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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES SENATE
ON
OPERATION OF THE UNITED STATES POSTAL SERVICE

Mr. Chairman and Members of the Committee:

We are pleased to be here, at your request, to present our views on certain operations and activities of the Postal Service. We understand that you are particularly concerned with the quality of mail service, that is, the extent to which the Postal Service is achieving its announced standards for delivering first-class letter mail, as well as with the current status of the National Bulk Mail System and the proposed Preferential Mail System.

Certainly, we are aware of the considerable interest shown by the Congress and the public in the performance of the Postal Service. Public complaints of reduced postal services and delayed mail, along with postal employee complaints, have led to serious questions concerning the ability of the Service to provide satisfactory mail service.

In response to many congressional requests, we visited numerous post offices in 15 States to determine whether the problems affecting mail

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service at any one location were unique or were part of a nationwide pattern. I might add that we are currently in the process of preparing an overall report on the problems in meeting Service delivery standards. The results of many of our reviews have already been presented, through briefings, to several Members of the Congress.

We hope our comments this morning will prove to be of assistance to you in exercising your oversight responsibilities.

As you know, the President's Commission on Postal Organization--The Kappel Commission--which was established in April 1967, concluded that the former Post Office Department had been operated as a Government agency when it should have been recognized as a business--a big business. The Commission further concluded that "* * * the challenges faced by this major business activity cannot be met through the present inappropriate and outmoded form of postal organization." The Commission recommended establishing a Postal Corporation to operate the postal service on a self-supporting basis.

As a result of the Postal Reorganization Act of August 12, 1970, the United States Postal Service became operational on July 1, 1971, as an independent establishment in the executive branch of the Government. The act required that the Service would provide prompt, reliable, and efficient postal services to customers in all areas.

QUALITY OF FIRST-CLASS MAIL SERVICE

The Postal Service's mail processing problems which were highlighted during the last Christmas season, are the direct result of its efforts to become self-supporting. Becoming self-supporting is a formidable task. From 1926 through 1971, the former Post Office Department and the Postal Service had accumulated a deficit of \$20.4 billion, and in a March 28, 1972, speech the Postmaster General projected that by the end of 1984, unless significant improvements were made, there would be a further accumulated deficit of \$38 billion.

The Postal Service took economy measures that included:

- reducing collection services,
- reducing delivery services, and
- curtailing window service on Saturdays.

The Postal Service's most pressing financial and operating problems are principally due to the fact that the Service is a labor intensive organization. Of the Service's total estimated costs of \$10.4 billion for fiscal year 1973, about \$8.6 billion is for labor. Accordingly, the Postal Service concluded that any major cost reduction effort would have to consider a reduction in the labor force.

One such effort was accomplished through two early retirement campaigns and a hiring freeze instituted in March 1972. Overall, the postal work force was reduced from 741,000 in July 1970 to about 687,000 in December 1972. This reduction left many facilities understaffed and unable to handle last year's Christmas mail volume.

The Service possibly could have reduced its work force to this extent without adversely affecting the quality of mail service had only overstaffed facilities been affected by the hiring freeze, had mail processing equipment been received and become operational on the dates expected, and had mail volume not increased at the major processing centers.

In addition, the Service made changes in the mail distribution system which had the effect of increasing the workload at the larger post offices. The significant nationwide changes in the mail distribution system have been the managed and area mail processing programs.

The managed mail program provides for consolidating incoming mail at State distribution centers where it can be mechanically sorted for distribution to other post offices within the State. Under the area mail processing program, outgoing mail from associate post offices is consolidated at sectional centers for mechanical processing and transporting to destinations.

Although these programs were primarily designed to reduce costs, and achieve more efficient processing through the use of mechanization, they resulted in many mail processing centers being overloaded with mail.

The decrease in personnel and the increase in mail volume at large post offices, particularly those that are both a State distribution center and a sectional center, caused increased reliance on letter sorting machines and other mechanized equipment. At many large post offices, however, machines that were expected before Christmas 1972 did not arrive. The delay in receiving high-speed mail processing equipment seriously affected achievement of delivery standards during the 1972 Christmas period.

Another factor causing service delays was employee morale. Postal union officials and employees at post offices we visited told us that overall morale was very low. Some of the most frequently cited causes included:

--excessive mandatory overtime,

--concern about the effect of the Service's Job Evaluation Program,

--adverse publicity, and

--poor labor-management relations at many post offices.

One of the more serious problems, we believe, is that of missent mail caused by errors on letter sorting machines. By resulting in extremely tardy deliveries, missent mail has been the cause of many customer complaints. For example, if a letter is sent from Miami destined for Washington, D.C., and is missent via Los Angeles, the letter could easily be delayed 5 days or more.

According to Service records at certain large processing centers, the average error rates on the letter sorting machines ranged from a low of 2.2 percent to a high of 13.2 percent during the period June 1972 through March 1973. For example, we estimate that during the 6-month period ending December 8, 1972, about 8.4 million pieces of mail processed on the Miami, Tampa, and Orlando, Florida, letter sorting machines were misdirected. The error rate was about 5 percent. The problem can be attributed to both machine and operator error. We are examining this problem and its ramifications currently.

Despite these problems, there is cause for some optimism. In consonance with its responsibility to provide prompt, reliable, and efficient postal service in all areas, the Service established in March 1972 standards for delivery of first-class mail.

These standards committed the Service to overnight (one-day) delivery service for first-class mail that is destined for locations within designated service areas. Second-day delivery is promised for first-class mail that is destined for all other locations within a 600-mile radius. Third-day delivery is promised for all other first-class mail.

To qualify for these delivery objectives, mailings have to be made prior to 5:00 p.m. and have the proper address and zip code. The goal of the Service is to achieve 95 percent of the stated objectives for first-class mail.

Attached to our statement are Exhibits which show that, for fiscal year 1973, first-class mail delivery service was at its worst during the Christmas season, but service has subsequently improved.

Exhibit A shows the average number of days required to deliver first-class mail, and Exhibits B, C, and D show the percentage of qualified first-class mail meeting the Service's overnight, second- and third-day delivery standards.

The Postal Service has acknowledged it does have problems. It has taken aggressive action to correct them. Many of the corrective actions resulted from the February 1973 meeting of Postal Service top management and its District Managers from around the country. This meeting gave top management

a better picture on the problems faced in the field. Some of the major actions taken by the Postal Service to remedy mail delivery problems include:

- Refinements of managed mail procedures to eliminate improper concentration of mail at postal installations.
- Installation of a quality control system to improve the accuracy of letter sorting machine operations.
- Reviews of mail processing operations by special inspection teams at major postal installations.
- Hiring of additional personnel thus reducing overtime.
- Providing flexible budget authority to District Managers to permit better reaction to variable service changes and requirements.
- Installation of high speed mail processing equipment, where needed, as quickly as possible.
- Negotiation for improved transportation.

These improvements seem generally responsive to the problems we found during our reviews.

AIRMAIL IMPROVEMENT PROGRAM

In addition to reviewing the quality of first-class mail service, we have recently completed a review of the Airmail Improvement Program. This was the first program for which the Service had established delivery standards. An objective of the Service is to provide designated major cities within a 600-mile radius of specified collection points next-day delivery of 95 percent of ZIP-coded airmail letters deposited before 4 p.m.

The goal of the program is to arrest and reverse the decline in airmail volume and thus increase revenues. Airmail volume declined from about 2 billion pieces in 1967 to about 1.3 billion pieces in 1972. Our discussion with 173 large mailers located in 29 States indicated that the decline in airmail volume is not likely to be reversed.

Although the Service's airmail performance tests showed that next-day delivery was generally being achieved, these results were misleading because the test letters, which bore identifiable markings, were given preferential handling.

When the Service started to measure delivery performance by testing actual airmail letters using its Origin and Destination Information System, the test results--presented in Exhibit E--showed that next-day delivery was significantly below the 95 percent goal.

We questioned the program's effectiveness because of declining airmail volume and increased costs, such as advertising and air taxi service. The Postal Service concurred with our finding that the goal of the program was not being achieved and stated that they were making

extensive studies of the matter. The Service is considering the possibility of eliminating the airmail classification.

Our report to the Congress on this review should be issued within the near future.

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Next I would like to discuss the status of our work regarding the National Bulk Mail System and Preferential Mail System as well as the Corps of Engineer's involvement in the construction activities.

NATIONAL BULK MAIL SYSTEM

The bulk mail system, as you may know, provides for 21 new mechanized facilities located basically at major cities. These are augmented by 12 auxiliary service facilities.

The Postal Service stated that the primary objective of the national system is to improve service and lower overall costs. These goals are to be achieved by processing bulk mail through these 33 facilities where it can make maximum use of modern sorting techniques and equipment and where long haul transportation moves can be consolidated.

The Postal Service has stated that this system will cost about \$950 million to implement and a major part of these funds have already been expended or committed. This network is scheduled to be completely operational during 1975 and, according to postal officials, will provide an operational savings of about \$300 million annually.

On the basis of costs expended, committed, or anticipated to be expended, the estimated cost of \$950 million will be exceeded by about \$92 million. As shown in Exhibit F, this excess cost is attributable to certain items which were not considered by the Service, but which, in our opinion, are related to the system.

We are currently reviewing this system. Some tentative observations to date are:

- (1) service delivery standards in the short-haul (under 600 miles) areas will not be as good as the current standards established by the Postal Service's major competitor, the United Parcel Service.
- (2) during the period 1969-1972, parcel post volume decreased by about 23 percent or about 145 million pieces. Postal Service has experienced its greatest parcel post volume loss in the short-haul areas. About 60 percent of parcel post volume moved within this distance. United Parcel Service has been providing the greatest competition in these short-haul areas because of faster and more efficient delivery. Therefore, we believe that it will be difficult for the Postal Service to recapture its greatest loss of business or attract new customers.
- (3) under the routing scheme there will be instances, especially in the short-haul areas, where the number of days to deliver parcels will increase because parcels will travel additional mileage, as compared to the present system. For example, a parcel originating in Nashville, Tennessee, destined for Knoxville, Tennessee, will travel an additional 593 miles under the new system as compared to the current system.
- (4) several improvements have recently been made in the current system for processing bulk mail which has improved parcel handling without substantial capital investment.

Some of these improvements are:

- (a) a 25-percent reduction in damage to parcels resulting from less throwing of packages, elimination of excessive parcel drops in the conveyor systems, and the replacement of worn equipment, and
- (b) the establishment of a Managed Parcel Post Program in several post offices. This program, by consolidating processing operations in areas smaller than those envisioned in the national system, has resulted in improved service and reduced operating costs.

To date, we have issued five reports pursuant to congressional requests on selected aspects of this system. These reports entail such areas as:

- (1) site selection and contract awards for construction and mechanization of the New York Bulk and Foreign Mail Facility,
- (2) implementation of the facility concept at Pittsburgh,
- (3) termination of architect-engineering design contracts as a result of adopting the bulk mail system,
- (4) selection of sites for the Philadelphia and Memphis bulk facilities, and
- (5) award of the construction contract for the Des Moines bulk facility.

PREFERENTIAL MAIL SYSTEM

In an effort to improve service, reduce costs, modernize its facilities, and handle the growing volume of letter mail, the Postal Service has under consideration a plan to implement a new Preferential Mail System separate from the National Bulk Mail System. The proposed Preferential Mail System is a network of facilities for the mechanized processing of first-class mail. The Service has been studying this proposed system since 1969.

Under this system most of the mail processing operations of about 32,000 post offices will be handled by 181 mail processing centers. The Postal Service believes the system will provide next-day delivery within a mail processing center service area and second-day delivery within the continental United States for 95 percent of the letter mail.

The Postal Service plans to invest about \$4 billion--\$1.9 billion for machinery, \$1.4 billion for facility construction and modernization, and \$0.7 billion for research and development and system integration. The Postal Service estimates that it will save about \$1 billion a year after the system is implemented.

In February 1973, the Postmaster General stated that no decision had been made on the proposed system and that a great deal of work had to be done before the Postal Service could determine the best policy to be followed. He stated also that the Postal Service would have to prove that it had the technical and managerial capabilities to handle the planned National Bulk Mail System before it could begin developing a Preferential Mail System.

We have issued two reports on certain aspects of the proposed Preferential Mail System. In November 1972, we issued a report to the Postmaster General on our evaluation of the prototype machinery being tested in Cincinnati. Our report stated that the equipment system was not meeting Postal Service performance standards and that it was more costly than the existing letter mail sorting system equipment.

The Postal Service had planned to make a decision in 1972 concerning the immediate procurement of equipment to be installed in four post offices; however, because of the problems encountered with the prototype equipment in Cincinnati, the procurement was not made.

In June of this year we issued at the request of the Chairman, House Committee on Post Office and Civil Service, a report on various aspects of the Preferential Mail System, such as the formula used to select mail processing center locations, the population to be served, and average daily volumes to be handled by certain centers.

We are currently performing a review of the need for the proposed system and the equipment to be installed. In this review, we are examining the different alternatives for processing letter mail. We have not completed the analysis and have not yet reached firm conclusions. However, based on our work to date, we have observed that:

- the equipment at Cincinnati is still not meeting
Postal Service performance standards,
- further, this equipment may not be as desirable as other
alternatives, and

--the proposed Preferential Mail System appears on the surface to be a viable cost reduction program. This cost reduction, however, may be offset by additional transportation costs, facility construction costs, and the possible deterioration of service that may result in some areas from the massing of mail in major processing centers.

Additional work remains to be done to verify our observations before we can make any firm conclusions and recommendations.

POSTAL SERVICE CONSTRUCTION ACTIVITIES

As you are aware, the U.S. Army Corps of Engineers has been responsible for the Postal Service major facility construction activities since March 1971. Before that, this function was performed in-house by the then Post Office Department and the General Services Administration. Major facility construction activities consist primarily of the construction of bulk and preferential mail centers at a total estimated cost of about \$5 billion.

Agreements signed since that time also transferred to the Corps responsibility for small postal facility construction, including lease construction; real estate management activities, such as lease renewals, rental payments, and site surveys and acquisitions; and repair and improvements to postal facilities. The Corps, therefore, had been given responsibility for the total postal facilities acquisition, design, and construction program, including lease construction.

In January 1973, the Office of Management and Budget advised the Postal Service that they were phasing the Corps out of all Postal Service construction activities, except for major construction, by June 30, 1973, and out of major construction activities by June 30, 1974. The Office of Management and Budget took this action because of the enlarging and continuing role of the Corps' Postal Service support function which it felt was contrary to the Corps' general mission.

In a letter dated May 30, 1973, we informed the Postmaster General that there appeared to be a significant potential for adverse impact on the timely completion and costs of the National Bulk Mail System if the Corps were phased out of this program on the scheduled phaseout date. For example,

1. Using the Postal Service's projected cost savings of \$300 million a year, a 3- to 6-month delay in implementation of the bulk mail system will result in approximately \$50 to \$100 million in lost savings to the Postal Service and delay the point when the Postal Service can expect to recoup or improve its position in the parcel post market.

2. Postal Service officials have informed us that a takeover of the bulk mail construction program would include 3 to 4 months of joint Corps/Postal Service management effort. Although we have not attempted to make a quantitative estimate of this cost, we believe that the personnel costs for a duplicate management effort would be substantial.

We told the Postmaster General that the alternative choice of extending the Corps' participation until the bulk mail system is completed seemed to offer much less risk to the Postal Service and the Government.

Subsequently, on June 20, 1973, the Postmaster General asked the Office of Management and Budget to allow the Corps to complete construction of the National Bulk Mail System. On June 28, 1973, the Office of Management and Budget advised the Postal Service that they had no objection to the Postal Service's proposal but that they should continue the orderly phaseout of the Corps from all other postal construction support.

The Postal Service, therefore, assumed responsibility for small facility construction and real estate management activities, and repairs and improvements as of June 30 of this year and will assume responsibility for all major facilities construction activities, except for the bulk mail system, as of June 30, 1974.

As a result of this decision the Postal Service has established a Real Estate and Buildings Department responsible for its facility program. This consists of 176 headquarters employees and 95 regional office employees. The Service plans to establish 80 additional headquarters positions and 575 additional regional positions, for a total staffing complement of 926 positions.

In addition, the Postal Service plans to enter into a contract with a private firm to assist in managing its postal facility construction program. To get an idea of the tremendous increase in postal construction activities, capital expenditures for facilities increased from about \$114.6 million in fiscal year 1971 to an estimated \$1,243.9 million in fiscal year 1974, or an increase of about 1,085 percent.

OTHER GAO SURVEYS

In addition to subjects I have already discussed, I would like to apprise you of the current surveys which we are performing. Work in these areas has just recently begun:

- (1) the Postal Service's method of allocating costs as a basis for postal ratemaking,
- (2) the air and surface transportation systems--postal management maintains that transportation is one of their major problems,
- (3) various aspects of labor-management relations, and
- (4) the extent and cost of missent mail.

We will, of course, be pleased to discuss with this Committee, at any time, our audit plans and areas of mutual interest and concern.

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

AVERAGE DAYS TO DELIVER FIRST-CLASS MAIL

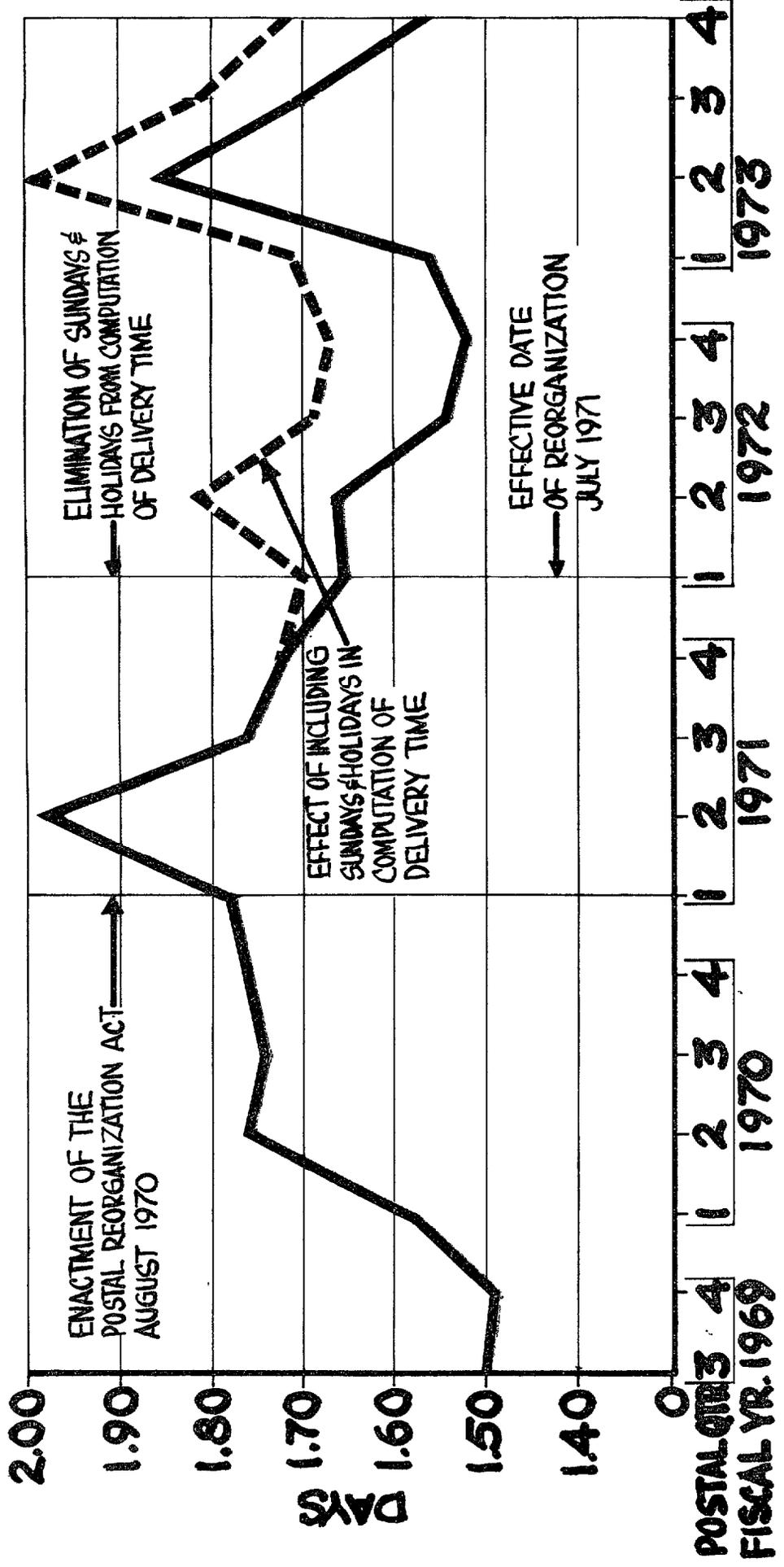
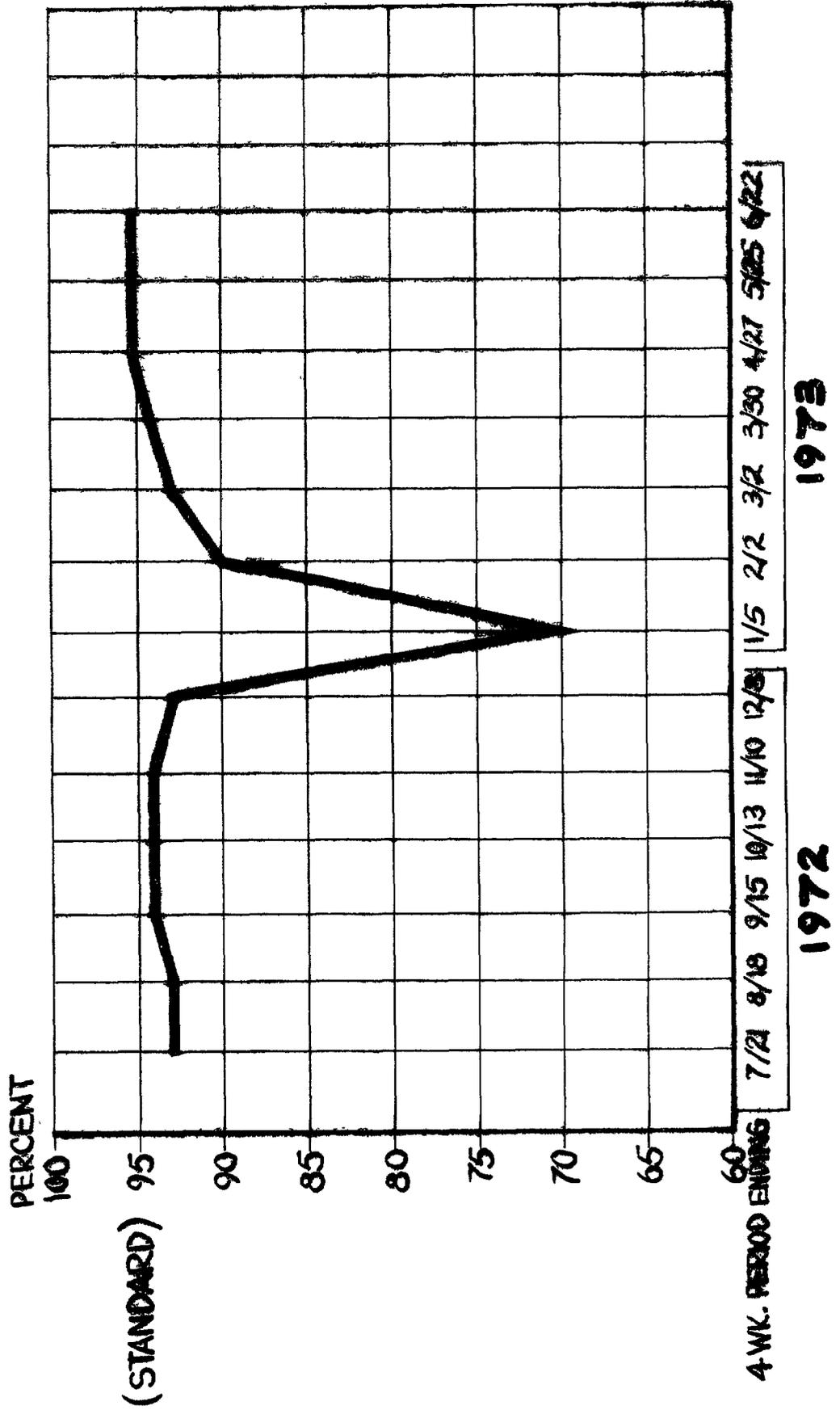


EXHIBIT B

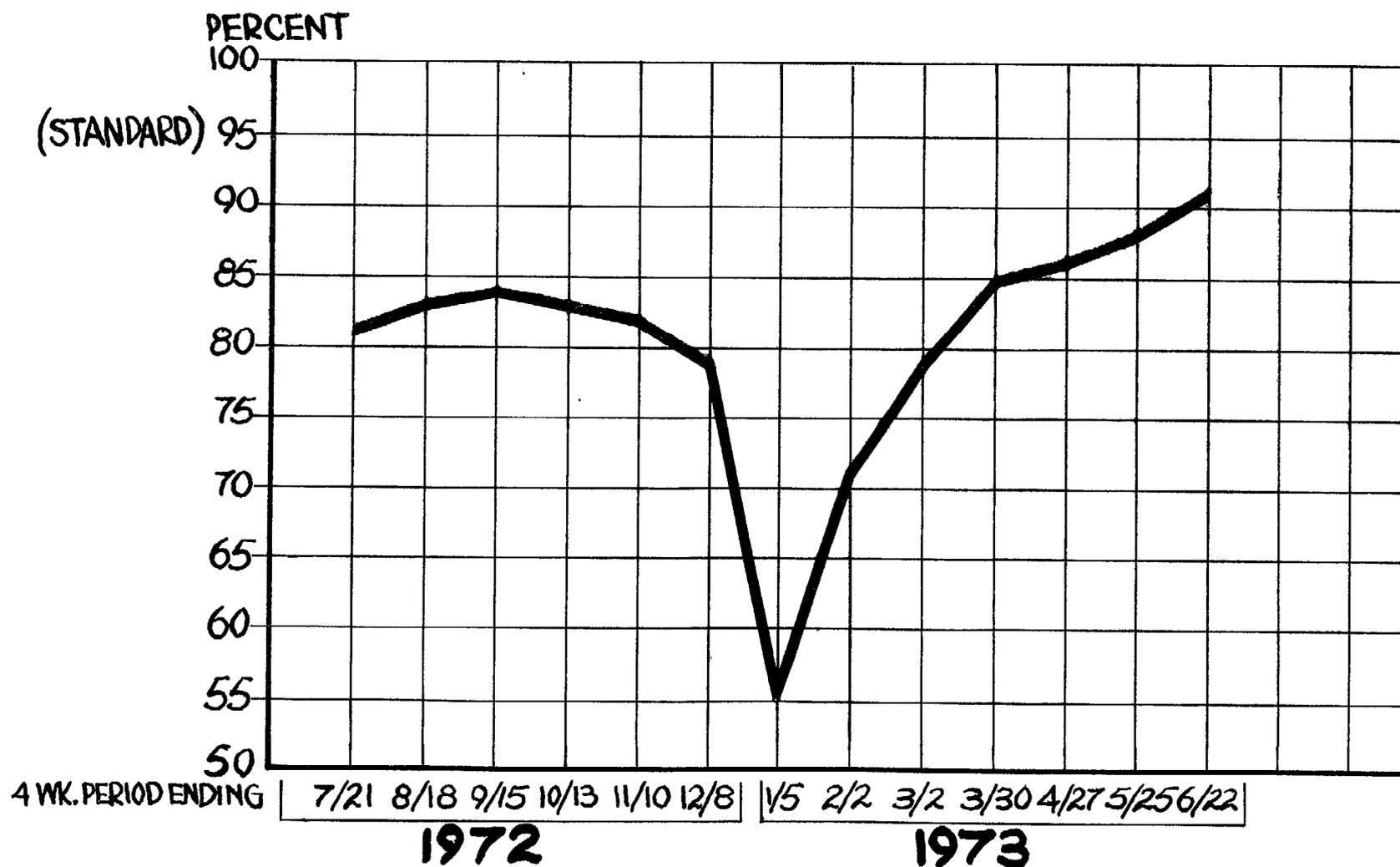
PERCENT OF FIRST CLASS MAIL
MEETING OVERNIGHT STANDARD
POSTAL FISCAL YEAR 1973 - NATIONWIDE



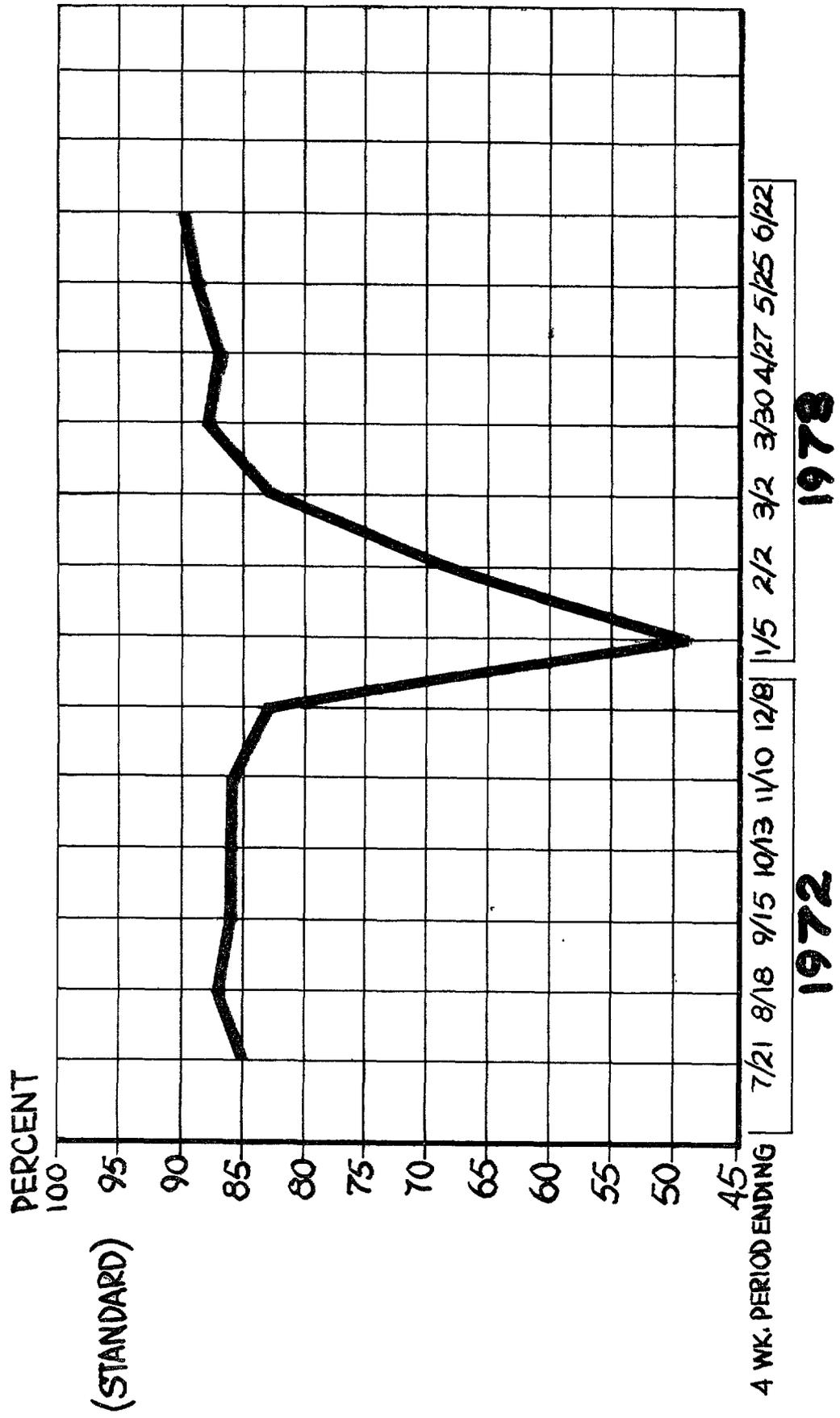
1972

1973

PERCENT OF FIRST CLASS MAIL MEETING TWO-DAY STANDARD POSTAL FISCAL YEAR 1973-NATIONWIDE



PERCENT OF FIRST CLASS MAIL MEETING THREE-DAY STANDARD POSTAL FISCAL YEAR 1973-NATIONWIDE



1972

1978

EXHIBIT E

PERCENT OF AIR MAIL
MEETING OVERNIGHT STANDARD
POSTAL FISCAL YEAR 1973-NATIONWIDE

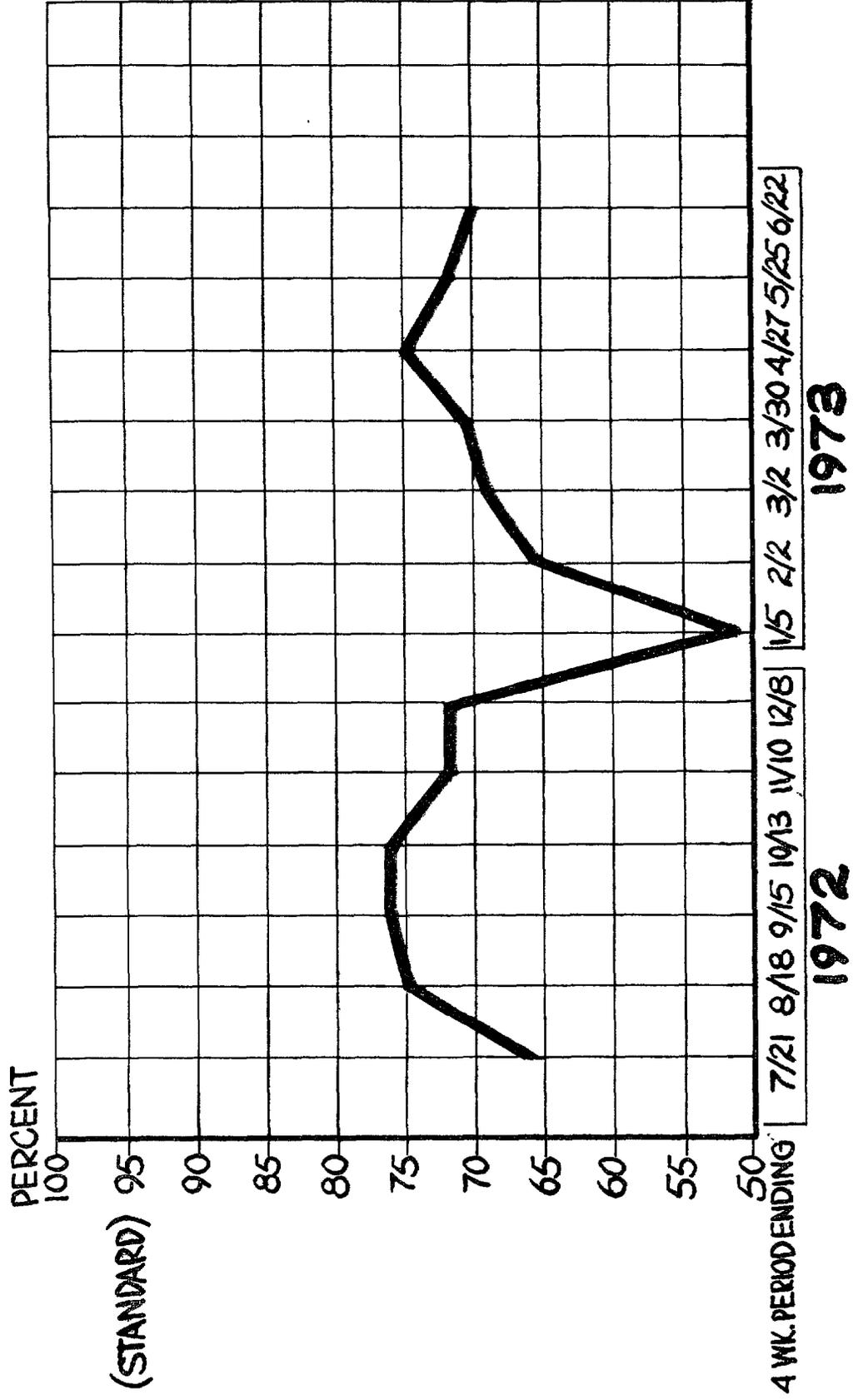


EXHIBIT F

BUDGETED AND TOTAL COST
FOR
NATIONAL BULK MAIL SYSTEM

<u>Budgeted Item</u>	<u>Cost</u> <u>Budgeted</u> <u>(000)</u>	<u>Expended</u> or <u>Committed</u> <u>(000)</u>	<u>Additional</u> <u>Expenditures</u> <u>Expected</u> <u>(000)</u>	<u>Difference</u> <u>(000)</u>
Site Acquisition	\$ 41,950	\$ 32,941		\$ -9,009
Construction Contracts	613,625	564,368		-49,257
Mechanization Equipment	192,000	143,600	\$ 23,674	-24,726
Auxiliary Service Facilities	24,000		31,640	+ 7,640
Associate Post Office Modifications	38,615		8,078	-30,537
Design	<u>39,810</u>	<u>49,471</u>	<u>4,204</u>	<u>+13,865</u>
Sub-total	<u>950,000</u>	<u>790,380</u>	<u>67,596</u>	<u>-92,024</u>
<u>Additional Cost Items</u>				
Modifications to Construction Contracts			21,626	+21,626
Potential Construction Claims			8,486	+ 8,486
Corps Support Costs		40,400		+40,400
Research and Development Costs		41,300		+41,300
Start-up Costs			<u>71,830</u>	<u>+71,830</u>
Sub-total	<u>—</u>	<u>81,700</u>	<u>101,942</u>	<u>+183,642</u>
Total	<u>\$950,000</u>	<u>\$872,080</u>	<u># 169,538</u>	<u>#491,618</u>