

BY THE U.S. GENERAL ACCOUNTING OFFICE ~~529697~~

**Report To The Chairman, Subcommittee On Civil  
Service, Post Office, And General Services  
Committee On Governmental Affairs  
United States Senate**

**Information On The Status Of Postal Service  
Costs And Mail Delivery Service Under The  
Postal Reorganization Act**

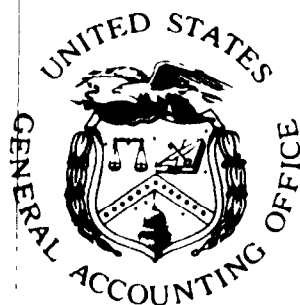
Enacted in 1970, the Postal Reorganization Act was the most comprehensive revision ever of postal legislation. The act reorganized the Post Office Department into the Postal Service in order to improve mail service.

GAO's review shows that since the enactment of the Postal Reorganization Act, the Service's overall annual mail volume has increased over 35 percent, from 87 billion to 119 billion. Available data also indicates that the Service's mail delivery goals are consistently being met and that the public generally views mail service favorably. The Service continues to receive hundreds of thousands of service complaints from individual mailers, but it has made efforts to improve mail service to the general public.

Postal Service annual operating expenses have increased 151 percent under the act, from \$9.6 billion to \$24.1 billion. However, adjusting this increase for inflation from 1972 through 1983 reduces the \$24.1 billion to \$11.2 billion, producing a real increase in annual operating expenses of 17 percent over 11 years. The Service continues to make efforts to reduce costs.



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AUGUST 8, 1984

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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

B-215064

The Honorable Ted Stevens  
Chairman, Subcommittee on Civil Service,  
Post Office and General Services  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

In response to your March 3, 1982, request, this report is the second in a series of reports addressing different aspects of postal operations. The report provides information on the status of Postal Service costs and mail delivery services under the Postal Reorganization Act.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to the Postal Service. We will also make copies available to others upon request.

We are available to discuss the report and to provide any further assistance you may need.

Sincerely yours,

A handwritten signature in cursive script that reads "W. J. Anderson".

William J. Anderson  
Director

draw firm conclusions, the sum of the measures GAO used--delivery times, public opinion measurements, and a study of the Service's competitive status--suggests that service quality has not deteriorated and may have improved slightly in recent years. (See p. 8.)

The Service's Origin-Destination Information System--a system used to measure delivery times for stamped First Class Mail--shows that since 1979 the Service has consistently met its 95-percent goal for overnight delivery of local First Class Mail. (See p. 9.) In addition, both Postal Service and independent opinion surveys of customer satisfaction with mail delivery service have consistently shown that a clear majority of those polled are satisfied with their mail delivery service. For example, a 1982 Roper poll found that 89 percent of those interviewed were either completely or fairly satisfied with the performance of the Postal Service. (See p. 10.) A 1980 study done by a public accounting firm for the Service also concludes that the Service's competitive status has not deteriorated. (See p. 11.) The Service continues to make efforts to improve its service to the general public, such as initiating its recent All Services program designed to try to provide better mail delivery services at post offices. (See p. 14.)

Despite these indicated levels of satisfaction, the Service continues to receive hundreds of thousands of mail service complaints annually. (See p. 12.)

POSTAL SERVICE OPERATING AND  
CAPITAL COSTS UNDER THE  
POSTAL REORGANIZATION ACT

Under the act, Service operating costs have grown significantly. Annual Service operating expenses have risen from \$9.6 billion in fiscal year 1972 to \$24.1 billion in fiscal year 1983, an increase of about 151 percent. Employee salary and benefit costs have continued to account for over 80 percent of total operating expenses. (See p. 16.) However, applying the Implicit Price Deflator for Gross National Product--a method used to adjust for the influence of inflation--to the Service's fiscal year 1983 total operating expenses of \$24.1 billion shows that the Service's deflated fiscal year 1983 operating expenses amount to \$11.2 billion in constant 1972 dollars. This represents a real increase of about 17 percent in 11 years. (See p. 18.)

GENERAL ACCOUNTING OFFICE  
REPORT TO THE CHAIRMAN,  
SUBCOMMITTEE ON CIVIL SERVICE,  
POST OFFICE, AND GENERAL SERVICES  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

INFORMATION ON THE STATUS OF  
POSTAL SERVICE COSTS AND MAIL  
DELIVERY SERVICE UNDER THE  
POSTAL REORGANIZATION ACT

D I G E S T

The 1970 Postal Reorganization Act reorganized the Post Office Department into the Postal Service in order to improve the efficiency of mail service. This report describes what has happened to postal costs and mail services under the act. This review was requested by the Chairman, Senate Subcommittee on Civil Service, Post Office and General Services, who asked GAO to use existing studies to prepare a status report on the Postal Reorganization Act's impact on Postal Service cost and mail delivery services.

MAIL DELIVERY SERVICE UNDER  
THE POSTAL REORGANIZATION ACT

The Service's mail delivery service responsibilities are truly staggering. For example, in fiscal year 1983, the Service handled over 119 billion pieces of mail. Even if the Service handled 99.9 percent of this mail correctly, over 100 million pieces would still be mishandled. (See p. 1.)

Since the first full year of operations under the act, fiscal year 1972, total mail volume has grown from about 87 billion to 119 billion in fiscal year 1983, a growth of over 35 percent. (See p. 6.)

Business use of mail for transactions, advertising, and merchandising has been particularly strong. The Postal Service looks for and is responsive to business mailer problems, as illustrated by its efforts to maintain open communications with business mailers. Its local Postal Customer Councils--featuring periodic group meetings between postmasters and local businesses to discuss mail services--had an estimated 78,000 members in 1983. (See p. 6.)

A number of measures taken by or for the Service indicate that delivery service to individual customers has been of acceptable quality since the act. Although each measure has limitations which hinder attempts to

GAO/GGD-84-73  
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The Service has taken many actions to reduce operating costs but an important cost savings action--the widespread use of automated mail processing machines to process mail--has not been completed. (See p. 19.) In addition, productivity increases have been recorded, but these gains have been offset somewhat by cost increases. (See p. 21.)

Annual net income/loss and working capital positions--current assets compared with current liabilities--have been traditionally used as indicators of the Service's financial health. Operating losses and low working capital positions have been common under the act but serious liquidity problems--the inability of the organization to meet current expenses, such as payrolls--have been avoided in recent years. (See p. 23.)

Capital expenditures have also increased under the act. In terms of capital outlays--actual cash payments--the Service has paid out about \$6 billion since the beginning of fiscal year 1972 through the end of fiscal year 1983. (See p. 30.) The Service has financed these expenditures primarily from available cash generated from operations. (See p. 31.)

The Service continues to benefit from several indirect government subsidies. Most notably, a portion of Postal Service employee retirement costs are annually subsidized by the federal government. For 1983, GAO estimated this annual subsidy at \$2.8 billion. (See p. 3.) GAO and others have reported to the Congress that eliminating the indirect retirement subsidy would reduce budgetary outlays but could cause an increase in future postage rates. The Congress has considered legislation addressing the subsidy and has chosen to date to continue it. The Congressional Budget Office is again studying the impact of this subsidy at the request of the Chairman of the House Committee on the Budget.

#### AGENCY COMMENTS

The Postmaster General said that the report provides a useful summary of the Postal Service's challenges and accomplishments under the Postal Reorganization Act. (See app. I.)

ABBREVIATIONS

BLS	Bureau of Labor Statistics
CSC	Consumer Service Card
GAO	General Accounting Office
MTAC	Mailer's Technical Advisory Committee
ODIS	Origin-Destination Information System
PRA	Postal Reorganization Act

C o n t e n t s

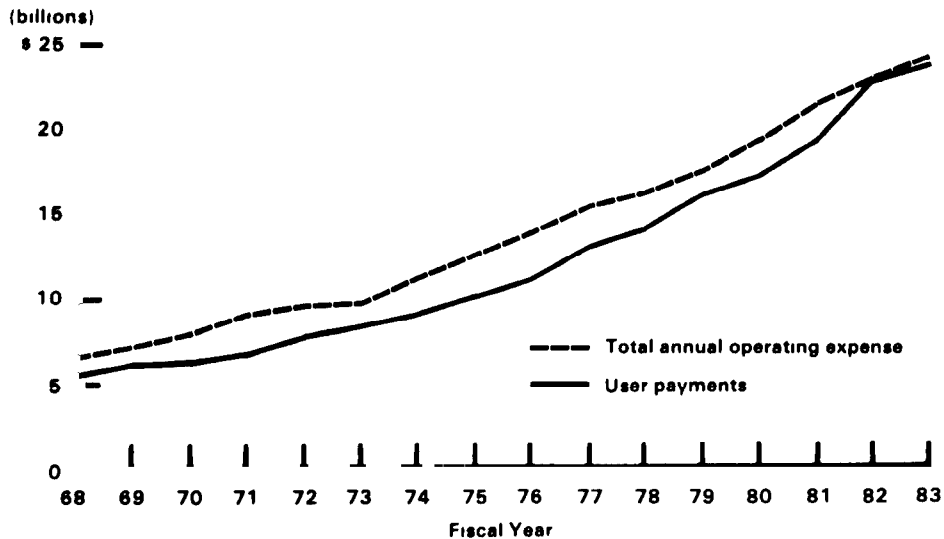
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--The weight of the mail delivered was 14.6 billion pounds, roughly equivalent to 1.3 million African bull elephants, 36 thousand blue whales, or 80 nuclear aircraft carriers.

--If the Service handled 99.9 percent of its mail correctly, over 100 million pieces of mail would still be mis-handled.

Along with its enormity, the Service also must be viewed from the perspective of being basically supported by the users of the mail. As illustrated in the following graph, mail users pay for most of the cost of operating the Postal Service.

Who Pays for the Postal Service?  
1968 thru 1983



As shown in the chart above, since 1968, users have directly paid for most of the costs of operating the Postal Service. Congressional appropriations pick up the rest of the bill. Since the passage of the PRA in 1970, the relative percentage of direct congressional appropriations--the public service appropriation, the revenue foregone appropriation and the transitional appropriation--has been reduced to just over 3 percent of total operating expenses. Revenue foregone appropriations benefit mailers of certain kinds of mail. There were no public service appropriations to the Postal Service in 1983 or 1984. The Omnibus Reconciliation Act of 1981 deferred the transitional appropriations--appropriations paying for unfunded workers' compensation and annual leave liabilities of the former Post Office Department--authorized for fiscal years 1982, 1983 and 1984.

## CHAPTER 1

### INTRODUCTION

"The United States Post Office faces a crisis. Each year it slips further behind the rest of the economy in service, in efficiency and in meeting its responsibilities as an employer. Each year it operates at a huge financial loss. No one realizes the magnitude of this crisis more than the postal managers and employees who daily bear the staggering burden of moving the nation's mail. The remedy lies beyond their control."

As illustrated by the above quote taken from the 1967 Report of the President's Commission on Postal Organization, postal costs and mail service were viewed as significant problems in the old Post Office Department. The 1970 Postal Reorganization Act (PRA), as amended, 39 U.S.C. 101 et. seq. (1982), directly addressed these problems by reorganizing the Post Office Department into the Postal Service. This report describes what has happened to postal costs and mail services under the PRA. This review was requested by the Chairman of the Subcommittee on Civil Service, Post Office and General Services, Senate Committee on Governmental Affairs.

#### THE POSTAL SERVICE TODAY-- TWO IMPORTANT PERSPECTIVES

In considering the current status of Postal Service costs and mail service, any review must recognize and appreciate two fundamental conditions associated with the operation of the Service--the enormous size of the Service's operations and the self-supporting emphasis placed on the organization.

From an operational perspective, the Postal Service is one of the largest operations--in terms of employees and annual budget--in the country. As of September 30, 1983, the Service had 547,328 full-time employees and a fiscal year 1983 operating budget of \$24.1 billion. The enormous nature of its operation is further illustrated by the following fiscal year 1983 information:

- If the Postal Service were considered as a non-governmental business, it would be the third largest employer in the nation.
- The Service handled over 119 billion pieces of mail, enough to stretch to the moon and back over 20 times.

within our timeframe. We chose 1976 as our cut off point, as this was the last time the PRA was significantly amended. We also initially decided to frame our analysis of these two areas by discussing their status under the PRA as compared to their status before the PRA. Our description of pre-PRA mail service and postal costs was taken from the Kappel Commission report, generally acknowledged as the most comprehensive review made of the Post Office Department in the late 1960's, just prior to reorganization under the PRA.

As the first step in our review of mail service results since the PRA, we divided mail service into two broad categories--mail service to large nonhousehold (primarily business) mail users and mail service to households (the general public). These two broad user categories have been recognized in most major mail studies. Operating within this framework, we identified existing surveys of public satisfaction with mail service and assessed each specific study as to its statistical validity. We also reviewed the results of the Service's Origin-Destination Information System (ODIS), which is the Service's primary mail delivery performance measurement system. In looking at ODIS, we assessed the design and supporting procedures of the system as to their statistical validity. Regarding the implementation of the ODIS system, we relied on a recent (1983) extensive review of the system done by the Service's internal auditor. Finally, in reviewing the Service's consumer complaint system, we interviewed responsible postal officials and reviewed system policies and procedures. Based on the results of an internal task force, this system was being revised during our audit. We obtained the task force report and assessed its recommendations.

To review postal costs under the PRA, we interviewed responsible Service accounting and operational officials. We relied extensively on the information reported by various Service accounting systems. These systems supply information for the Service's annual published financial reports, which are certified by independent certified public accounting firms. Annually, as a part of their review of internal controls, these firms assess the output of the systems. We relied on the opinions expressed in the audits as to the validity of the information in the Service's financial statements. We also reviewed studies of specific Service cost reduction efforts.

Our review was performed from March to September 1983 in accordance with generally accepted government audit standards.

The Service, however, does benefit from several indirect government subsidies. For example, Postal Service employee retirements are subsidized by the federal government. Using the Office of Personnel Management's estimate of the entire Civil Service Retirement System's cost of accruing benefits (expressed as a percentage of payroll costs), GAO estimated the Service's indirect subsidy at \$2.8 billion for fiscal year 1983. For a complete discussion of this issue, see GAO's report entitled Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (FPCD-77-48, Aug. 3, 1977). The Congress has considered legislation addressing this subsidy and has chosen to date to continue it. The Congressional Budget Office is again studying this subsidy at the request of the Chairman of the House Committee on the Budget.

### OBJECTIVES, SCOPE AND METHODOLOGY

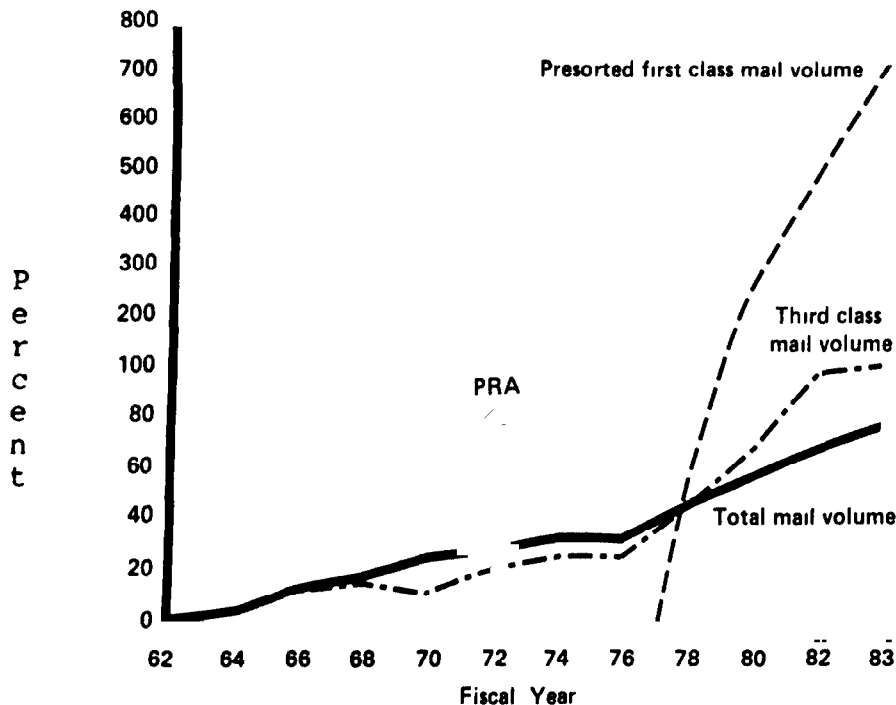
In March 1982, the Chairman, Senate Subcommittee on Civil Service, Post Office and General Services, Senate Committee on Governmental Affairs, requested that we make a study of the history of the Postal Service since reorganization with the view to informing Congress where the Act has been beneficial and what parts may need revising in order to make the delivery of mail more efficient and less costly. In addition, the Chairman urged us to "use all existing or current studies that may be available in order to reduce the cost of this study."

In subsequent meetings with the Chairman's office, we agreed that we would address the request in separate reviews. Our first review resulted in a report entitled Opportunities to Improve the Postal Ratemaking Process (GGD-84-10, Apr. 23, 1984). This second review provides an overview of postal costs and mail service under the Postal Reorganization Act. In performing this review, we agreed with the Chairman's office to rely extensively on existing studies and look at

- the status of mail service under the PRA through reviewing existing surveys of public satisfaction with mail service, the results of the Service's mail delivery performance measurement system, and the status of the Service's consumer complaint program and
- the Service's financial position under the PRA in terms of operating and capital cost growth and the Service's efforts to reduce costs.

To begin our assessment of both of these areas we conducted a literature search querying several automated data bases, such as the Public Affairs Information Service, to identify existing, recent (post 1976) studies of mail services and/or postal costs. We supplemented these inquiries by asking responsible postal officials to also identify existing studies in these areas,

Cumulative Percentage Change  
In Mail Volume Growth Since FY 1962



As illustrated in the above chart, total mail volume has grown 79.5 percent since fiscal year 1962, while third-class mail volume has grown 128.4 percent. Since its introduction in 1976, Presorted First Class Mail volume has grown over 700 percent, to 13.4 billion pieces in fiscal year 1983.

The continued use of mail services by businesses was further confirmed by a June 1980 study by the firm of Coopers and Lybrand entitled Study on Competition and Demand in Component Markets of the Mailstream. The report concluded that in the face of strong competition for transporting magazines and newspapers, distributing and displaying advertising messages, and transmitting messages containing transactions and correspondence, the Service had essentially maintained its competitive position during the 1970's.

The Service looks for and is responsive to problems

The Service's commitment to remain an attractive service for business users is illustrated by its 1979 Joint Industry/Postal Service Task Force on Alternative Delivery Services, formed to examine all aspects of rates and services which affect the attractiveness of the Service when compared to those of nonpostal systems. The Service's response to the recommendations of the Task Force included:

- Expansion of presort program eligibility.



## CHAPTER 2

### THE STATUS OF MAIL SERVICE UNDER THE POSTAL REORGANIZATION ACT

Under the PRA, the use of traditional mail services has continued to grow. The Service continues to maintain a close working relationship with large volume business mailers, which has resulted in continued business reliance on mail services for billing, advertising, and merchandise distribution purposes. A number of measures--public opinion polls, a 1980 study of the Service's competitive status, and the Service's recorded delivery times--all indicate that mail service quality has not deteriorated and may have improved slightly in recent years. Nevertheless, hundreds of thousands of individual mailers continue to make service complaints annually. The Service has recently initiated a major program to improve its quality of mail service to the general public.

#### THE SERVICE IS RESPONSIVE TO THE NEEDS OF LARGE VOLUME MAILERS

Under the PRA, the Service has continued to maintain a close working relationship with large volume business mailers whose use of the mail for transactions, advertising and merchandising has continued to grow. When problems have been identified by business users, the Service has generally responded quickly to alleviate the situation.

#### Continued growth--business customers and their use of mail service

From June 1971 to September 1982, the number of businesses served by the Postal Service increased by roughly one million--from 4.9 million to 5.8 million. Overall, total mail volume has continued to grow under the PRA, with business-related third-class and Presorted<sup>1</sup> First-Class Mail leading the way, as shown in the following chart:

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<sup>1</sup>Type of first-class mail used by high volume business mailers.

## Household mail use is changing

The general public's--as defined in term of households--use of mail service appears to be changing, with household to non-household messages increasing while household to household messages are on the decline. Household mailstream studies done by the Kappel Commission in 1967, the Institute for Social Research, the University of Michigan in 1978, and subsequent updated estimates by the Service show changing patterns in the household mailstream. The following chart shows the results of these studies in matrix fashion.

### COMPOSITE MAIL FLOW ANALYSES

<u>Recipient</u>	<u>Household-Sender</u>		
	<u>1967</u>	<u>1977</u>	<u>1982</u>
Household			
1967	14%		
1977		7.6%	
1982			6%
Nonhousehold			
1967	6.2%		
1977		9.9%	
1982			11%

As shown above, household to household mail has dropped from 14 percent to 6 percent while household to nonhousehold (including business) has increased from 6.2 percent to 11 percent.

### Overall quality of mail service to the general public appears to be acceptable

A number of measures indicate that delivery service to individual customers has been of acceptable quality since the PRA. Although each measure has limitations which hinder attempts to draw firm conclusions, the sum total of delivery times, public opinion measurements, and a study of the Service's competitive status suggests that service quality has not deteriorated and may have improved slightly in recent years.

We identified three measures which individually provide insight into the quality of mail delivery service provided by the Postal Service--USPS internal measurements of average time to deliver stamped First-Class Mail; internal and external public opinion surveys of individual mail customers; and an external assessment of the Service's competitive position in those consumer markets which the Service shares with private industry.

- Easier postage payment procedures.
- More access to mail acceptance facilities.
- Re-emphasizing to postal employees the importance of handling business mail in an accurate and timely manner.

Under the PRA, the Service has continued to maintain and expand its efforts to provide open channels of communications with business mail users, both at the local and national levels. The local Postal Customer Councils (formerly known as Mail User Councils) had an estimated 78,000 members in 1983 and provide two-way communication between local businesses and postmasters about all aspects of local mail service. At the national level, in 1965 the Post Office Department founded the Mailer's Technical Advisory Committee (MTAC) composed of industry and association groups representing every major mailing industry. Since the enactment of the PRA, the MTAC membership has been further expanded, and its role of advising postal management on major postal policy issues has been continued. The Service also uses a variety of other communications devices, including supporting various national and regional postal forums and publications aimed at keeping business mailers informed on new postal policies and procedures. In addition, the Service also has about 700 Customer Service Representatives who are responsible for assisting commercial mailers in the effective use of the various mail services.

THE SERVICE CONTINUES TO MAKE  
EFFORTS TO IMPROVE MAIL SERVICE  
TO THE GENERAL PUBLIC

Although several measures suggest that mail delivery service to the general public has been maintained at acceptable levels since the PRA, hundreds of thousands of individual consumers annually complain about service. The Service is taking steps to strengthen its consumer complaint handling system and has recently initiated a major campaign to improve the quality of its services to the general public and to publicize those services.

The Post Office Department  
provided acceptable mail service  
but also received many complaints

As reported in the 1967 Kappel Commission study, a 1967 private survey of public opinions on mail service by the Roper organization found that "about 76% of all adults were completely satisfied" with mail service. However, the Commission also reported that there were many complaints by individual mail users about slow delivery, inconvenient post office hours, and too much unsolicited "junk" mail.

Since 1973, an average of 82 percent of those polled rated the service provided them as a receiver of mail as "good" or better; nearly 50 percent said it was "very good" or "excellent" on the average. Questions on service received as a sender of mail and on overall impressions of the Postal Service yield similarly favorable responses. Over this 10-year period the results of the tracking studies have remained fairly constant, with variations from study to study usually less than 5 percentage points. Postal Service officials attribute the most significant variations to public reaction to rate increases rather than to actual changes in the quality of mail delivery.

Despite these results, the National Tracking Study has two problems which cast doubt on its validity. First, the design and sequence of questions are flawed. For example, respondents have more positive choices to pick from than negative choices when answering some questions. This tends to increase the number of positive responses and therefore bias the results in favor of the Service. In addition, the design of the sample from which respondents are drawn is also flawed. For instance, although the sample's ZIP Code areas were randomly selected in 1973, the study still uses the original ZIP Code areas even though the population of some areas has undoubtedly changed over 10 years. Thus, it is unlikely that the residents of the original sample of ZIP Code areas are representative of the population today. GAO believes the value of this information is very limited. The Postal Service believes that the information generated by its study does provide reliable, time series information on attitude trends. Nevertheless, the Service is now designing a more detailed and statistically valid study of household perceptions of the quality of mail services. This study will be used in conjunction with the existing tracking study.

In addition to the National Tracking Study, public opinion data on mail service are also available from the Roper Organization, a private opinion survey firm. Since August 1975, Roper has annually interviewed a nationwide sample of residents to report their satisfaction with mail service, considering both cost and service factors. A graph of condensed results of the question appears on the following page.

### Delivery service measurements

Since April 1970, the Postal Service has collected nationwide data on the average times it takes to deliver stamped, First-Class letter mail from the originating post office to the destination post office. The system which collects this data is the Origin-Destination Information System (ODIS). ODIS data is the Service's principal indicator of the quality of First-Class Mail delivery performance.

According to ODIS figures, mail delivery performance since the PRA has been fairly good. Since 1979, the Service has succeeded in meeting its 95-percent goal for overnight delivery of local First-Class Mail; since 1974 this percentage has averaged 94 percent. Nationally, for First-Class Mail with 2 or 3 day delivery goals, ODIS figures show that delivery performance over the last 9 years has averaged 88 percent of goal.

Although the ODIS results have been generally positive, there are a number of limitations on the use of this data. First, ODIS does not accurately measure First-Class permit mail, nor does it measure delivery time for second- or third-class. Therefore, a significant portion of the national mailstream is not covered by ODIS figures. Second, no comparable figures exist for the period prior to 1970, making it difficult to compare performance before the PRA. Finally, although ODIS is designed to provide statistically valid results, variations in data collection may make some ODIS figures questionable, according to the Service.

Both GAO and the Postal Inspection Service have evaluated ODIS' reliability. In 1975, we reported that although nationwide figures were likely to be accurate, there were weaknesses in local statistics. In 1983, the Inspection Service found the reliability of some ODIS figures to be "questionable." Established data collection procedures were not being consistently applied but the extent of these inconsistencies could not be established by the Inspection Service.

### Public opinion surveys

The quality of mail delivery service may also be indicated by the results of public opinion surveys. Two surveys nationwide in scope and covering an extended period of time are available: a National Tracking Study conducted for the Postal Service by private contractor, and an independent survey done by the Roper Organization, Inc.

The Service's National Tracking Study has been conducted twice a year from 1973 to the present. Approximately 1,000 residents of selected ZIP Code areas are interviewed in their homes and asked to answer a variety of questions about their use of mail service.

The Service is attempting to  
improve its program for handling  
consumer complaints

An organized system for handling consumer complaints can help the Service improve mail service quality by identifying service deficiencies and by increasing customer satisfaction. A good complaint handling system should also provide useful information to appropriate levels of postal management, as well as ensure resolution of individual consumer complaints.

The Service has long been concerned about consumer complaints. Since 1961--a decade before the PRA took effect--the Post Office Department has had a formal centralized complaint handling system. The system has summarized complaints on a uniform basis since 1965.

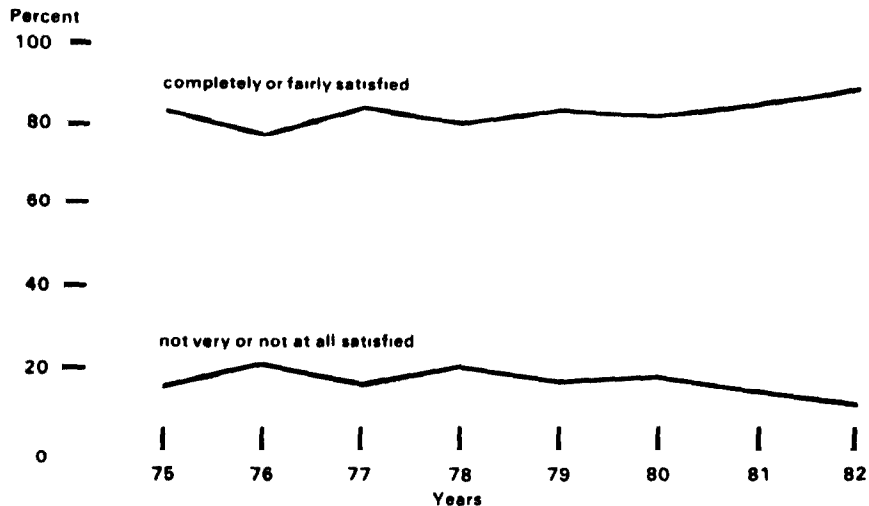
In more recent years, the Service's complaint handling system has been the Consumer Service Card (CSC) program. Inaugurated in October 1975, the CSC program is designed to

- provide customers with a convenient systematic means of communicating with their local postmasters,
- improve resolution of customer complaints,
- establish an organized system for the flow of consumer communications, and
- provide postal managers with valid information on complaint trends and problem areas.

The heart of the CSC program is a multipart Consumer Service Card which is supposed to be on display in all post office lobbies and available from window clerks and letter carriers. Cards are filled out either by customers themselves or by postal employees who receive complaints by letter, telephone or in person. The Service received about 315,000 CSC complaints in fiscal year 1983.

Since its inception, the Consumer Service Card program has been studied a number of times. For example, a consultant under contract to the U.S. Department of Health, Education and Welfare to review complaint resolution systems reported in November 1978 that the Postal Service had one of the highest-rated complaint-handling mechanisms in the federal government. A more recent evaluation of the CSC program cited the need for significant changes in its structure and operation. A September 1980 Inspection Service audit found that the operation of the CSC program was not meeting its objectives. In response, the Postal Service assembled an internal task force to study both the program and the Office of the Consumer Advocate which manages it. The task force's June 1982 report recommended

'Considering cost and service, how satisfied are you with the mail service?'



As the graph shows, responses to the question have been largely favorable. Over the last 8 years, satisfaction levels have been gradually improving, except for 1976 and 1978. The trend since 1980 is even more positive.

As in the case of the National Tracking Study, there are limitations in using these Roper data to evaluate mail delivery service since the PRA. First, there are no comparable Roper data before the PRA. Second, the route instructions given to the interviewer prevent the sample from being fully random; the sampling error is therefore unknown. Because the Roper data do not exhibit full statistical validity, actual levels of customer satisfaction could be somewhat different. However, the data should present a reasonably accurate picture of the degree of change in satisfaction since 1975.

#### USPS competitive status

As previously described, Coopers and Lybrand (see p. 6) assessed the Service's competitiveness in all component markets of the mailstream. This assessment included reviewing the Service's competitiveness in household mailstream markets. The study generally concluded that in terms of household-originated payments the Service's "share of the market appears to be relatively secure," noting that other bill payment alternatives--such as telephone payments and payment in person--were not significant current threats to the Service. In terms of household-originated correspondence, the report notes that the telephone has been and will continue to be the mail's primary competitor in this market. It concludes that the Service's small portion of this market is a "price-insensitive core"--customers whose mailing uses are not likely to change on the basis of incremental price increases--that will be retained by the Service. No significant deterioration of First-Class Mail--the class of mail used predominantly by households--has occurred since the study.

The Service is initiating a major  
service improvement program

In August 1983, the Postal Service announced a major effort--termed the "All Services" program--to promote quality service to the public. Through the program, the Service acknowledged that it must pay more attention to the needs of its individual customers. Several outside studies and the Service's own surveys showed some customers were unhappy with inconsistent delivery service, long lines in lobbies, and depersonalized, sometimes even rude, service. The Service has determined that some mail service quality weaknesses can be addressed by the program, which includes widespread public advertisements, an internal customer awareness and educational effort, and improved lobby management. We believe the All Services program could help to improve the overall quality of services which involve direct public contact.



significant changes to the program in order to overcome both administrative and structural problems. In addition, the National Academy of Public Administration urged in July 1982 that the Service use the CSC program to obtain more specific and useful information about the public's experiences with mail services. Finally, an October 1982 internal management study requested by the Customer Services Department found that complaint processing methods in large post offices varied considerably. It recommended changes in both processing procedures and management responsibility.

Criticisms of the CSC program may be grouped into five main categories:

- low or sporadic usage of the cards by both consumers and some postal employees;
- burdensome program instructions requiring employees to report all complaints regardless of nature or significance or need for follow-up;
- excessive program centralization which removes accountability and involvement of field managers at the post office level;
- various problems with complaint summary and analysis reports, including questionable data, unnecessary reports, misuse of report results by field managers, and inconsistencies in report distribution by headquarters; and
- lack of effective follow-up by field managers on complaint resolutions.

The Inspection Service, the CSC Task Force, and the management study team each made recommendations which should improve the CSC program. Some recommendations have already been implemented. For example, employees are now directed to fill out cards only when a complaint requires some follow-up action by field management in order to resolve it. Also, some complaint analysis reports have been eliminated or streamlined, and decentralized card processing is being tested in selected locations. On the basis of these and other actions, the CSC program recently won an award from the Society of Consumer Affairs Professionals for their complaint handling effort.

The status of several other recommendations, however, is uncertain. All the recommendations are at least 1 year old, some as old as 3 years. At the conclusion of our audit work we discussed this situation with postal officials. They agreed that a more specific action plan was desirable and have since prepared a plan which sets milestones and establishes accountability for addressing those recommendations which have not yet been implemented.

Postmaster General: "Mr. Chairman, I would have to generally agree with your premise . . . that is a staggering list of no control. I don't know [whether] it has ever been put that succinctly to me. If it had been at an appropriate time, perhaps I wouldn't be sitting here."

In its June 1968 report, the Kappel Commission found that

--"in our judgement at least 20 percent of postal costs --well over a billion dollars at present volumes-- would be saved if the Post Office management were freed to plan and finance postal operations and capital investment strictly in accord with postal needs."

In the PRA, the Congress recognized the need to give Postal management more control over the Service's operations and costs. For example, management was given the power to propose and make rate and mail classification changes--after hearings by the independent Postal Rate Commission. Congress also gave management the power to collectively bargain employee salaries and benefits with its employee unions.

#### ANNUAL OPERATING COSTS HAVE GROWN

Annual total operating expenses, dominated by employee salary and benefit costs, have grown significantly--151 percent--over 11 years (1972 to 1983) of operations under the PRA. However, adjusting for inflation produces a real increase in annual total operating expenses of 17 percent over 11 years.

The following graph shows the increase in Postal operating expenses from \$4.3 billion in 1962 to \$24.1 billion in 1983.

## CHAPTER 3

### POSTAL SERVICE OPERATING COSTS

#### UNDER THE POSTAL REORGANIZATION ACT

Under the PRA, annual operating expenses<sup>1</sup> have increased about 151 percent, from \$9.6 billion to \$24.1 billion. However, adjusting this increase for inflation between 1972 and 1983 reduces the \$24.1 billion to \$11.2 billion, producing a real increase in annual operating expenses of 17 percent over 11 years. The Service has taken many actions to reduce operating costs but an important cost savings action--the widespread use of optical character reading equipment to process mail--has not been completed. Although productivity increases have occurred, these gains have been offset somewhat by increases in employee salary and benefit costs.

Operating deficits and low working capital ratios--current assets compared with current liabilities--have been common under the PRA, but serious liquidity problems--the inability of the organization to meet current expenses such as payrolls--have been avoided in recent years. For the past 2 years (1982 and 1983) operating incomes have been realized.

#### CONTROL OVER OPERATING COSTS --AN IMPORTANT GOAL OF THE PRA

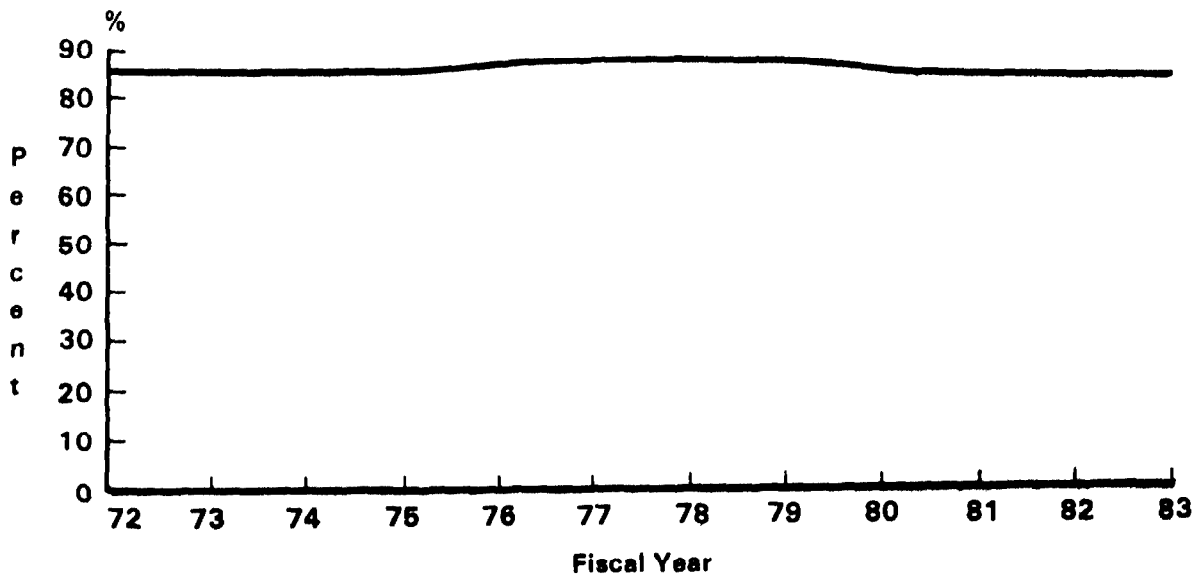
In the late 1960's, the Congress had become increasingly concerned with Postal management's ability to control their organization. The following exchange in 1967 between the Chairman of the House Postal Appropriations Subcommittee and a former Postmaster General illustrates this concern:

Chairman: "Would this be a fair summary:  
that at the present time, as the manager of the Post Office Department, you have no control over your workload, you have no control over the rates of revenue, you have no control over the pay rates of the employees that you employ, you have very little control over the conditions of the service of these employees, you have virtually no control, by the nature of it, of your physical facilities, and you have only a limited control, at best, over the transportation facilities that you are compelled to use--all of which adds up to a staggering amount of no control in terms of the duties you have to perform."

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<sup>1</sup>Includes only direct expenses recognized under the PRA. The Service also receives some indirect subsidies for certain expenses. See p. 3.

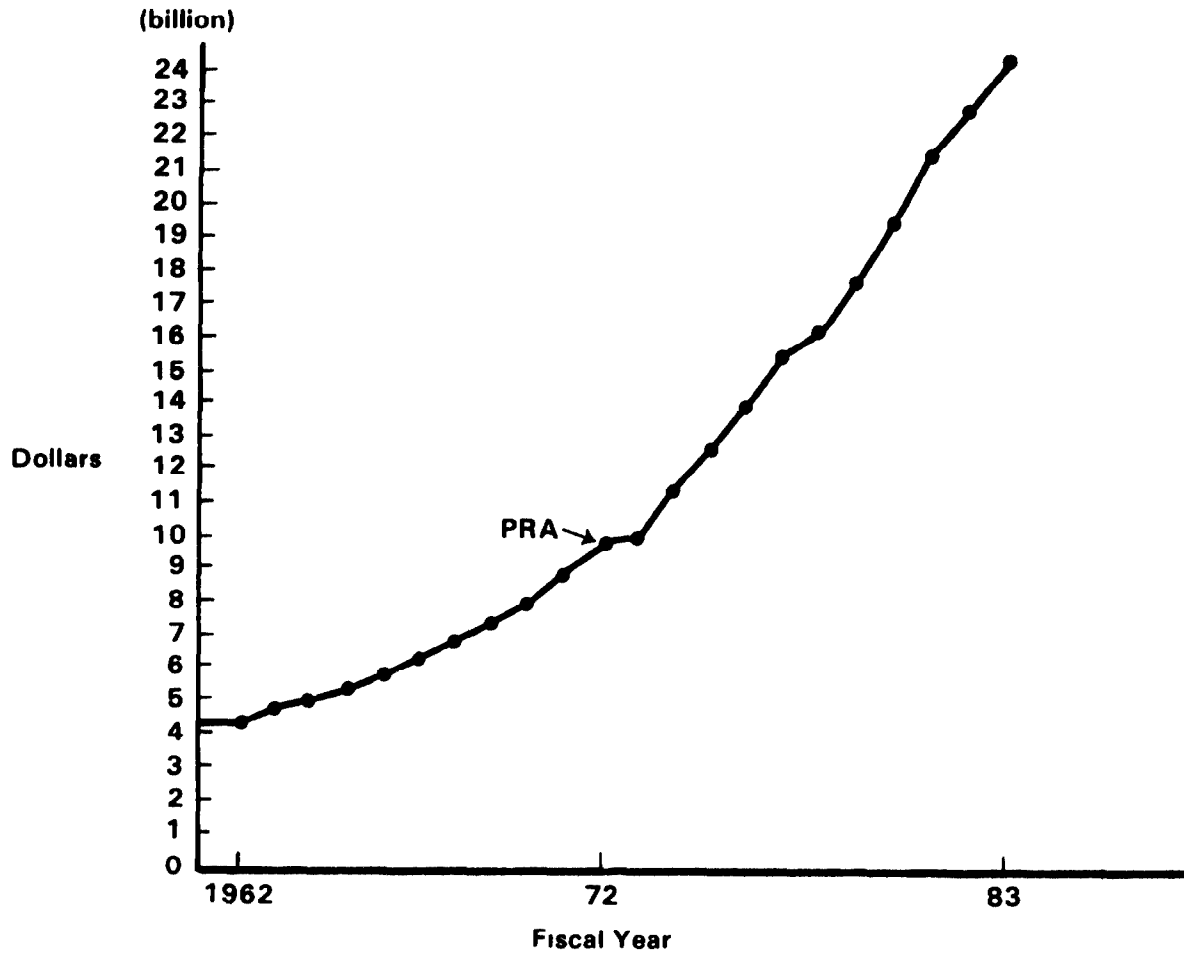
**Postal Service**  
**Salary and Benefit Costs as Percentage**  
**of Total Operating Expenses (1972-83)**



Total annual operating and employee salary and benefit cost increases are significantly reduced when adjusted for inflation

Applying the Implicit Price Deflator for Gross National Product--a method used to adjust for the influence of inflation--to the gains in Service operating and employee salary and benefit costs between 1972 and 1983 significantly reduces these gains. The following graph shows the impact of inflation on total costs and employee salary and benefit costs. Using constant 1972 dollars, total operating costs have increased about 17 percent over 11 years (less than 2 percent a year) while employee salary and benefit costs increased about 14 percent (also less than 2 percent a year).

### Annual Total Postal Operating Expenses 1962-1983



As with total operating expenses, salary and benefit costs have continued to rise--from \$ 8.2 billion in fiscal year 1972 to \$20.1 billion in fiscal year 1983--an increase of 133 percent in salaries and 230 percent in benefits.

As shown in the following chart, employee salaries and benefits continue to be the dominant operating expenses for the Postal Service.

Kappel Commission Estimate of Cost Reduction Potential

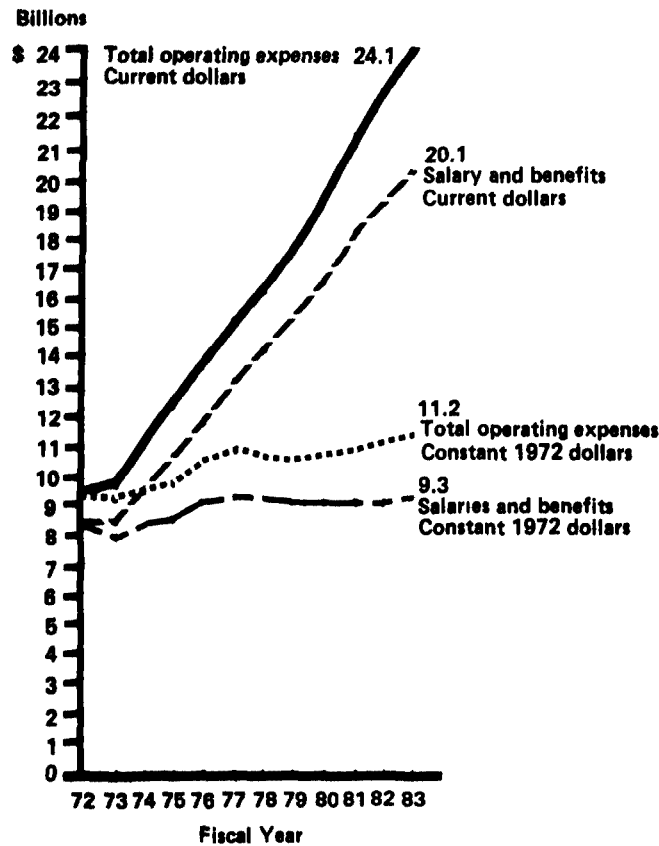
Function	Percent of Total Expense	Unit Cost Percentage Reduction		
		From Improved Methods	From Mechanization	Total
Retail	(9)	10	5	(1.35)
Delivery	(42)	5	10	(6.3)
Processing	(32)	15	25	(12.8)
Transportation	(11)	10	20	(3.3)
Administration	(6)	5	5	(.6)
<b>Total</b>	<b>(100)</b>	<b>(9.2)</b>	<b>(15.15)</b>	<b>(24.35)</b>

Estimated gross saving	24.35%
Approximate investment costs	<u>4.35%</u>
Estimate net saving	20.00%

Note: Figures in parentheses are percent of total postal expense.

In each of the functional categories, the Kappel Commission had specific cost savings suggestions. In the retailing area, the Commission suggested this function could be improved by providing a complete line of postal services at each window, using more self-service post offices, and putting stamp vending machines in more accessible locations. In the delivery area, the Commission emphasized reducing the time the letter carrier spends in the office performing sorting and other "bookkeeping" functions. Assuming the widespread use of optical scanning and materials handling equipment, the Commission believed that a 25 percent cost reduction could be achieved in the mail processing area. Savings suggestions for the transportation area included improving scheduling and dispatch through using computers and providing Service managers with more discretion to negotiate transportation rates. Finally, the Commission also believed that more use of computer equipment and techniques could achieve a 10-percent savings in administrative costs.

COMPARISON OF SERVICE ACTUAL  
VERSUS DEFLATED COSTS--(1972-83)



The above situation occurred because Postal salaries were tied to movements in the Consumer Price Index. From 1973 through 1983, Postal employees received \$4.8 billion dollars in cost of living pay adjustments.

ACTIONS AIMED AT REDUCING  
OPERATING COSTS HAVE  
BEEN TAKEN

The 1968 Kappel Commission report estimated that "at today's mail volume at least 20 percent of total postal costs could be saved each year if the Post Office performed at an efficiency level comparable to that of a well-run business." The Commission broke down the overall 20 percent figure among the Service's major functions as follows:

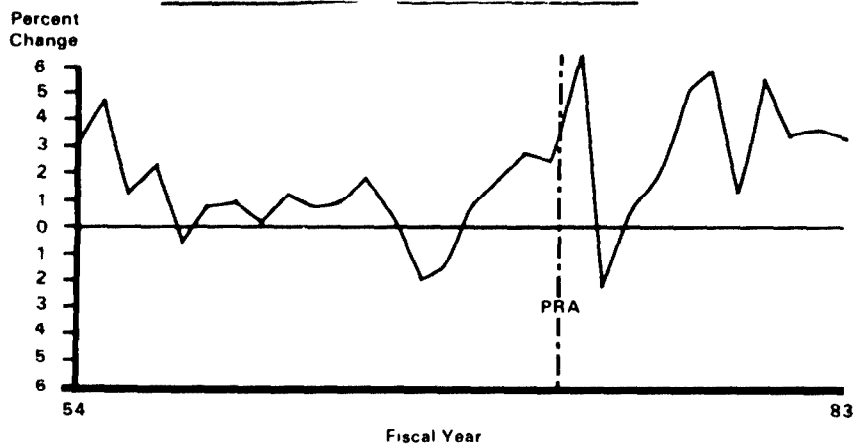
- (1) the change in the composition of the mailstream such as the decline in the number of parcels and other harder-to-handle pieces of mail;
- (2) the declining volume of special service transactions; and
- (3) the increase in the number of delivery addresses."

To adjust for these types of problems, the Kappel Commission, the Report of the Commission on Postal Service, and the Bureau of Labor Statistics, among others, used or are currently using weighted output measures. For example, the Bureau of Labor Statistics currently weighs the volume of each type of mail or special service by its respective variable costs and, in that manner, calculates an index of weighted output. The Service has historically rejected these types of measurement systems as too subjective.

Available analyses show continued Postal Service productivity gains

The two productivity measurement approaches which have tracked Postal Service performance for at least the past decade show annual productivity gains have normally occurred. The Service's measure of "gross" productivity, pieces of mail handled/per paid work year, shows continued productivity improvement, as illustrated in the following chart.

CHANGES IN POSTAL SERVICE GROSS PRODUCTIVITY -1954 - 1983



The other productivity measurement approach which has tracked Service performance for a number of years, a weighted measurement system used by the Bureau of Labor Statistics (BLS),



Since 1972, the Service has taken many cost reduction actions in the areas suggested by the Kappel Commission. However, one of the most significant suggested cost reduction actions--the widespread use of optical scanning equipment for mail processing--has not been completed. A listing of cost reduction actions taken by the Service in these areas would include:

- Introducing new computerized data collection and reporting systems into administrative areas.
- Improving national mail transportation through adopting new planning methods designed to lower costs, such as the recent air to surface methodology adopted as a result of joint GAO and Service effort (see our report Potential Savings from Diverting Certain Mail from Air to Surface Transportation, GAO/GGD-82-63, June 18, 1982).
- Emphasizing the continual upgrading of various containerization efforts, designed to improve mail processing and transportation efficiency.
- Continuing the development of new coin-operated stamp vending machines and the use of new window and lobby equipment--such as electronic scales--designed to improve customer service.
- Consolidation of the mail processing operation.

Currently, the Service is involved in the first phase of an automation program using optical character reading equipment and a nine-digit ZIP Code. GAO has conducted two extensive studies of this effort: Conversion to Automated Mail Processing Should Continue, Nine-Digit ZIP Code Should be Adopted If Conditions Are Met, GAO/GGD-83-24, January 6, 1983; and Conversion to Automated Mail Processing and Nine-Digit ZIP Code--A Status Report, GAO/GGD-83-79, September 30, 1983. GAO has endorsed the Service's automation program, which is expected to be fully implemented by 1989.

#### PRODUCTIVITY INCREASES HAVE OCCURRED SINCE THE PRA

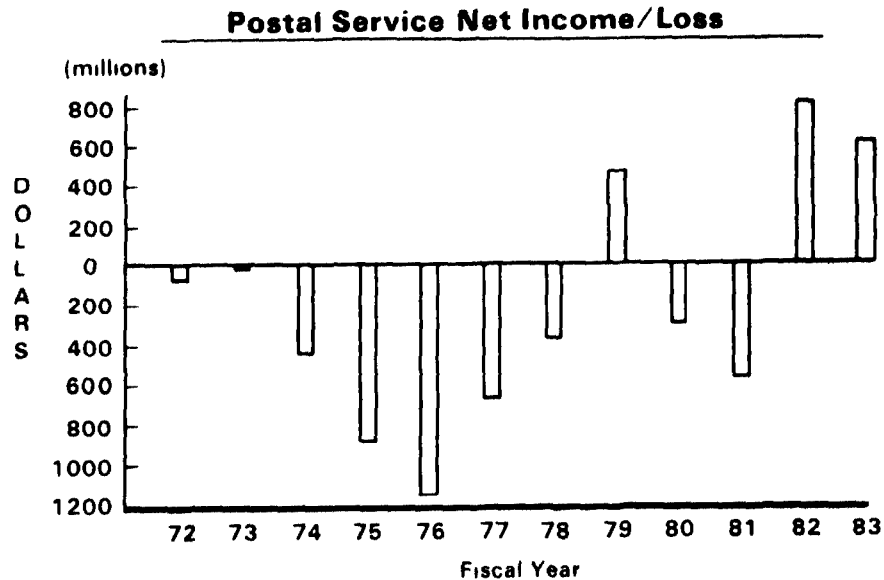
Accurate output measurement is essential if productivity measurements are to be meaningful. Traditionally, the Postal Service has measured its output, for aggregate productivity purposes, in terms of pieces of mail. This output measurement approach has drawn criticism. For example, the 1977 Report of the Commission on Postal Service stated that

- "this method of measuring productivity fails to consider a number of important factors:

Operating losses have continued,  
but accounting changes make pre-  
and post-PRA comparisons unreliable

Operating losses have been a normal way of life for the Service both before and after the passage of the PRA. Prior to the PRA the last recorded net income occurred in fiscal year 1945. In noting this situation, the Kappel Commission blamed the slow congressional funding process and asserted that improvements could have been possible if Service management had been given more control over postal rates.

Financial results from 1972 to 1983 are shown in the following chart:



As shown in the chart, until recently, operating losses have continued, ranging from \$13 million in 1973 to \$1,176 million in 1976. However, complicating an assessment of the Service's end-of-year position is a 1981 workers' compensation liability accounting change. The cumulative effect of this change was recorded in 1981, changing a \$927 million income into a \$588 million loss. A restatement of the new incomes/losses for prior years using the new accounting procedures would lower the incomes for those years. In addition, the accounting changes made in 1972--the establishment of a prepaid postage liability account and the full recognition of accrued workers compensation expenses--make simple pre- and post-PRA comparisons meaningless. Specifically, before the PRA, postal revenues were stated on a cash basis with no recognition of prepaid postage (i.e., the collection of revenue in advance of rendering the mail service). No liability account for this prepaid revenue was established, which resulted in the recording of revenue before it was earned. In addition, before the PRA, workers'

also shows productivity gains have taken place. Using 1977 as the base year, the BLS index shows an average annual 1.3-percent gain in Service productivity from 1967 to 1982. Use of the index lowers the annual changes reported by the Postal Service. For example, the -2.37-percent change reported for 1973-74 became -2.6 percent under the BLS approach while the +3.6-percent change for 1981-82 became +.5 percent.

The Postal Service attributes its productivity increases to a variety of factors, including the increased modernization and mechanization of the workplace, better work methods, and the removal of partisan politics from the personnel promotion process.

Productivity gains offset somewhat  
by employee salary and benefit gains

While concluding that productivity increases have resulted in a significant cumulative cost avoidance, the Service has also noted that the "full potential benefit of these gains has not been realized because of inflation and pay comparability required by law." In its 1983 Comprehensive Statement on Postal Operations, the Service notes that while productivity--in terms of pieces per work year--increased 43.0 percent from fiscal year 1971 through 1983, pieces per constant dollar of total personnel compensation and benefits have cumulatively increased 26.7 percent over the same time period, illustrating that productivity gains have been offset somewhat by salary and benefit increases.

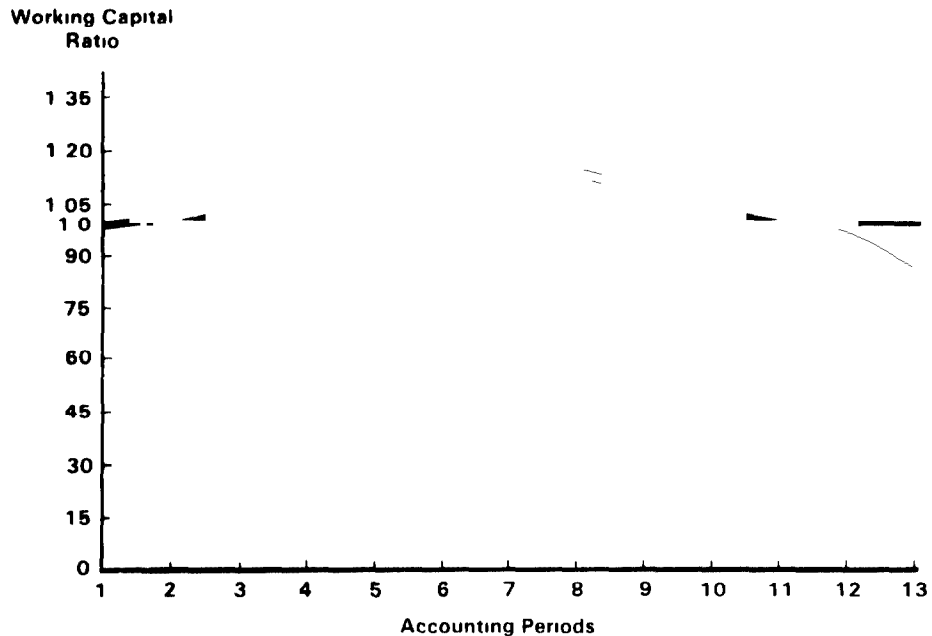
ALTHOUGH OPERATING LOSSES AND  
LOW WORKING CAPITAL RATIOS HAVE  
BEEN COMMON, RECURRING LIQUIDITY  
PROBLEMS HAVE BEEN AVOIDED

Under the PRA, recurring liquidity problems have been avoided, although operating losses and low working capital ratios--two signs of potential liquidity problems--have been common. The Service has also had low working capital ratios--current assets over current liabilities--under the PRA. End-of-year ratios, however, have not fully reflected the Service's liquidity positions, due to the timing of the statement and the fact that some Service liabilities do not immediately affect cash flow. Serious liquidity problems under the PRA have been avoided, as steady mail volume growth and rate increases have continued to supply the funds needed for operations. For the past 2 years (1982 and 1983) operating incomes have been realized.

As shown in the graph, using year-end working capital positions, the Service has usually had more current liabilities than current assets--normally an unfavorable liquidity position. Since the PRA, year-end working capital ratios have ranged from .71 to 1.4. The upsurge in working capital position experienced by the Service from 1976 to 1979 was due in part to the continuing effect of two \$500 million appropriations received from the Congress in 1976 and 1977 to retire part of the accumulated debt. For example, the Service estimated that the application of this money helped the Service avoid over \$400 million in cash outlays in fiscal year 1978.

While working capital can provide some insights into the financial condition of an organization, to fully describe an organization's liquidity position, working capital measures must be normally supplemented with additional information describing the organization's cash flow situation. In the Service's cash flow situation, end-of-year working capital measurements do not always accurately reflect the Service's liquidity positions. For example, at the end of each fiscal year the Service makes a large cash payment to the Civil Service Retirement Fund. This situation is illustrated by the following graph for fiscal year 1980.

**Postal Service Working Capital Ratios-FY 1980**  
**By Accounting Period**



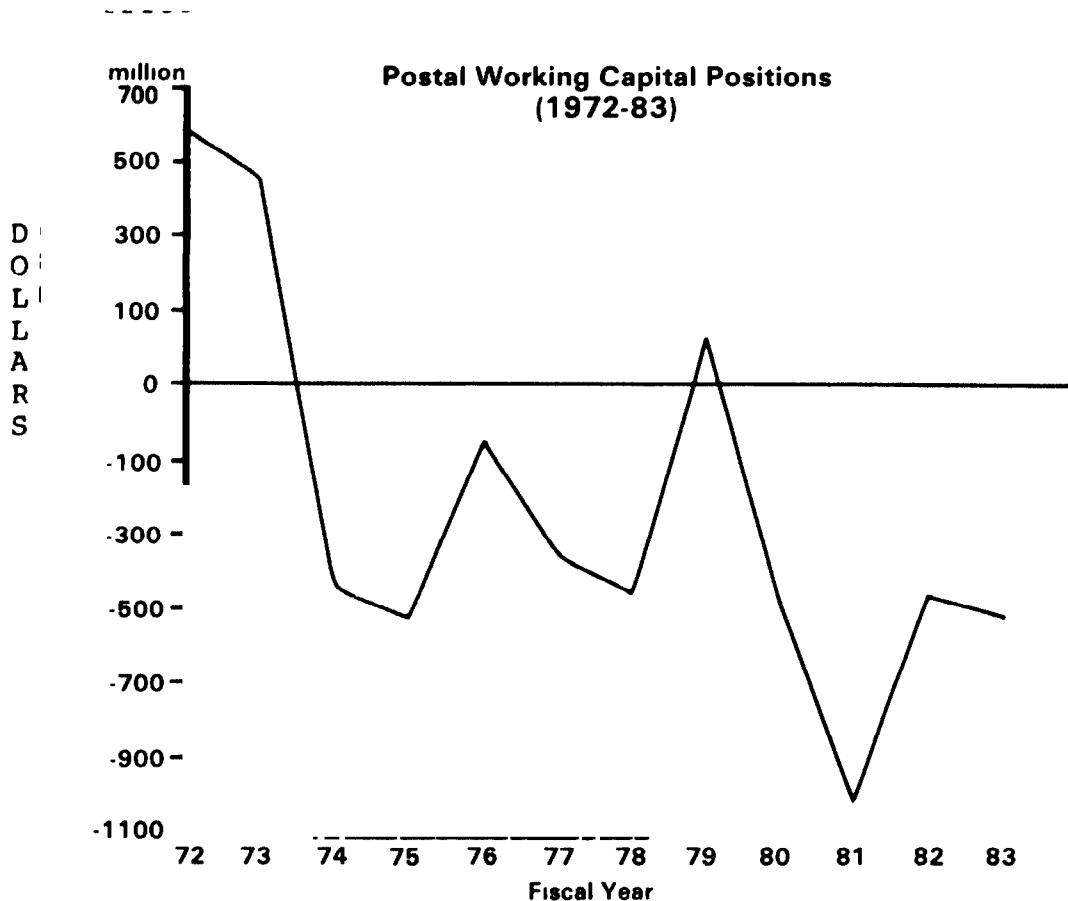
As shown above the Service had a positive position through most of the year, only to fall to a negative position at year's end.

compensation costs were also recognized on a cash basis--meaning no recognition was given to costs incurred but not paid for during the year.

Recurring negative working capital has not resulted in recurring liquidity problems

Working capital--an indicator of the ability to liquidate short-term debts--has been traditionally used as an indicator of the financial health of the Postal Service. Low or negative working capital positions have been used as a sign that the Postal Service's financial position was in a state of deterioration. For example, the 1977 Report of the Commission on Postal Service--a congressionally mandated study of the Service's problems--cited the Service's initial 5 year decline in its working capital position as reflective of the Service's "severely adverse condition." In the Postal Service's 1982 Comprehensive Statement on Postal Operations, a declining working capital ratio was cited by the Service as supporting a declining financial position.

The following graph illustrates the Service's year-end working capital position since the PRA:



## CHAPTER 4

### CAPITAL INVESTMENT HAS INCREASED UNDER THE PRA

By the late 1960's, the Post Office Department had a significant problem funding capital investments--investments in assets such as buildings and equipment. To obtain needed funds, the Department dealt with a cumbersome congressional appropriations process. The result was a low level of capital investment that contributed to inefficiency and low labor productivity.

Under the PRA, the Congress gave Service management more control over capital investment decisions. Capital expenditures, which have increased under the PRA, have been funded by both borrowing and using internal<sup>1</sup> sources of funds. For the last several years these investments were funded exclusively through internal sources. This internal financing has been accomplished even though the Service was in a negative equity<sup>2</sup> position. Currently, two consecutive surpluses have restored equity to a positive level.

#### BEFORE THE PRA, THE POST OFFICE DEPARTMENT HAD SIGNIFICANT CAPITAL INVESTMENT PROBLEMS

Capital assets--such as plant, buildings, and equipment--provide the basic structure that supports the operating organization. Capital investment or lack thereof affects the financial health and productivity of any organization. Capital investment is particularly important to the Postal Service, which requires an enormous amount of buildings and equipment to perform its tasks. The Service's fiscal year 1983 balance sheet showed a net \$5.1 billion dollars investment in plant, property, and equipment. The vehicle fleet alone is one of the largest in the world, with over 135,000 vehicles.

#### The Post Office Department had capital investment problems

Prior to the PRA, the Service depended on a lengthy governmental appropriations process for capital funds. Funds for capital investment were obtained simultaneously with operating

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<sup>1</sup>As used in this report, "internal sources of funds," "internal financing," and "internal funds" mean available cash generated from operations.

<sup>2</sup>A condition normally associated with an entity that may have future financial difficulties unless actions are taken to reverse the condition.

According to Service officials, even when the Service stays in a negative position throughout the year--as it did in 1981 and 1982--the timing and nature of some of the Service's current liabilities allows the Service to utilize a cash "float" to maintain liquidity with minimal risk. For example, the prepayment of postage creates a situation where the Service receives revenue up front but may not have to pay for rendering services immediately. An estimated prepaid postage amount, \$775 million at the end of fiscal year 1982, is set once a year--on the basis of a sample survey of meter usage--and assumed to continually replenish itself for the entire year. Also, the Service receives appropriations--in quarterly allotments--for services rendered for certain types of mail during the entire quarter. If there are no deficits from preceding periods, these funds can also provide cash flow flexibility.

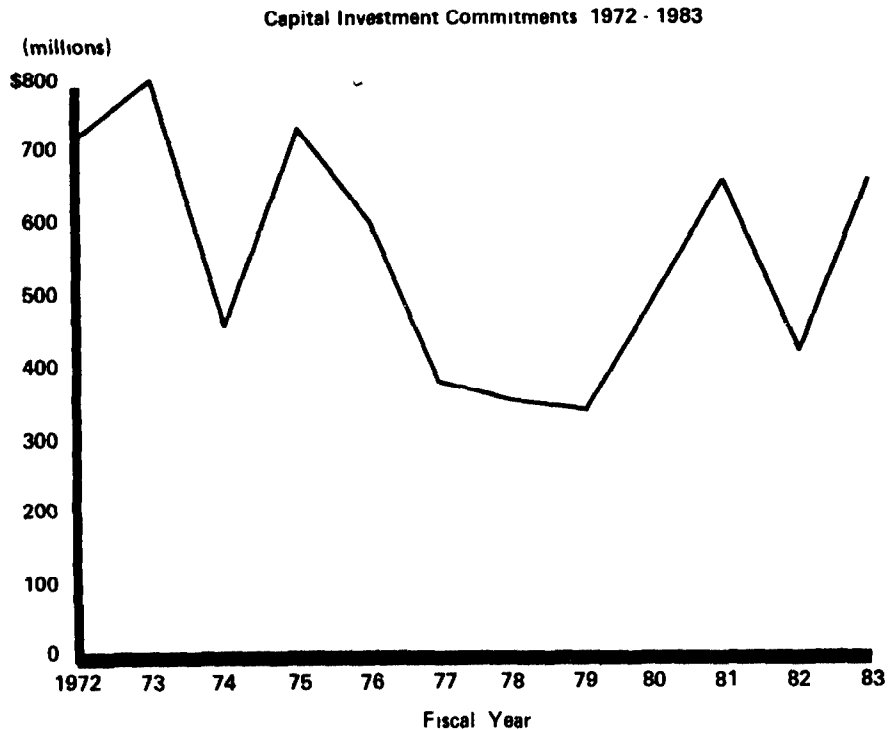
For liquidity purposes, these type of liabilities may not have the same level of cash requirements as a regular accounts payable. As such, portions of the Service's current liabilities can provide flexibility in that, on occasion, these liabilities may not be fully covered by assets, with little or no risk that a cash shortage problem would occur. Given the unique nature of the Service, officials believe that the primary liquidity focus should be matching the short term investment account against their biweekly payroll needs.

Prior to 1976, the Service did exercise its borrowing authority on several occasions for capital investment purposes and to alleviate operating deficits caused by unexpected increases in inflation, drops in mail volume, and unanticipated delays in receiving requested rate increases. As noted earlier, the Congress provided two cash injections to retire part of the accumulated debt. Subsequently, steady mail volume growth and timely rate increases have eliminated the need for recurring borrowing to meet liquidity needs. In fact, current assets have been used to fund an aggressive capital improvement program, while still achieving an average of over \$400 million a year in investment income from 1980 through 1983.

greater than \$5 million are separately reviewed by the CIC and approved by the Board of Governors. To attempt to insure cost-effective programs, the Service has established a series of controls requiring return-on-investment analyses, periodic status reports, and post-project completion cost studies.

The Service increased its level of capital expenditures

Following the PRA, the Service initiated plans to upgrade and modernize plant and equipment. Capital investment commitments for the 5-year period following the PRA nearly tripled the commitments for the 5-year period preceding the PRA. The following graph illustrates the trends in capital investment commitments since the PRA.



The increases in fiscal years 1980 and 1981, as illustrated above, can be attributed to the ZIP + 4 program. New commitments estimated at \$5.7 billion for fiscal years 1983 through 1987 include new construction contracts, the purchase of automated mail processing equipment for the ZIP + 4 program, and the acquisition of new vehicles.



funds. When the Postal budget was trimmed, capital requirements were often deferred. To alleviate this situation, the Service frequently leased rather than purchased facilities--a decision often based on expediency rather than on economic criteria. As noted in the 1968 Kappel Commission Report, this situation resulted in an undercapitalized Department, where efficiency was hampered by outmoded facilities and equipment. To illustrate this condition, the Commission report noted that in 1967 the Service's net fixed assets per employee--the book value of land, buildings, and equipment less depreciation per Postal employee --was \$1,145. This suggested to the Commission "a serious lack of capital equipment" when compared to other selected industries. In addition, the Commission report described a "methods, mechanization and modernization gap," citing "elementary" use of computer equipment and the advanced age of many postal facilities.

AFTER THE PRA, EQUITY LEVELS HAVE  
DROPPED WHILE CAPITAL INVESTMENT  
LEVELS HAVE INCREASED

Congress responded to the Post Office Department's capital problems by giving Service management more investment authority and access to capital funds. Since the PRA, capital expenditures have increased. Although the Service has funded these investments by both borrowing and using internal funds, in the last several years capital investments have been exclusively funded by internal funds. This internal financing has been accomplished even though the Service was in a negative equity position--with more liabilities than assets--for much of the time.

The PRA addressed the Post Office  
Department's capital problems

With the inception of the PRA, final approval authority over capital investments was transferred from the Congress to the Service's Board of Governors. The PRA also provided the Service with the authority to borrow up to a limit of \$10 billion. In any one fiscal year, the Service may increase its net borrowing by \$1.5 billion to finance capital improvements and \$500 million to defray operating expenses up to the overall \$10 billion limit.

As described in GAO's report Federal Capital Budgeting: A Collection of Haphazard Practices, PAD-81-19, February 26, 1981, the Service developed a sound set of capital budgeting policies and procedures. The Service develops a 5-year capital investment plan which is reviewed by a Capital Investment Committee (CIC), composed of senior Postal officials, prior to approval by the Service's Board of Governors. An annual plan for capital investment commitments is established, and individual projects

Analysis of Change in Equity  
(\$ in millions)

<u>Fiscal year</u>	<u>Year-end equity</u>
1971	1,686
1972	1,548
1973	1,566
1974	1,147
1975	190
1976	-955
Transition quarter	-429 <sup>3</sup>
1977	-588 <sup>3</sup>
1978	-945
1979	-444
1980	-719
1981	-1,307 <sup>4</sup>
1982	-505
1983	+112

According to Service officials, the Service is able to make capital outlays with no equity and without borrowing because some of its expenses do not require the immediate use of cash. The Service has large accrual expense accounts, such as depreciation and workers' compensation. For example, under the accrual accounting system, the total expected costs of workers' compensation claims are recorded in the fiscal year in which the accident occurs. However, because many cases are paid out over several years, the Service may accrue more workers' compensation expenses in a fiscal year than are actually paid out in that year. The accrued but unpaid portion of the total workers' compensation expense is used in calculating net income or loss but there is no outlay of cash. As a result, a loss may be recorded but extensive cash may still be available for the Service to use. As the following chart shows, large workers' compensation accruals provided the Service with a significant potential source of cash during the 5-year period ending in 1981.

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<sup>3</sup>Additional \$500 million appropriated by the Congress.

<sup>4</sup>As noted on page 24, a one time, cumulative accounting adjustment lowered the year-end position in 1981. If years prior to 1981 were readjusted to reflect the change, their year-end equity positions would be lower.

Capital outlays--actual cash payments--have averaged \$502 million per fiscal year from the end of fiscal year 1971 through the end of fiscal year 1983. As a result, the net fixed assets per employee--the indicator used by the Kappel Commission to show an undercapitalized Post Office Department--has risen from \$1,836 in 1972 to \$3,037 in 1983 (as expressed in constant fiscal year 1972 dollars).

The Service has primarily financed capital investment internally, even with a negative equity position

To finance capital investments, the Service uses both internal and external funding sources. Its external funding source is its authority to borrow from the U.S. Treasury. From 1972 through 1983, the Service borrowed \$1.925 billion for capital purposes, with the last borrowing made in 1976. For this period, the difference between capital outlays of \$6.1 billion and cumulative borrowing of \$1.925 billion has been provided by internal sources.

The following table illustrates the funding of capital investments from 1972 through 1983.

Capital Investments Funding

	<u>Cumulative investments</u> (millions)
<u>Capital investments</u> (including real estate, buildings, equipment, and vehicles paid for)	<u>\$6,152</u>
 <u>Funding of capital investments</u>	
External borrowing	\$1,925
Repayment	- 521
Net external borrowing	\$1,404
<u>Cash generated from operations</u>	<u>\$4,748</u>
Total funding	<u>\$6,152</u>

As shown in the above table, outlays have been more than triple the Service's borrowing. During much of this same period, the Service was in a negative equity position, as shown in the following table.



THE POSTMASTER GENERAL  
Washington DC 20260-0010

May 21, 1984

Dear Mr. Anderson:

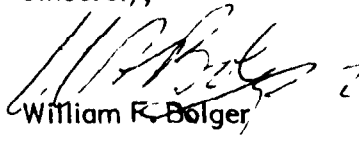
This refers to your proposed report, "Information on the Status of Postal Service Costs and Mail Delivery Services Under the Postal Reorganization Act." (Code: 222004).

The report correctly reflects the Postal Service's great strides under the Postal Reorganization Act. Mail volume has increased over 35 percent, but operating costs, adjusted for inflation, have increased only 17%. Despite the great increase in mail volume, service standards have been maintained, and the public is generally pleased with our performance. There are complaints, but they are few in comparison to the 119 billion pieces of mail we handled in FY 1983. Still, we take each complaint seriously, and strive constantly to remedy deficiencies and improve our performance.

We appreciate your giving us an opportunity to review this useful summary of challenges and accomplishments of the Postal Service under the Postal Reorganization Act.

Technical comments on the report have been supplied informally to your staff.

Sincerely,



William F. Bolger

Mr. William J. Anderson  
Director, General Government Division  
U.S. General Accounting Office  
Washington, D.C. 20548

(222004)

Comparison of Capital Funding Disbursements Versus  
Annual Accrued Workers' Compensation Expense  
Less Cash Payments (1977-81)

<u>Fiscal year</u>	Disbursements for the acquisition of capital assets (\$ in millions)	Total annual accrued workers' compensation expense less annual cash payment (\$ in millions)
1981	494.1	300.0
1980	378.1	337.1
1979	392.5	607.3
1978	352.0	380.8
1977	437.6	546.4

EQUITY LEVELS ARE  
NOW BEING RESTORED

For the past two fiscal years (1982 and 1983), the Service has generated operating incomes. These incomes have begun to restore the Service's equity position, which dropped from an initial \$1,686 million in 1971 to a negative \$1,307 million in 1981. A net income of slightly over \$1.4 billion dollars for 1982 and 1983 reduced the cumulative deficit from operations since the commencement of the Service to about \$2.8 billion. The extent to which this restoration continues will depend primarily upon the timing of future rate increases.

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**THIRD CLASS**

