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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

SEP 21 1972

GENERAL GOVERNMENT
DIVISION



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Dear Mr. Hayden:

The General Accounting Office has completed a survey of the Postal Service's self-service postal center (SSPC) program. Our survey work was performed at the Postal Service's headquarters, the Eastern Regional Office in Philadelphia, the Washington District Office, and post offices in Alexandria, Virginia; Rockville, Maryland; and Washington, D.C. The objective of our survey was to obtain a working knowledge of the program for the purpose of deciding whether an indepth examination was warranted.

Certain problems were identified by our survey. Most of these were discussed with responsible Postal Service officials. On the basis of their agreements with our conclusions, and the corrective actions already undertaken or planned, we do not intend to do any additional work or reporting on the SSPC programs at this time. This letter will serve to make our findings a matter of record for your information.

Our principal observations on the operation of the program were that:

- almost half of the SSPCs installed were not meeting the programs' profitability objective, raising the questions of whether the site selection criteria were adequate, and if adequate, whether they were being followed, and
- the Postal Service did not have effective control over its inventory of SSPC equipment and some equipment could not be accounted for.

Our comments on these matters are presented in the following sections.

NEED TO EVALUATE ADEQUACY
OF SITE SELECTION CRITERIA

We found that almost half of the SSPCs installed were not meeting the program's economic objective. This situation raised a question of whether the site selection criteria were adequate, and if adequate, whether they were being properly followed by the officials making site determinations.

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The Postal Service has developed site selection criteria designed to assure that SSPC equipment is installed in productive locations—locations which will generate high revenues at minimum cost. At present, these criteria provide that a proposed location should generate minimum revenue of \$39,000 per year. This objective is based on the Postal Service's estimate of the revenue required to hold costs to about 6 percent—6 cents per dollar—of gross revenue. Postal officials stated that this 6 percent ratio represented half of the cost of providing comparable service by postal clerks. These officials were unable to give us any support for the cost of providing these services in a post office. Firm knowledge of this cost would appear critical in establishing revenue objectives. You may wish to examine into this matter.

The SSPCs do not, it appears to us, generate new revenue; rather, the units receive revenue that would otherwise have been collected at other postal units (offices, branches, contract stations). To the extent the SSPCs' volume of business is not sufficient to result in cost reductions at other postal units, the cost of operating SSPCs adds to the cost of merchandising postal services.

To ascertain if this cost-revenue ratio was being obtained, we reviewed Postal Service reports on the cost of SSPC operations for the first 8 months of fiscal year 1972, a period that would include the high volume holiday periods. We found that of 713 SSPCs, 328, representing 46 percent, were incurring operating costs in excess of 6 percent of revenue. The actual number is probably somewhat higher since we found that SSPC operating costs were understated in the reports because certain costs, such as depreciation, were not included.

Because our survey was not intended to explore these matters in depth, we did not expend the effort required to establish the precise reasons a large part of the SSPCs failed to meet the economic objectives. We do believe, however, that this situation points up the need to examine into the adequacy of the site selection criteria. If the criteria are found to be sound, it would then raise a question as to the propriety of their application. In this regard, for five of the eight SSPCs we surveyed, Postal Service officials were unable to provide us with documentation showing how the criteria were followed in the site selection process.

Postal Service officials informed us that studies were underway to develop criteria for determining the types of retail outlets needed to best serve postal customers in an economical manner. We believe that these studies should be expanded to include an examination into the reasons the economic objective has often not been met.

NEED TO ESTABLISH EFFECTIVE CONTROLS
OVER EQUIPMENT INVENTORY

The Postal Service has invested more than \$15 million in over 800 sets of SSPC equipment. To manage this large quantity of equipment properly, accurate records of SSPC equipment purchased and on hand, and its ultimate disposition, are essential. At the time of our survey, the Service was not maintaining an inventory of SSPC equipment.

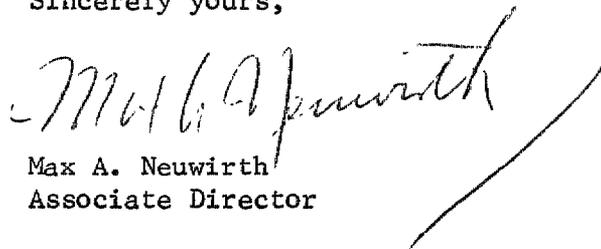
We requested Postal Service headquarters officials to furnish data on the number of SSPCs purchased since inception of the program and their disposition. Because an equipment inventory was not maintained, these officials had to rely on available miscellaneous records and their personal knowledge in developing data which indicated 822 units were purchased. Nine of these units could not be accounted for. Further examination by us revealed that the Service lacked support for the number of units reported to have been purchased.

In discussing our findings with Postal Service officials, we were informed that adequate inventory records of SSPC equipment are now being maintained.

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We would appreciate receiving your views and comments on the matters contained in this letter, together with advice as to any corrective actions taken or contemplated. We appreciate the cooperation extended our representatives during this survey.

Sincerely yours,



Max A. Neuwirth
Associate Director

The Honorable Merrill A. Hayden
Deputy Postmaster General
United States Postal Service