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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

NOV 7 1975

Mr. James V. Jellison
Assistant Postmaster General
for Logistics
United States Postal Service

Dear Mr. Jellison:

In response to our July 3, 1974, report to the Postmaster General on star route contracting, the Postal Service took a number of actions to economize on star routes including:

- establishing Area Logistics Offices centralizing star route contracting administration and review,
- giving added emphasis to star route review in Service training programs, and
- issuing instructions in the Central Region incorporating our suggested procedures for star route review.

These actions have had and will continue to have a salutary effect.

In our July 1974 star route report, we concluded that 16 of 85 star routes we studied could be eliminated or reduced at savings of about \$185,000 and 88,000 gallons of fuel annually. The suggested changes were presented in the form of 20 proposals and were accepted at the time of our review by region and headquarters officials.

The Service later issued a final service evaluation disputing the merits of 13 of the 20 proposed star route changes. This turnabout took place because regional officials initially accepted our proposals without input from the Springfield district office. Once consulted, district officials decided that some of our proposals would result in service deterioration. As reasons for rejecting some proposals, district officials cited adverse effects on:

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- the maintenance of service standards;
- the continuous processing of mail;
- the provision of special customer services; and
- the prompt dispatch of mail to local post offices for delivery.

On the basis of a follow-up review of star route contracting, we believe that questionable transportation arrangements still remain and there exists significant potential for transportation savings. However, the purpose of this report is not to reargue the merits of any specific recommendation previously made. Rather the primary purpose is to raise the issue of whether an adequate framework has been established by top management to guide decisions involving trade-offs between costs and service.

NEED TO BALANCE COST AND SERVICE
CONSIDERATIONS IN TRANSPORTATION
ROUTE DECISION-MAKING

In performing our reviews, we recognized that decisions to alter transportation routes must consider both cost and service. For those routes we recommended changing, we concluded that significant economies could be achieved while observing present service standards. Local officials, however, are evaluated primarily on their delivery performance--their ability to provide mail service to their local areas. There is little incentive to approve cost saving alternatives that might effect service, even in cases where the impact on service is marginal relative to cost and fuel savings.

Since costs and service are not mutually exclusive objectives, definitive top-level guidance is vital if optimum decisions involving trade-offs between cost and service are to be made. The nature of trade-offs present in most, if not all, star route contracting decisions is illustrated by the four cases below. In each case, the Service decided not to accept the less-costly transportation alternative. We recognize that with the move to upgrade first-class mail service, the situations described below may not be the same as when our review was performed.

Case I - Exceeding delivery standards

Some star route changes proposed by GAO were rejected because of the Service's desire to provide delivery service beyond that required by the service standards.

Postal service standards require overnight delivery of first-class mail within the originating SCF and between adjacent SCF's. The Springfield district exceeds the standards, whenever possible, by delivering first-class mail overnight to SCF's not adjacent to the originating SCF. Exceeding service standards may accomplish very little for the added cost because overnight route schedules and dispatch times prevent all available mail from being delivered the next day; the remaining mail receives the normal 2-day service. Providing overnight service on three routes we studied increased annual contract costs and fuel usage by almost \$42,000 and 17,000 gallons.

The Springfield District Manager informed us that service standards are considered minimums and that he will exceed them whenever possible.

Case II - Costly and unnecessary special services

Another star route change proposed by GAO was rejected because it would alter current special service provided for one postal customer at a cost of \$6,700 a year.

Service officials told us that the special service was necessary because the company did not have its mail ready for dispatch at the time the existing normal transportation departed. The officials knew of no reason why the company could not have its mail ready earlier and were not aware of any attempts by their customer services office to contact the company for appropriate adjustments.

Case III - Dispatch of mail to local post offices

One of GAO's proposed route changes would save almost \$14,000 annually but would delay the morning receipt of mail at an outlying post office by about 20 minutes. Due to the time element and geographical location of the office with respect to its SCF, officials rejected the proposal.

Case IV - Minimal impact on mail flow and workload

Service officials stated that SCF's require a continuous volume of incoming mail to make full and effective use of processing equipment and to keep workers productively occupied. The Service regulates mail flow by scheduling star routes at various intervals.

Some of our proposed star route changes involved routes that either (1) carried a small volume of mail, (2) arrived only minutes ahead of similar routes, or (3) arrived at low workload hours. Elimination or consolidation of six star

routes we reviewed would have little impact on mail flow and workload, and could save about \$42,000 and 26,000 gallons of fuel annually.

CONCLUSIONS AND RECOMMENDATIONS

Postal Service actions to date to improve star route contracting have had a positive effect on producing economies. We believe, however, much more can be accomplished. We believe there are significant possibilities for savings through the formulation of policies and procedures which would ensure rigorous evaluation of trade-offs between transportation savings and service impacts. Given the emphasis on meeting performance standards, we believe that officials at all levels of the Service need top-level guidance, support, and encouragement in making cost saving decisions that impact delivery standards, however marginal.

Accordingly, we recommend that the Service

--consider the cases presented in this report as symptomatic of cost-saving opportunities available on a broad base, and

--reevaluate existing policies and procedures with a view toward establishing a decision-making framework that adequately balances cost and service considerations. As part of this effort, the Service should establish a format for analysis of trade-offs that will be suitable for internal review and approval at appropriate management levels.

We appreciate the cooperation of the Service officials we have dealt with during our review. Please notify us of further actions by the Service to improve star route administration.

Sincerely yours,


John Landicho
Associate Director