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POSTAL SERVICE

Many Challenges in a Changing Environment

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THE U.S. POSTAL SERVICE
MANY CHALLENGES IN A CHANGING ENVIRONMENT

SUMMARY OF THE STATEMENT OF MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR GOVERNMENT BUSINESS OPERATIONS ISSUES

GAO's testimony highlights key characteristics of the Postal Service of today and the challenges that will face both the Service and the Congress as they consider how mail service will be provided in the future.

In 1994 GAO reported that poor labor-management relations persist. Four of the six contract negotiations since 1978 have required that a third party intervene to settle major differences. If this climate does not improve, Congress may need to reconsider any provisions of the 1970 act that may inhibit the parties' reaching agreement.

Nationally, service and customer satisfaction indicators have remained about the same during the past several years. The Postal Service has fallen below postal standards and short of customer expectations. GAO's work suggests that the Postal Service faces a difficult and lengthy task of changing Postal processes and improving service to expected levels.

Similarly, the Service is facing additional challenges in revenue protection, automation, and competition. In 1994 GAO reported that postage meter revenue, which comprised almost half of the total service revenues, was at a high risk for fraud because of weaknesses in program controls. Many of the weaknesses identified by the Postal Inspection Service had continued for many years. Also, this week GAO reported that the Postal Service's automation program, now a $5 billion 16 year program, is having problems achieving savings and producing less than expected. In addition, while overall mail volume is continuing to increase, private sector companies and new technology are supplanting some traditional mail services.

Service delivery problems and other challenges have increased the calls for basic reforms of the Postal Service. Recent developments include legislation to turn the Postal Service into a publicly-owned corporation, and a coalition request to the Postmaster General to suspend the letter mail monopoly over third class advertising mail. The Postal Service has suggested that it be given more operational flexibility in several areas. Fundamental issues about the future of the Postal Service include (1) how competition will affect Postal revenue, cost, and rates and the federal government's role in mail delivery; (2) the private sector's capacity to effectively assume responsibility for mail service in this country; and (3) the impact on the economy and the people of this country of such a change.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's oversight hearings on the U.S. Postal Service. My testimony will focus on (1) an overview of the key characteristics of the Postal Service of today, and (2) challenges that will face the Service and Congress as they consider how mail service will be provided in the United States in the future. My testimony is based on work we have completed or have underway on Postal labor management relation, customer service, postal revenues, automation, and competition.

THE POSTAL SERVICE OF TODAY

Under the reforms instituted by the Postal Reorganization Act of 1970, the Postal Service is to provide mail service to people and organizations using revenue generated from postage. Postage rates are adjusted periodically to keep the Service on a break-even basis financially. The size and scope of Postal Service operations are massive--nearly 40,000 post offices, stations, and branches; over $16 billion invested in buildings, equipment, and land; the nation's largest civilian employer with over 850,000 employees; a payroll of over $100 million a day; and 177 billion pieces of mail delivered in 1994 with revenues of $50.3 billion. In 1971 the Postal Service had revenues of $6.3 billion, delivered 87 billion pieces of mail, and had 729,000 employees. The Service currently delivers in about a week the same number of pieces that United Parcel Service and Federal Express combined delivered in all of 1994.

The majority of the Postal workforce is composed of four crafts--postal clerks, city carriers, rural carriers, and mail handlers--whose working conditions and pay and benefits are determined through collective bargaining. (See fig. 1.) The average annual pay of bargaining employees is about $36,000, including overtime.

There is much discussion and speculation today about the inroads into the Postal Service's business caused by electronic communication alternatives such as fax and e-mail. While these are a growing phenomena, Postal Service data show that mail volume is also still growing. (See fig. 2.) Volume was up 4.7 percent in the first quarter of 1995 compared with the year before. Less than 5 percent of the mail today is personal correspondence between households. The rest is either between households and businesses (65 percent) or between businesses themselves (30 percent). (See fig. 3.) Most of the business mail received by households is generated by the government, the financial services sector, and retail sales. The Postal Service determined that in 1992 the average household received about 21 pieces of mail a week, and over half of this volume was advertising. (See fig. 4.)

CHALLENGES FACING THE POSTAL SERVICE AND OUR RELATED WORK

The 1970 Act required the Postal Service to provide universal mail service at uniform prices that are fair and reasonable, as well as to provide its employees with wages, benefits, and working conditions comparable to those of the private sector. To help accomplish this, the Service was given the exclusive right to deliver letter mail and exclusive access to mail boxes.

The Postal Service expects that during the next few years overall mail volume will continue to grow. However, advances in communication technology, competition from the private sector and the possible enactment of legislation affecting the Service's monopoly over letter mail could affect the size, structure, and overall mission envisioned by the Postal Reorganization Act of 1970. Increasingly, private sector companies and new technology are supplanting traditional mail services. We have reported[1] on how the Postal Service lost most of the markets in overnight delivery and parcels to the private sector several years ago. The statutory monopoly on letter mail, provided for in the Private Express Statutes, has not stopped the development of alternative means of communications and delivery, and many mailers are actively seeking out these sources. Major losses of Postal Service business could trigger more frequent and larger postage increases, and could lead to further reductions in the Service's business.

Most of our work in recent years can be divided into five broad categories, each having relevance to current postal issues and significance to the Service, the public, or the Congress: (1) labor/management relations, (2) customer service, (3) protecting postal revenues, (4) automation, and (5) the Service's future role and competition. I will briefly mention our major findings as well as some of our ongoing work on these issues.

Labor Management Relations

The 1970 Act responded to the controversy in the 1960s over a Post Office Department that was hampered by deteriorating facilities, poor working conditions, and worker walkouts over wages. Last year we reported[2] that poor labor-management relations persist because of an autocratic management style, adversarial employee and union attitudes, inadequate performance management systems, and the nature of the work. Postal management, the four major unions, and

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[1] U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

[2] U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201A & 201B, Sept. 29, 1994).

the three management associations have been unable to resolve their differences effectively. Four of the six contract negotiations since 1978 have required that a third party intervene to settle major differences.

In our September 1994 report, we recommended that the parties develop a long-term agreement on approaches to remedy this labor-management climate. We also recommended that the parties report to Congress in 1 year on their progress in reaching a basic framework agreement. In a November 1994 response, the Postmaster General called for the principal parties to participate in a summit to address the issues in the report. Management associations agreed, but the major unions declined to participate at least until after current contract talks are completed. Current talks have been stalled by disputes and impasses since November 1994.

In view of these difficulties, this Subcommittee could help by monitoring the progress of the parties in developing and implementing a framework agreement and requesting periodic progress reports from all parties. Further, if the parties involved cannot reach a framework agreement, within a reasonable time, Congress may want to reexamine whether there are any aspects of the employee and management relationships with the Postal Service that are prescribed in the 1970 act but constitute barriers to reaching a framework agreement.

Customer Service

The Postal Service knows that its service to customers is below postal standards and falls short of customer expectations. Our work in this area has covered a variety of topics including the consolidation of mail processing in rural areas that had adversely affected service, the acceptance of credit cards in post offices for greater customer convenience, the need to upgrade postal retail stores to make them more attractive to customers, and the Service's inability to deliver priority mail in 2 days. We will soon be issuing reports on the use of the Service's periodic residential customer satisfaction surveys and the causes of last year's deterioration in delivery service in the Washington D.C., metropolitan area. Altogether, our work in the customer service area indicates that the Service faces a difficult, and lengthy task in changing its processes and improving service to expected levels.

Nationally, service and customer satisfaction have remained about the same during the past several years. (See fig. 5.) The Service hires contractors to determine the time it takes for First-Class letters to move from a collection box to the point of delivery, and solicits opinions from households on various aspects of residential service. The results are published quarterly. In the first quarter of 1995, 85 percent of households across the nation rated overall service as good to excellent, and 84 percent of the First-Class letters arrived on time. This is the same rating reported

for overall service 3 years earlier, and 1 percentage point increase in on time delivery from 3 years ago. The Service's goal for on-time performance is 95 percent. There is no specific numeric goal for customer service.

In an increasingly competitive environment, customer service has become more critical to the survival and success of both public and private entities. Therefore, this Subcommittee may wish to more fully understand how well the Postal Service is meeting the needs of its customers. To do so, it could request additional information about both residential and business customer's satisfaction levels on both a national basis as well as different areas of the country. Data are available on residential customers, but not much of it is routinely shared with Congress. Data on business customer satisfaction has been collected by the Postal Service contractor since spring 1994, but the results have not yet been made available.

Protecting Postal Revenues

Because of a complex rate structure and huge volumes of mail, the Service faces a difficult challenge in making sure that the correct amount of postage is paid by customers. In 1993, postage meters accounted for about $21 billion, or 46 percent, of postage revenue. Because of weaknesses in the controls over metered mail, the Postal Inspection Service has documented fraud in the mail industry since 1985, which has involved substantial revenue losses to the Service. In 1994, we reported that many of the same problems the Inspection Service found had continued over many years, and that the Postal Service had initiated actions to correct many long-standing deficiencies to reduce the risk of fraud in the future.

Currently we are reviewing the controls over revenue at business mail acceptance units. Nationally, there are about 500 such units that accept mail from the largest mailers and are responsible for ensuring that postage paid, totaling about $20 billion in 1994 from these units, is the correct amount.

While the Postal Service has initiated several actions to address meter problems, it has historically focused limited attention on controls over revenue. With costs and rates increasing, the Subcommittee may wish to focus attention on the adequacy of the Postal Service's efforts to reduce the risk of meter fraud as well as maintain effective internal controls over other revenues.

Automation

A key Postal Service strategy for reducing cost growth and maintaining reasonable postage rates has been its reliance on automation to process mail more efficiently. The Service is continuing a $5 billion, 16 year effort to barcode virtually all letters and sort them automatically into delivery sequence. This

week we reported that automating mail processing and achieving savings have been more difficult to accomplish than anticipated. The obstacles range from equipment not having as much capability as expected to management being unable to gain employee cooperation in changing work methods affected by automation. The Service has not been able to achieve the personnel reductions that were once projected, and any financial savings have been small relative to total operating costs.

Our latest work on automation showed that limited data are available to specifically show the benefits being achieved for the investment in automation. We believe it is important for the oversight committees to fully understand the total cost and benefits of major postal initiatives such as automation in terms of savings, efficiency, and service. The Postal Service is expanding its use of remote barcoding systems and is replacing contract employees with postal employees. It would be useful for future comparisons and decisionmaking for the Postal Service to report to the Subcommittee cost and productivity data on the sites that have been operated by private contractors so such data can be compared with similar data for those sites operated with postal employees.

The Growing Pressure of Competition

Service delivery problems, together with persistent labor management relations problems and other challenges, have increased the calls for basic reforms of the Postal Service. Recent developments include the following:

-- Legislation has been introduced to turn the Postal Service into a publicly-owned corporation and suspend the Private Express Statutes 5 years later.

-- A coalition of advertising mailers and private mail carrier competitors have asked the Postmaster General to initiate action to suspend the letter mail monopoly over third class advertising mail.

The Postal Service has suggested that it be given more operational flexibility in several areas to improve the postal system. These areas include collective bargaining, cross crafting, grievances, pay for performance, workforce management, rate setting, and new products.

The Postal Service is also actively engaged in research to offer nontraditional services, particularly electronic communications. Some efforts that are being tested or considered are participation in the Time Warner Cable interactive television test project in Orlando, Florida; development of an electronic postmark capability to safeguard the privacy of electronic mail; and combination electronic/hard copy delivery. The Service has tried similar types of initiatives in the past with varying degrees of success.

Fundamental issues that surround the emerging debate on the future of the Postal Service include (1) how competition will affect the Postal Service's revenue, cost, and rates and ultimately the federal government's role in mail and merchandise delivery; (2) the private sector's capacity to effectively assume responsibility for mail service in this country; and (3) the impact on the economy and the people of this country of such a change. Because of the interest in postal reform, we are currently examining aspects of these issues and expect to finished around the end of 1995.

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In summary, Mr. Chairman, the Postal Service affects virtually every person and business in this country. And, as I pointed out early in my statement, major changes to the Postal Service could have an impact on the quality, price, and availability of mail service, and could also affect the work of more than 850,000 employees. In that context, Congress needs comprehensive and accurate information on postal operations in order to be able to carefully consider what changes should be made to improve this important service.

This concludes my prepared statement. I have attached a list of our Postal Service products issued since 1990. I would be happy to respond to any of your questions.

GAO PRODUCTS ISSUED SINCE 1991
OVERSIGHT HEARINGS, SUBCOMMITTEE ON POST OFFICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

Operational Performance of the United States Postal Service (GAO/T-GGD-91-9, Mar. 5, 1991).

Postal Service: Annual Distribution of 1990 Marketing Costs GAO/GGD-91-77BR, May 8, 1991).

U.S. Postal Service: Transfer of Mail Processing From Parkersburg to Clarksburg, WV, Makes Sense (GAO/GGD-91-79, May 8, 1991).

Postage Stamp Production and Procurement (GAO/T-GGD-91-39, June 5, 1991).

Procurement Reform: New Concepts Being Cautiously Applied at the Postal Service (GAO/GGD-91-103, Aug. 6, 1991).

U.S. Postal Service: Work Hour Allocations to High Growth and Low Growth Post Offices (GAO/GGD-92-54BR, Feb. 27, 1992).

U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49, Mar. 25, 1992).

U.S. Postal Service: Priority Mail at Risk to Competition if Double Postage Rule Is Suspended (GAO/GGD-92-68, May 7, 1992).

Postal Service: Automation Is Restraining But Not Reducing Costs (GAO/GGD-92-58, May 12, 1992).

Postal Service: Decisions to Purchase Two Properties in Queens, New York (GAO/GGD-92-107BR, July 1992).

Postal Procurement: Eagle Air Hub Selection Not in Accordance With Solicitation (GAO/GGD-92-127, Aug. 1992).

Postal Procurement: Ethics Violations Did Not Invalidate An Automation Contract (GAO/GGD-92-119, Aug. 1992).

Postal Stamp Production: Private Sector Can Be a Lower Cost Optional Source (GAO/GGD-93-18, Oct 1992).

Postal Service: Tracking Customer Satisfaction in a Competitive Environment (GAO/GGD-93-4, Nov. 1992).

GAO PRODUCTS ISSUED SINCE 1991
OVERSIGHT HEARINGS, SUBCOMMITTEE ON POST OFFICE, COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

Revised Delivery Standards: Postal Delivery Scores Improved But Service Is Slower (GAO/GGD-93-12, Nov. 1992).

Postal Service: Service Impact of South Dakota Mail Facility Not Fully Recognized (GAO/GGD-93-62, Feb. 1993).

Postal Procurement: Information on Bid Protest Activities (GAO/GGD-93-79FS, April 1993).

Priority Mail: Advertised 2-Day Service Is Not Guaranteed (GAO/GGD-93-122, July 1993).

Postal Service: 1992 Olympic Sponsorship--Profit or Loss Is Unknown (GAO/GGD-93-89, July 1993).

Financial Management: Estimate of Interest on Selected Benefits Received by Postal Service Retirees (GAO/AIMD-93-11, July 1993).

U.S. Postal Service: Newly Designed Retail Store Revenues Exceed Operating Costs (GAO/GGD-94-85, Feb. 1994).

Postal Service: Issues Related to Settling a Disputed Contract Award for Air Transportation (GAO/GGD-94-92, March 1994).

Postal Service: Planned Benefits of Iowa Automated Mail Facility Not Realized (GAO/GGD-94-78, April 1994).

Postal Service: Role in a Competitive Communications Environment (GAO/T-GGD-94-162, May 1994).

Postage Meters: Risk of Significant Financial Loss But Controls Are Being Strengthened (GAO/GGD-94-148, May 1994).

U.S. Postal Service: Proposed Policy to Accept Credit and Debit Cards Makes Sense Conceptually (GAO/GGD-94-154, June 1994).

U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201A and B, September 1994).

Postal Service: Service and Cost Aspects of the Dakota Central Area Mail Processing Center (GAO/GGD-95-16, October 1994).

U.S. Postal Service: Drug Investigation Data (GAO/GGD-95-29FS, December 1994)

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