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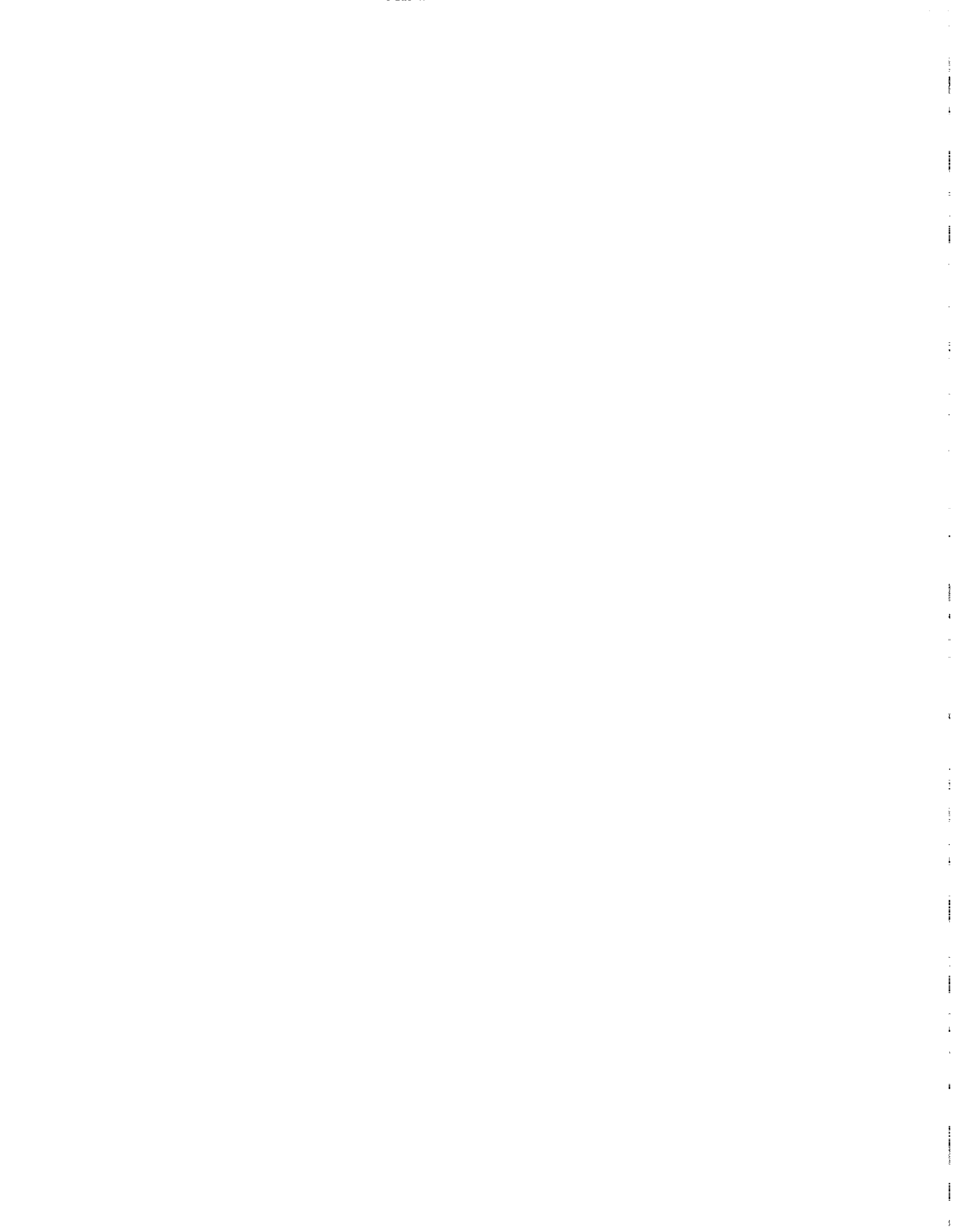
Report to the Honorable  
Charles E. Grassley, U.S. Senate

April 1994

# POSTAL SERVICE

## Planned Benefits of Iowa Automated Mail Facility Not Realized







United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-255880

April 8, 1994

The Honorable Charles E. Grassley  
United States Senate

Dear Senator Grassley:

This report responds to your request that we determine whether the introduction of automated mail processing in Waterloo, IA, saved money and improved delivery service. You were concerned about complaints from postal customers that sorting efficiency and delivery slowed down after operations in Mason City and Waterloo, IA, were consolidated into one automated center in Waterloo in August 1991.

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## Results in Brief

Automation at the Waterloo center did not produce financial savings as the Postal Service planned, or improve productivity and delivery service. After the consolidation, mail processing workhours declined as expected in Mason City, but the workhour increase in Waterloo was larger than anticipated, and the combined hours for both facilities increased sharply. Despite the introduction of automated equipment, labor productivity went down. Transportation costs, instead of decreasing as planned, increased because of equipment upgrades and route changes. Although local overnight service in Mason City was maintained, some locations were no longer scheduled to receive overnight mail delivery, and the percentage of mail delivered on time to other overnight locations fell.

Contrary to the Postal Service's guidelines, officials have not performed postimplementation reviews of consolidations to determine if their goals were achieved. We believe that the Service should conduct such reviews to determine if consolidations in rural areas benefit the Service and its customers.

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## Background

To take advantage of advances in mail processing technology developed to increase productivity, the Postal Service has been mechanizing and automating mail processing operations for over 20 years. The greater productivity of automated mail sorting equipment permits the Service to consolidate the processing operations of two or more facilities into one area mail processing facility. Area mail processing consolidations apply only to mail processing and distribution, and not to customer service operations. The affected offices maintained their regular window service, and postal officials expected the consolidation changes would not affect

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postal customers. The Service's guidelines say that these types of consolidations should save money and provide the same or better service.

Consolidations started in urban areas, but in recent years expanded to rural areas. From 1989 through 1992, Postal Service headquarters approved 75 area mail processing proposals. Most of these proposals affected rural areas. One such proposal included northeastern Iowa and southern Minnesota and was implemented in August 1991. Manual and mechanized mail processing and distribution operations in Mason City and Waterloo, IA, were combined into an automated facility in Waterloo (see app. I for a map and populations of the affected communities). The Postal Service projected that the consolidation would save about \$266,000 the first year, primarily through a reduction in workhours needed for mail processing. Savings of about \$3,900 in transportation costs were also expected for the first year. The area mail processing plan stated that mail delivery service would not be affected by the consolidation, and that processing operations located at Decorah, IA, might be transferred to the Waterloo facility at an unspecified date.

Shortly after the Waterloo facility began operations, customer complaints were received alleging degraded service. These complaints were similar to others that have reached Congress over the past few years from customers in North Dakota, South Dakota, Maryland, Pennsylvania, and West Virginia.

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### Consolidations in Rural Areas Have More Impact

In urban areas, mail processing consolidations are implemented without the same impact on personnel, transportation, and customer service that can occur in sparsely populated rural areas where consolidations involve small communities many miles apart. Accordingly, the awareness of customers in these areas to postal operations and their reactions to consolidations tend to be more pronounced. For example, we recently reported<sup>1</sup> that rural area customers were sensitive to changes in the overnight mail service they customarily received, which was important to their business and economic development. Specific ways in which rural area mail services differ from urban areas include the following:

- Small volumes of mail are important to some local communities; for example, a medical clinic in one community may depend on a single laboratory in another community to analyze its medical specimens, and the timely flow of mail between the two is imperative.

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<sup>1</sup>Service Impact of South Dakota Mail Facility Not Fully Recognized (GAO/GGD-93-62, Feb. 25, 1993).

- Changes in postal service are more noticeable and have more impact because of the smaller economic bases.
- Because of the smaller numbers of customers in rural areas, cutting off overnight service to one area and providing overnight service to another may force businesses to find new customers in the improved service area to replace ones who were lost.
- Transportation is critical in rural overnight service areas because of greater distances and the limited availability of alternate routes when adverse weather or accidents occur.

Also, in urban areas the impact of consolidation on postal personnel transferred from one facility to another may mean a change in commuting routes, whereas in rural areas personnel may need to move their families to another community. Transferring even a few postal employees, with their relatively high wages, can have a noticeable effect in small rural communities.

Because of such concerns, the Postal Service announced in October 1992 that it was suspending further action on unapproved area mail processing proposals. This suspension is expected to last until the Service completes a reexamination of the area mail processing concept and its current guidelines to ensure that they support the Service's priorities.

## Objectives, Scope, and Methodology

Our objectives were to determine whether automated area mail processing in Waterloo, IA, (1) saved money and (2) changed mail service. To achieve our objectives, we

- examined current Postal Service guidelines on developing and implementing area mail processing;
- examined the 1991 Mason City to Waterloo area mail processing plan;
- analyzed Mason City and Waterloo financial reports, personnel reports, and weekly management reports from the first seven 4-week accounting periods of the 1991 fiscal year (prior to the consolidation) and the same periods in fiscal year 1993, the latest information available at the time of our analysis;
- compared various indicators of cost and productivity before and after automated area mail processing was implemented;
- discussed the planning, implementation, and postimplementation status of the area mail processing operation with Postal Service officials in Mason City and Waterloo and at the Des Moines management center, where the consolidation plan was prepared; and

- conducted a mail service test within the Mason City service area to determine if overnight mail service had been maintained.

The mailing was not a statistical sample, which would have required representation within the sample of all mailing points and delivery addresses in the Mason City area. Because this was not feasible, we conducted a mailing that we believe indicated whether local Mason City mail was being delivered overnight. The test consisted of 406 letters mailed over a 3-day period from 16 locations in the Mason City overnight delivery area to a central address in Mason City.

We did our work from February 1993 through September 1994 in accordance with generally accepted government auditing standards.

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## Waterloo Consolidation Has Not Achieved Anticipated Savings

The plan for the area mail processing facility projected that at least \$266,000 would be saved during the first year of operation, with about 90 percent of the savings resulting from decreases in mail processing labor and supervision costs in Mason City. The remainder of the savings would result from lower transportation costs. Rather than declining, however, costs were significantly higher in 1992 and 1993, after the consolidation. Factors that contributed to the failure to achieve the anticipated savings were (1) mail processing workhour savings in Mason City were more than offset by increased workhours in Waterloo; (2) productivity, measured in number of pieces of mail processed per workhour, decreased rather than increased in both Mason City and Waterloo; and (3) transportation equipment was upgraded and routes were added.

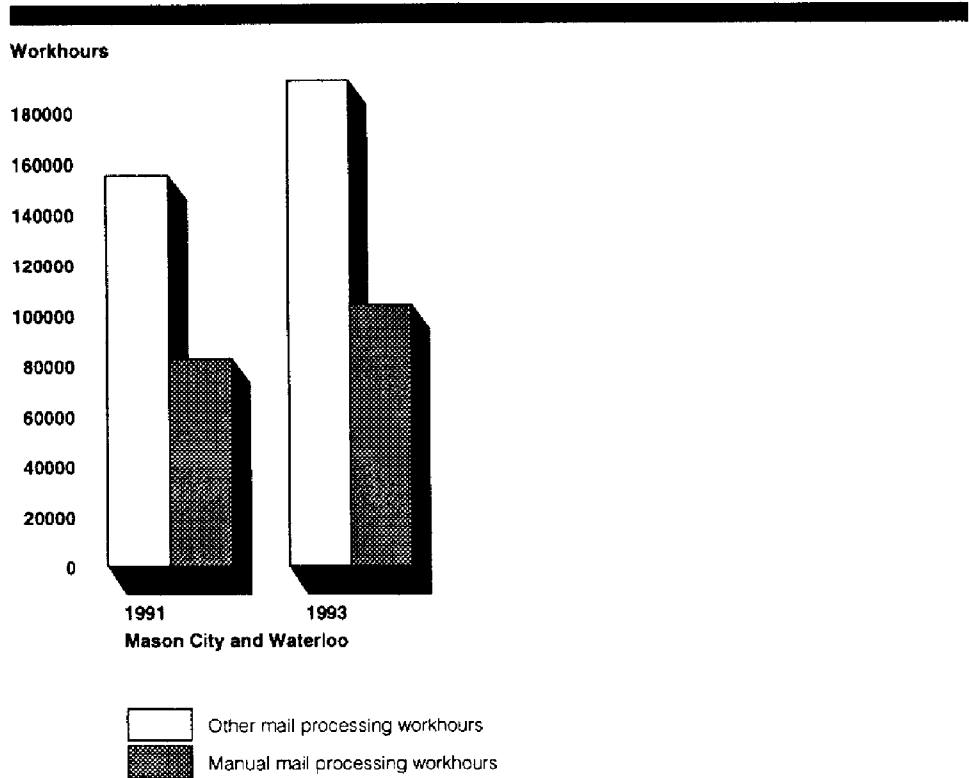
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## Workhour Decreases in Mason City Were More Than Offset by Increases in Waterloo

The Mason City Post Office transferred most mail sorting operations and seven employees to Waterloo, resulting in a decrease in mail processing workhours in Mason City, as anticipated. Between the first seven postal accounting periods (28 weeks) of fiscal year 1991, before the start of consolidated operations, and the same period in 1993, mail processing workhours in Mason City decreased by 46 percent.

On the other hand, workhours for the corresponding period of time in Waterloo increased by 55 percent, resulting in a net increase in workhours of 24 percent for the operations of both facilities. Workhours for manual sorting were expected to decrease as a result of using automated equipment. However, manual workhours increased at the same ratio as other processing hours. (See fig. 1).

**Figure 1: Automation Has Not Reduced Manual Workhours**



Source: Postal Service National Workhour Reporting System.

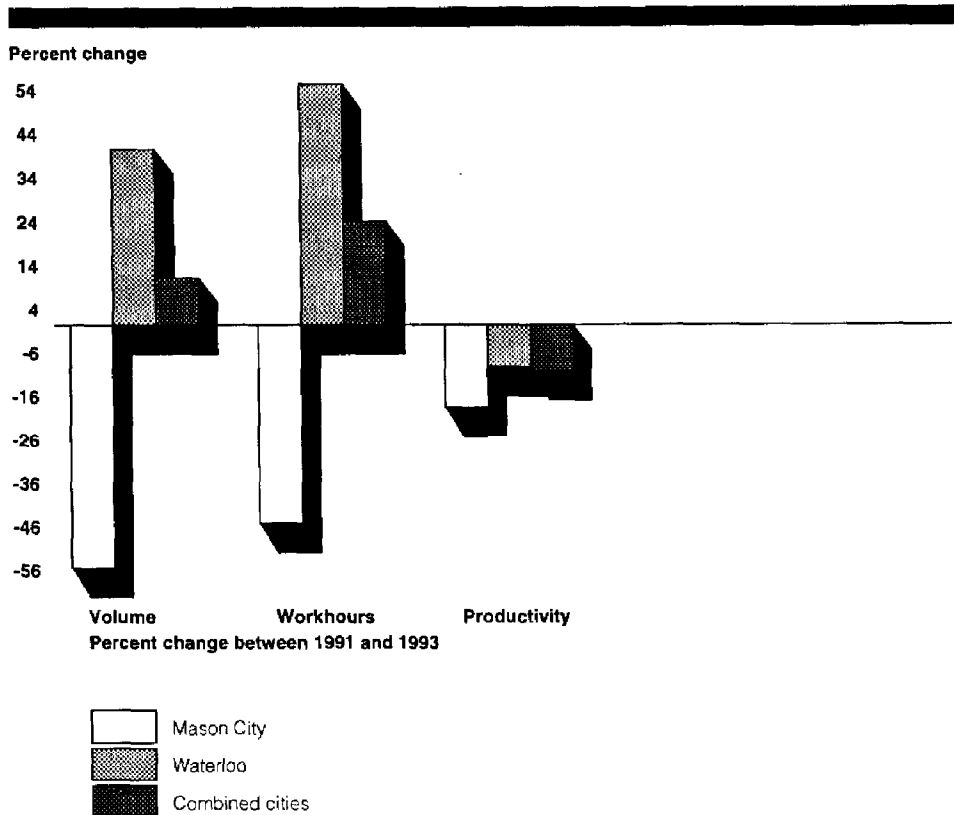
Overtime also contributed to the increased cost. During the same periods in 1991 and 1993, it doubled from 4 to 8 percent of workhours in Mason City, and from 10 to 20 percent in Waterloo.

**Productivity Declined in Both Facilities After the Start of Consolidated Operations**

In spite of automation, mail processing productivity<sup>2</sup> declined for Mason City and Waterloo between 1991 and 1993. Specifically, it dropped 11 percent, from 674 pieces of mail processed per workhour in 1991 to 603 pieces of mail per workhour during the same 7 accounting periods in 1993. (See fig. 2).

<sup>2</sup>This is calculated by dividing the number of first-handled pieces of mail by the total mail processing workhours needed to sort and distribute the mail.

**Figure 2: Productivity Declined After Automation**



Source: Postal Service Workhour and Volume Reporting Systems.

We do not know specifically what caused productivity to decline or why there were no labor savings in overall manual sorting. It should be kept in mind that although automated sorting of bar coded letters is considerably faster than mechanical or manual sorting, a great deal of the mail still cannot be read or barcoded by automated equipment. Nationally, nearly half of the workhours devoted to mail processing are still spent on mechanical and manual sorting. Waterloo has also experienced roughly this same proportion in mechanical and manual sorting. One effect of automation is that the handling of mail that automated equipment is unable to read adds to workhours. Operations necessary to support two separate sorting operations, automated and manual, increased workhours in Waterloo and apparently contributed to the drop in productivity.



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Nevertheless, we believe that because automated equipment is designed to improve speed and efficiency, operations in Waterloo should have produced savings in manual workhours and an improvement in productivity.

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**Transportation Costs Increased After Consolidation**

The consolidation plan projected transportation savings of \$3,946, including buy-out of existing contracts, in the first year of operation and annual savings of \$36,675 the following year. However, the consolidation necessitated larger trucks and new and expanded routes that were not contemplated in the plan. These additions resulted in a \$38,491 annual increase in transportation costs by 1993.

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**Required Postimplementation Reviews for Savings Were Not Done**

Postal Service guidelines in effect at the time the Waterloo consolidation was approved required field office managers to review consolidated operations to determine whether the anticipated savings were achieved. When significant deviations from a plan are discovered, officials are required to conduct an investigation to determine causes and make recommendations to capture projected savings.

A postimplementation review of the Waterloo facility was not done. After operations were combined in Waterloo, officials still tracked workhours at the two locations separately and assumed that savings had been achieved because hours decreased in Mason City. They added that they believed Postal Service management did not enforce the postimplementation review requirement.

Because of the relevance of postimplementation reviews to assessing whether Postal Service consolidation plans were achieved, we inquired at the headquarters level on the status of such reviews for other current consolidations. Officials in headquarters said that to their knowledge reviews were not done, and they had no record of any being done. They also said that postimplementation reviews are not required in the draft revision of the guidelines.

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**Effect of the Consolidation on Service Was Mixed**

Most mail service in the area remained unchanged as the consolidation plan had anticipated. However, some overnight service was adversely affected, at least temporarily, and adjustments of truck routes degraded some scheduled service and improved it elsewhere.

In our test mailing from within the Mason City overnight delivery area to a central address in Mason City, 96 percent of the letters were delivered overnight, approximating the Service's goal of 95 percent. On the basis of our discussions with local postal officials, it appears that poor service reported initially by Mason City customers may have been due in part to equipment and start-up problems in Waterloo. We also noted that overnight delivery to Cedar Rapids dropped below the Postal Service standard during the period of our analysis. According to Postal Service data, the overnight delivery rate from Mason City to Cedar Rapids decreased from 94 percent in the first quarter of fiscal year 1991 to 83 percent in the first quarter of 1993. However, it increased to the preconsolidation level during the following two quarters.

When the consolidation was implemented, Mason City lost its scheduled overnight service to Mankato, Albert Lea, and Blue Earth, MN (combined population 54,000; see app. I). Conversely, by adding a truck route from Waterloo to Fort Dodge, IA, the Service preserved scheduled overnight service between Mason City and Fort Dodge (population 26,000) and also improved scheduled service from Waterloo to Fort Dodge from 2 days to overnight. Postal Service officials maintained that the change from overnight to 2-day service to southern Minnesota was not due to the consolidation, but to a nationwide revision of delivery service commitments that had been adopted earlier. Nevertheless, we associated the service change with the consolidation because (1) the two coincided and (2) the extra distance and travel time from Mason City to Waterloo and back through Mason City to Minnesota, as required by the consolidation, precluded overnight service.

Postal headquarters officials told us that the new area mail processing guidelines will include requirements to more carefully assess and track the impact on the communities affected by area mail processing consolidations.

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## Conclusions

The planned benefits of the Mason City to Waterloo mail processing consolidation, chiefly labor cost savings, were not achieved. After the consolidation, mail processing workhours and costs at the consolidated facility significantly exceeded preconsolidation levels at Mason City and Waterloo. Labor productivity declined in spite of the shift to automation.

The exact reasons why savings were not achieved are not known. Although the Postal Service's written guidelines require that

consolidations be reviewed to determine if projected savings were realized, this was not done. Nor apparently was this done for any recent consolidation. The failure to make postimplementation reviews leaves the Service without reliable information on the cost-effectiveness of these consolidations. In the Waterloo area case, it leaves the Service without assurance that the effects of the prospective transfer of operations from Decorah, IA, would be beneficial.

Most of the consolidated area served by Waterloo continued to receive overnight service to the same locations as before the consolidation. However, some areas experienced a temporary degradation in overnight service, and truck route changes produced improvements as well as decreases in scheduled service.

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## Recommendations

We recommend that the Postmaster General

- direct that the required investigation of the Waterloo consolidation be done to determine why planned savings were not achieved and, if possible, address the causes in order to capture savings;
- defer plans to consolidate mail processing operations from Decorah, IA, into the Waterloo Center until the postimplementation review is complete; and
- include and enforce a requirement for postimplementation reviews of mail processing consolidations in the new area mail processing guidelines.

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## Agency Comments

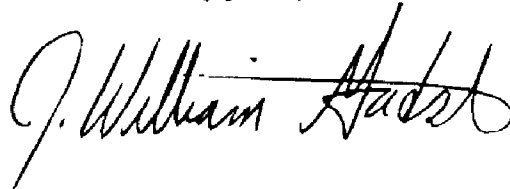
The Postal Service provided written comments on a draft of this report (see app. II) and said that it was acting on each of our recommendations.

We are also sending copies of this report to the Postmaster General, the Senate Committee on Governmental Affairs, the House Committee on Post Office and Civil Service, and other interested parties. We will also make copies available to others on request.

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The major contributors to this report are listed in appendix III. Please call me on (202) 512-8387 if you or your staff have any questions.

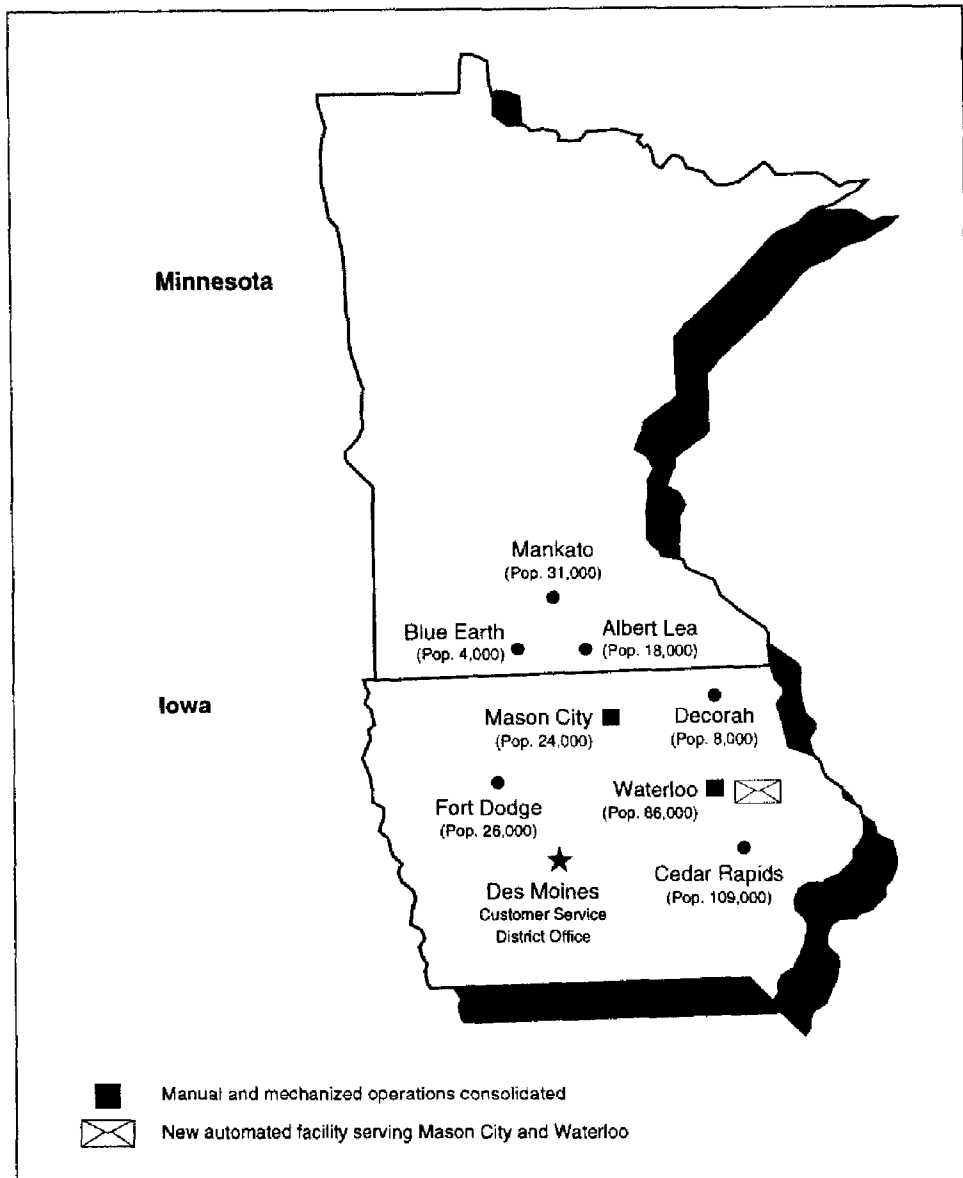
Sincerely yours,

A handwritten signature in cursive script that reads "J. William Gadsby". The signature is written in black ink and is positioned to the left of the typed name.

J. William Gadsby  
Director, Government Business  
Operations Issues



# Location of Communities Affected by the Waterloo, IA, Area Mail Processing Center



Source: GAO.

# Comments From the United States Postal Service

MARVIN LUNYON  
Postmaster General, CFO



February 1, 1994

Mr. J. William Gadsby  
Director, Government Business  
Operations Issues  
United States General Accounting Office  
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for providing us an opportunity to comment on the draft report entitled, POSTAL SERVICE: Planned Benefits of Iowa Automated Mail Facility Not Realized.

In light of this report, I have requested that the Midwest Area Manager, Processing and Distribution, investigate the results of the area mail processing consolidation plan for Waterloo, Iowa, and determine what operational changes need to be made to realize the savings and productivity improvements envisioned by the plan.

In October 1992, we suspended action on all pending area mail processing plans so that the plans could be reviewed and adjusted, if necessary, to ensure that they fully support our corporate priorities of improved customer service and operating efficiency. We will defer action on the plan to consolidate the mail processing operations from Decorah, Iowa, into the Waterloo facility until Waterloo's post-implementation review is complete and we are convinced that the consolidation will serve the best interests of the Decorah community.

We have already taken action on your recommendation that we include a requirement that a post-implementation review be conducted for each area mail processing consolidation. The revised Area Mail Processing Guidelines will contain instructions requiring such reviews and the responsible area managers will ensure that the reviews are done in a timely manner.

We appreciate the analysis that has gone into the report. If you wish to discuss any of my comments, my staff is available at your convenience.

Best regards,

475 L ENFANT PLAZA SW  
WASHINGTON DC 20260-0010  
202-269-2500  
FAX 202-269-4860

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# Major Contributors to This Report

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**General Government  
Division, Washington  
D.C.**

**Michael E. Motley, Associate Director  
James T. Campbell, Assistant Director  
Leonard Hoglan, Assignment Manager**

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**Denver Regional  
Office**

**Anthony R. Padilla, Evaluator-in-Charge  
James R. Moore, Evaluator  
Cynthia Schilling, Reports Analyst**



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