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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

GENERAL GOVERNMENT
DIVISION

OCT 26 1972

Dear Mr. Comarow

The General Accounting Office has completed a survey of the customer cooperation programs--programs intended to achieve a balance in postal workloads and increase efficiency by encouraging large-volume mailers to cooperate with post offices in preparing and depositing their mail--being carried out in the New York Metropolitan Region (NYMR) and the New York Post Office (NYPO). The purpose of this letter is to apprise you of the results of our survey which was conducted during the period April 1971 through June 1972.

Our survey work was performed at the Postal Service headquarters, the NYMR headquarters, and the NYPO, and included examinations of postal policies, regulations, operating procedures, and records, discussions with various postal officials, observations of NYPO mail processing operations, and visits to 13 of the largest mailers in the New York City area.

Our principal observations on the operation of the programs were that:

- the maximum potential mail volumes susceptible to the programs had not been determined, therefore, postal managers were not in a position to adequately assess program effectiveness, and
- realistic program participation and operating cost savings goals had not been established.

Our comments on these matters are presented in the following sections.

POSTAL MANAGEMENT UNABLE TO
ASSESS EFFECTIVENESS OF
CUSTOMER COOPERATION PROGRAMS

Regional and local postal managers in New York City were unable to assess the effectiveness of the customer cooperation programs because accurate and reliable data on large mailers in the New York area and the extent of their participation in the various cooperation programs were not readily available in summary form. Although basic reference files

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existed for those mailers who had been contacted by customer service representatives (CSRs), a master listing of such mailers was not being maintained to provide management with summary program participation data on a continuing basis

At our request, the NYPO furnished us a copy of a list of mailers in the New York area who were believed to be generating \$50,000 or more annually in postal revenue. The list had been prepared subsequent to the start of our work to satisfy a special request by the NYMR for data on large mailers. Our examination of this list, which contained information on about 600 firms, and comparison of it with information available from other sources, disclosed that not all firms meeting the \$50,000 postal revenue criterion had been included on the list and that the stated postal revenue figures were incorrect in some instances. More importantly, the extent of participation by these firms in the various cooperation programs was not reported.

We believe that to assess the effectiveness of the customer cooperation program, Postal Service officials should have certain basic data on all large mailers. The data should include the types and classes of mail used, the frequencies of volume mailings, the geographic densities and volumes involved in such mailings, and the extent to which these mailers are currently participating in the customer cooperation programs. Such data would appear essential in determining the maximum mail volumes that can reasonably be expected to be brought under each program through the efforts of the CSRs.

Information was also lacking as to the specific reasons for non-participation or less-than-optimum participation in the customer cooperation programs by individual large mailers. In the absence of this information, we selected and visited 13 of the larger mailers in New York City to determine the extent of their participation in the cooperation programs and, where applicable, the reasons mailers were not participating to a greater degree.

Our discussions with representatives of these 13 firms revealed a variety of reasons for non-participation or for not participating to a greater degree in the cooperation programs. Some of the reasons cited were (1) more floor space and personnel would be needed, (2) mail is generated by too many departments, making presorting difficult, and (3) computer programs would have to be changed. It is obvious that mailers are reluctant to cooperate with the Postal Service when this entails the incurring of added expense

Because the NYPO had not compiled and maintained on a centralized basis complete profiles of all large-volume mailers within its jurisdiction,

postal management at the NYPO and at the NYMR headquarters did not have sufficient information with which to determine the true market potential for the customer cooperation programs and the extent to which large mailers were actually participating in these programs. Therefore, postal managers were not in a position to adequately assess the effectiveness of the Postal Service's efforts to obtain large mailer cooperation in the preparation and deposit of their mail.

At Postal Service headquarters, we discussed our survey findings with the Assistant Postmaster General for Customer Development and the Director, Office of Sales, Customer Development Department. These officials generally agreed with our observations, however, they stated their belief that the conditions which existed in the NYMR and the NYPO at the time of our survey were not necessarily typical of the customer cooperation program operations nationally and that although problems still existed at these locations, improvements have been made in overall program management, including

--identification of, and development of profiles on, the 40,000 largest mailers throughout the Nation, and

--development of a management reporting system whereby data on calls made to large mailers by CSRs, and the results of such calls, are reported to headquarters and used in preparing information reports furnished to regional, district, and local postal management.

IMPROVEMENTS NEEDED IN ESTABLISHING
GOALS AND REPORTING PROGRAM
ACCOMPLISHMENTS

Our survey at NYPO showed that the number of pieces of mail set as a goal to be handled under each customer cooperation program for fiscal year 1972 was unrealistic and that the conversion factors used in computing dollar savings goals under each program were inaccurate. Consequently, the value of the goals as financial or administrative controls was questionable.

In fiscal year 1971, a measure of financial control over the NYPO's customer cooperation programs was established. Program participation goals and cost savings goals were established for seven major cooperation programs. These participation goals were expressed in pieces of mail expected to be brought under the programs. The cost savings goals represented the mail processing costs avoided through the preprocessing of mail by the cooperating mailers and were derived by applying predetermined savings rates (cost savings conversion factors) to the piece goals for each program.

The NYPO's 1971 operating budget was reduced periodically during the fiscal year as cost savings through mailer cooperation were reported. For fiscal year 1972, however, this procedure was changed to provide for advance reduction of the operating budget by the estimated savings goals.

In comparing the 1972 piece goals for the programs with the total participation figures for 1971, we noted that the NYPO would have had to increase the total pieces in the programs to 3.2 billion, an increase of 1.4 billion pieces or 78 percent.

In view of NYPO's experience over the years in obtaining mailer cooperation, and the statements of NYPO officials that no large untapped market potential existed for the customer cooperation programs in that post office, we believe that the 1972 piece goals were unrealistic. In this regard, we noted that at the time of our survey, data which covered the first 9 months of fiscal year 1972 showed that only 1.4 billion pieces of mail were reported under the programs, or 1.8 billion pieces short of the goal for the fiscal year.

In developing the NYPO operating budget for fiscal year 1972, the NYMR initially estimated that the NYPO's customer cooperation piece goals, if achieved, would produce cost savings of \$1.96 million, based on the NYMR-developed conversion factors. Under the procedures in effect for fiscal year 1972, this amount should have been deducted from the NYPO operating budget for that year. However, the budget was actually reduced by only \$1.34 million, after deleting \$621,000 from the \$1.96 million figure, representing \$551,000 savings anticipated in fiscal year 1972 under the machine processable mail program and \$70,000 for miscellaneous adjustments.

Postal officials informed us that the anticipated savings from the machine processable mail program were eliminated from the budget reduction figure because

- the program was relatively new and it would be desirable to gain experience with it prior to reducing the budget, and
- the cost savings from this program could be used to offset any unrealized savings goals under the other customer cooperation programs.

Records indicated that in fiscal year 1971, cost savings of about \$1.2 million were achieved in processing 184 million pieces of mail under the machine processable mail program. In view of these experienced savings in 1971, it would not appear appropriate to exclude them completely in the 1972 computations.

In addition to the problems associated with the piece goals discussed above, we noted that the dollar savings established for the NYPO were questionable because the conversion factors used to determine the savings were inaccurate. These conversion factors were inaccurate because

- identical factors were applied to all post offices in the region despite variations in their mechanization and productivity,
- the hourly wage rates used did not include the costs to the Postal Service for employee fringe benefits and leave, and
- the production estimates used were based on mail handlers being able to sort 1,000 to 1,500 pieces of mail per hour, although NYPO records showed actual productivity to be only about 700 pieces per hour.

In addition, we noted that the values of the conversion factors used for each program were not consistent with the benefits obtained. For example, the separated mail program had a cost savings rate of \$3.67 per 1,000 pieces of mail whereas the presorted mail program, which saved many more mail processing steps, had a rate of \$2.44 per 1,000 pieces.

We believe that a need exists to establish more realistic piece and dollar savings goals if these goals are to be of value to Postal Service officials in evaluating program accomplishments and establishing realistic regional budgets.

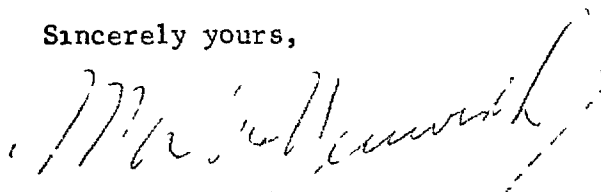
In discussing this matter with Postal Service headquarters officials, they informed us that action has been taken to develop more refined cost savings conversion factors based on operating cost experience at individual post offices and to implement a reporting system to uniformly identify and measure quantities of presorted mail that are bypassing mail processing operations. This information, when combined with the mailer profile data previously discussed in this letter, should provide an improved basis for setting future participation goals under the presorted mail program. We believe, however, that to establish realistic goals for all customer cooperation programs, similar information would be required on those programs not covered by this new reporting system.

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In view of the actions taken and planned by the Postal Service, we do not intend to do any additional work in the customer cooperation program area at this time. We would appreciate being advised, however, of any further actions aimed at improving program operations and management's ability to assess the effectiveness of the programs in obtaining large mailer cooperation with the Postal Service.

We appreciate the cooperation extended our representatives during this survey. A copy of this letter is being sent to the Deputy Postmaster General's office

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Max A. Neuwirth". The signature is written in dark ink and is positioned above the typed name.

Max A. Neuwirth
Associate Director

Mr Murray Comarow
Senior Assistant Postmaster General
Customer Services Group
United States Postal Service