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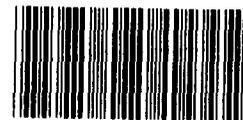
Testimony

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Postal Service's Processing
of ZIP + 4 Letters Receiving
Postage Discounts

Statement of
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Before the
Subcommittee on Government
Information, Justice, and
Agriculture
Committee on Government Operations
House of Representatives



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We are pleased to be here today to discuss the results of a review requested by this Subcommittee of the Postal Service's processing of ZIP + 4 letters. We have prepared a report on those results, and my testimony today is based on that report. Over the 18-month period that we covered, and for a number of reasons, only a relatively small percentage of the letters mailed at the lower ZIP + 4 postage rates received automated processing to delivery or carrier routes.

Background

Several years ago, the Service implemented the ZIP + 4 program to reduce processing costs by automating the sorting of First-Class, letter-size mail. The program introduced a longer-- nine rather than five digit--ZIP Code and over \$600 million worth of optical character readers and bar code sorters.

The optical character readers read the ZIP Code and print a corresponding set of bar codes on the envelope, and the bar code sorters sort the mail by reading the bar codes. The nine-digit, or ZIP + 4, code enables the equipment to automatically sort letters to post offices and delivery routes, which would otherwise be done manually or with manually operated machines. Automatic sorting reduces labor intensity which in turn significantly lessens processing costs.

First-Class letters and cards can be mailed at less than full postage when addressed with the correct ZIP + 4 code, mailed in sufficient quantity, prepared in a manner that permits automatic processing (for example, the city-state-ZIP + 4 line of the address must be visibly placed so an optical character reader can read it), and postage is paid by precanceled stamp, meter stamp, or permit imprint. The discount is 0.5 cent or 0.9 cent per letter and is intended to be an incentive for mailers to use ZIP + 4 codes. About 5 billion letters obtained nearly \$28 million in ZIP + 4 postage discounts between late September 1985 and mid-March 1987, the period covered by our review.

Because of indications that some discounted ZIP + 4 letters were not being automatically processed, the Chairman of this Subcommittee asked us to determine (1) how much discounted mail was bypassing or being rejected by the automated equipment and why, (2) how much revenue the Service was losing in the form of discounts on the unautomated letters, and (3) what steps the Service should take to ensure that discounted letters can be and are automated.

Let me now turn to the results of our review.

Amount of discounts provided
on unautomated letters

Our review focused on the Service's use of bar code sorters to sort discounted ZIP + 4 letters to carrier routes. Of the approximately 5 billion discounted ZIP + 4 letters the Service received nationwide between late September 1985 and mid-March 1987, we estimate that about 10 percent were processed on bar code sorters to carrier routes. We estimate that the Service provided about \$25 million in postage discounts on the 90 percent not processed automatically to carrier routes.

Many processing centers
not yet automated

Many discounted letters were not processed automatically because the mail processing centers which did the sorting were not automated. As of early July 1987, the Service planned to automate approximately 215 mail processing centers nationwide. By the end of postal fiscal year 1986 (Sept. 26, 1986), just over 130 centers had been automated. The 130 centers are generally not responsible for carrier-route sorting to every post office they serve, which reduces the number of letters they would automatically sort. We estimate that the 130 centers were responsible for carrier-route sorting about 43 percent of the 5 billion discounted letters. We estimate that these centers

automatically sorted about 23 percent of the approximately 2 billion discounted ZIP + 4 letters they received.

There was an upward trend over the 18-month period, with more discounted letters receiving full automated processing in the last 6 months of the period (about 266 million letters) than in the previous 12 months (about 237 million letters).

Other reasons why discounted letters were not sorted automatically

To find out further why discounted letters were not sorted automatically to carrier routes, we visited four of the approximately 130 automated centers in Los Angeles (Terminal Annex center), northern Virginia, Philadelphia, and San Diego. At our request, employees in the four centers counted trays and feet of ZIP + 4 mail for a 2-week period. From this information, we roughly estimated the volume of ZIP + 4 letters available for automatic sorting to carrier routes and the amount so sorted. We then questioned local Service officials on reasons for gaps between available and sorted volumes.

The reasons included:

-- The number of ZIP + 4 letters going to some delivery areas was too few to economically justify the use of bar code sorters. At the Los Angeles center, for example, we

were told that two full trays of ZIP + 4 mail (nearly 900 letters) must generally be available for processing to a delivery area before bar code sorters are used. ZIP + 4 usage is much lower than the Service once expected; the 5 billion discounted letters the Service received between September 1985 and March 1987 accounted for about 4.5 percent of all First-Class Mail. To obtain more ZIP + 4 mail, the Service is upgrading the technology of its optical character readers and has submitted a proposal to the Postal Rate Commission for increasing ZIP + 4 discounts and establishing a new discount category. The upgraded technology will enable the readers to place the appropriate nine-digit bar code on the envelope even when the letter is not addressed with a ZIP + 4 code.

-- Optical character readers could not find or, if found, could not read the ZIP + 4 code and rejected letters as unreadable. This could be caused by optical character readers functioning improperly and/or mailers doing an inadequate job of addressing envelopes (for example, address label too skewed or print too light). Or, bar code sorters rejected letters because the bar code was missing, or unreadable, or did not match a machine's sorting instructions. Last November, the Service created a new occupational position--an automation readability specialist--to improve the "readability" of mail and the

performance of automated operations. If the position is successfully established, we see it as an important measure for improving the retention rate of letters in the automated system and thereby reducing the loss of revenue.

-- Some letters never reached bar code sorters because procedures in place at two of the four centers were not capturing all of the mail that could be automated. From identifying and counting trays of ZIP + 4 mail at our request, the two centers learned that the volume available for automation was far larger than they previously perceived. The centers changed procedures for capturing ZIP + 4 mail and substantially increased the volume of automated letters.

We believe that although the nationwide volume of discounted ZIP + 4 letters has been relatively small, more letters may be available for automatic sorting than perceived. For this reason, we recommended, in our report, that the Postmaster General direct his Division Managers/Postmasters to periodically count the amount of ZIP + 4 mail coming into automated processing centers in order to better know how much mail is available for automated sorting to carrier routes and which delivery areas should be automated. The Postal Service said recent instructions to field

managers have highlighted the need to measure the volume of ZIP + 4 mail by delivery area.

This concludes my statement, Mr. Chairman. My colleagues and I will be happy to answer any questions you may have.