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

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The Honorable Thaddeus J. Dulski
Chairman, Committee on Post Office and Civil Service
House of Representatives

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Dear Mr. Chairman:

This letter summarizes and updates our May 30, 1973, briefing to your Committee and Subcommittee staffs on the Office of Management and Budget's (OMB's) decision to phase out the Corps of Engineers out of the Postal Service construction program. In this briefing and in a May 30, 1973, letter to the Postmaster General, we concluded that the timing established in OMB's phaseout schedule would adversely affect the costs and timely completion of the National Bulk Mail System (NBMS). Subsequently, OMB, at the request of the Postal Service, authorized extending the Corps' participation in NBMS until its completion.

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OMB's initial phaseout plan included:

- Phase I, responsibility for minor construction, leasing, rental, and building improvement to be removed from the Corps by June 30, 1973.
- Phase II, responsibility for major construction to be removed from the Corps by June 30, 1974.

In a January 26, 1973, letter to the Postmaster General, the Director, OMB, stated, "* * * it is inappropriate from the standpoint of the Corps' general mission to participate in general-purpose construction activity." OMB officials advised us that the enlarging scope of the Corps' support for Postal Service construction and real estate activities had prompted OMB to direct the phaseout. These officials added, however, that they viewed the phaseout dates as flexible, depending on the economies of alternative schedules.

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We analyzed the potential impact of these phaseout dates and discussed our findings with Corps and Postal Service officials. Our analysis indicated that OMB's schedule could have had a significant adverse impact on timely completion of NBMS, which is a phase II activity. Under the present construction schedule, the Corps anticipates timely completion (mid-1975) of NBMS without exceeding the original 1971 cost estimate of \$950 million. As of the June 30, 1974, phaseout date, 19 of the 21 Bulk Mail Facilities are expected to be 60 to 95 percent completed.

In evaluating the impact of OMB's phaseout decision, the Postal Service considered either (1) requesting OMB to extend the Corps' involvement in NBMS or (2) taking over the Corps' functions as soon as possible. After considering in-house studies and our May 30, 1973, letter to the Postmaster General, the Service requested OMB to allow the Corps to complete NBMS. (See enc. I.) On June 28, 1973, OMB authorized the Corps to complete construction on NBMS. (See enc. II.)


We identified the following examples of the adverse impact that would have occurred had the Corps been phased out of NBMS before completion.

1. The Postal Service said that, had OMB adhered to the June 30, 1974, phaseout date, it would have been forced to find or develop another organization to oversee NBMS completion. Corps officials also said a phaseout before completing NBMS would have delayed completion 3 to 6 months. Using the Postal Service's estimated annual cost savings of \$300 million from a fully implemented NBMS, a 3- to 6-month delay would have caused the Postal Service to lose approximately \$50 million to \$100 million in savings.
2. Postal Service officials said a takeover of NBMS construction would have involved 3 to 4 months of joint Corps and Postal Service management effort. Although we did not estimate the cost of this effort, we believe the personnel costs would have been substantial.

3. The Corps' Huntsville Division is procuring and scheduling delivery of about \$160 million worth of Government-furnished equipment. Extremely tight manufacturing and delivering schedules have been established and coordinated with the tight construction contractors' schedules. Both Corps and Postal Service officials recognized that this coordination could have been seriously disrupted by a Corps phase-out. Removing the procurement and delivery function from the Corps would have required an organization with less experience to assume it and undoubtedly would have delayed the thousands of equipment deliveries required at the 21 Bulk Mail Facilities.
4. Corps officials told us that a reduction of about 350 employees would have been necessary had the phase II turnover been completed on or before June 30, 1974. This reduction would have been required primarily because the Civil Service Commission has stated that removing responsibility for the Postal Service construction program from the Corps is not a transfer of functions. Therefore, the Postal Service is not required to hire the affected Corps personnel. Corps officials said extending the Corps' participation in NBMS construction until its completion in mid-1975 would allow the Corps to absorb this employee reduction into other Corps activities.

We believe a significant adverse effect on the costs and timely completion of NBMS would have occurred had the Corps been phased out of this program on or before June 30, 1974. In our opinion the decision to extend the Corps' participation until NBMS is completed offers much less risk to the Postal Service and the Government.

Sincerely yours,


Comptroller General
of the United States

JUN 20 1973

Dear Mr. Ash:

This refers to the January 26 letter sent by the Office of Management and Budget to the Secretary of the Army establishing phase-out dates for the Army Corps of Engineers relating to the Real Estate and Construction Program of the U. S. Postal Service.

This letter is to request your reconsideration relating to the phase-out by the Corps of Engineers for the Bulk Mail Centers by July 1, 1974. We request that no date be established for this program, rather that the Corps of Engineers be permitted to carry this program through to its completion. We have attached for your review the present completion schedule (Attachment A). The date of July 1, 1974, would occur about the time the project would be 80 percent complete. Termination by the Corps of Engineers at that point would add considerable expense to the program and create months of delay.

We have conducted some rather intensive investigations and conclude that the proposed change would raise costs more than \$20MM and create a delay of four to five months. Thus, the changes which would be required by your present policy would delay the program, reduce our anticipated operational savings and delay the service improvements to be generated upon the system's completion.

For your information and to substantiate the need for your consideration, we have enclosed documents prepared by our survey team and a General Accounting Office report.

We would appreciate an early response. If a meeting is required to review our request in more detail or if additional information is needed, please let me know.

Sincerely,

signed E. T. Klassen

E. T. Klassen

Honorable Roy L. Ash
Director of Management and Budget
Executive Office Building
Washington, D. C. 20503

Enclosure

JUN 28 1973

Honorable E. T. Klassen
Postmaster General
Washington, D. C. 20260

Dear Mr. Postmaster General:

This is in response to your letter of June 20, 1973 requesting that the Corps of Engineers be permitted to complete the construction of 21 Bulk Mail Facilities for the U.S. Postal Service. It is our understanding that the Under Secretary of the Army and the Chief of Engineers both concur in your request.

The Office of Management and Budget has no objection to your proposal. The Corps of Engineers should, of course, continue the orderly phase-out of all postal construction support with the exception of work related to these 21 specialized postal facilities.

Sincerely,

/s/ Fred Malek

Frederic V. Malek
Deputy Director