that the relationship between costs for a postal service and rates for that service was a matter for review by the Postal Rate Commission.

Because the Postal Service had not compiled information on the nationwide costs of providing the business reply mail service, we believed that an informed decision could not be made as to the fees that are required to recover the costs of providing the service. (B-114874, October 28, 1971)

SITE SELECTION, CONSTRUCTION,
AND MECHANIZATION

At the request of Congressman H. R. Gross, we reviewed the site selection and contract awards for the construction and mechanization of the U.S. Postal Service's New York Bulk and Foreign Mail Facility located in Jersey City, New Jersey. Emphasis was placed on certain allegations regarding cost overruns on the construction contract and the selection of the property owned by the Penn Central Railroad as the site for the postal facility. We reported that:

--Alternative properties were eliminated from consideration as potential sites for the facility before sufficient data had been obtained to form a reasonable judgment that the property acquired was the most feasible site under consideration.

The Service awarded a \$4.2 million contract for piling without obtaining more soil condition information on which to base better estimates of pile lengths. When actual soil conditions became known, additional piling was required, increasing the contract price by more than \$2.1 million.

Sufficient data was not obtained to reasonably support the Service's selection of the two architect and engineering firms to compete for the final design contract for the New York facility.

Had the Service obtained available information on construction activities and on the labor market in the New Jersey area, it could have prepared more reliable construction cost estimates and more realistic construction time schedules. Total project costs were originally estimated at \$62.3 million. The latest estimate is \$130.1 million.

The Service awarded, on a sole-source noncompetitive basis, an \$8.4 million contract for equipment critical to the economical operation of the facility. A preaward survey of the contractor's performance capability was not made and adequate measures to evaluate the contract prices were not taken.

The matters discussed in our report were the subject of extensive hearings held between October and December 1971 before the Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service. (B-171594, October 29, 1971)

BASIC RESEARCH PROGRAMS

In a report to the Acting Assistant Postmaster General, Research Department, U.S. Postal Service, concerning the Service's research and engineering activities, we showed that there was no agencywide planning system that set forth goals and priorities for improving postal service which could be used to determine the feasibility of proposed research and development projects.

We concluded that, in the absence of an integrated, agencywide plan for improving postal operations and a timetable for implementation, the Service's research group had no real basis for evaluating the need for or the priority of projects proposed by the operating groups, research personnel, or outside sources. Further, we concluded that operating without such a plan was not conducive to getting the most out of the research dollars being spent. In 7 years, the budget for research had increased almost 10-fold--from \$12 million in 1966 to \$110 million in 1972.

A Headquarters Research Department official told us that certain organizational changes had occurred and that the Research Department was in a position to require justification, approval, and transfer of funds from operating groups before a project was initiated. He said that before any long-range and expensive research project was undertaken, a complete study and evaluation were made of benefits to be gained and economic advantages to be achieved. The official told us also that consideration was being given to integrating the project with existing and planned mechanization. (January 28, 1972)

PRIORITY MAIL HANDLING OF PUBLICATIONS

Our report to the Postmaster General stated that although not authorized by law, the Postal Service traditionally has provided priority handling to certain newspapers and periodicals. These publications receive priority handling for the same postage rates paid by publishers receiving nonpriority service. About 4.1 billion of the 9.4 billion pieces of second-class mail handled in fiscal year 1970 were given priority handling. Priority handling consists of expeditious distribution, dispatch, transit handling, and processing.

The Postal Service provided this priority service to mailers of some second-class matter without recovering the additional costs incurred. The Detroit Post Office incurred an additional \$197,000 in letter carrier costs to expedite handling certain periodicals during fiscal year 1970. Also, we estimated that the annual costs for clerks and mail handlers to prepare priority second-class mail were \$114,000 at the Washington, D.C., City Post Office; \$40,000 at the Detroit Post Office; and \$7,500 at the Seattle Post Office.

Because the criteria for determining which publications qualified for priority handling were vague, local post offices were inconsistent as to which publications should receive priority service.

The Postal Service advised us it would review the mail classification system, including the services needed by publishers, the costs of providing such services, and the appropriate rates to be charged. Although the Postal Service stated that our proposals would be considered in this study, it did not indicate that it would implement the recommendations. (B-114874, March 23, 1972)

REDUCED POSTAGE RATES
FOR NONPROFIT ORGANIZATIONS

In a report to the Congress, we noted that by law certain types of nonprofit organizations can qualify to mail matter at reduced second- and third-class postage rates. The reduced rates range from 23 to 60 percent less than the regular rates. Organizations such as business leagues, citizens' and civil improvement associations, and social clubs are not eligible for the reduced postage rates.

Because the Post Office Department had not been making proper determinations of the eligibility of nonprofit organizations for reduced rates, the Department had not collected substantial revenues to which it was entitled. At five post offices we reviewed, 115 organizations did not qualify for the reduced postage rates. We estimated that the Department undercharged these groups by \$1.5 million during a 1-year period.

The criteria used by postal personnel to determine the eligibility of nonprofit organizations for reduced postage rates was inadequate. Some organizations, as a result, were granted nonprofit mailing privileges at some post offices, while the same or similar organizations were denied these privileges at other post offices. The total amount of lost revenue to the Postal Service could be significant because it delivers an estimated 6.1 billion pieces of nonprofit mail nationwide annually.

On May 24, 1971, the Postal Service issued new guidelines for determining the eligibility of organizations for the reduced third-class postage rates. These guidelines were also being used for reviewing applications for the reduced second-class rates. (B-114874, April 4, 1972)

EVALUATION OF THE LETTER MAIL CODESORT SYSTEM PROTOTYPE IN CINCINNATI

The letter mail code sort system is designed to sort letters automatically by means of a machine-readable code imprinted on the envelopes. The Postal Service plans to install this system in 179 strategically located, large-volume postal facilities by 1978, at a cost of about \$7 million for each facility. The Postal Service believes that using the system will reduce mail-processing costs by about \$1 billion a year.

We reviewed the operating and testing of a prototype system at the Cincinnati Post Office. In a report to the Postmaster General, copies of which we sent to cognizant congressional committees, we noted that:

- A complete system had not been installed or tested.
- The partial system was not meeting Postal Service performance standards.
- The partial system cost more than the existing letter mail sorting system.

A Postal Service official advised us that the Postal Service recognized the need for demonstrating system equipment satisfactorily before making a major capital investment and that expanding the system had been delayed pending this demonstration. (B-114874, November 8, 1972)

ANALYSIS OF LEASE V. PURCHASE OF
SOUTH BOSTON POSTAL ANNEX ADDITION

In response to a request by Congressman James A. Burke, we reviewed the economics of a decision by the Postal Service to abrogate an existing lease arrangement and acquire by eminent domain the South Boston Postal Annex Addition in Boston.

In our report we stated that the Postal Service, in determining that purchasing would be more economical than leasing, did not consider real estate taxes foregone as a cost of ownership in the City of Boston. If the Postal Service had included real estate taxes foregone, the cost comparison would have shown that continuing to lease was less costly than purchasing. Our analysis showed a purchasing advantage of about \$8.4 million if real estate taxes were not included as a cost of ownership, and a leasing advantage of about \$3.6 million if they were included.

The Postal Service subsequently changed its policy and now considers the effect of removing property from local tax rolls, so that its policy is consistent with that of other Federal agencies. (B-145650, December 29, 1972)

IMPROVEMENTS NEEDED IN COLLECTION OF DATA
FOR THE REVENUE AND COST ANALYSIS SYSTEM

Under its revenue and cost analysis system, the Postal Service allocates total postal revenues and in-office labor costs to the various classes of mail and types of service. This is done on the basis of a statistical sampling of revenue and cost data at selected post offices. The allocated revenues and costs are used in assessing the adequacy of postal rates and fees. The allocations are also used in determining appropriations needed to cover costs of congressionally declared free and reduced-rate mail.

We reported to the Congress that participating post offices were not properly following the Postal Service's prescribed procedures for collecting revenue and cost data and, as a result, were submitting erroneous data. The Postal Service believes that the net effect of these errors may be minimal because of compensating errors. We recognize this possibility; on the other hand, the important uses being made of this data call for a high level of system integrity which can be achieved only by collecting sampling data as accurately as possible.

The Postal Service said that, in anticipation of our recommendations, it had:

- Increased the number of inspection visits to participating post offices.
- Developed additional training programs.
- Made further reviews relating to the reliability of its estimates. (B-114874, February 20, 1973)

REVIEW OF QUALITY OF
MAIL SERVICE IN FLORIDA

In a report prepared at the request of Congressman Paul G. Rogers, we concluded that mail service in Florida had deteriorated and that the problems affecting it were part of a nationwide pattern.

Mail volume in some areas, including Florida, increased at a faster rate than the Postal Service anticipated during calendar year 1972. Also, changes in the mail distribution system increased the workload at certain facilities, including the Miami, Orlando, and Tampa post offices. At the same time, the number of postal employees decreased. Thus, many facilities did not have enough employees to cope with increased workloads.

Letter-sorting machines scheduled for installation in the Miami and Orlando post offices before Christmas 1972 were not delivered until January 1973. Use of existing letter-sorting machines in Florida post offices resulted in much misdirected mail because of machine and operator errors.

Postal Service management acknowledged that the Service did have problems. Regarding Florida, the following actions were taken to improve service:

- Local postal facilities were given the authority and funds to hire additional personnel.
- Additional letter-sorting machines were installed.
- A new mechanized postal facility was scheduled to open in March 1973 to reduce the workload at other facilities.
- Postal Service headquarters is closely monitoring Florida operations. (B-114874, May 2, 1973)

AIRMAIL IMPROVEMENT PROGRAMOBJECTIVES UNREALIZED

The objectives of the airmail improvement program are to arrest and reverse the decline in airmail volume and thus increase revenues by offering improved service. This was the first program for which the Postal Service established overnight delivery standards between designated major cities.

We reported to the Congress that the Service established the program without making a market study to determine whether the program would be economical and that, in view of the continuing decline in airmail volume and the increased costs associated with the improved service, we questioned whether the program objectives will be achieved.

We recommended that the Service:

- Reevaluate the airmail improvement program to determine if it could be modified to better meet customer needs and, in turn, to increase participation or if it should be curtailed.
- Conduct adequate market studies before undertaking service improvement programs to insure that anticipated additional revenues will be sufficient to recover all costs associated with improving the service.

The Service concurred in our recommendations and stated it was examining possible modifications and making surveys to determine customer needs. (B-114874, August 6, 1973)

PHASEOUT OF THE CORPS OF ENGINEERS
FROM THE POSTAL SERVICE CONSTRUCTION PROGRAM

In a report to the Chairman, Committee on Post Office and Civil Service, we discussed the impact of the Office of Management and Budget decision to phase the Corps of Engineers out of Postal Service major construction programs by June 30, 1974. We stated that the National Bulk Mail System would be 60 to 95 percent complete as of the June 30 phaseout date, and, as such, would be adversely affected to the extent that the phaseout would

- delay completion of the bulk mail system by 3 to 6 months and result in a loss of Postal Service projected operational savings of \$50 to \$100 million,
- incur added costs from a joint Corps/Postal Service management effort,
- disrupt numerous equipment deliveries to the bulk mail facilities, and
- necessitate a reduction in force for about 350 Corps personnel.

On May 30, 1973, we outlined these findings in a letter to the Postmaster General and in a briefing to the staffs of the House Post Office and Civil Service Committee and the House Subcommittee on Postal Facilities, Mail, and Labor Management. On June 28, 1973, the Office of Management and Budget, at the request of the Postal Service, authorized extending the Corps' participation in the bulk mail system until its completion. (B-171594, October 2, 1973)

OBSERVATIONS ON THE PREFERENTIAL MAIL SYSTEM

Our report to the Chairman, Senate Committee on Post Office and Civil Service, stated that the economic justification for the Preferential Mail System was based largely on a contractor's study for the Postal Service that analyzed two basic types of mail processing equipment and two alternative letter mail processing systems.

Our evaluation of these analyses and of the equipment performance showed that:

- The study overstated the economic advantages of the new type of equipment relative to the type of equipment in use or under development.
- The new type of equipment has not yet been proven in the field.
- The study overstated the advantages of the Preferential Mail System network of about 180 processing centers relative to the less expensive alternative of 588 centers, generally the same as the existing system.

We stated also that mail massing at the 180 processing centers as recommended by the contractor could cause mail service quality to deteriorate.

The Postal Service has deferred implementing the new system until the equipment has been successfully demonstrated. We concluded that, overall, the Postal Service's decision to defer action on the Preferential Mail System was appropriate. (B-114874, October 30, 1973)

PROBLEMS AFFECTING MAIL SERVICE
AND IMPROVEMENTS BEING MADE

In a report to the Congress, we consolidated and summarized our observations made while responding to congressional requests from committees and Members of Congress to examine the quality of mail service in various States.

The quality of mail service deteriorated in late 1972 and early 1973 as a result of economy measures taken by the Postal Service. Costs were reduced but at the expense of service. The measures taken included reductions of collection and delivery services and curtailments of Saturday window service. More importantly, however, the Postal Service reduced the size of its work force through two early retirement campaigns and a hiring freeze.

In addition to the problems connected with economy measures, mail service was affected by sorting errors, unreliable airline transportation, and local employee morale problems.

The Postal Service has initiated actions to deal with these problems and some improvement in service has been observed. (B-114874, March 20, 1974)

MISSENT MAIL--A CONTRIBUTING
FACTOR TO MAIL DELAY
AND INCREASED COSTS

In a report to the Congress we discussed the causes and effects of missent mail. We found that although the high productivity of letter-sorting machines has helped the Service handle the increasing mail volume, operator errors, and careless handling of sorted mail have, to a certain extent, defeated the objectives of mechanization and added to the cost of mail delivery.

We made recommendations to the Postal Service aimed at reducing letter-sorting machine errors, improving environmental conditions, establishing work standards, and expediting the flow of missent mail to its proper destinations. The Postmaster General concurred with our recommendations and the Postal Service has initiated corrective action on many of the problems discussed in the report. (B-114874, October 22, 1974)

OBSERVATIONS AND QUESTIONS ON THE
DEVELOPMENT OF THE NEW NATIONAL
BULK MAIL SYSTEM

The Postal Service is investing about \$1 billion in a National Bulk Mail System (NBMS) to improve service for mailing parcels, circulars, and other bulk mail. Our report to the Congress described how the system will operate, the planning behind it, and potential problems ahead.

We observed that:

- The estimate of \$950 million to construct and equip the new system is still reasonably accurate.
- Omissions in the initial estimate understated the expected cost of the system, but these were offset by underruns in some items as of March 1, 1974.
- The Postal Service's projection that the NBMS will result in a financial benefit of \$500 million annually by 1984 may prove correct, but it is uncertain because of the uncertainty of the Service's future share of the parcel delivery market and future revenues and the uncertainty of the accuracy of the Service's prediction of how the new system will affect its overall costs.

We recommended that the Postmaster General analyze the national bulk mail routing system periodically to insure that the most effective and efficient system possible is operated.

The Postmaster General told GAO that:

- The Postal Service plans to analyze the routing system periodically.
- The new system will yield very favorable return on investment but the precise financial benefits will not be known until after the system is fully operational.
- The system will not work against the Service's ability to retain its share of an expanding parcel post market. (B-114874, November 1, 1974)

\$100 MILLION COULD BE SAVED
ANNUALLY IN POSTAL OPERATIONS
IN RURAL AMERICA WITHOUT
AFFECTING THE QUALITY OF SERVICE

Our report to the Congress noted that in spite of the receipt of a Federal subsidy of \$1.75 billion, in fiscal year 1974, the Postal Service was forced to borrow \$500 million to meet its expenses. Although postage rates have increased significantly, the cost of labor and fuel have risen even faster and the need to economize wherever possible has become more imperative. Such financial problems led GAO to reassess the pros and cons of closing some third and fourth class post offices.

Our review revealed that

- Quality of mail service given rural customers does not decline when small post offices are closed.
- About 12,000 small post offices could be closed with an estimated annual savings of \$100 million.
- The Postal Service has been closing a limited number of such post offices but is reluctant to continue due to Congressional concern and would like to see the legislation clarified before it continues to do so.

Our recommendations to the Postmaster General included the provision of more information to rural customers regarding services to be available after the closing of a post office and assurance to such customers that the full range of services available is being provided. In response to our report, on November 20, 1975, the Postmaster General announced a new post office discontinuance policy as part of a stringent cost control program. Under the new policy, many small offices will be considered individually for closing, including, for the first time, offices where a postmaster is presently assigned. Offices will be closed only when the alternative form of service is equivalent to or an improvement over that formerly provided. (B-114874, GGD-75-87, June 4, 1975)

SYSTEM FOR MEASURING MAILDELIVERY PERFORMANCE-ITSACCURACY AND LIMITS

In a report to the Congress, we evaluated the Origin-Destination Information System, (ODIS)--a system used by the Postal Service to judge how well it meets standards for first-class mail delivery.

We indicated that this system shows, on a nationwide basis, that 95 percent of local first-class mail receives overnight delivery. However, it concluded that although this statistic can be considered reliable, it is based only on stamped mail which accounts for 40 percent of first-class mail.

Our report also pointed out some weaknesses in the Origin-Destination Information System which make local overnight delivery performance statistics less reliable than the nationwide statistics. Some of these are:

- The System can be manipulated at the local level.
- The System has a flaw resulting from dual purpose measurement of mail delivery performance and volume.
- Inadequately trained clerks who make data-recording errors.

The report concluded that the relatively small amounts of erroneously recorded and lost data did not greatly affect nationwide statistics. However, improving the data accuracy and decreasing data loss would improve the reliability of local performance statistics.

We recommended ways for improving both the public conception of mail delivery performance statistics and the reliability and accuracy of local delivery performance.

The Service concurred with our recommendations and has initiated corrective actions in response to many of our recommendations. They have agreed to:

- make clear and specific the public announcements about what the mail delivery performance statistics represent;

- reemphasize their policy of limiting notice of ODIS tests to those personnel who need to be informed in order to conduct the tests properly;
- review the uses made of ODIS information, the degree of accuracy and reliability required and the relative priority of these various uses;
- actively explore the extension of the cadre system to additional offices;
- develop an audio-visual program to provide better training for ODIS data collection clerks; and
- initiate a study to evaluate the Optical Character Reader's error message printouts to determine the types of data lost and possible corrective action to minimize such losses. (B-114874, GGD-75-109, October 17, 1975)

FEDERAL AGENCIES COULD DO
MORE TO ECONOMIZE ON MAILING COSTS

In a report to the Chairman, House Committee on Post Office and Civil Service, we concluded that Federal agencies could save millions of dollars by economizing in their mailing practices. These savings could be achieved by using:

- less expensive classes of mail service,
- special mail services such as special delivery, insured, and certified mail, only when warranted, and
- letter-size envelopes instead of the more costly "flats" or large size envelopes.

Prior to the Postal Reorganization Act of 1970, postal deficits were covered by appropriations from the U.S. Treasury. Federal agencies were not required to pay their fair share of mailing costs and as a result, the mailing practices of the agencies received little or no attention from management.

Since the reorganization, the Postal Service is striving to be a self-sustaining enterprise, it has adopted more accurate methods of determining Federal agencies' mailing costs. These new methods have resulted in higher mailing costs to agencies and increase managements' awareness of the potential for savings through proper control of mailing practices.

Officials of the National Archives and Records Service of the General Services Administration who are responsible for setting records management standards and controls over paperwork (including mail) concurred with the recommendations made in our report. To take corrective action and improve agency mailing practices, the National Archives and Record Service agreed to:

- Revise its Government-wide mailing instructions to provide clear guidance on the circumstance under which each class of mail or special mail service should be used.

--Expand its records management program evaluations to see that Federal agencies are (1) moving mail most economically, and (2) providing training to show mail users how to reduce mailing costs. (B-114874, August 25, 1975)

QUALITY OF MAIL SERVICEIN NEW MEXICO

In response to a request from the Chairman, Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations, we reviewed the quality of mail service in New Mexico.

In our report we stated that first-class mail delivery performance for New Mexico generally did not meet the Postal Service's goal of 95 percent on-time delivery. The mail delivery performance did, however, exceed that of the Western Region and the Nation. We also noted that there were problems with mail delivery performance concerning mail destined for New Mexico from 2- and 3-day areas. On-time delivery percentages for this mail were almost always below 95 percent and generally below regional and National performance.

The Postal Service has taken or proposed steps to improve mail service in New Mexico. These include:

- increased mechanization and proposed staffing changes at the Albuquerque State distribution center to facilitate processing all mail on the day received,
- changed responsibility so that the destination office is responsible for improving delivery performance on mail received from 2- and 3- day areas,
- increased monitoring of missent mail, and
- appointment of a quality control officer at the Albuquerque sectional center to upgrade the quality control program. (B-114874, November 4, 1975)

CHRONOLOGY OF
GENERAL ACCOUNTING OFFICE TESTIMONY
ON POSTAL SERVICE OPERATIONS
BEFORE
SENATE AND HOUSE COMMITTEES

January 28, 1976

Statement of Deputy Director, General Government Division, before the Committee on Post Office and Civil Service, United States Senate, on financial status of the United States Postal Service.

September 23, 1975

Statement of Director, General Government Division, before the Subcommittees on Postal Service and Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on savings available in postal operations in rural America.

March 20, 1975

Statement of the Comptroller General of the United States, before the Committee on Post Office and Civil Service, House of Representatives, on GAO reviews of Postal Service, Postal Rate Commission, and the Federal Civilian Work Force.

August 12, 1974

Statement of Director, General Government Division, before the Subcommittee on Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on procurement and contracting activities of the United States Postal Service.

April 30, 1974

Statement of Director, General Government Division, before the Subcommittee on Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on the modernization efforts of the United States Postal Service.

July 26, 1973

Statement of the Comptroller General of the United States,
before the Committee on Post Office and Civil Service,
United States Senate, on operation of the United States
Postal Service.

March 18, 1971

Statement of the Comptroller General of the United States,
before the Committee on Post Office and Civil Service,
House of Representatives, on GAO's relationship with
the new Postal Service.