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Report to the Chairman, Subcommittee
on Federal Services, Post Office and
Civil Service, Committee on
Governmental Affairs, U.S. Senate

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MAIL MANAGEMENT

Labor Programs Run by States Could Reduce Postage Costs



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The Honorable David Pryor
Chairman, Subcommittee on Federal
Services, Post Office and
Civil Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds in part to your request that we review the effectiveness of federal agencies' mail management programs. In an earlier phase of this work, we reported on the need for the General Services Administration to provide more support to other agencies and to identify governmentwide opportunities for major cost reductions in agency mail programs.¹

This report identifies Department of Labor opportunities to reduce postage costs through improved mail management operations at the State Employment Security Agencies (SESA). SESAs administer the federal-state unemployment insurance and the public employment service programs in each state and territory, under the broad guidance and financial support of Labor. We reviewed the SESA mail program because it was one of the most costly among civilian agencies in fiscal year 1989.

Results in Brief

SESAs incurred \$90.1 million in postage costs in fiscal year 1989. Labor paid these costs. Labor could reduce its annual mailing costs \$4.8 million by successfully encouraging SESAs to use more presorting² and another \$1.9 million by successfully encouraging SESAs to include the nine-digit ZIP code³ on their mail. Currently, SESAs have little incentive to minimize postage costs because savings resulting from improved mail management do not benefit them directly.

¹Mail Management: GSA Needs to Improve Support of Agency Programs (GAO/GGD-90-49, Aug. 1990).

²Presort is a method by which mailers sort mail according to ZIP codes before turning it over to the post office in order to obtain postage discounts. Presort equipment is automated equipment used by mailers to facilitate the sorting process. The U.S. Postal Service (USPS) offers discounts that vary depending on how finely the mail is sorted.

³The nine-digit ZIP code, also called ZIP + 4, is the five-digit ZIP code plus a four-digit expanded code to further refine the point of delivery. USPS offers discounts to mailers for placing the nine-digit ZIP code on their mail.

To achieve these savings, Labor will have to provide SESAS with funds for presort equipment and software, or, as an alternative, get SESAS to use private contractors to presort their mail. Using contractors would reduce the presorting savings by about \$2.4 million but would not require investment in equipment and software, which Labor said it could not afford at this point. We did not attempt to estimate the cost of the additional equipment and software needed to achieve these savings, because to do so would require individually assessing each SESA's needs. However, other organizations, such as the Department of the Treasury's Financial Management Service, that have invested in equipment and software to presort and prebarcode mail have recouped the costs within 2 years.

Background

Labor is responsible for providing broad policy guidance to SESAS for the development, improvement, and operation of the federal-state unemployment insurance and the public employment service programs. Each state, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands have an agency to administer the employment security and unemployment insurance programs. Labor provides funding to SESAS for the unemployment insurance and employment service programs, including administrative costs. According to Labor officials, the federal assistance provided to SESAS in recent years has been about \$100 million lower than what it should be.

In fiscal year 1989, SESAS spent \$90.1 million on postage. Over 90 percent of SESA mail is sent first class. SESAS' outgoing mail consists primarily of unemployment checks and a variety of forms to employers and claimants, such as notices of benefit information, statements of claimants' benefits paid, and quarterly employer reports. First-class postage rates rose 15 percent in February 1991; Labor's postage costs will increase proportionately.

SESAS are one of four nonfederal activities allowed to mail using a federal agency's penalty mail privilege.⁴ Penalty mail is official mail sent without prepayment of postage and accounts for about two-thirds of SESAS' mail. To calculate the cost of this mail, USPS periodically samples SESAS' mailings. Since all SESAS use the same Labor postal penalty mail account number, state-specific information on penalty mail costs is not

⁴The other special users of penalty mail are (1) the Department of Agriculture's Cooperative Extension Program, (2) the General Secretariat of the Organization of American States, and (3) the Pan American Health Organization.

available. The remainder of SESAS' mail is charged by USPS through actual counts of mailings, so state-specific data would be available for this portion of SESAS' mail.

Objectives, Scope, and Methodology

Our objective was to identify opportunities for reducing SESA mailing costs through improved mail management practices, such as presorting first-class mail. To achieve this objective, we reviewed and analyzed Labor mail operations and regulations and fiscal year 1989 postage costs and volume data. We interviewed Labor headquarters officials and regional mail coordinators, Labor Inspector General officials, USPS representatives, officials from 48 SESAS, and a representative from the Interstate Conference of Employment Security Agencies. The Interstate Conference of Employment Security Agencies is an association that, among other things, represents all 54 SESAS before Labor and Congress.

We visited the New Jersey and Pennsylvania SESAS because they had large, centralized automated mail operations. We also used information from two private presort services in our analyses of opportunities to reduce SESA mail costs. We did not independently verify the accuracy of Labor and SESA postal cost estimates. These estimates are periodically reviewed and verified by USPS as part of arriving at SESA postage costs.

We did our fieldwork between January 1989 and November 1990 in accordance with generally accepted government auditing standards. We discussed a draft of this report with Labor officials and included their comments where appropriate.

Action Taken to Reduce Postage Costs Achieved Limited Results

Labor realizes that presorting is the main way to reduce first-class mail costs and in a past program encouraged the states to apply for grant funds to buy presort equipment and nine-digit ZIP software to enable them to take advantage of USPS discounts. The program, known as the Mail Automation Program, started in fiscal year 1980. By 1987, Labor had approved 49 of the 54 SESAS' grant applications amounting to \$10.7 million. Due to higher priority financial demands on the Employment Security program—such as salary costs—since 1987, Labor has not provided funding under the Mail Automation Program to meet the SESAS' needs for additional equipment and staffing.

USPS data indicates that Labor saves about \$3 million annually because SESAS are presorting some of their first-class mail. However, only 33 percent of the total first-class mail volume was presorted in fiscal year

1989, even though 49 of the SESAS received grants to buy presort equipment.

Postal Savings Not Fully Realized

With the new USPS rates, Labor could reduce annual postage costs by \$4.8 million if SESAS presorted their mail to the fullest extent possible and could save another \$1.9 million by adding the nine-digit ZIP code to SESAS' mail. However, SESAS have little incentive to reduce postage costs because savings realized are distributed to all SESAS, not just the one that produced the savings. The savings are distributed through an adjustment in the grant for administrative costs. This grant pays a portion of the SESAS' administrative costs.

Presorting Opportunities

Typically, SESAS use a centralized outgoing mail operation to process large-volume computerized mailings, which are sent first class. The most effective way of reducing the first-class mail cost is through presorting mail. Labor does not know whether SESAS are presorting to the fullest extent possible because it does not collect from each SESA the statistics, such as complete volume data, that are necessary to make this determination.

According to mail officials in 48 SESAS we contacted, (1) 87 percent of SESA mailings are processed through centralized locations and (2) 77 percent of the centralized mail could be presorted if SESAS had adequate staff, equipment, and instruction. Only 33 percent of the SESA mail was presorted in fiscal year 1989. However, had SESAS presorted 77 percent of their first-class centralized mail in fiscal year 1989, 115 million additional pieces of mail would have been presorted. With this volume of mail and with the new USPS discount of \$0.042 per piece, Labor would save \$4.8 million annually.

Labor officials agreed that more presort savings could be achieved but said that because of budget constraints, Labor was not able to fund additional presort equipment and software. We did not attempt to estimate the cost of the additional equipment and software needed by each SESA, because to do so would require individually assessing each SESA's needs. However, other organizations that have invested in equipment and software have recouped their costs in a short time. A New Jersey SESA official, for example, estimated that the cost of the additional equipment needed could be recouped in less than 2 years.

However, even without investing in presort equipment, Labor could still achieve about \$2.4 million in presort savings by using an outside presort service. A presort service is a private company that will pick up an agency's first-class, letter-sized mail and presort it to meet requirements for USPS postage discounts. A presort service's charge is usually half of the USPS discount. Therefore, using a presort service would reduce total savings but would relieve Labor of the need to purchase presort equipment.

Nine-Digit Zip Code Opportunities

The nine-digit ZIP code allows mail carriers to sort their mail more quickly and accurately. USPS offers a discount to mailers who add the nine-digit ZIP because there is less handling by USPS clerks. Labor could save \$1.9 million annually (for both presorted and nonpresorted mail) if SESAs added the nine-digit ZIP code to their mail. Adding the nine-digit ZIP code would reduce the postage cost of presorted mail by \$0.006 per piece—for a total discount of \$0.048 per piece—at USPS' new February 1991 rates. Thus, the nine-digit ZIP codes would save Labor \$1.1 million annually. Adding the nine-digit ZIP code to nonpresorted mail would reduce Labor's postage costs \$0.014 per piece at 1991 rates—an annual savings of \$0.8 million for nonpresorted mail. USPS will add the nine-digit ZIP code to mailing lists at little or no cost.

Conclusions

Past Labor efforts to reduce SESA mailing costs have achieved cost reductions, but more savings are possible and should be sought. To save \$4.8 million annually from additional presorting, Labor will have to provide additional funding to SESAs for equipment and software or successfully encourage SESAs to use outside contractors for presorting, which would reduce savings to \$2.4 million annually. Labor could save another \$1.9 million annually by successfully encouraging SESAs to include the nine-digit ZIP code on all mail. However, a difficulty Labor faces in seeking cost reductions is that SESAs have little incentive to minimize postage costs because savings resulting from improved mail management do not benefit them directly.

Recommendations

We recommend that the Secretary of Labor encourage SESAs to obtain postage discounts by revising the allocation formula for reimbursing SESAs' administrative costs so that SESAs that do realize postage savings are rewarded directly, through increased funding of their administrative costs. We also recommend that Labor encourage SESAs to presort mail and include the nine-digit ZIP code on their mail. If the funds needed to

buy presorting equipment are not available, SESAS should be encouraged to contract for presorting services as an alternative.

Agency Comments

We discussed a draft of this report with Labor officials on February 15, 1991. They said that Labor was currently not able to fund presort equipment for SESAS, but that our recommendation to revise the allocation of postage savings should cause SESAS to use contract presorting services and increase the application of the nine-digit ZIP code.

Labor officials said that SESAS' postage costs should be further reduced when SESAS stop using penalty mail, which they anticipated would be in 2 years. These officials said that, ideally, when SESAS no longer use penalty mail, they would like to allocate funds for postage directly to SESAS and let the SESAS control those funds. The officials said that this change would make SESAS directly responsible for their postage costs, and SESAS would be able to apply their postage savings to other administrative costs. Labor officials said that this approach would cause SESAS to consider a wide variety of cost-saving mailing options, such as third-class bulk instead of first class. They also said that as an interim measure our recommendation to revise the allocation of administrative costs would provide an incentive to SESAS to presort and use the nine-digit ZIP code.

We are sending copies of this report to interested congressional committees and subcommittees, the Secretary of Labor, the Director of the Office of Management and Budget, and other interested parties.

The major contributors to this report are listed in the appendix. If you have any questions or need additional information, please call me on (202) 275-8676.

Sincerely yours,



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