
**Hearing before the Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
Committee on Oversight and Government Reform
United States House of Representatives**



**Long Statement for the Record
On the Status of the
United States Postal Service**

**David C. Williams
Inspector General
United States Postal Service**

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to submit my testimony concerning the United States Postal Service. I would like to report on the recent work of the Office of Inspector General (OIG), comment briefly on how the Postal Service and the OIG will be affected by passage of Public Law 109-435, and discuss the key challenges the Postal Service faces in the years ahead. But first, I would like to acknowledge the assistance that the Congress, the Postal Service Board of Governors, and the Postal Service provided to the OIG in resolving the long-standing issue concerning the statutory roles of the OIG and the U. S. Postal Inspection Service. Your assistance ensured that the OIG's role is in accordance with the intent of the Inspector General Act of 1978.

Recent OIG Contributions to the Postal Service

I became the Inspector General of the United States Postal Service in August 2003. The OIG at that time lacked the confidence of the Postal Service, the Congress, and the public. The past 3 years have been ones of progress and accomplishment as the OIG has taken steps to restore confidence. These have included fundamentally changing our planning, engaging all of our stakeholders in meaningful dialogue, fully clarifying our statutory role, and ensuring the work environment is one of productivity and balance. In addition, our office is fundamentally aligned to mirror the Postal Service; we established a virtual front office to reduce administration and increase the mission focus of the staff; and we are now a performance driven organization. These changes have been

extremely productive and beneficial for the OIG, the Postal Service, and our stakeholders.

Although our audit staff in numbers has almost remained the same since my arrival, the value of the audit work to the Postal Service has increased dramatically. The cumulative monetary benefits to the Postal Service have increased by 500 percent to over \$441 million.

The OIG is partnered with the Postal Service in audit work and investigative activities using Value Proposition Agreements and a Countermeasures program, respectively. Value Proposition Agreements involve the Office of Audit and the Postal Service working together to identify audit areas that could yield savings and maximize the OIG's value to the Postal Service. Since their introduction 2 years ago, our Value Proposition Agreements have resulted in more than \$273 million in savings for the Postal Service. We are continuing this Value Proposition work with the Postal Service and look forward to similar successes.

The Office of Investigations' (OI) recently created Countermeasures program involves a continuous examination of investigations to identify trends and a process to develop effective countermeasures to prevent or minimize future violations. Trend surveys are used to capture information on investigations. The OI then develops business cases for proposed countermeasures and works with the Postal Service to ensure proper implementation and monitoring of approved

countermeasures. For example, employee mail theft at a plant may be prevented or minimized with an enforced policy prohibiting employees from carrying personal items like a backpack or gym bag on the workroom floor and allowing only clear plastic bags for personal items. The Countermeasures group is also working closely with important mailers such as the Department of Veterans Affairs' Consolidated Mail Outpatient Pharmacy on proactive initiatives to more quickly identify non-receipt of prescription drugs and possible points of loss within the postal network.

Our Special Agents – federal law enforcement officers – assist the Postal Service in detecting and deterring misconduct and help maintain the integrity of the postal system and its employees. The vast majority of postal personnel are dedicated, hard-working public servants whose daily efforts instill trust in America's postal system. However, it takes only one incident of theft, fraud or misconduct to potentially diminish that trust. Investigations of these breaches of integrity are a key component in maintaining trust in the system and safeguarding the Postal Service's revenue and assets.

With more than 500 Special Agents located in 90 offices throughout the country, we investigate all types of employee misconduct, including theft of mail by Postal Service employees and contractors. We also investigate workers' compensation fraud, embezzlements, bribery, narcotics, and contract fraud, as well as other postal crimes. Our work shows that crime does not pay.

I would like to highlight some of our major investigations as examples of our continuing investigative successes. For example, as the result of a recent OIG investigation, a postal vendor agreed to settle a False Claims Act case concerning alleged false billings. While denying that it engaged in any wrongdoing, the vendor agreed to pay \$10 million to the Postal Service. In another case, the Postal Service received \$5 million in settlement from a postal automation equipment contractor, following an OIG investigation concerning defective cost and pricing data. In another case, we quickly identified a payment error by a contractor who was allegedly underpaying the Postal Service for paper purchased for recycling. As the result of this investigation, the Postal Service received nearly \$400,000 initially, and will realize \$3.5 million more over the life of the contract. In a tort claim investigation, the Postal Service avoided a \$10 million claim after OIG investigators established the claim was fraudulent. Last year, investigative efforts into workers' compensation fraud helped the Postal Service avoid \$115 million in long-term compensation payments. In one case, an employee was paid more than \$450,000 in disability payments since 1988 for an alleged back injury. However, investigators gathered evidence that contradicted these claims, including surveillance and photographs of the employee doing physical labor in his yard and community. The employee was convicted of fraud, sentenced to 12 months incarceration, and ordered to repay \$242,000.

In another case, OIG Special Agents specializing in computer crimes uncovered an employee who failed to collect \$450,000 in postage. In 2006, that postal employee was sentenced to 30 months in jail and 3 years of probation. Last year Special Agents completed 6,357 investigations, which resulted in 293 arrests and 237 indictments; 2,977 administrative actions; and \$20.9 million in fines, restitutions, and recoveries.

The Postal Accountability and Enhancement Act

When President Bush signed the Postal Accountability and Enhancement Act (the Act) on December 20, 2006, it represented the most significant modernization of postal governance and regulation in 35 years. The Act fundamentally changes the way the Postal Service is regulated and the way the postal overseers operate. As the Inspector General, I assure you the OIG is ready to fulfill its responsibilities under the Act to:

- Regularly audit the data systems underpinning the Postal Service's costs, revenue, rates, and service reports;
- Prepare a report on workplace safety and workplace-related injuries; and
- Prepare a report assessing how the Postal Service administers certain rate deficiencies for non-profit mail.

The OIG has already started working on these projects. In fact, we recently published an audit of the Postal Service's Transportation Cost System and in May 2007 we plan to publish an audit of the Postal Service's Management

Operating Data System, a data system that has received significant criticism in past rate cases. The OIG also expects to continue its support of the Postal Service's external auditor. The OIG will devote significant resources to the Postal Service's transition to quarterly Securities and Exchange Commission (SEC)-style reporting and the requirement that it comply with Section 404 of Sarbanes-Oxley.

Major Challenges Confronting the Postal Service

In recent years, the Postal Service's financial position has been improving. In particular, over the last 4 years the Postal Service has retired \$11 billion in debt, due in large part, to the reduced Civil Service Retirement System (CSRS) payments. As a result, for the first time since the postal reorganization in 1970, the Postal Service ended fiscal year (FY) 2005 with no debt obligations outstanding. During that same 4-year period, the Postal Service moved from a \$676 million net loss to \$900 million in net income. These positive financial results are due to successful efforts to generate revenue, reduce costs, focus on customer needs, and improve service.

Despite this progress, the Postal Service – with nearly \$73 billion in annual revenue, rising costs, and approximately 700,000 career employees – faces many challenges if it is to continue to provide affordable mail service to the American public 6 days a week. These challenges include network optimization, cost control, revenue, and technology.

Network Optimization

The Postal Service recognizes the need to transform its mail processing and transportation networks into a 21st century operation. The new postal law also strongly encourages the Postal Service to streamline its network. The law gives the Postal Service 18 months to submit a strategy and plan for rationalizing the postal facilities network and removing excess processing capacity. The law also calls for annual reports on actions taken to realign or consolidate facilities. Any organization the size of the Postal Service – its network is one of the largest in the world with more than 37,000 facilities, 16,727 highway network routes, and 216,000 vehicles interfacing daily with the \$900 billion a year domestic mail industry – would find this a daunting challenge.

Optimizing such a massive network might predictably suggest migrating towards a classic, large-scale planning strategy that emphasizes detailed sequencing and has the advantages of transparency and easier success measurement. Instead, the Postal Service has relied on an incremental approach to streamline its operations. This includes simplifying and downsizing the network, redefining the roles and functions of processing plants, and consolidating mail and transportation operations. Postal Service accomplishments over the last 7 years using this approach include:

- Reducing 180.5 million workhours (which equates to 86,779 staff years);
- Closing over 90 mail facilities;

- Converting over 30 facilities to a new network infrastructure; and
- Reducing highway contract routes by over 65 million miles.

The advantages to the Postal Service of the incremental approach include: (a) increasing network flexibility to allow for easier changes as demographics, mail mix, and technology evolve; (b) reducing risks inherent in attempting to make all network changes at once; (c) allowing testing for pilot projects in a more forgiving environment; (d) increasing local buy-in of network changes; and (e) generating incremental internal capital to cover the cost of network optimization.

Given the size, complexity, and expense of this effort, it appears that taking an incremental approach to the network changes represents an acceptable method for reducing inefficiencies and standardizing best operational practices. This approach is reasonable considering that other major government modernization efforts¹ that used traditional strategic planning approaches nevertheless experienced significant cost overruns and delays.

The Postal Service is currently working to develop a plan to comply with the law in streamlining its network. This network plan must also consider the need for enterprise resilience — the ability to continue to provide service despite natural or man-made disruptions. We continue to be involved in reviewing the Postal Service's efforts to consolidate its mail processing and facilities to determine

¹ Examples include the Internal Revenue Service, Federal Aviation Administration, and Department of Defense modernization projects.

whether the projected efficiency gains are based on reasonable assumptions and to assess the impacts on service.

Proper planning and oversight are essential to addressing the risks associated with incremental streamlining. These risks include: (a) local network changes might not be consistent and integrated with national strategy, creating disruptions in the network and affecting service; (b) stakeholder influences and pressure may delay or curtail consolidations; (c) piecemeal solutions to facility changes may result in inefficiencies; (d) time lags between staff reductions and facility closures may waste money and lower productivity; and (e) successes may be more difficult to identify.

The Postal Service also faces some operational challenges from their incremental approach to network optimization. They include:

- Maintaining service levels while transitioning from old networks to a new infrastructure.
- Streamlining and standardizing the mail processing and transportation networks by redefining the roles and functions of plants.
- Developing and deploying new mail processing technology to complement the network optimization.

As the Postal Service continues to streamline its mail processing and transportation network, the OIG will continue to assess these changes as it has

over the past several years. In the last 3 years, we have assisted the Postal Service in its network optimization modeling efforts, reported on accomplishments and challenges, and examined the Postal Service's overall network change process. Our work has assisted the Postal Service in identifying excess workhours worth \$669 million, and in reducing transportation costs with an economic impact of more than \$303 million. We have also assessed selected consolidations of individual mail processing facilities.

Cost Control

Cost control is often at the forefront of Postal Service news. In April 2002, the Postal Service's Transformation Plan inaugurated a significant effort to contain costs by increasing automation, improving productivity, redesigning logistical networks, optimizing the retail network, and retiring debt. Postal Service management committed to continue the transformation with its September 2005 Strategic Transformation Plan. In the first 3 years following the April 2002 plan, a reduction in CSRS payments of approximately \$9.2 billion allowed the Postal Service to move from a net loss of \$676 million in 2002 to a positive net income for each of the last 4 years. We believe the Postal Service is still faced with cost reduction challenges that in certain cases include regulatory restrictions such as:

- Each year the Postal Service adds almost 2 million new mail delivery points. While these new delivery points add significant costs, they also result in additional revenue. It is still critical that the Postal Service effectively manage delivery cost, which is 43 percent of operating costs, because mail delivery

requires a significant infrastructure investment of carriers, mail processing, transportation, and buildings. Historically, the Postal Service's business model relied on rising First-Class Mail® volume to cover the cost of operating the expanding delivery network. However, since 2001, First-Class Mail volume has decreased by more than 6.1 billion pieces while the delivery network expanded by more than 8 million new delivery points. The decline in First-Class Mail volume is due, in large part, to electronic diversion as businesses, nonprofit organizations, governments, and households increasingly rely on e-mail and other electronic means to conduct financial transactions and send correspondence. This dynamic was not, of course, anticipated in the 1970 business model. The Postal Service's Strategic Transformation Plan recognizes this challenge and looks to the streamlining of delivery routes and the consolidation of delivery points as ways to reduce delivery costs.

We recently conducted 15 audits under Value Proposition Agreements with the Postal Service to help them better manage delivery and retail utilization of workhours, costs, and retail service. This work showed the Postal Service could improve delivery operations by adequately reviewing mail volumes and data in delivery systems when determining daily workhours for carriers. We also found there were opportunities for the Postal Service to improve morning standard operating procedures, operating plans, volume recording, delivery point sequence, and matching workhours to workload. In addition, in certain

areas the standard staffing of retail windows was not always done and managers did not ensure the accurate recording of retail workhours. Postal management agreed with our findings and recommendations and was proactive in correcting deficiencies.

- One could question how many of the more than 27,000 post offices that largely comprise the Postal Service's delivery network are essential for mail service. Many small post offices are not strategically located because they were established before the introduction of modern transportation systems. In some areas, post offices are in close proximity to one another. This produces redundancy resulting in unnecessary facilities that may lose money. No other public or private entities are required to bear these costs. Customer service should always be of paramount concern to the Postal Service, but over-serving customers is not a sound business decision. The Postal Service should have the flexibility to consolidate facilities, if it makes business sense to do so.

In 2001, the Postal Service's career labor force was approximately 776,000 employees; today that number has shrunk to approximately 696,000. This labor trend is significant and encouraging, but total labor costs have continued to increase, from \$51.4 billion in 2001 to \$56.3 billion in 2006. Several factors have contributed to growing labor costs, such as increasing retiree and employee

health care costs, salary increases, and limited flexibility in how employees can be deployed.

A significant cost that continues to affect the Postal Service's bottom line is workers' compensation expenses for injured workers. The size of the bargaining unit workforce and nature of work performed are the primary factors that made the Postal Service the largest participant (47 percent of the total federal workforce cases) in the Department of Labor's Office of Workers' Compensation Programs in 2006. Although the Postal Service has taken positive steps over the past 3 years to reduce workers' compensation expenses, in chargeback year 2006 these expenses increased from \$840 million to \$884 million (5 percent).

Unionized Postal Service workers enjoy a unique status within the federal government because they have the right to negotiate compensation through collective bargaining under the National Labor Relations Act (NLRA). However, unlike private sector companies that are subject to the NLRA, Congress expressly forbade Postal Service employees and management two key collective bargaining tools: the right of employees to strike, and the right of management to implement its best and last final offer if impasse is reached. Instead, if collective bargaining negotiations do not result in agreement, arbitration ensues, resulting in a third-party arbitrator setting compensation and other contract terms for the parties through a binding arbitration award.

The new postal law provides for mediation if the Postal Service and union do not reach a negotiated agreement. If agreement still is not reached, binding arbitration continues to be the next statutory step. This arbitration process authorizes a three-person panel to decide on the disputed terms for a new agreement and offers few incentives for the parties to reach a negotiated settlement. Hopefully, the new postal law's provision for mediation will encourage the parties to reach agreements and maintain control over the process instead of throwing their disputes to third parties to decide.

The issue of greater flexibility in the deployment of the Postal Service workforce was discussed in the July 2003 Report of the President's Commission on the United States Postal Service. We agree that effective use of employees is essential to the process of building and maintaining a world-class workforce. However, one impediment to this is that the labor agreements between the Postal Service and three of its four major unions — the American Postal Workers Union, the National Postal Mail Handlers Union, and the National Association of Letter Carriers — state that “normally, work in different crafts, occupational groups or levels will not be combined into one job.” This is a prohibition against what is referred to as “crossing crafts,” which cannot be done except in accordance with certain restrictive provisions. This prohibition may slow the Postal Service's efforts to increase efficiencies in mail processing and delivery. Specifically, it limits the Postal Service's ability to make cross craft assignments even when there is no question the reason for the assignments is to avoid

duplication of effort and increase efficiencies. For example, if a postal clerk has insufficient work for an 8-hour workday, but there is a heavy workload elsewhere, management cannot readily assign the clerk to that work unless it is within their craft and at their pay grade. The Postal Service needs to explore with its unions ways it can more effectively use its most valuable asset — its employees.

Postal Service letter carriers are classified as city or rural carriers. Their compensation is collectively bargained between the Postal Service and their unions resulting in unique labor agreements. The city carrier's workweek is 40 hours per week, 8 hours per day. Overtime is paid in the event city letter carriers work beyond 8 hours in a day and 40 hours in a week. The rural letter carrier's compensation is determined on an evaluated route basis that includes mail counts, route miles, evaluated time as determined by the office, and the route time.

The management of letter carrier costs using city and rural classifications has proven challenging to the Postal Service. Extensive command, control, and surveillance systems are required to ensure efficient mail delivery because letter carriers receive limited direct supervision while delivering mail. To achieve a significant breakthrough in delivery costs, the Postal Service should explore an incentive-based letter carrier performance system, regardless of how delivery routes are currently classified.

The Act has removed two significant financial burdens from the Postal Service. The Postal Service no longer has to fund the CSRS escrow nor does it have to pay retirement costs associated with military service. However, the Act also adds financial challenges. The Postal Service must make significant payments into the new Postal Service Retiree Health Benefits Fund (PSRHBF) until 2016. For 2007, the Postal Service is required to make a \$5.4 billion payment; it also had to transfer into PSRHBF the \$3.0 billion placed in escrow in FY 2006. Under Generally Accepted Accounting Principles, the transfer appears as an FY 2007 expense. The net effect of these three items (PSRHBF payment, escrow savings, and CSRS savings) is that the Postal Service must pay \$600 million more than it did under the old rules in FY 2007. In future years, however, the net effect should be positive as the combined escrow and CSRS military service payments were scheduled to become larger than the new PSRHBF payments. These payments benefit the Postal Service because it is paying down its future liabilities, but they are still large expenses in the short term.

The Postal Service bears the cost of non-competitive air carrier rates that other businesses do not incur in their normal operations. Although the Postal Service gained the freedom to contract for most domestic air transportation in 1985, as a result of airline deregulation, international air transportation rates are still mostly regulated. The Postal Service believes the international rates the U.S. Department of Transportation set are far higher than those it could negotiate on the open market. As a case in point, the Postal Service has some limited

freedom to contract air transportation for international parcels. When the Postal Service is able to use this exception, it pays less. The Postal Service is mandated to operate in a businesslike manner and purchasing air transportation should not be an exception. This kind of constraint hinders the kind of large and innovative solutions that are required for managing a fast-paced and largely unforgiving business environment. The Postal Service was not intended, nor is it able, to subsidize the airline industry.

Finally, Total Factor Productivity (TFP) is a measure of postal efficiency and cost-effectiveness. TFP is a ratio of output (workload) to input (resources). Workload includes the number of delivery points and mail volume. Resources include labor, materials, transportation, and capital. Postal Service productivity for the last 7 years has grown at an average annual rate of 1.5 percent. In 2006 the TFP improved by 0.4 percent. This is a notable achievement considering that from 1972 to 1999 the average annual growth rate was 0.3 percent. Historically, during times of increasing mail volume growth, the Postal Service experienced TFP gains. However, when mail volume growth slowed, so did productivity.

The recent annual TFP trend is encouraging as it seems to be a departure from the historic gain/loss cycle. However, sustaining the current trend may prove to be a challenge. The recent TFP increases are a direct result of the Postal Service's efforts to use fewer workhours. It may not be possible to continue cutting costs indefinitely. Labor comprises 79 percent of the total operating

expenses used by the Postal Service, and it has limited flexibility to manage labor costs. To sustain TFP growth, the Postal Service must have the freedom to adjust its network and staffing levels to operate at maximum efficiency. It is also important to ensure that TFP growth does not come at the expense of service.

Revenue

As with any business, the Postal Service must continually find ways to increase revenue. While doing so, the Postal Service must provide high-quality customer service and greater efficiency.

The Postal Service offers numerous products, but First-Class Mail and Standard Mail together account for 82 percent of the Postal Service's mail revenue and 94 percent of the mail volume. Since these two classes so strongly dominate postal finances, Postal Service revenue growth largely depends on their future prospects. It is well known that single-piece First-Class Mail revenue is in decline but less well known that pre-sorted First-Class Mail revenue is slowly growing. Of the two subclasses of Standard Mail, the Enhanced Carrier Route subclass, which is delivered to entire neighborhoods, has grown modestly in recent years, and regular Standard Mail, which is addressed to individuals, is doing even better. Although the current trends differ from the past they are not wholly discouraging.

However, most revenue comes from business mailers, to whom mail recipient satisfaction matters greatly. Making sure that mail is targeted effectively, so that households receive mail that interests them enhances the value of mail for both senders and recipients. As First-Class Mail volume stagnates, the Postal Service may find an increasing opportunity to generate revenue from advertising mail to support its network.

In addition, the Postal Service has identified opportunities to provide greater customer value and increase revenue through innovations, such as:

- Worksharing occurs when mailers (or mailer agents) do part of the work that the Postal Service itself would normally perform, usually in exchange for a discount. Worksharing is believed to have cut costs, spurred volume growth, and lowered postage rates. It has also resulted in a slow, de-facto privatization of the Postal Service that many believe has benefited mailers and the mailing industry as well as consumers and the economy at large.

The idea is that if the mailers can do the activity at a lower cost than the Postal Service, then they should do it themselves and save the Postal Service the costs it would otherwise bear. Worksharing supports the principle of “lowest combined costs” such that the incentives exist to encourage the least expensive provider to do the work. For example, if presorting a piece of mail saves 10 cents in postal processing costs, but costs the mailer 5 cents to do, then it makes sense to provide a discount and let the mailer do the work. If a

discount of 10 cents or less is given to the mailer, then the Postal Service is at least no worse off than before the discount.

- Click-N-Ship® allows customers to pay for and print domestic and international labels with PC Postage using a credit card, or to print labels without postage, using their home or business computer and printer. Click-N-Ship® users can calculate postage rates, find ZIP Codes, and access online shipping history information. The system sends customers e-mail shipment notification, stores their credit card information, and validates and saves addresses in an online address book. In addition, the user is provided free Delivery Confirmation™ for Priority Mail® and online purchase capability for USPS insurance.
- Customized MarketMail® (CMM®) offers Direct Mailers the opportunity to creatively capture a target audience. CMM is an advertising mail option that permits the mailing of any shape and virtually any material (paper, foam, cardboard, cardstock, rubber, and plastic). This mail may contain enclosures as well as product samples. It allows advertisers to differentiate their product in the mailbox.
- Negotiated Service Agreements (NSAs) are customized and intended to be mutually beneficial contractual agreements between the Postal Service and a specific mailer (customer or organization). An NSA provides for customized

pricing, rates, and classifications under the terms and conditions established in the NSA and may include modifications to current mailing standards and other postal requirements. Any mailer may initiate an NSA discussion with the Postal Service.

We have done and are continuing to do audit and investigative work pertaining to a number of revenue areas and initiatives, to help ensure that the Postal Service's revenue is protected and that it is maximizing its revenue potential to ensure profitability.

Financial forecasting is essential to the ratemaking process and for maintaining profitability/viability. However, historically the Postal Service has encountered difficulties in accurately forecasting revenue, volume, and income, especially given market fluctuations, such as the decline of First-Class Mail and economic cycles that affect advertising mail. The Postal Service must find, as private industry does, ways to mitigate undue influences so that forecasting is more accurate.

In contrast to the forecasting difficulties, the Postal Service has continued to improve in disclosing financial information. In 2004, the Postal Service began SEC-type financial reporting. In addition, the Postal Service also reports cost and revenue data in great detail to the Postal Regulatory Commission as part of the rate setting process. In 2005, the Postal Service initiated steps towards

Sarbanes-Oxley Section 404 compliance by documenting major processes at its Accounting Service Centers. After passage of the Act, the Postal Service accelerated its efforts to be fully compliant by September 30, 2010. The OIG is currently coordinating with postal management and Ernst & Young to assist in ensuring compliance by the September 30, 2010, deadline.

In 2006, debt was influenced by the requirements of Public Law 108-18, which required that the "savings" the Postal Service realizes² from the CSRS payment be held in escrow and not be obligated or expended until otherwise provided for by law. For 2006, the projected cash flow from operations, after funding the escrow requirement (estimated at \$3.1 billion) would not be sufficient to cover capital investments. A projected borrowing of at least \$1 billion was needed to make up the shortfall. At the end of 2006, the Postal Service's debt was \$2.1 billion, a 110 percent increase over the projected debt. In 2007 and beyond, debt levels will be influenced by the PSRHF (until 2016), the ability to operate at close to break even, and the amount of capital investment required to continue its efforts to streamline operations.

Technology

Between FY 2000 and FY 2006, the Postal Service approved \$5.8 billion in engineering investments that are expected to produce \$19 billion in savings over their useful life. The Postal Service generally does not invest in automation

² The difference between the contributions the Postal Service would have made to the Civil Service Retirement and Disability Fund had the legislation not been enacted and the contributions it now makes under the law.

equipment unless it can be expected to generate at least a 20 percent return on investment. With overall volume levels growing slowly, automation has facilitated cost cutting in workhours for processing and delivery operations.

Our independent audit and investigative work in postal technology helps assure that the decision making and deployment processes are sound while protecting the Postal Service in its contracting process. Our work has resulted in significant process improvements and monetary savings for the Postal Service.

The Postal Service continues to make significant strides in automating mail processing. This can be seen in the improving flats and parcel technology,³ which is maturing and benefiting from technology adapted from letter automation systems. Future plans call for developing and deploying new or improved automation and mechanization equipment that will increase operating efficiency and productivity.

Over the years, letter mail technology has increased the Postal Service's productivity by sorting mail to delivery walk sequence, thereby eliminating much of the manual handling of this mail. Sorting mail by automation is more than 10 times cheaper than manual processing – it costs \$5 to sort 1,000 letters through automation versus more than \$55 to sort the same amount manually. As letter mail technology has matured, investments have focused on software

³ Flat-size mail exceeds the dimensions for letter-size mail. Parcel mail does not meet the mail processing category of letter-size mail or flat-size mail.

improvements to increase address readability, reduce error rates, and further eliminate workhours required for manual handling.

In FY 2006, the Board of Governors approved the purchase of mail processing equipment called the Flats Sequencing System. This equipment is designed to put flat mail, such as catalogs and magazines, in delivery route sequence for the letter carrier. This will eliminate the need for the letter carrier to manually sort this type of mail. The Postal Service anticipates this technology will provide annual operating savings of approximately \$612.5 million.

The Postal Service continues to pursue new technologies that improve existing mail processing systems. The Postal Automated Redirection System (PARS) and optical character reader (OCR) enhancements are additional examples of initiatives to further improve mail processing efficiency. PARS improves the processing of forwarded mail by intercepting the mail before it is delivered to an old address. OCR enhancements, as technology improves, will allow mail processing machines to read mailing addresses better and faster, thereby increasing processing speed while reducing errors.

While technology breakthroughs in the Postal Service are significant, like certain other federal departments, the Postal Service has become increasingly dependent on a few contractors. This dependence on limited competition increases the risk of higher cost and service disruption. Furthermore, the

contractors generally own proprietary rights to software and licensing. To their credit, the Postmaster General and Governors have raised this concern and are exploring ways to mitigate risks.

In conclusion, the Postal Service made significant improvements in overall operations over the last 3 years by streamlining operations, reducing costs, and initiating significant restructuring. Yet significant challenges remain, not the least of which are:

- The extremely dynamic environment in which it operates, especially compared to the more stable environment in which most other government entities function.
- Continuously advancing technological capabilities.
- The constantly changing mix of volume and types of mail, in the midst of a still ongoing communications revolution.
- Evolving relationships with mailers in regards to discounts and mail preparation and submission requirements.

The Postal Service must continue to respond to these challenges, with the support of Congress in certain areas, to remain a viable business providing universal mail service at affordable prices to the American public.