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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D C 20548

GENERAL GOVERNMENT  
DIVISION

JUL 31 1973

The Honorable Benjamin F. Bailar  
Senior Assistant Postmaster General -  
Administration  
United States Postal Service

Dear Mr. Bailar

As part of our survey of the Postal Service's (Service) field industrial engineering and operations program, we examined the Western Postal Region's reporting procedures and practices under the Service-wide cost reduction reporting program.

The cost reduction quarterly reports submitted to the Service's headquarters by the Western Postal Region showed that a substantial portion of the reported accomplishments were unsupported estimates and were not identifiable with specific programs. Western postal officials stated that their accounting system does not provide details needed to identify all cost savings by specific programs.

We believe that the Western Region should revise its accounting system so that meaningful and factual cost reduction data would be reported by the postal region under the cost reduction program. Such data is needed by postal management in its analysis of the effectiveness of specific Service programs. The expansion of successful programs should be encouraged and the financial impact of these programs on budgets should be recognized.

We are not making recommendations for improving the cost reduction reporting program at this time because a Postal Service headquarters official informed us that revisions are now being made to this program.

The Postal Service established the Service-wide cost reduction reporting program in September 1972. The primary purpose of the program was to establish procedures for (1) identifying management actions resulting in cost reductions and (2) reporting such accomplishments against the budget plan. This is in addition to providing information to regional and headquarters management to enable them to evaluate the specific cost reduction programs including the impact of the reported cost savings.

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Under the program, the regions are required to implement a reporting system to provide necessary information on cost reduction accomplishments and to ensure that all reported savings are valid and supportable

The results of our examination of the quarterly cost reduction accomplishments reported by the Western Postal Region for fiscal year 1973 showed that over 50 percent of the reported accomplishments were unsupported estimates and were not identified with specific programs. For example, the schedule below shows our analysis of the second quarter cost reductions reported to the Service's headquarters by the Western Postal Region

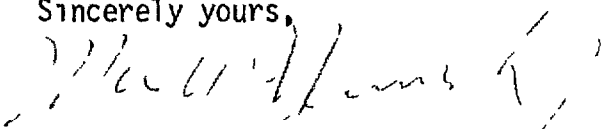
	<u>Total cost reduction accomplishments</u>	<u>Total not supported and identified with specific programs</u>	<u>Percentage of total</u>
	- - - - - (000) - - - - -		
Mail Processing Group	\$13 0	\$ 7.0	53.8
Customer Service Group	6 8	2.9	42.6
Support Group	1 6	0.8	50.0
Other <sup>a</sup>	<u>3 0</u>	<u>-</u>	<u>-</u>
	<u>\$24 4</u>	<u>\$10 7</u>	<u>43.8</u>

<sup>a</sup> This category represents cost savings for nonsalary activities, such as expenditures incurred for utilities, supplies, travel, and for mail transportation

Reporting large amounts of unsupported cost reductions minimizes the usefulness of the program to Postal Service officials in evaluating how effectively specific programs are being managed. Without adequate cost data, programs of limited or even negative cost benefit may be encouraged.

We appreciate the cooperation extended to our representatives during the review. We would appreciate being informed of any action taken or proposed in connection with the matter discussed in this letter.

Sincerely yours,

  
Max A. Neuwirth  
Associate Director