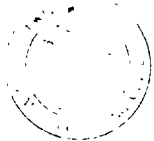


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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

OCT 21 1970

CIVIL DIVISION

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Dear Mr. Naisist:

The General Accounting Office made a survey of fourth-class mail operations at the Chicago Post Office and obtained information to serve as a basis for determining the feasibility of making in-depth reviews of any operation considered by us to need management attention. The following items were identified during the survey as warranting attention. However, because of actions taken or to be taken by the Department to improve fourth-class mail operations, we do not, at this time, intend to do any further work in those areas.

Postal rates

Postal rates did not recover costs of processing catalogs, outside parcels, and other fourth-class mail. Each year the Post Office Department handles over one billion pieces of fourth-class mail consisting primarily of parcels and catalogs, the average weight of which is 5 pounds. Although fourth-class mail represents only 1.3 percent of the total pieces of mail, it accounts for 38 percent of the total weight and 13 percent of the total revenue of all classes of mail.

During fiscal year 1969, zone-rate fourth-class mail revenues totaled \$830 million and related costs totaled \$953 million, resulting in an operating deficit of \$123 million. According to the law, fourth-class mail revenues should recover, within 4 percent, the cost of handling fourth-class mail. However, for fiscal year 1969, zone-rate revenue only recovered about 87 percent of such cost.

On July 16, 1970, the Interstate Commerce Commission approved the Department's request to increase postal rates for zone-rated parcels by 15.4 percent and for catalogs by 6 percent. In addition, the Commission has instituted an investigation of the Department's request for approval of a 35-cent surcharge for parcels whose dimensions make them hard to handle within the post office. The Department estimated that the \$123 million revenue deficiency would be almost eliminated by implementing all the requested increases in postal rates.

Transportation costs

Legislative restrictions seemed to prevent the Department from purchasing economical transportation for parcel post and other mail from motor common carriers. The Department was prevented by law from

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purchasing transportation from a motor common carrier (trucks) except through star route contracts (multiple year contracts awarded on an advertised bid basis). During fiscal year 1970, the Department obligated \$219 million for highway transportation of mail.

The Postal Reorganization Act, signed by the President on August 12, 1970, authorizes the Department to enter into contracts with motor common carriers who are now required to provide mail transportation. In general, extension of the laws which govern the transportation of mail by railroads to include motor common carriers should give the Department the opportunity to secure economical transportation of mail.

Delivery costs

Parcel delivery service provided by private commercial carriers possibly could be used to lessen the Department's delivery workload. If private enterprise has the capability to offer acceptable parcel post delivery service at a low cost as indicated by our survey in the Chicago area, utilization of such service may reduce delivery costs to the Department for parcel post. Our survey at Chicago indicated that costs might be reduced by as much as 8 cents a package. During fiscal year 1969, the Department handled about 30 million large incoming parcels in Chicago and about 644 million parcels nationwide.

We were advised that the Department intends, in the near future, to explore the feasibility of contracting out portions of its parcel post activity to private commercial carriers.

Parcel rewrap costs

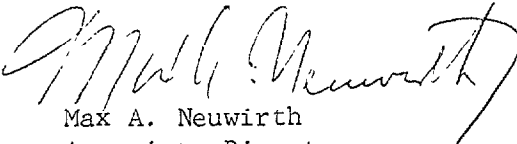
Parcel rewrap costs at the Chicago Post Office possibly could be reduced. We estimated that the annual labor cost of rewrapping damaged parcels in the Chicago Post Office is about \$700,000. Although some parcels require rewrapping because of inadequate initial wrapping by mailers, it appeared to us that many of the parcels require rewrapping as a result of excessively rough treatment and handling at post offices. Chicago postal personnel seemed well aware of the parcel rewrap problem and were devoting efforts to improve the rewrap operation. In this connection, a recent Department study shows that the average cost of rewrapping a parcel in 74 post offices was 23.8 cents as compared to the average cost for the Chicago Post Office of 22.2 cents. Department officials said that the Department is attempting to develop improved parcel post handling systems which should reduce the rewrapping costs.

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We will appreciate receiving your views and comments and being advised of any actions taken on the matters discussed in this report.

We appreciate the cooperation extended to our representatives by Chicago postal personnel during the conduct of this survey.

Sincerely yours,



Max A. Neuwirth
Associate Director

The Honorable Frank J. Nunlist
Assistant Postmaster General

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