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[Review of the Postal Service's Consolidation of Mail Processing Operations in the Berkeley and Oakland, California, Post Offices]. GGD-78-18; B-114874. November 28, 1977. 7 pp. + enclosure (? pp.).

Report to Rep. Ronald V. Dellums; by Victor L. Lowe, Director, General Government Div.

Issue Area: Facilities and Material Management: Building, Buying, or Leasing Federal Facilities and Equipment (706).

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Organization Concerned: Postal Service.

Congressional Relevance: Rep. Ronald V. Dellums.

The consolidation of mail processing operations in Berkeley and Oakland, California was planned in order to realize savings by machine processing mail which had been manually processed at the Berkeley office. Under the plan, Berkeley's mail will be machine sorted in the Oakland Sectional Center Facility, and the Berkeley office will continue to provide customer services and mail delivery. A six-position letter sorting machine no longer needed in Berkeley will be relocated and modified in Stockton, California, to handle a larger mail volume. Findings/Conclusions: The Postal Service estimated potential savings of \$630,700 a year, including a savings of \$335,700 by transferring Berkeley's mail processing operations to Oakland and a savings of \$295,000 by moving the Berkeley letter sorting machine to Stockton. GAO estimated that the savings would be about \$370,900 annually for processing Berkeley's mail in Oakland and \$334,700 annually for moving the letter sorting machine to Stockton. However, the savings could have resulted from separate actions, in which case the Stockton savings would not be attributable to the consolidation. The consolidation will probably have little or no impact on mail services to Berkeley because of the commitment by officials to maintain the same level of service. The consolidation prompted officials to revise mail transportation schedules to make them more efficient. (Author/HTW)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548
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GENERAL GOVERNMENT DIVISION

04284

B-114874

Released 12/28/77

NOV 28 1977

The Honorable Ronald V. Dellums
House of Representatives

Dear Mr. Dellums:

On June 16, 1977, you requested an audit of the U.S. Postal Service's plan to consolidate the post office in Berkeley, California with the post office in Oakland, California. In discussions with your office it was agreed that we would evaluate the economic justification for transferring the Berkeley Post Office's mail processing operations to the Oakland Sectional Center Facility and determine what effect the consolidation will have on Berkeley's mail service. On July 11, 1977, Representative George Miller endorsed your request for an audit and asked that we inform his staff of the results of our work.

The consolidation was planned in order to realize savings by machine processing mail the Berkeley office had been manually processing because it had insufficient machine capability. Under the plan, Berkeley's mail will be machine sorted in the Oakland Sectional Center Facility and the Berkeley office will continue to provide customer services and mail delivery. A 6-position letter sorting machine no longer needed in Berkeley will be relocated and modified in Stockton, California, to handle a larger mail volume.

In February 1977, the Service estimated the consolidation would save about \$682,300 a year in mail processing costs. In August 1977, after we began our review, the Service reevaluated the potential savings and revised its estimate to \$630,700 a year. This included a savings of \$335,700 by transferring Berkeley's mail processing operations to Oakland and a savings of \$295,000 by moving the Berkeley 6-position letter sorting machine to Stockton.

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Although specific economic benefits of the consolidation cannot be determined until sometime after it is completed, we estimate that the Service could save about \$370,900 annually by processing Berkeley's mail in Oakland and \$334,700 annually by moving the Berkeley letter sorting machine to Stockton. However, we believe the savings could have resulted from separate actions, in which case the Stockton savings would not be attributable to the Berkeley/Oakland consolidation.

It appears the consolidation will have little or no impact on mail services to Berkeley, primarily because region, district and Oakland officials have made a commitment to maintain the same level of service. The consolidation prompted officials to revise mail transportation schedules which actually made them more efficient.

Our findings are discussed in detail in the following sections. Our evaluations are based on reviews of Service records and discussions with Service officials from the Western Region, San Francisco District, Oakland Sectional Center Facility, and Berkeley Post Office.

WHY THE CONSOLIDATION TOOK PLACE

Many mail processing changes have been implemented in Oakland as a result of the Service's area mail processing program. The Service has been implementing area mail processing on a nationwide basis since 1971. Under this concept all mail originating at post offices within an area is consolidated at a sectional center facility ^{1/} for processing and for dispatch to its destination. By centralizing mail processing within an area, the Service is able to mechanize operations, increase worker productivity, reduce personnel costs, and make more efficient use of transportation. In the last 6 years, 52 post offices have had some or all of their mail phased into the Oakland Sectional Center Facility for processing.

Until 1975, Oakland had only four 12-position letter sorting machines to process its mail. To lessen the amount of mail being processed manually at greater costs, the Service authorized three additional machines for Oakland in late 1975 to be installed in late 1976 and early 1977. In late 1976, however, the Service determined that Oakland could process additional mail in order to fully utilize all seven machines.

1/Generally, a mechanized facility for processing incoming and outgoing mail for a number of local post offices in a designated service area.

Berkeley was selected for consolidation because it was close to Oakland, had sufficient mail volume, and was manually processing mail that could be machine sorted at less cost. Berkeley had a 6-position letter sorting machine with insufficient capacity to machine sort all of its mail. Maximum savings by machine processing Berkeley's mail could not be realized since the facility was not large enough and could not be expanded to accommodate a larger 12-position machine. By sorting Berkeley's mail elsewhere, the 6-position letter sorting machine could be expanded and better utilized at another location. The Stockton Sectional Center Facility was ultimately selected to receive the machine.

BERKELEY/OAKLAND CONSOLIDATION
WILL REDUCE MAIL PROCESSING COSTS

By processing Berkeley's mail mechanically in Oakland instead of manually in Berkeley, we estimate the Service could save about \$370,900 annually. Machine processing provides greater worker productivity per hour and allows mail to be sorted to more locations each time it is handled, thus reducing the number of additional handlings needed to sort mail to its final destination. Machine processing more of Berkeley's mail accounts for about \$245,600 of the \$370,900 savings and reduced handlings account for about \$125,300.

Berkeley processes an average of 579,400 1/ pieces of mail daily, of which 434,600 pieces could be machine processed. Berkeley could process about 181,800 pieces of mail a day on its 6-position machine, leaving 252,800 pieces to be processed manually. Manual processing of 252,800 pieces of mail a day requires about 310 staff hours at a cost of \$2,818. Machine processing this mail in Oakland would require about 189 staff hours at a cost of \$1,799. This represents savings of about \$1,019 a day or \$245,600 a year after subtracting a cost factor for the 10-year depreciation of the new equipment.

Processing mail on a 12-position machine also allows sorting mail to 277 locations each time it is handled. Manual processing allows sorting to only about 77 locations each time it is handled, thus requiring additional handlings. About 179,900 pieces of Berkeley's total daily mail volume is outgoing, which means that it is destined for locations other than Berkeley.

1/This represents the total pieces of mail when 383,300 letters a day are processed because certain mail must be handled more than once.

Berkeley has been able to sort about 88,400 pieces directly to designating offices while Oakland will sort 163,800 pieces to final destinations. We estimate this could save about \$125,300 a year.

The Western Region has not finalized its plan to capture the \$245,600 savings from increased productivity. The staff level at Berkeley will be reduced, mainly by transferring 146 employees to Oakland. Oakland expects to achieve savings by reducing overtime for clerks and mail handlers, and through attrition in the number of employees identified as excess. The final determination on whether the savings can be achieved depends on the results of a manpower and staffing study which will not be complete until October or November 1977. The only changes in staffing levels as of August 31, 1977, were at Berkeley, where three people had resigned and one other had retired.

The reduced-handling savings of \$125,300 accrue to the many designating offices other than Oakland and, therefore, are almost impossible to verify. Full achievement of the savings is unlikely since the savings to some offices may be quite small, for example, less than one hour a day, in which case the offices may not be able to adjust work schedules to realize the savings. In our opinion, however, some savings from reduced handlings are reasonable.

As noted in enclosure I, the Service policy for capital investment projects requires an annual return on investment of at least 10 percent. Service officials stated, however, that the minimum justification desired for letter sorting machines is a 25 percent annual return on investment. The current cost of letter sorting machines is \$200,000 making \$50,000 the minimum annual savings needed to justify a machine. In the Berkeley/Oakland consolidation, the Service's annual return on investment could range from 125 percent, considering just the \$245,600 savings, to nearly 200 percent depending on how much of the \$370,900 savings is realized.

STOCKTON SAVINGS NOT ATTRIBUTABLE TO CONSOLIDATION

We estimate the Service could achieve annual savings of about \$334,700 by relocating the 6-position letter sorting machine from Berkeley to Stockton and expanding it to 12 positions. This allows for more efficient utilization of the machine than was possible in Berkeley. However, we believe the Stockton savings could have resulted from a separate action, in which case it would not be attributable to the Berkeley/Oakland consolidation.

Following the consolidation, Berkeley mail will be processed on Oakland's new letter sorting machines which, in effect, replace the Berkeley machine. However, the Berkeley machine could have been moved to Oakland and modified for more efficient utilization, in which case, a new machine could have been acquired in Stockton rather than Oakland. Thus, the machine relocation and Stockton's savings can occur only because a new letter sorting machine was purchased.

Our analysis of cost savings possible in Stockton differed only slightly from the Service's estimate. Stockton currently processes about 951,800 pieces of mail daily which includes Stockton's mail and the outgoing mail from the Tracy, Lodi, and Modesto associate offices. Of that amount, 713,800 pieces could be machine processed, but Stockton has machine capacity of only 464,400 pieces. Thus, Stockton has a current daily volume of 249,500 additional pieces that could be machine processed.

Stockton's one machine has been operating about 16 hours a day to process the 464,400 pieces. To have a similar volume for the second machine, Stockton will begin processing incoming mail for its three associate offices amounting to about 200,000 machinable pieces daily. The Service estimates the second machine will operate 14 hours a day and process about 420,000 pieces. This volume is comparable to the volume being processed on the other machine.

By machine processing an additional 420,000 pieces of mail daily, we estimate that the Service can save \$262,100 in mail processing annually. The Service estimated that a one-time cost of \$30,000 for moving the machine from Berkeley to Stockton should be applied against the first-year annual savings. The Service's estimate did not include the cost of other equipment needed to expand the letter sorting machine amounting to an additional \$30,000. A total of \$60,000, depreciated over a 10-year period, would reduce the annual savings to about \$256,100.

Additional savings will also accrue when this mail is machine processed because mail can be sorted to more locations thereby reducing the number of handlings needed to sort the mail to its final destination. The Service estimates savings of about \$78,600. As stated previously, we believe that some savings will result, but that since the savings accrue to the many destinating offices it is almost impossible to track the savings and full realization is unlikely.

MAIL SERVICE VIRTUALLY UNCHANGED
WITH MORE EFFICIENT TRANSPORTATION

It appears there will be little or no impact on mail services to Berkeley after consolidation, primarily because region, district, and Oakland officials have made a commitment to maintain the same level of service. The consolidation prompted postal officials to revise mail transportation schedules which actually made them more efficient.

The post consolidation collection schedule has similar weekday pick-ups and next-day service for local mail deposited by 5:30 p.m. The Berkeley office will continue to provide next-day delivery for mail destined for Berkeley that is deposited in special collection boxes by 7:15 p.m., and will make Sunday and holiday mail pick-ups from these same boxes.

We compared the mail collection and pick up schedules for Berkeley's 11 stations before and after consolidation. Two of Berkeley's 11 stations will receive earlier mail pick-ups on weekdays, but only by 10 to 15 minutes, and two other stations will receive earlier pick-ups on Saturdays, by 10 and 26 minutes. The volume of mail not collected because of the earlier pick-ups is expected to be minimal.

By changing its transportation schedules to Berkeley, Oakland saved 23.5 hours a week on vehicle runs. However, Berkeley had to extend its evening, weekend, and holiday runs to Oakland which required four additional hours a week. Thus, the net savings to the Service is 19 hours a week.

We reviewed changes in the types of vehicles used and their respective costs. Tractor trailers would be used less, at a weekly savings of \$590. The use of 5-ton trucks and Berkeley's vehicles will increase costs by \$369 a week. The net effect is to reduce transportation costs by \$221 weekly, or about \$11,500 annually. Service officials stated that a portion of the changes could have occurred without a consolidation and, thus, are not entirely attributable to the consolidation and were not included by the Service in its estimate of savings from the consolidation.

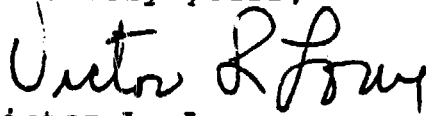
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The Postal Service reviewed this report and basically agreed with our analysis. Its comments are included as enclosure I.

We have discussed the details of our review with your office and Congressman Miller's office. As agreed with your office, a copy of this report is being sent to Congressman Miller and we are planning to make copies available to interested parties upon request beginning 30 days after the date of the report unless you publicly release the information in the report before then.

Sincerely yours,

A handwritten signature in cursive script that reads "Victor L. Lowe".

Victor L. Lowe
Director

Enclosure



THE POSTMASTER GENERAL
Washington, DC 20260

November 3, 1977

Mr. Victor L. Lowe
Director, General
Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the opportunity to comment on your proposed report to Congressman Ronald V. Dellums concerning the consolidation of the Berkeley and Oakland, California Post Offices.

In general, we are in agreement with the report as it reflects a fair and equitable presentation of the consolidation. It should be noted, however, that the capital investment policy of the Postal Service provides that: "A project shall be considered for approval based upon economic factors exclusively only if it is estimated to produce an anticipated dollar incremental rate of return of at least 10 percent." Capital investments in multi-position letter sorting machines have typically produced return on investments considerably higher than 10 percent.

We wish to express our appreciation to your audit team for this fine report.

Sincerely,


Benjamin F. Bailar