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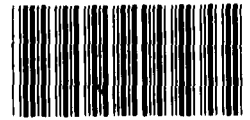
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STATEMENT OF

WILLIAM J. ANDERSON, DIRECTOR

GENERAL GOVERNMENT DIVISION



122611

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION

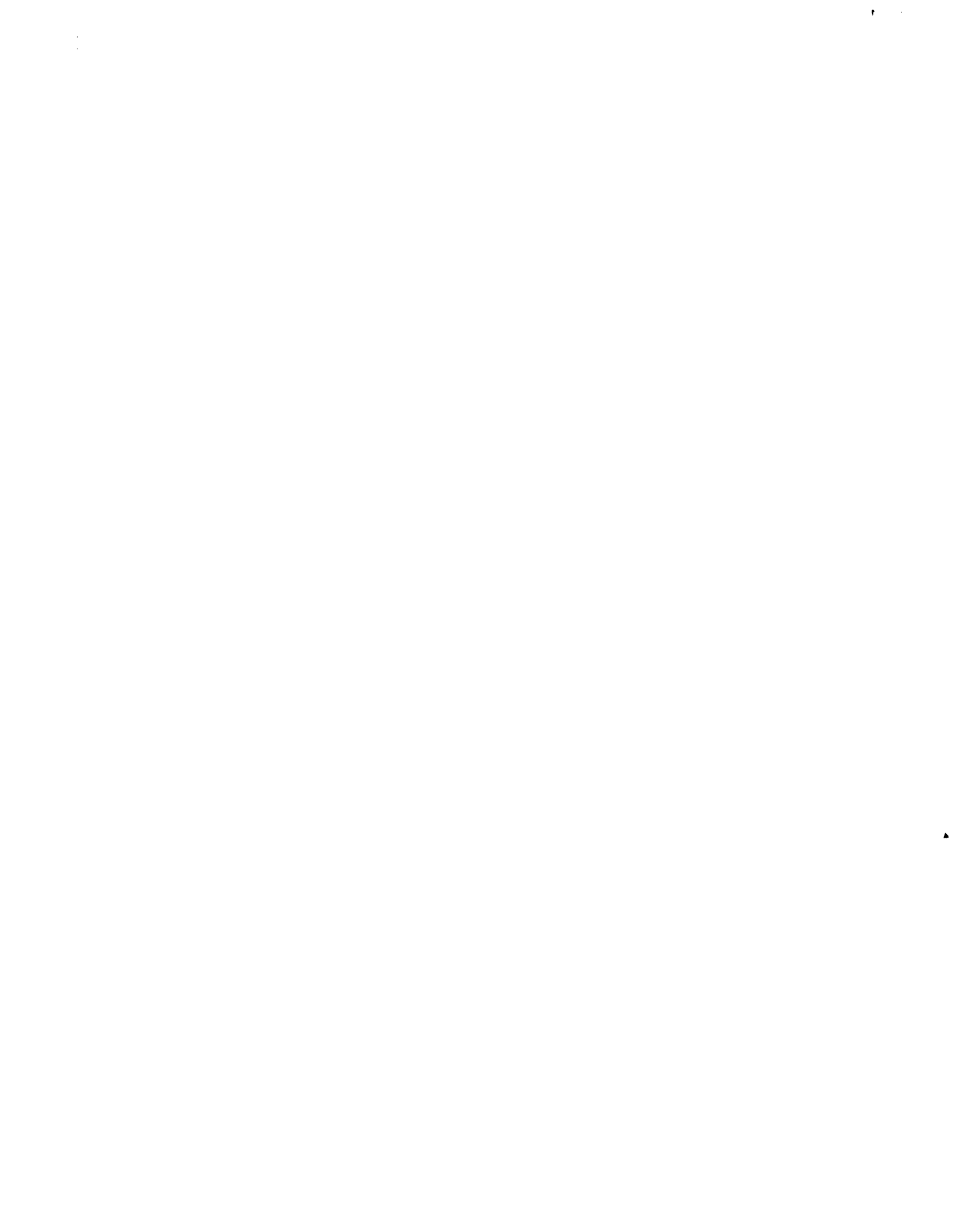
HOUSE OF REPRESENTATIVES

ON

THE PRESENT STATE OF THE

UNITED STATES POSTAL SERVICE

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Messrs. Chairmen and Members of the Committees:

I am pleased to be here today to present our views on issues that we believe are currently pertinent to the operation and management of the Postal Service.

When I last appeared before your subcommittees in December 1981, I reported that the Postal Service's financial condition had stabilized since 1976 when \$1 billion in special, additional appropriations was required to keep the Service solvent. This favorable trend has continued and we are now looking at back-to-back profitmaking years. For fiscal year 1982, the Service reported a net operating income of \$802 million. The net operating income for fiscal year 1983 is expected to be about \$500 million.

Even more significant, however, is the fact that these results have been obtained without a public service subsidy and, combined with the similarly favorable year in 1979, balance out the two deficit years recorded since 1978. It seems that the Postal Service is indeed moving away from the once entrenched tradition of postal red ink.

No doubt, 1981 rate increases were a major contributing factor to the improved financial condition. First-Class Mail rates increased from 15 cents to 18 cents in early 1981 and then to 20 cents on November 1, 1981. Operating revenues in 1982 were \$22.6 billion--an increase of \$3.5 billion over 1981. However, the gap between operating revenues and expenses in 1983 is being narrowed with the three most recent 4-week accounting periods showing a net loss.

POSTAL RATE INCREASE
IN 1984

To continue a break-even situation between rate increases, postal rates will probably have to be increased in 1984. The

Chairman of the Service's Board of Governors announced in July 1983 that the next general rate increase would not occur until October 1984--at the earliest. The projected loss for 1984 is \$1 billion.

A rate increase in October 1984 will continue the Board's rate stabilization policy of maintaining a 2- or 3-year interval between rate increases. The Board believes, and we agree, that rate stability encourages steady growth in mail volume, which contributes to economic strength and helps assure the lowest possible postal rates over the long term. For the 3-year period (October 1981 to September 1984) total annual mail volume is expected to increase from 110 billion pieces to 124 billion pieces, an average annual increase of 4.1 percent.

LABOR COSTS--AN AREA
OF CONTINUING CONCERN

Clearly, labor costs--about 84 percent of operating expenses--will continue to have the most significant influence on the Service's financial condition. The 3-year labor contracts expiring in July 1984 will have added, including health benefits, an estimated \$1.6 billion to annual operating expenses.

During the past 3 years most of our audit effort has been concerned with activities affecting labor costs. We have reported to the Postmaster General on employee absences and overtime and to the Congress on the ZIP + 4 program.

Employee absences

In May 1982, we informed the Postmaster General that the Service's employee absence control program could be made more effective by closer monitoring of unscheduled absences. Among

other things, we recommended that standards for identifying employees with attendance problems be established and that identification and monitoring responsibilities be placed with control offices at large postal facilities. Using criteria which officials from the post offices visited agreed with, we estimated that at least 6,400 and possibly as many as 11,100 of the 28,600 employees at the three offices visited had attendance problems.

The Postal Service recognizes the need for improved employee absence controls and informed us of actions to bring about a more effective control program. This is encouraging because improved absence control can produce substantial benefits. For example, actions taken by the Philadelphia Post Office to reduce sick leave contributed significantly to an estimated annual reduction of \$2.2 million in overtime cost.

Overtime

Overtime--an annual expenditure of about \$1 billion--provides postal management with the necessary flexibility to handle a variable workload and, when properly used, can be a cost-effective management tool.

In April 1983, we reported that the Service's control over the use and payment of overtime could be improved by

- providing facility managers with a work-hour budget that discloses the expected amount of overtime,
- identifying employees with constant and high overtime use, and
- reducing the amount of overtime that is retroactively documented or paid without supervisory approval.

At the six facilities visited, 3,900 of the 36,300 employees, about 11 percent, averaged 5 or more overtime hours a week in fiscal year 1981. These 3,900 employees were paid for 739, or about 41 percent, of the 1,795 overtime work-years. Expressed in dollars, these 3,900 employees received about \$23 million of the \$57 million that was paid for overtime.

The Service agrees that overtime needs to be effectively controlled but is reluctant to have overtime as a budget control item, as we recommended. Instead, the Service will concentrate on giving managers better information to make effective overtime decisions.

Since overtime will continue to be a significant cost item--the rate for 1983 will probably be about 18 percent above the 1982 rate--we will follow up on the actions promised by the Service to determine whether they provide effective control of overtime. We continue to believe that control measures provided by a budget would help facility managers ensure the prudent use of overtime.

AUTOMATION AND ZIP + 4

As you know, the Service's move to a new generation of mail sorting equipment included an expansion of the five-digit ZIP Code to nine digits, effective October 1, 1983. Used with the nine-digit code, the new equipment--optical character readers and bar code sorters--provides automated mail sorting down to carrier routes. If the problems we identified are overcome, we estimate that the new automation with the use of the nine-digit code could ultimately eliminate an annual total of about 15,800 work-years.

Automated equipment is being procured in two phases. Phase I involves the acquisition of 252 optical character readers and 248 bar code sorters for deployment at 118 large-volume mail processing facilities. As of September 30, 97 optical character readers and 152 bar code sorters had been installed in 59 facilities.

Phase II, scheduled for completion by 1989, will expand the automation network to 211 facilities and increase the number of optical character readers and bar code sorters to 561 and 825, respectively.

In our September 1983 report, we commented on some uncertainties about equipment performance and identified several needed program improvements. We did not recommend a delay in the October 1983 start of the ZIP + 4 program, but the uncertainties and needed improvements require the immediate attention of the Postal Service.

Uncertainties about equipment performance

To remove the uncertainties about the performance of bar code sorters currently being deployed, the Service should conduct--as planned--an extended test of about 8 weeks on one or two of the bar code sorters already accepted. The Service's 1 day acceptance tests and the manner in which the tests were conducted may have obscured potential design problems.

Recently completed tests of the optical character readers (OCRs) indicate, according to the Service, that the equipment will perform up to expectations. We have not reviewed the test results but, on the basis of operational data and observations made at the test sites, we believe that with sufficient manage-

ment supervision to ensure that proper operator and maintenance procedures are followed, the Service can bring these machines' performance up to or close to contract levels.

Whether or not sufficient on-site management attention is applied to the operation of the automated equipment is in the hands of the 211 local postmasters who receive this equipment. Local postmasters must ensure that supervisors responsible for performance of the automated equipment are trained in and apply good operating and maintenance procedures. The postmasters--and their supervisory staffs--must also ensure that mail processing procedures fully utilize the OCRs by directing all machinable and readable mail to them.

We believe the success of the local postmasters in effecting good on-site management practices will largely be determined by the commitment they have to the success of the ZIP + 4 program. Postal headquarters must provide the local postmaster with sufficient resources and hold him accountable for maximizing equipment performance. Realistic performance goals must be set and actual performance measured against these goals.

Needed program improvements

Our September 1983 report identified several specific improvements needed in the Service's program to improve the OCR readability of mail and in the program to grant the ZIP + 4 postage rate incentives to mailers who meet certain requirements. I will discuss the ZIP + 4 rate incentive program later in my general remarks on revenue protection.

The OCR readability program--which I will discuss now--is intended to improve the quality of the addresses on mail processed through the OCRs, thus permitting better machine

performance. We had several concerns about this program. First, we observed that the Service needed to have adequate OCR readability criteria in place when it began giving the ZIP + 4 rate incentive to mailers for using the nine-digit ZIP Code. We were concerned that the Service would not have finished developing this criteria in time. We were also concerned about the Service's reluctance to establish adequate readability criteria because of its fears that mailers would decline to participate in the ZIP + 4 program if they believed that costs would exceed benefits or that the readability criteria were unreasonable.

In response to our recommendations for improvements, Service officials expedited their work in developing the OCR readability criteria and assured us they would establish criteria that will give the Service the economic return it expects.

Second, our September 1983 report identified a need for a more structured and better coordinated OCR readability improvement program. We had found that the Service had not issued written guidance establishing the responsibilities of the several organizational units that will be involved in developing and coordinating a national program to improve the quality of mail.

In response, the Service outlined measures which are planned or underway to better manage the OCR readability program. We believe that if these measures are fully and effectively implemented, they will accomplish the intent of our recommendations. Local postmasters must assume a key role in this effort.

ANOTHER AREA OF CONCERN

I would be remiss if I failed to mention another area of great concern to us--controls over the protection of revenue. Evaluations of the adequacy of such controls are a continuing part of our work on postal operations. Before the end of the year we will start a review to determine whether a nationwide program, started in July 1982 in response to a need identified by us and the Service, has strengthened controls over the acceptance of bulk and presorted mail. Without adequate controls, the effect on revenue and costs can be substantial.

Revenue protection is also one of our concerns about the ZIP + 4 program. As you know, large-volume mailers are being offered a postage rate reduction for nine-digit ZIP Code mail that is OCR readable. If such mail is not properly prepared and if postal personnel are not adequately trained and equipped to check for compliance with readability criteria, the Service could lose significant revenue through erroneous granting of rate reductions, without receiving any benefits from automated processing in return. The Service has agreed to implement control measures that we recommended in our September 1983 report. Here again, the leadership of the local postmaster--the person in the trenches--will be the key to the effectiveness of these control measures.

* * * * *

A few weeks ago, the Postmaster General informed you that the Postal Service had "come of age." He characterized the Service as a mature, efficient, and self-sustaining organization which is performing its traditional job for the public in a more modernized, more flexible, and responsive manner.

I cannot go quite that far, but the quality of mail service is being maintained at an acceptable level and the Service's financial condition is currently stable. The Service has, I believe, demonstrated that the demand for its services and its cost structure are such that it can operate on a break-even, or pay-your-own-way, basis.

To maintain this capacity the Service must take advantage of every opportunity to reduce labor costs and to protect and enhance its revenue base.

That concludes my statement, Messrs. Chairmen. My associates and I will be happy to answer any questions you may have.

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