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POSTAL SERVICE

Automation Is Restraining But Not Reducing Costs



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The Honorable William L. Clay
Chairman, Committee on Post Office
and Civil Service

The Honorable Frank McCloskey
Chairman, Subcommittee on Postal
Operations and Services,
Committee on Post Office and
Civil Service
House of Representatives

This report, prepared at your request, reviews the automation program in the United States Postal Service. The report describes the status of the program and its effect on recent Postal Service costs.

We are sending copies of the report to the Postal Service Board of Governors, the Acting Postmaster General, and the Postal Rate Commission and are making copies available to others upon request.

Major contributors to the report are listed in appendix III. Please contact me at 275-8676 if you have any questions concerning the report.

A handwritten signature in cursive script that reads 'L. Nye Stevens'.

L. Nye Stevens
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Operations Issues

Executive Summary

Purpose

To improve productivity the United States Postal Service has begun a \$5-billion automation program expected to continue through 1996. At the end of fiscal year 1991, about 40 percent of the \$5 billion had been used for about 20 percent of the equipment needed to have bar coding eliminate nearly all mechanical and manual sorting of mail. (See pp. 10 through 13.)

The House Post Office and Civil Service Committee, citing lagging postal productivity and costs that continue to rise at a faster pace than inflation, asked GAO to look at the extent to which the Postal Service is able to capture savings from automation. (See p. 14.) Accordingly, this report examines the effect that automation is having on postal costs and the prospect for future cost reductions.

Background

The Postal Service's automation program includes a variety of interrelated systems and strategies. At its core are sophisticated optical character readers to read addresses and to spray bar codes and bar code readers to speed mail sorting. The first of this equipment became operational in 1982. In 1988 an advance in technology permitted the optical character readers to apply bar codes to much more of the mail than before and thus increased opportunities for savings.

By the end of 1991, core automated equipment was in place in those post offices that handle the vast majority of the mail. Equipment yet to be deployed consists mainly of bar code readers to replace manual sorting by carriers, cancelers with advanced capability to separate mail for proper processing, and remote video encoding systems to bar code mail that cannot be read by optical character readers. When the system is fully operational, carriers will receive nearly all of each day's mail already sorted in delivery sequence. (See pp. 10 through 14.)

Reduced hiring, which began in 1989, caused career employment to drop by almost 39,000 by the end of fiscal year 1991. According to the former Postmaster General, the decrease was made possible by automation and related cost control initiatives in mail processing and delivery. (See p. 19.) The Postal Service expects these efforts to reduce its workforce by another 48,000 by 1995. (See p. 14.)

Results in Brief

Automation provides one of the best and most needed cost savings opportunities for the Postal Service. However, despite the fact that the program is producing savings in certain functional areas, automation is

unlikely to be a panacea that will reverse the persistent tendency for costs to outpace inflation. Notwithstanding the decrease in career employment and additional automation that was put in place in 1991, operating expenses for the year grew by almost 7 percent and were \$295 million more than expected.

The decrease in career employment was offset considerably by increases in overtime and noncareer employees. The total hours of work in the Service increased in 1991 although the volume of mail delivered declined.

While hours worked did decrease in work functions most directly affected by automation, the reduction was only about 1 percent from the previous year and about 65 percent of the planned amount. Because more than half of the work in the Postal Service is not directly affected by automation, this reduction in the affected areas did not have a perceptible effect on overall postal costs.

Workhour savings that have been achieved by automation are also being overwhelmed by annual increases in the cost of a labor hour. For example, GAO estimates that workhour savings in 1991 in the functions most directly affected by automation amounted to about \$138 million. But the work in those functions cost \$627 million more than the year before because of wage and benefit increases.

Finally, the Postal Inspection Service's ongoing audits of postal operations have identified inefficiencies in the use of people and equipment in automation and related operations. Reports from fiscal years 1990 and 1991 identified over \$187 million in lost savings as a result of ineffective procedures and administration.

The magnitude of these challenges to management, when compared to the workyear savings being captured by automation, makes it appear unlikely that the program represents a breakthrough in reversing or substantially changing the upward trend of overall postal costs.

GAO's Analysis

Drop in Career Employment Not an Accurate Indicator of Savings

Career employment in the Postal Service hit its high point of nearly 774,000 in May of 1989. At that time the Service began reducing its hiring. As a result, career employment fell by over 34,000 the first two years and by nearly 39,000 by the end of fiscal year 1991. The decrease was cited by the former Postmaster General as having been made possible by automation. (See p. 19 to 20.)

However, much of this reduction was offset by increases in overtime and additional temporary employees. GAO estimates that at the point when career employment was down by over 34,000, overtime and temporary employment were up by the equivalent of over 18,000 employees. While there are sound reasons for the Postal Service's strategy of increasing overtime and temporary employment during the transition to automation, GAO believes these increases should be taken into account when claiming savings. (See p. 19 to 20.)

In the mail distribution and delivery functions most directly affected by automation, workhours dropped by 1 percent or the equivalent of about 3,600 employees. Savings, however, were about 2,000 less than planned. This was due to an unexpected increase in work that directly supports mail distribution and a failure to capture savings in time spent by carriers in delivery offices preparing the mail for delivery. (See pp. 30 and 27 to 29.)

Mail distribution and delivery functions most directly affected by automation comprise about 40 percent of the Postal Service's total workhours. (See p. 24.) Thus the 1 percent savings in these areas in 1991 was not apparent in the overall workhour and financial results of the organization. Overhead functions and workload not subject to automation savings, such as the growth in delivery points, had increases that more than offset the savings. (See p. 19.)

Labor productivity (pieces of mail handled per workhour) and total factor productivity (total workload compared to total resources used) both fell in 1991. Falling mail volume contributed to the productivity decline because the Service has traditionally been unable to shrink its workyear pool to match a drop in workload. Volume lagged because of the rate increase, the

economic recession, competition for advertising, and alternative delivery methods used by mailers. (See pp. 17 to 19.)

Workyear Savings Eclipsed by Labor Cost Increases

The distribution and delivery functions most directly affected by automation consumed about 355,140 workyears in 1990 and 351,511 in 1991. At the average cost of a workyear in 1991, the 3,600 workyears saved amounted to about \$138 million. However, the cost of a workyear increased 4.7 percent in 1991 because of wage and benefit increases. As a result, the cost of 351,511 workyears increased about \$627 million in 1991 or more than four times the value of the workyears saved. (See p. 30.) For the entire Postal Service, hourly wage and benefit increases added about \$1.9 billion to the payroll in 1991. (See p. 20.)

Operational Inefficiencies

During fiscal years 1990 and 1991 the Postal Inspection Service identified over \$187 million in potential savings that were not captured at selected post offices because of poor management of automation and related procedures. (See p. 32.)

About 44 percent of these uncaptured savings was a result of management's inability to reduce carrier office hours to correspond to declining mail volume or the increased amount of mail that was sorted for the carrier by automation. The amount of the uncaptured savings in carrier time is disputed by the Postal Service management. (See pp. 33 to 34.)

About 19 percent of the uncaptured savings was due to the improper use of automated equipment. Mail that could not be processed successfully on automation had to be handled by more expensive mechanized and manual means. (See pp. 33 to 34.)

About 15 percent of the uncaptured savings was a result of mail being processed by mechanized and manual means when automation was available (See p. 34).

Large Savings Planned for 1992

For fiscal year 1992 the Postal Service plans an unprecedented decrease in workyears— about 14,300 in the work functions most directly affected by automation and about 13,000 overall. Workhour reductions are occurring in 1992; however, even if this decrease is achieved, operating expenses are expected to increase by 5 percent, primarily because of scheduled increases in pay and benefits. (See pp. 31 and 22, respectively.) Although

automation is not likely to reduce costs nor become the predominant influence on postal costs, it has undoubtedly restrained their growth and thus has had a beneficial effect. (See p. 23.)

Recommendations

GAO is not making any recommendations in this report.

Agency Comments

The Acting Postmaster General provided written comments on a draft of this report. He said that it is unrealistic to expect the automation program to do more than restrain the growth in costs and that it is premature to draw firm conclusions about the ultimate success of a multiyear program based on its results in an early year (1991). He also said the program is on track with its long-range timetable.

GAO does not draw conclusions about the program's ultimate success. GAO contrasted the 1991 dollar savings from automation with wage and benefit increases to illustrate the magnitude of the cost restraint problem faced by the Service. But GAO also does not consider 1991 an early year of the program. The first phase of the automation program became operational in 1982, and in 1988 advanced optical character readers were deployed and the Service established a goal to have nearly all mail bar coded by the end of 1995. At the end of fiscal year 1991, the Service had most of the core automated equipment in place at the largest post offices and had a bar code on over 40 percent of the letter mail. In 1991 the Service increased the use of automated equipment, but used more workhours to handle less mail than it did the year before.

Postal Service comments are reproduced in appendix II and discussed in detail on pages 23, 29, 30, and 31.

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Introduction

In 1991 the United States Postal Service delivered almost twice as much mail as it did 20 years earlier and with only 10 percent more employees. In part this is because much of the mail volume has changed from parcels and unsorted letters to presorted letters and circulars requiring less work. It is also a result of the introduction of laborsaving equipment.

Mail sorting was done largely by hand until the late 1960s when the Service introduced large mainframe letter-sorting machines that enable up to 12 mail clerks per machine to read and key in address information in order to direct letters to the proper bins for dispatch. A clerk at a letter-sorting machine can sort about 2,800 letters an hour compared to about 600 manually. Letter-sorting machines became the backbone of mail processing in the Postal Service and the major productivity gains attained in the 1970s were a result of this equipment. As of 1990, there were over 900 letter-sorting machines in the field. Despite the gain in speed from the letter-sorting machines, however, clerks still have to read each piece of mail. They also have to memorize a significant amount of address information in order to key accurately, which requires training and introduces the chance of error.

To increase productivity, the Postal Service pursued the use of optical character recognition technology for many years. In December 1980, the Service's Board of Governors approved the first phase of this equipment, which became operational in 1982 and marked the beginning of a changeover from manual and mechanized sorting to automated sorting that is still under way. The main hardware ingredients of the automation program are optical character readers and bar code readers that can each process more than 30,000 letters an hour. Optical character readers read all or part of an address, verify it against an internal address directory, print a bar code on the mail piece representing its 5- or 9-digit zip code, and sort the mail piece to a bin. Bar code readers read and sort mail already having a bar code, either applied by the Service's optical character readers or by mailers who get discounts for doing so. Bar code readers are normally used for the most detailed sorting because they have more bins than the optical character readers.

Early optical character readers could read only the bottom line of an address which had to include the 9-digit, or zip+4, code that the Service adopted in 1983. Newer generation optical character readers, which were deployed beginning in 1988, can read and interpret more address information and do not even need a zip code on the letter in order to print a bar code; however, they work better if zip codes are present. As a result,

the productivity of these machines depends on the accuracy of address information and quality of the printing on the mail. Optical character readers cannot yet read all handwritten mail, though the Postal Service is pursuing this capability through sponsored research.

Notwithstanding the shift from manual processing to mechanization and automation, the Postal Service remains a highly labor-intensive operation. Employee pay and benefits consume about 83 percent of the Service's operating expenses and in 1991 cost over \$36 billion. Over 810,000 employees used 1.48 billion workhours during the year. By labor agreement, about 80 percent of the employees are guaranteed full-time work.

In September 1988 the Postmaster General announced a goal of bar coding nearly all mail by the end of 1995. Mailers, primarily through discounts offered by the Service, are expected to do about 40 percent of the bar coding. The Postal Service will apply bar codes to the remainder with its optical character readers in conjunction with new video encoding technology. Under remote video encoding, modified optical character readers take a video picture of letters that they cannot read. The image is read by clerks at remote locations who code the necessary address information and send it to modified bar code readers that apply the bar code to the mail piece, then sort it. Remote video encoding was tested at 2 sites in 1991 and is scheduled to be deployed at 21 more in 1992. The Service expects remote video encoding to be a temporary function that will phase out as optical character readers gain the ability to read handwritten addresses. The Service's current research and development plans call for automation to be able to read half of the handwritten addresses by 1997.

At the end of fiscal year 1991 the Service had committed about \$2 billion to automated equipment. In February 1992 it estimated that it would commit another \$3 billion between 1992 and 1995. About 20 percent of the 11,000 pieces of equipment and equipment modifications that will be needed when the initiative is complete was in place at the end of 1991.

At the end of fiscal year 1991 core automated equipment was in place in those post offices which handle the vast majority of the mail. The Service was using 839 optical character readers and 1,345 bar code readers. It plans to have 1,182 optical character readers and 1,649 bar code readers in the field by the end of fiscal year 1995.

Equipment not yet widely in use, in addition to remote video encoding, includes modular bar code readers for use in smaller offices and automatic sorters for "flats" (large envelopes, magazines, and catalogs). Facer-canceler machinery is also being upgraded to separate mail to the proper type of processing and to lift images for remote encoding, thereby eliminating processing steps.

In 1991 the Service modified its bar code readers to read bar codes over a wider area of the envelope. Previously they could read bar codes only if they were in the lower right-hand corner. Because it is easier for mailers to print the bar code with the address, wide area bar coding is an incentive for more of them to apply bar codes.

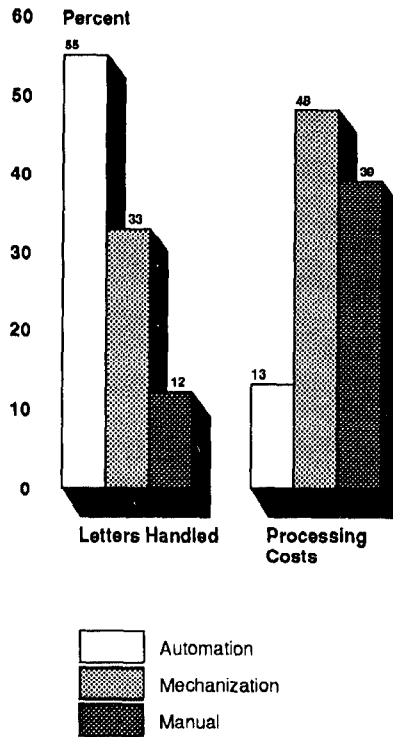
Advanced bar coding is an important software development in the automation program. It combines the present 9-digit zip with the last 2 digits of the street address and produces an 11-digit bar code that will allow bar code readers to sort mail into a carrier's delivery order sequence. Both mailers and the Service will be able to apply the advanced bar codes. The Service is currently modifying its equipment to apply and read advanced bar codes. It expects sufficient quantities of advanced bar coded mail will be generated in 1992 to allow for more detailed sorting on automated equipment, thereby saving time now needed by the carrier to do it manually.

Appendix I contains a list of the major types and the quantity of automated equipment in the field at the end of fiscal year 1991 and equipment scheduled to be in the field by the end of fiscal year 1995.

The general objective during the transition to automation is to process as much mail as possible on the automated equipment and use letter-sorting machines and manual processing primarily to handle the overflow. Manual and mechanized processing is still used at smaller post offices without automated equipment, and for mail that is not automation compatible because of its size or weight. Thus, all three technologies—manual, mechanized, and automated mail processing—are still widely in use.

According to the Service, the comparative costs of processing letters are \$3 per thousand using automation, \$19 using mechanization, and \$42 when done manually. Figure 1.1 shows the relative cost efficiency of each sorting method using the Service's estimates and the number of letters handled in 1991.

Figure 1.1: Percentage of Letters Handled and Costs Consumed by the Three Mail Processing Methods in 1991



Source: GAO Analysis of Postal Service Cost and Mail Volume Data, 1991.

Automation will mainly affect letter carriers and clerks who sort mail. Mail-sorting jobs are the first affected as automation replaces manual and mechanized sorting. This stage of the program, particularly at larger post offices, is well under way. As more mail is sorted by automation to a finer level, carriers will receive more of their letter mail already sorted, initially to route segment and eventually in delivery order sequence. Fewer clerks will be needed in delivery offices to sort mail to carriers and boxes. Also, the time that carriers spend in the office preparing their mail for delivery should decrease from about 4 to 2 hours a day. As a result, they will spend more time on the street on longer routes. The Service reported that the average route should increase from 470 addresses to 760.

Forecasts of Automation's Effect on the Size of the Service

In 1990 the Service prepared a Corporate Automation Plan which estimated that automation would save about 100,000 workyears through 1995, with most of the savings coming in the period from 1993 to 1995 when the majority of equipment will be in place. In January 1992 the Postal Service updated the forecast. While it also projected a savings of about 100,000 workyears over the same period, it differed from the 1990 estimate in two respects: (1) it included the estimated effect of other cost reduction programs in addition to automation, and (2) it assumed that remote video would be contracted out whereas the earlier estimate assumed these positions (20,500) would be filled by postal employees.

The 1992 savings estimate was 100,885 workyears from 1992 through 1995 (84,196 workyears from automation and 16,689 from other cost reduction programs). The savings should result from an avoided future increase of 52,742 workyears and an actual reduction of 48,143 in the size of the workforce, which is about a 6 percent reduction in 4 years. Postal officials said that about 40,000 of the workyears to be eliminated would occur in the specific work functions most directly affected by the automation program.

At the conclusion of our work Postal Service officials said that they were revising their budget forecasts because mail volume was declining more than anticipated. This should affect the impact that automation will have on the size of the Service in 1992 and beyond. The amount of the change is not known at this time.

Objectives, Scope, and Methodology

By letter of November 6, 1990, the Chairmen of the House Committee on Post Office and Civil Service and its Subcommittee on Postal Operations and Services requested that we assess the Postal Service's progress in carrying out the automation program. The Subcommittee noted that while the Service has shifted to automation, costs and postage rates have increased faster than inflation, productivity has lagged, and delivery service has deteriorated. The Subcommittee believed a successful automation program was essential if the Service was to meet its strategic goals of improving service and keeping cost increases below the rate of inflation.

Our objective was to assess the Service's progress in implementing automation during the initial phase of the program, including automation's effect on the growth in current and future postal costs. At individual post offices, we assessed how automated equipment was being planned for and

used, if savings were being captured, and automation's effect on employment.

At Postal Service headquarters we reviewed documentation related to the automation program. This included plans prepared by the automation office having responsibility for coordinating the program; budget and accounting records and estimates of the effect of the program on the operating budget; capital investment documents about the cost, scope, and justification for past and future phases of the program, including rate-of-return analyses and estimated savings; operational records on equipment deployment, use, and performance; marketing plans related to mailer participation in the program; personnel data pertaining to employment levels that may be reduced by automation; and postal rate information related to automation incentives. We did not independently verify the financial and operating data which the Service routinely uses for management analyses.

We interviewed over 160 officials in these functional areas at Postal headquarters in Washington and in 4 of the 5 regional headquarters to get their perspectives on progress and problems in the automation program. We also visited the mail facilities of a large mailer in the Washington, D.C., area to get its views on postal automation. In addition, we reviewed transcripts of congressional hearings related to the subject, prior GAO reports, reports of the Postal Rate Commission on Postal Service productivity and automation, and reports of the Postal Inspection Service on how efficiently post offices used automated equipment. Written comments on a draft of our report from the Acting Postmaster General are in appendix II.

We visited 13 post offices (Boston, MA; Buffalo, NY; Cincinnati, Columbus and Dayton, OH; Harrisburg and Lancaster, PA; Newark, NJ; Phoenix, AZ; Portland, OR; Salt Lake City, UT; and San Francisco and San Jose, CA) to observe mail-processing operations and the use of automation and mechanized equipment. We selected post offices whose 1991 operating budgets should have been affected by the planned or actual deployment of automated equipment.

The principal justification for the investment in automation is lower operating costs; specifically, this means lower labor costs inasmuch as labor accounts for more than 80 percent of the Service's budget and is the resource that would be replaced by automated processing. The Postal Service uses a workhour-based budget and accounting system for

recording labor costs. A workhour is an hour of work charged by an employee and has a cost that varies according to the pay and benefits earned by the employee. Workhours (1.48 billion in 1991) are computed by totalling the hours used by the Service's employees for the various activities in the Service, such as automated mail processing or delivery. A workyear is the equivalent of one employee working for a year. The number of workhours in a workyear depends on the number of employees assigned and the number of hours that they charge to specific work. In this report we use "workhours" when referring to work in general and "workyears" to indicate the approximate numbers of employees assigned to an activity. The number of workhours in a workyear varies over time, by activity, and by type of employee (clerk, mail handler, or carrier). For our analysis we used 1,787 workhours per workyear, which is a typical average, and the rate used by the Postal Service in its 1992 Corporate Automation Plan.

We analyzed wage and benefit costs in mail-processing, carrier, and customer service functions that should be most affected by automation in order to assess the likelihood that future costs will be reduced by automation. We compared operating costs from 1989 through 1991. We analyzed cost increases to find out how much was due to (1) increased mail volume and (2) the rising hourly cost of labor. We then compared these amounts to any offsetting savings from higher productivity that could be attributed to automation.

At the post offices we visited, we reviewed operational data on workhours used and amount of mail processed by automated, mechanized, and manual means before and after automated equipment was deployed. We also analyzed workhour usage in related customer service and delivery functions to find the effect of automation on workhours. We toured the facilities and interviewed postmasters, managers, and supervisors about how their operations changed because of automation and how they planned to deploy new equipment. We asked budget and accounting officials whether and how they estimated savings from automation. We discussed with marketing officials the prospects of mailers fully participating in the automation program. We also interviewed personnel officials about the past and future effect of the program on employees and employment levels.

We did our work from August 1990 to January 1992 in accordance with generally accepted government auditing standards.

Overall Results From Automation

Despite the fact that over 40 percent of letter mail had 9-digit bar codes at the end of 1991 and was thus capable of being processed using automation, automation's effect on the size, cost, and efficiency of the Postal Service is not clear-cut. Although letter mail processing is shifting from mechanized and manual sorting to automation, any beneficial effect on workhour usage is clouded by the fact that in 1991 the Service handled less mail than it did the year before, but used more workhours to do so. While the number of career employees in the Service has dropped steadily since 1989, much of this savings has been offset by increases in overtime and noncareer employees.

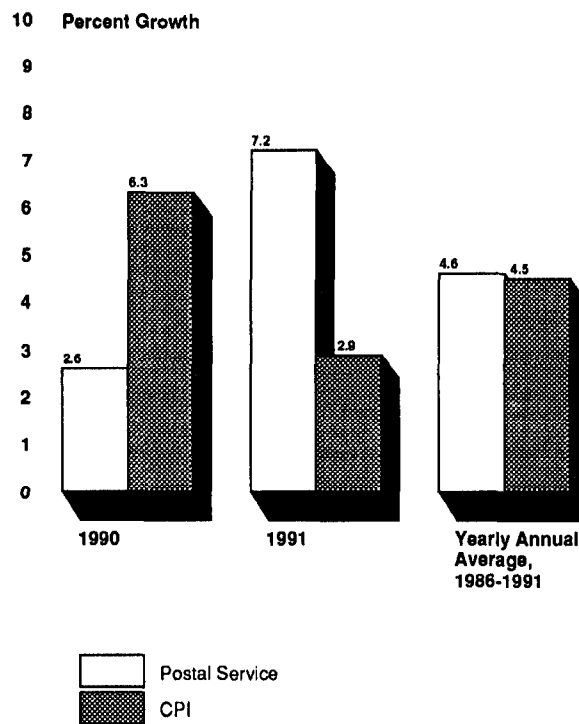
Routine increases in pay and benefits are having a much greater effect on Postal Service costs than is automation. For example, in 1990—a year of high productivity gain for the Service—the savings from increased productivity were only about half the amount that labor costs increased because of pay and benefit increases. In 1991, when productivity declined, the effect of pay and benefit increases on financial performance was more pronounced. Because of these large pay and benefit increases, it appears unlikely that the automation program will significantly change the overall trend in costs. Costs are, however, lower than they would have been without the program, and workyears should drop again in 1992.

Profits, Productivity, and Staffing

In fiscal year 1990 the Postal Service had a loss from operations of \$874 million on revenues of \$39.7 billion. In 1991, with a general rate increase in February, it earned \$432 million on revenues of \$44.2 billion. (A one-time accounting adjustment reflecting a change in estimating future workers compensation costs lowered 1991 expenses by \$776 million. Without the adjustment there was a loss from operations of \$344 million in 1991.) The loss in 1990 was considered normal in the last year before a rate increase (the Service is supposed to break even over the long run) and was \$716 million lower than expected. The loss in 1991, however, was not expected. The Postal Service attributed it to lower-than-planned revenue due to a variety of factors. These included different postage rates than those applied for, the economic recession, and a significant drop in advertising mail. However, operating expenses grew by 6.9 percent and were \$295 million higher than expected (before the one-time accounting adjustment) primarily because of labor costs. While the cost of wages and benefits increased (5.4 percent), so also did the number of workhours used (0.2 percent).

As shown in figure 2.1 the increase in Postal Service operating expenses per piece of mail slightly exceeded inflation during the 5 years from 1986 through 1991. Cost control and improved productivity brought cost growth below inflation in 1990, but the Service's cost growth was again above inflation in 1991.

Figure 2.1: Percentage Growth In Postal Service Operating Expenses Per Piece of Mail Compared to the Consumer Price Index



Source: GAO Analysis of CPI-U, Oct. to Oct., and Postal Service Cost Data, 1986-1991.

Postal Service productivity improved significantly in 1990 but fell in 1991. The Service uses an indicator similar to the multifactor productivity indicator used by the Bureau of Labor Statistics to gauge productivity in the private sector. This measure accounts for capital and material resources used, as well as labor. By this measure Postal Service productivity increased 3.1 percent in 1990. This was the largest gain since 1978 and ten times the average annual gain since 1971. The Service

attributed the favorable gain to its ability to handle a larger-than-expected volume and number of deliveries, while holding the line on resources used. The latter success was attributed to the continued deployment of automated equipment and workforce complement controls which the Service imposed in 1989. However, although these conditions were also present in 1991, total factor productivity declined 1.6 percent. The drop was attributed to the Service's difficulty in responding to a drop in workload with a comparable decline in workhours. Gross labor productivity, the average number of pieces of mail handled in a workhour, changed similarly. It improved 3.5 percent in 1990 but dropped 0.5 percent in 1991.

Postal Service officials point out that most of the organization's cost growth is in areas not directly influenced by automation such as growth in delivery addresses. Without automation, costs would have been higher.

As a cost control measure the Postal Service began to reduce hiring in 1989 when the number of paid career employees reached a high point of about 774,000. The complement controls, which remain in effect in 1992, served to reduce the number of paid career employees by over 34,000 after 2 years and by almost 39,000 by the end of fiscal year 1991. According to the former Postmaster General, the decrease was made possible by automation and related cost control initiatives in mail processing and delivery. He stated in the Service's 1991 annual report that if these positions had still been on the rolls, expenses would have been \$1.1 billion higher. However, this ignores the fact that workhours—the work actually put in by employees and paid for by the Service—have not fallen commensurately. Although career employment fell by almost 39,000 from the peak in May 1989 to the end of 1991, the number of workyears used in 1991 was only 3,400 less than those used in 1989. Much of the disparity is due to the fact that remaining employees are working more hours, primarily through overtime, which grew steadily as career employment dropped. The number of noncareer employees has also increased. For example, after 2 years of reduced hiring when career employment was down by 34,000, overtime was higher by an amount equivalent to about 15,000 full-time employees. Work by noncareer employees increased by another 3,000, leaving a net equivalent reduction equivalent to 16,000 employees.

Postal Service officials pointed out that during this period of transition to automation, it makes financial sense to replace career employees who leave through attrition with temporary workers or additional overtime

whenever possible, because these workhours can be readily cut back when they are no longer needed. We agree with this policy, but point out that a reduction in workhours rather than career employees is a more significant measure of savings from automation.

Automation Savings Are Eclipsed by Pay and Benefit Increases

In 1990 the Postal Rate Commission completed a detailed study on productivity in the Postal Service since postal reorganization in 1971. The Commission reported that postal productivity grew much faster than it did in the private nonfarm sector in the 1970s, but much slower in the 1980s. The Commission noted that the productivity increases of the 1970s were made possible by letter-sorting machines, consolidated mechanized facilities, and hiring freezes. The freezes were necessary to capture the underlying savings made possible by the mechanization and consolidations. The Commission concluded that from 1982 to 1989 productivity did not improve despite the Service's large investment in mail-processing automation. Overall, the Commission noted that, from the time of reorganization, labor productivity growth was not sufficient to offset the growth in the cost of labor.

To get an indication of just how much postal operating costs are affected by the cost of a workhour and productivity, we analyzed labor costs for 1990 and 1991.

The Postal Service payroll grew about \$1.8 billion from 1989 to 1990, from \$32.4 to \$34.2 billion. The 3.6 percent improvement in labor productivity in 1990—if nothing else had changed—would have reduced the payroll by about \$1.1 billion. However, the increased cost of a workhour added about \$2 billion to the payroll. The remaining net increase in labor cost, about \$900 million, was due to additional mail volume that had to be handled in 1990. Thus the savings from higher productivity, which was the biggest productivity improvement in many years, covered little more than the additional costs caused by the extra mail volume.

Automation's effect on the Service's financial performance was even less clear-cut in 1991 considering that the Service delivered less mail than it did the year before but used more workhours to do it. Pay and benefits grew by about \$1.9 billion to \$36.1 billion. The drop in labor productivity contributed \$157 million of the increase, and the added cost of a workhour (up 5.2 percent from 1990) added \$1.8 billion to the payroll. The lower volume in 1991 served to decrease the payroll by about \$93 million.

Modest Relief Possible From the New Labor Agreements

The current labor contracts between the Postal Service and clerk and carrier unions were decided by a binding arbitration panel in June 1991 because the Service and the unions had failed to agree on new labor terms when their prior agreements expired in November 1990. The new agreements extend to November 1994.

In his opinion and award, the arbitration panel Chairman referred to a report of the 1984 panel which said wages in the Postal Service were higher than they were in the private sector and had been so for many years. Despite efforts by the earlier panel to impose moderate restraint on postal pay, the Chairman noted that a wage premium still existed in 1991 and that further restraint was needed over a course of years. Accordingly, the 1991 award contained provisions that were intended to accomplish that restraint:

- a ten-percent lower wage for new carriers and clerks during their first 96 weeks of employment and
- basic wage increases (\$211 plus 5.8 percent of basic pay over 4 years) that the arbitrator said were lower than those in previous agreements.

The Service said it does not expect significant immediate savings from the first provision because hiring will be relatively limited over the next few years during the transition to automation. With regard to the second provision, we compared the size of the basic wage increases with those of the prior agreement (from July 1987 to November 1990). The increases are similar in size for clerks and carriers and smaller for mailhandlers.

Using the average basic rate of pay for clerks and carriers, the basic increases in the 1987 agreement amounted to a total of \$3,521 over 3.3 years or \$1,056 per year per employee. The increases in the 1991 agreement will total \$4,295 over 4 years or \$1,074 per year per employee. Expressed as a percent of pay the new increases are smaller than the prior ones—3.5 percent versus 4.0 percent under the old contracts. The 1991 award covered about 508,000 carriers and clerks.

A 3-year agreement, negotiated in February 1991 between the Service and mailhandlers, provided for annual lump sum payments in place of periodic wage increases. We estimate that the difference between the lump sum payments and the wage increases will save about \$11 million a year over the course of the agreement for the approximately 50,000 mailhandlers employed at the time of the contract negotiation.

In addition to basic wage increases discussed above, postal pay is increased periodically for increases in the consumer price index. These cost of living adjustments—one cent an hour for each .4 of a point increase in the consumer price index for urban wage earners and clerical workers—are the same for all bargaining employees under the old and new agreements.

Additional Workrule Flexibility Could Help Control Costs

The new clerk and carrier contract provisions give the Postal Service some additional flexibility to adjust workhours and accommodate the automation program.

Under the contracts that expired in 1990 at least 90 percent of the employees at larger post offices (having at least 200 workyears of employment) had to be full-time workers on fixed 8-hour schedules. The remainder could be part-time employees. Part-time employees are an advantage in managing costs because their work schedules can be adjusted to fit a fluctuating workload. In the arbitrator's 1991 award, the 90-percent minimum requirement for full-time employees was lowered to 80 percent for postal clerks and 88 percent for carriers. The award also created a new category of noncareer, bargaining-unit employee to work on automation-affected jobs during the period of transition to automation. When the jobs held by transitional employees are eliminated by automation, those employees have no reemployment rights. They also do not receive the benefits earned by other bargaining-unit employees.

The arbitration panel also did not continue a memorandum of understanding between the Service and the unions that would have protected employees on the date of the agreements from layoff. Without the memorandum employees with less than 6 years of service can be laid off for lack of work. However, the Service has said that it hopes to achieve all automation-related reductions by attrition.

Conclusion

Between 1980 and 1989 the Postal Service grew each year but one and in total by 171,000 workyears, from 661,890 to 833,192 workyears. Productivity improvement and cost reduction were priority objectives in 1990, and in that year, the Service decreased in size by 5,107 workyears. However, the Service grew again in 1991, by about 1,700 workyears. For 1992 the Postal Service plans to reduce overall workyears by about 13,000. As of early March 1992, the Service used 1.4 percent fewer workyears than in the same period the year before. If this rate continues we estimate that

the reduction for the year will be about 11,600 workyears. If the planned reduction of 13,000 is achieved, operating expenses are nevertheless expected to increase 5 percent.

Although automation is not likely to reduce costs or become the predominant influence on postal costs, it has undoubtedly restrained their growth and thus has had a beneficial effect.

Agency Comments and Our Evaluation

In its comments on a draft of this report, the Service said that it is unrealistic to expect the automation program to do more than restrain the growth in costs and that, without automation, costs would have been higher. Nevertheless, the Service said that it is premature to draw firm conclusions about the ultimate success of automation—a multiyear program—based on its results in 1991, an early year of the program.

We drew no conclusions about the ultimate success of automation, though we did observe that it was unlikely to reduce overall postal costs, a point with which the Service agreed.

We do not, however, agree that 1991 is an early year of the program. As discussed in Chapter 1 (see pp. 10 to 14), the first phase of the automation program began in 1982, and the program received renewed emphasis in 1988 when advanced optical character readers were deployed. Additionally, in 1988, the Service adopted the goal of having a bar code on nearly all letter mail by 1995. Furthermore, by the end of 1991, the Service had most of the core automated equipment in place at the largest post offices and had a bar code on over 40 percent of the letter mail.

Impact on Work Most Directly Affected by Automation

In its 1990 Corporate Automation Plan, the Postal Service said the areas most affected by automation would be in the mail distribution and delivery work functions. As shown in table 3.1, those work functions made up about 40 percent (351,511 of 829,775) of the Postal Service's workyears in 1991.

Table 3.1: Postal Service Workyears in 1991: Total and Automation-Affected Work

	Workyears
Automation-affected work:	
At mail-processing centers	
Automated mail processing	11,145
Mechanized mail processing	47,771
Manual mail processing	53,783
Other direct work	74,613
At delivery offices	
Sorting to carriers and boxes	57,515
Carrier in-office time	106,682
Total Workyears in Automation-Affected Work	351,511^a
Total Postal Service	829,775

^aTotal does not add due to rounding.

Source: GAO Analysis of Postal Service National Workhour Data, 1991.

Of the 48,000 workyear reduction identified in the updated 1992 Corporate Automation Plan, the 40,000 workyear reduction due to automation is expected to occur in these areas. The reduction will be the result of the Postal Service's strategy of processing all available mail on automated equipment first and using mechanized and manual processing only when automated equipment is at its capacity. As automated equipment is integrated into the system, letter mail that used to be sorted on mechanized equipment should be shifted to automation, and mail that was sorted manually should be shifted to mechanized sorting. This increased use of automation should result in an overall savings in mail-processing workhours at mail-processing centers, even with typical yearly increases in volume. Other direct work involves a variety of tasks including preparing the mail for processing, moving it to and from mail processing operations, and truck and rail platform operations.

As automation enables mail-processing centers to sort mail to route segment and delivery sequence, the amount of time needed by clerks at delivery offices to sort mail to carrier routes and post office boxes should

also decline. Moreover, carriers will be expected to use less time in delivery offices preparing their mail for delivery, from the current 4 hours each day to 2. Carrier savings will be due both to automation and a change in the way "flats" (large envelopes, magazines, and catalogs) are sorted. The indications that these automation strategies are being followed and the effect that they had on workhours in 1991 are discussed below.

The Postal Service Increased Its Use of Automated Equipment in 1991

To track progress, the Service developed three key automation indicators in 1990. Since it has no national goals for these indicators, it measures automation progress by comparing current period performance against earlier periods. According to the key indicators, the Postal Service increased its use of automation in 1991.

The first indicator—percent of originating letter mail first handled on automated equipment—represents the extent to which post offices are processing mail first on automated equipment, in line with the automation strategy. The Service as a whole put 71 percent of first-handled pieces on automation in 1991, as compared to 65 percent at the end of 1990, and 62 percent at the beginning of 1990. However, not all mail first handled on automation will be successfully read and sorted by the automated equipment. Some pieces are mechanically rejected, and the machines cannot read or recognize the address or bar code on others. For example, in 1991, only about 44 percent of the mail handled on the optical character readers was successfully read and given a 9-digit bar code. Mail not successfully read and sorted by automation is processed manually or on mechanized equipment.

The second key indicator—percent of mail at its destination that is sorted by automated equipment to a carrier's route or post office box section—represents the finer level of sorting that is intended to reduce and virtually eliminate manual sorting at delivery offices. In 1991, the Service sorted 46 percent of this mail to delivery route and box section, as compared to 40 percent at the end of 1990, and 36 percent at the beginning of 1990.

The third indicator—the percent of mail at its destination sorted by automated equipment to a segment of a route¹—represents the finer depth of sorting that will reduce the time needed by carriers in delivery offices to prepare their mail for delivery. In 1991, the Service sorted 12 percent of this mail to delivery route segment, as compared to 6 percent at the end of

¹A route segment can mean a building, a floor of a building, or one side of a street in a block.

1990, and 4 percent at the beginning of 1990. Postal officials at the locations we visited generally said their ability to perform this type of sorting had been hindered by the lack of bar code readers and bar coded mail, but they expected the deployment of additional bar code readers in 1992 would help them increase route segment sorting.

Expected Reductions in Distribution and Delivery Were Not Achieved

The Postal Service's 1991 budget called for reductions in mail distribution and delivery, in line with the automation strategy. However, while the Postal Service used fewer hours in 1991 than it did in 1990 in these functions, it fell short of the reductions that were expected.

Distribution Workhour Budget Conformed to General Automation Strategy

Mail distribution work consists of all automated, mechanized, and manual mail processing and other direct work in the mail-processing centers. At delivery offices it includes time used to sort mail to carrier routes and post office boxes.

The Postal Service's 1991 national operating budget for mail distribution conformed to the general automation strategy. It called for an increase in the use of automation, a slight increase in the use of mechanization, and a substantial reduction in manual processing. As shown in table 3.2, the expected net reduction for mail distribution was about 4,000 workyears for 1991. Workhour budgets at the 13 post offices we visited had workhour allocations generally consistent with this national strategy.

Table 3.2: Planned Workyear Changes for Mail Distribution in 1991 Compared to Actual Workyears Used in 1990

	1990 actual	1991 planned	Planned change	
			Number	Percent
At mail-processing centers				
Automated	9,224	10,702	1,478	16%
Mechanized	47,682	48,025	343	0.7%
Manual	58,212	54,708	(3,504)	(6%)
Other direct work	72,500	72,275	(225)	(0.3%)
At delivery offices				
Sorting to carriers and boxes	60,856	58,749	(2,107)	(4%)
Total	248,474	244,459	(4,015)	(2%)

Source: GAO Analysis of Postal Service National Workhour Data, 1990 and 1991.

**Savings Not Achieved in
All Areas**

The Postal Service used fewer distribution workyears in 1991 than it did in 1990 but fell short of its planned reduction of 4,000 workyears by 369, as shown in table 3.3.

**Table 3.3: Planned and Actual
Workyear Changes in Mail Distribution
in 1991**

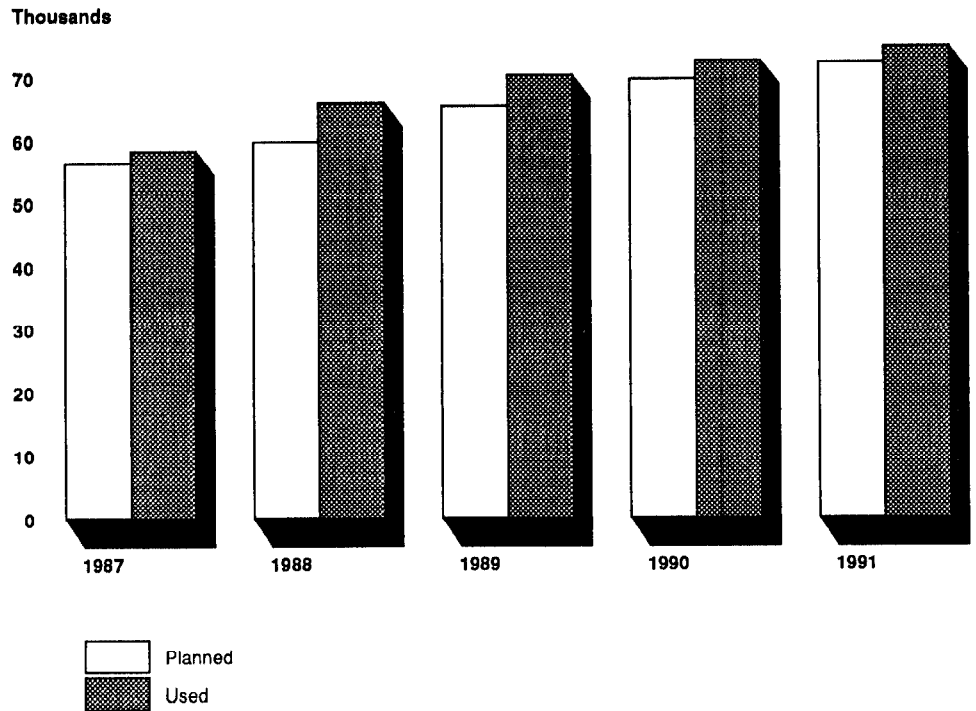
	Planned	Actual
At mail-processing centers		
Automated	1,478	1,921
Mechanized	343	89
Manual distribution	(3,504)	(4,428)
Subtotal	(1,683)	(2,418)
Other direct work	(225)	2,113
Subtotal	(1,908)	(305)
At delivery offices		
Sorting to carriers and boxes	(2,107)	(3,341)
Total	(4,015)	(3,646)

Source: GAO Analysis of Postal Service National Workhour Data, 1991.

Mail-processing centers surpassed their reduction goal of 1,683 workyears as a result of the general automation strategy. However, these processing savings, 2,418 workyears, were reduced to 305 workyears because of the increase in other direct work.

The Postal Service has historically experienced significant growth in other direct work that has also exceeded the amount it planned to use each year, as shown in figure 3.1.

Figure 3.1: Workyears Planned and Used for Other Direct Work, 1987-1991



Source: GAO Analysis of Postal Service National Workhour Data, 1987-1991.

As indicated, each year the Service planned to use about the same or slightly fewer years than it used the year before, but actual use each year consistently exceeded the plan.

Other direct work also involves preparing and moving mail around and truck and platform operations, all of which is affected by automation. For example, mail unsuccessfully processed on optical character readers has to be moved again to manual or mechanized processing and increased shipments of bar coded and presorted mail by mailers has added to platform workload.

Although some increase in workyears related to other direct work is to be expected, the Service acknowledged that the increase has been much too rapid. One reason may be that employees who have been displaced by

automation have been reassigned temporarily to this work. The Service is preparing a national plan to analyze and increase the efficiency of other direct work.

**Agency Comments and Our
Evaluation**

In commenting on a draft of this report, the Acting Postmaster General said that a sizeable portion of the additional 1991 costs of 2,113 workyears in other direct work is due to bulk mail center workhours, parcel volume increases, Operation Desert Storm, and other activities unrelated to automation. The Acting Postmaster General considers it inappropriate to include all of these costs in an analysis of the effect of automation in fiscal year 1991.

We recognize that the other direct work function includes workhours not related to automation. However, neither we nor the Postal Service can accurately allocate total workhours planned and used to the various work functions of other direct work.

As shown in figure 3.1, the Postal Service has historically experienced significant growth in this work function. In response to our request for an explanation of the growth, the General Manager, Internal Budget Division, said that the introduction of automated equipment and increased participation by mailers in worksharing activities, which includes preparation of mail for automated processing, has actually added significantly to allied labor and dock operation workload. The need for the national plan referred to above was tied directly to the increase in other direct time after deployment of automated equipment.

**No Reduction in Carrier
In-Office Time**

The national operating budget for fiscal year 1991 called for a reduction in carrier office time of 1,617 workyears, or a 1.5 percent reduction below the 1990 level. Workyears actually increased slightly (by 17).

Carrier routes are ideally structured to represent 8 hours of work a day, which currently breaks down into about 4 hours in the office and 4 on the street. As stated above, the Service plans to use automation to ultimately halve office time to 2 hours per day. To avoid adjusting routes periodically, the Service, starting in 1991, wanted each route's office and street time adjusted to what the route should look like after implementation of automation and other efficiency improvements. During the transition to automation, the Service plans to use a temporary, transitional workforce to prepare the mail during that time needed in the office above the

carriers' 2 hours a day. As the share of automated mail increases and in-office time decreases, these transitional positions will be eliminated to realize savings. However, the letter carriers' union is contesting the lengthening of routes beyond 8 hours. The outcome of this dispute could alter the Service's national plans to adjust routes before having the automated system fully implemented at delivery offices.

Agency Comments and Our Evaluation

In its comments on this report the Postal Service contended that automation was not expected to reduce delivery hours in 1991 and that any increase was unrelated to automation. Nevertheless, the 1991 budget guidance from Postal Service headquarters to regional offices included, as part of the cost reduction strategy, savings that were to be realized in the delivery function as a result of automated sorting. Moreover, at the post offices we visited, managers indicated that, while the largest savings were to come later, they were expected to increase this kind of sorting and capture the resulting savings in 1991.

Automation Savings Are Eclipsed by Labor Cost Increases

As discussed in chapter 2, pay and benefit increases are having a much greater effect on overall Postal Service labor costs than are the productivity savings from automation. We applied the same analysis from Chapter 2 (see p. 20) to just the labor costs in those distribution and delivery operations affected by automation and got similar results. Whereas the improvement in labor productivity (up 0.5 percent) from 1990 to 1991 saved about \$71 million, the increased cost of a workyear (up 4.7 percent) cost about \$627 million, despite the fact that the actual number of workyears used decreased from 355,140 in 1990 to 351,511 in 1991—about a 3,600 workyear decrease. A decrease in mail volume (down 0.5 percent) lowered costs by an additional \$67 million.

Large Workyear Reductions Planned for 1992

As shown in figure 3.2 the Service plans for a much larger workyear reduction in mail distribution and delivery in 1992 than it achieved in either 1990 or 1991.

Figure 3.2: Planned Workyear Reductions in 1992 for Mail Distribution and Delivery Compared to Actual Reductions in 1990 and 1991



Source: GAO Analysis of Postal Service National Workhour Data, 1990-1992.

Postal Service officials said that the 1992 reduction would be made possible from the deployment of automated equipment and the introduction of the remote bar coding system. However, as mentioned previously, the Service is revising the 1992 budget because mail volume is declining more than expected. The effect that this will have on the savings estimates as well as the estimates for later years is unknown.

In its comments, the Postal Service said that, through the second quarter of 1992, it was using about 4,500 fewer workyears during that period than it did the year before in the distribution functions affected by automation.²

²Because we use workyears throughout our report when referring to the actual number of employees assigned to a particular activity, we converted the Service's reference of 8 million workhours saved to workyears using 1,787 workhours per workyear.

Operating Inefficiencies Have Impeded Savings

The Postal Inspection Service, as a part of its internal audit role, assesses and reports on the efficiency of post office operations. We reviewed 33 of the Inspection Service's reports from fiscal years 1990 and 1991—which covered post offices in 46 of the Service's 73 operating divisions, including the three largest post offices in New York, Chicago, and Los Angeles—to identify deficiencies the Postal Inspection Service found in the mail distribution and delivery areas affected by automation. While the reports stated that postal operations were generally effective, they identified several systemic management deficiencies that have hampered the Postal Service's efforts to date in capturing potential automation savings.

According to the Inspection Service reports, the Postal Service could have saved over \$187 million in the mail distribution and delivery areas through improved operations. About \$146 million (78 percent) was lost because post offices

- used more carrier in-office hours than necessary (\$82.2 million or 44 percent of the total),
- did not use automated equipment efficiently (\$35.7 million or 19 percent of the total), and
- did not use the least costly processing method (\$28.5 million or 15 percent of the total).

The remaining \$41 million (22 percent of the total) was lost due to a variety of other deficiencies, including inefficient manual and mechanized operations and inconsistent use of established procedures to measure delivery volume.

With respect to carrier time, Postal Service delivery managers and the Inspection Service have had a long-standing dispute about the standard used to assess carrier productivity and determine the amount of excess time incurred. While delivery management believes the lost savings amounts are not valid, the Inspection Service does not agree. The Inspection Service also pointed out that during the course of its work the post offices made commitments to take corrective action and capture the lost savings.

More Carrier In-Office Time Used Than Necessary

Because the Service plans for automation to sort the carrier's mail in delivery order, carrier in-office time is an area of major potential savings from automation. This should ultimately halve the amount of time a carrier currently spends in the office each day preparing the mail for delivery. In

order for the Postal Service to capture these potential gains from automation it must have effective control over the use of carrier office time. The Inspection Service reported that the Postal Service is currently unable to adequately manage this time, which contributes to low carrier in-office productivity and a loss totalling \$82 million.

The Inspection Service reported in almost a third of its reports that the unsatisfactory carrier productivity resulted from inefficient carrier work habits, limited supervisory control over carrier hours being charged, and inefficient scheduling of carriers and routers (who assist the carriers in the office). For example, at one major office which alone was losing over \$31 million as a result of low carrier productivity, the Inspection Service found that carriers returned almost 30 to 45 minutes early each day and stood around without clocking out. At another major post office, 105 of the 117 routes evaluated by the Inspection Service had excessive office time, which cost \$37 million. At another large city post office only half the carriers' mail was ready for them to sort when they reported for work each day; as a result, they routinely ran out of mail and had to perform other duties.

Automated Equipment Not Used Efficiently

The efficient use of automated equipment is a key part of achieving expected automation savings. However, in 70 percent of its reports, the Inspection Service found that the Postal Service was losing a total of over \$35 million because employees were using automated equipment inefficiently. For example, employees did not clear output bins before the bins filled to capacity, employees allowed the automated equipment to run out of mail, or they did not prepare the mail sufficiently for automated processing, which increased rejected mail, jams, and emergency stops and sometimes caused the equipment to be temporarily shut down. Additionally, employees did not always run initial rejects a second time through automation or did not process the right kind of mail on automation, which resulted in mail having to be subsequently reworked by other, more expensive processing methods. Finally, employees did not routinely clean out the read units of the equipment which decreased the equipment's ability to read addresses and bar codes. The Inspection Service attributed the inefficient use of automation to the lack of supervisory attention, poor employee work habits, inadequate maintenance and training, and inadequate staffing for automation.

We toured the workroom floor at the post offices we visited and observed many of the same practices reported by the Inspection Service. While we

did not quantify the value of the savings that were lost, officials at these locations generally acknowledged that such inefficiencies adversely affected their ability to capture savings.

Least Costly Processing Method Not Always Used

Because processing costs on automation are significantly less than they are for mechanized or manual processing, the automation strategy calls for the use of automated equipment to the fullest extent and the use of mechanized and manual operations only when automated equipment is at its capacity or the mail is not automation compatible. Adherence to this strategy is vital if the Postal Service plans to achieve potential savings from automated processing.

However, the Inspection Service found in over a quarter of its reports that post offices processed automation compatible mail in mechanized operations and processed machinable mail in manual operations, despite the availability of automated equipment. This practice, which accounted for a total of over \$28 million in lost savings, was attributed to inadequate staffing for the less costly processing methods and management's desire to keep employees busy who were assigned to mechanized or manual processing.

During our visits to workroom floors we also frequently noted that the least costly processing method was not being used. While often this was because machines were not available at the time, managers said that it took time for employees to understand and adapt to the general automation strategy of putting mail on automation first.

Other Inefficiencies

The Inspection Service attributed the remaining \$41 million in lost savings (about 22 percent of the total) to a variety of deficiencies that resulted in other unnecessary processing or excess staffing costs. For example, in a third of its reports, the Inspection Service found lost savings totalling \$9.3 million because post offices did not reduce manual staffing to correspond with the decrease in manual mail volume. The Inspection Service attributed this to inadequate supervisory attention to manual operations and the use of excess letter-sorting machine clerks in manual operations to keep them busy.

In almost half of its reports, the Inspection Service identified a total of \$9.4 million in lost savings because of low productivity on letter-sorting machines. It attributed the low productivity to inefficient work habits, lack

Chapter 4
Operating Inefficiencies Have Impeded
Savings

of supervision, and post offices not reducing staffing in letter-sorting machine operations to correspond with declining mail volume.

In over a quarter of its reports, the Inspection Service identified \$7.5 million in lost savings resulting from post offices not consistently using established procedures to estimate delivery volumes. This caused inflated delivery volumes which overstated carrier time requirements.

Automated Equipment in Use and Planned

	In use 1991	Planned deployments 1992-1995	Total in field 1995
Optical character readers	839	343	1,182
Bar code readers	1,345	304	1,649
Delivery bar code readers	0	7,604	7,604
Advanced facer cancelers	187	615	802
Remote bar code stations	0	274	274
Total	2,371	9,140	11,511

Comments From the United States Postal Service



THE DEPUTY POSTMASTER GENERAL
Washington, DC 20260-0050

April 24, 1992

Dear Mr. Fogel:

Thank you for providing us an opportunity to comment on the draft report entitled, POSTAL SERVICE: Automation Is Restraining But Not Reducing Costs. We agree with your assessment that our automation program is beneficial in restraining the growth of postal costs and that the introduction of automation technologies represents one of our best and most needed cost savings opportunities. However, we do have some concerns with other findings in the report.

Our automation program is a multi-year effort that is already producing the most far-reaching and profound changes in the way in which the Postal Service does business, and we are only in the beginning stages of the program. The report gives a snapshot of the program at an early point when the foundation is still being laid. The findings need to be expressed from that perspective. We feel that it is premature to draw firm conclusions about the program's ultimate impact on total postal costs based upon the results in an early year of the program. As the program progresses, any operating inefficiencies we discover will be addressed through corrective actions to capture the potential workhour savings.

Looking at our entire financial picture, it is unrealistic to expect our automation program to do more than restrain the growth in costs. As your report correctly points out, our costs would certainly have been higher had it not been for the automation program.

The focus of the FY 1991 phase of our automation program was to reduce mail distribution costs, not delivery and Other Direct workhours. Your analysis demonstrates that the objectives within the distribution function were not only made, but exceeded. We do not agree with your analysis of the impact of automation on delivery and Other Direct Work (Labor Distribution Code 14). There was a slight increase in total delivery costs in Fiscal Year 1991 due to growth in delivery points. Any savings in components of the delivery function in Fiscal Year 1991 are attributable to other management strategies, not automation equipment. A sizeable portion of the additional Fiscal Year 1991 costs of 2,113 workyears in Other Direct Work are due to Bulk Mail Center workhours, parcel volume increases, Operation Desert

**Appendix II
Comments From the United States Postal
Service**

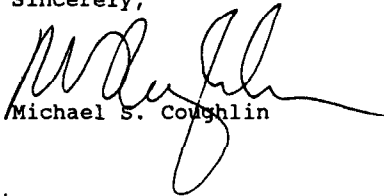
Storm, and other activities unrelated to automation. To include all of these costs, along with delivery workhours in an analysis of the impact of automation in Fiscal Year 1991 is inappropriate.

Finally, in our long-range planning for future automation deployments, our strategy has been to allow the size of the workforce to decrease through normal attrition. During this transition to full automation, as career employees leave the Postal Service, their work is being shifted to the remaining employees as overtime hours or to additional temporary employees. Thus, workhour reductions in the transition years will not match complement reductions. As your report acknowledges, this approach makes financial sense. It gives local managers the needed flexibility to cut back these hours as soon as automation equipment is deployed and becomes functional.

We are following our strategy, and it is producing the results we expected, on the timetable we expected. Through Quarter II of Fiscal Year 1992, we have used a total of 8 million fewer workhours than we did a year ago in the distribution functions impacted by automation. We are on track to reduce total workyears by approximately 12,000 during this year, which includes the beginning of carrier savings related to automation.

We appreciate the opportunity to review and comment on the report. If you wish to discuss any of my comments, my staff is available at your convenience.

Sincerely,



Michael S. Coughlin

Mr. Richard L. Fogel
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United States General Accounting
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Washington, D.C. 20548-0001

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