

United States General Accounting Office

GAO

Report to the Chairman, Committee on
Post Office and Civil Service, House of
Representatives

December 1989

POSTAGE STAMP PRODUCTION

The Bureau of Engraving and Printing's Future Role





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

General Government Division

B-236443

December 12, 1989

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we determine the status of the United States Postal Service's initiative to increase the amount of postage stamps obtained from the private sector and that we identify the factors leading to that initiative. The Department of the Treasury's Bureau of Engraving and Printing has produced most of the Postal Service's stamp requirements for nearly 100 years. In view of this, the report also addresses issues that will affect the Bureau's future role as the Nation's primary postage stamp producer.

Results in Brief

The Postal Service's initiative is primarily a current contract study of future stamp production options that envisions a larger role for the private sector. The initiative has not yet significantly affected the number of stamps produced by the private sector or by the Bureau. The initiative might not result in a reduction in the number of stamps the Bureau currently produces, particularly if projected increases in stamp demand necessitate a larger private sector role.

A major impetus for the Postal Service's initiative was the deterioration of relations between the Postal Service and the Bureau that resulted primarily from disagreements over stamp quality issues and related costs. Though still tenuous, relations between the two agencies have improved since their low point in 1988 and top Postal Service officials are pleased with the agencies' current efforts to resolve stamp quality problems.

The Postal Service and the Bureau must continue to work together to minimize their disagreements and maintain their improved relations. Ultimately, the Bureau's future as the Nation's primary stamp producer will depend on (1) further improvement in the relationship between the Bureau and the Postal Service, (2) the results of the Postal Service's study, and (3) future Treasury and congressional support if the Bureau's role is challenged.

Note Company (ABN).² In fiscal year 1989, the Postal Service contracted with two additional private sector suppliers.

In 1981, the Postal Service and the Bureau signed an agreement that outlined their relationship with regard to stamp production but the document lacks specificity about such matters as production requirements and standards. However, there appear to be no laws or regulations that would preclude the agencies from entering into an agreement with more specific provisions.

Objectives, Scope, and Methodology

As agreed with the Committee, our objectives were to (1) determine the current status of the Postal Service's initiative to contract out more postage stamp production to the private sector and (2) identify the factors leading to that initiative. We also identified key issues that will affect the Bureau's role as the Nation's primary stamp producer.

We reviewed the Postal Service's contract for a study of stamp production alternatives to determine what options are being evaluated for future stamp production. We also reviewed earlier studies done by the Postal Service and the Office of the Treasurer of the United States that discussed advantages and disadvantages to contracting out stamp production.

We collected data on stamp requirements and production from the Postal Service and the Bureau and interviewed Postal Service officials to determine factors that led to their initiative. We observed the Bureau's stamp production operation in Washington, D.C., as well as ABN's stamp production operations in Richmond, Va., and Chicago, Il., and spoke with ABN officials about private sector stamp production capabilities. We discussed interagency working relationships with Bureau and Postal Service officials and spoke with the former Treasurer of the United States and the current Deputy Treasurer regarding the Bureau's future role as a stamp producer as well as Treasury's position on the Postal Service contracting out more stamp production to the private sector.³ Additionally, we spoke with the Postmaster General about the Postal Service's future plans for stamp production.

²In fiscal year 1989, ABN supplied 10.5 percent of the Postal Service's total stamp requirement. In previous years, it furnished between 0-8 percent.

³During our review, the position of Treasurer became vacant. A new Treasurer was designated but not formally nominated or confirmed.

Factors Leading to the Postal Service's Initiative

The Postal Service's initiative culminates a series of events that have occurred since the early 1980s. First, in 1981, as part of the new administration's emphasis on privatization, Treasury suggested to the Postal Service that it explore contracting out stamp production to the private sector. Second, since 1982, Postal Service officials have projected that future stamp demand would eventually exceed the Bureau's capacity, necessitating increased sources of private sector stamp production. Third, from 1985 until late 1988, the working relationship between the Postal Service and the Bureau deteriorated as the agencies failed to resolve disagreements over several stamp quality issues and related costs.

Treasury's Suggestion That the Postal Service Explore Contracting Out Stamp Production

As a result of the Treasury's suggestion that the Postal Service explore contracting out stamp production to the private sector, the Postal Service contracted with Arthur Young & Company to evaluate stamp production capability in the private sector. In 1982 Arthur Young & Company concluded that the private sector was not then capable of providing all the services that the Postal Service required. It recommended that the Postal Service "...continue production of the majority of postage stamps by the Bureau of Engraving and Printing..." but seek "...additional sources of supply for selected stamp issues which would in no way jeopardize the level of service BEP [the Bureau of Engraving and Printing] is able to provide nor disrupt the ordering and distribution system." Postal Service officials contend that their current initiative is consistent with those recommendations.

Projections That Future Stamp Demand Will Exceed Bureau Capacity

The Bureau currently produces approximately 36 billion stamps a year, and current capacity without significant resource increases would be about 45 billion stamps a year. However, Postal Service officials project that annual stamp demand could increase far beyond the Bureau's current capacity of 45 billion stamps per year to between 63 and 84 billion stamps annually by the year 2000. They said that a larger private sector role in stamp production would be needed to produce the additional stamps required. However, because the Bureau could continue to produce stamps at or near its current capacity, the larger private sector role would not necessarily reduce the number of stamps the Bureau produces.

Postal Service officials said they would prefer that the Bureau continue to produce stamps at or near its current capacity, so that the Bureau would serve as the "core" stamp producer. Competing private sector

stamp performance in the mailstream. While Bureau officials said they were remotely aware of some concerns with stamp performance in the mailstream, they said that they believed the Postal Service's first priority for the Bureau was to work on improving philatelic quality.

Bureau officials said that if the Postal Service wanted improved stamp performance in the mailstream—especially since the primary purpose of stamps is to facilitate mail handling—it should have more explicitly communicated its concerns to the Bureau rather than continue to focus primarily on philatelic problems. According to the Director of the Bureau, the Postal Service did not formally communicate mailstream concerns to the Bureau, nor did it indicate that mailstream quality was a priority until February 1989, after the start of our review.

Bureau officials also said they believed that unclear communication from the Postal Service hindered their ability to improve philatelic quality. According to the officials, the Bureau uses a state-of-the-art system to produce philatelic stamps. However, because the Postal Service did not have firm, consistent standards for judging philatelic quality, Bureau officials said that regardless of adjustments they made to improve philatelic quality, the Postal Service remained unsatisfied and continued to reject large amounts of stamps.

These disagreements strained the relationship between the two agencies and finally caused communications to nearly break down in late 1988, when oral communications virtually stopped and stamp requirements were transmitted in writing only. According to officials at both agencies, this hindered the critical communication process that precedes stamp production.

Near the end of 1988, following the appointment of a new Director and Deputy Director at the Bureau, Postal Service and Bureau officials began a concerted effort to improve their relationship. They created several joint committees to develop solutions to current as well as anticipated production problems and instituted regular management meetings. Postal Service officials said they are pleased with the strides the agencies have made in resolving their disputes. For example, the officials reported that they are now working with the Bureau to institute new adhesive formulas and solve other technical problems to address their concerns about stamp performance in the mailstream. They also reported receiving a rebate from the Bureau for philatelic quality stamps with which they were dissatisfied.

Further Improvement in the Relationship Between the Bureau and the Postal Service

Bureau, Treasury, and Postal Service officials agree that relations have improved between the Bureau and the Postal Service since 1988. Postal Service officials report that they are pleased with the spirit of cooperation they are sharing with the new Bureau management, which was installed in late 1988. Operations personnel in the agencies report that lines of communication have opened and that the joint Postal Service/Bureau committees are helping to address and to resolve problems that arise. Postal Service officials report that the Postal Service is generally a satisfied customer of the Bureau.

However, the history of poor relations and the almost total communication breakdown that occurred in 1988 indicate that improved relations could be short-lived. Past perceptions about the relationship between the agencies may not be fully resolved. For example, Postal Service officials said that the Postal Service's relationship with the Bureau should be strictly that of a customer and supplier and that the Postal Service's requirements are not a matter for negotiation with the Bureau. However, the almost century-old relationship between the two agencies has never been governed by a specific agreement, which has suggested to the Bureau a partnership relationship between the two agencies.

Additionally, while Postal Service officials said that the Postal Service wants the Bureau to operate in a manner similar to the Postal Service's private sector stamp suppliers, Bureau officials said that, as a federal agency, the Bureau is subject to various regulations that limit its ability to operate like a private sector supplier. Bureau officials also said that an effective partnership-type relationship between the Postal Service and the Bureau could provide the Postal Service with better services and greater flexibility than the Postal Service is likely to obtain from a private sector supplier.

Postal Service and Bureau officials agree that with the advent of new technologies and products, such as pressure-sensitive stamps being developed by the private sector for dispersal from ATMs, good relations between the Bureau and the Postal Service will be essential to ensure that adequate planning for future stamp requirements is accomplished. Officials agree that good planning will be especially critical in helping the Bureau determine the technology and types of equipment it will need to meet future Postal Service stamp product-line requirements.

Postal Service officials maintain that stamp production costs could be reduced and stamp quality could be improved if the Bureau acquired a modern facility to replace its current 75-year-old facility. They contend that the vertical layout of the current facility contributes to excessive material handling, and the inability to control temperature and humidity contributes to an increased number of defective stamps, which increases stamp costs. Postal Service officials said they believe that these problems could be corrected by a modern, single-level, environmentally controlled production facility.⁴

In its current contract study, the Postal Service plans to determine if there are any facilities suitable for stamp production that could be donated to the government in a manner similar to the Bureau's Texas currency facility and if such a facility would lower stamp costs and improve quality. If a suitable facility is identified, the Postal Service plans to discuss with Treasury the feasibility of (1) the Bureau acquiring the facility or (2) the Postal Service acquiring the facility, which the Bureau could operate as a tenant. If neither alternative is feasible, the Postal Service will then consider making the facility available to a private sector contractor.

Bureau officials concede that while there are some inherent inefficiencies in their aged, multistory facility, those inefficiencies are offset by high-technology equipment and workforce productivity improvements. Additionally, Bureau officials point out that the Bureau's stamp costs—which they believe are very reasonable—are primarily determined by paper and ink costs and the caliber of work the Bureau must provide, rather than by the layout of the facility. Further, the Bureau notes that since it and the Postal Service do not work under a contractual-type arrangement, the Bureau is able to provide the Postal Service more flexibility in such areas as rearranged printing schedules, a factor that may increase stamp costs.

The March 1989 study prepared by the Office of the Treasurer recognized the Postal Service's concern about stamp costs, but it concluded that the lack of a contractual-type arrangement between the Bureau and the Postal Service makes long-term planning and workload balancing at

⁴In April 1989, the Postal Inspection Service began an audit of the methodology used by the Bureau to develop cost and pricing data in preparing billing rates for postage stamp production. Its report, issued in July 1989, concluded that the Bureau's methodology was fair and reasonable. The report did not, however, address the reasonableness of the actual prices the Bureau charges the Postal Service for stamps.

Conclusions

The Postal Service and the Treasury agree that it is in the government's best interest for the Bureau to continue to produce the core of the Nation's stamp requirements as long as it produces quality stamps at reasonable prices. However, as most recently demonstrated by the disagreement over the extent to which the Bureau will participate in the Postal Service's contract study, the relationship between the Postal Service and the Bureau remains fragile. Consequently, the Bureau's future as the Nation's core stamp producer is not guaranteed.

While Postal Service officials recently said that the Bureau has taken significant strides to address their concerns, they maintain that the Bureau's physical facility limits its ability to produce stamps of optimum cost and quality. They said that their plans for future stamp acquisition, and the role the Bureau will play in those plans, will be significantly influenced by the results of the Deloitte Haskins and Sells study. Bureau officials emphasized the importance of including them in evaluating the results of the study and in all meetings to determine future plans for stamp production. However, Postal Service officials said that their plans, and the Bureau's future role, will depend on the extent to which the Postal Service and Treasury can agree on a course of action that will meet the Postal Service's requirement for cost-efficient, quality stamps should the study recommend that the government acquire a modern stamp production facility.

In our opinion, the continuing disagreements between the Postal Service and the Bureau are rooted in their differing perceptions of their respective roles in their relationship and what those roles ought to be. Postal Service officials maintain that their relationship with the Bureau is, and should continue to be, strictly that of customer and supplier. Bureau officials are not comfortable with the view that the Bureau is—or should become—nothing more than a supplier in its relationship with the Postal Service. Although they recognize the need to be responsive to the Postal Service's requirements, Bureau officials maintain that a less structured relationship than that of strictly customer and supplier offers the key advantage of flexible stamp production for both agencies. As a result, their preference would be that the Postal Service and the Bureau regard each other as long-term partners cooperating in a joint endeavor to cost-effectively provide postage stamps to the Nation.

We noted that, despite their disagreements, officials of both agencies valued maintaining the Bureau as the core stamp producer. If the Secretary of the Treasury and the Postmaster General are able to build on the

Our draft report included recommendations numbered (2) through (4) above. It did not include our first recommendation—which calls for resolution of the disagreement about the Bureau’s participation in the study— because that issue arose after our draft report was sent to the two agencies. While both agencies accepted recommendation (3), their responses to recommendations (2) and (4) indicated that a tenuous relationship persists which may affect how well they will be able to work together to resolve their disagreements.

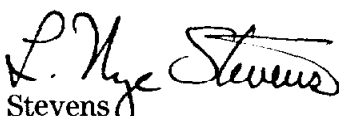
With regard to recommendation (2), the Postal Service said that as of October 5, 1989, the Bureau was refusing to participate in the Deloitte Haskins and Sells study. It said that the Bureau’s participation in the study is necessary for the study to have value in future stamp production planning.

We contacted Treasury about the Postal Service’s statement that the Bureau was not participating in the study; Treasury said that the Bureau was willing to participate in and provide information for the study. However, Treasury said that Deloitte Haskins and Sells’ request for details of the Bureau’s operations exceeds the type and amount of information that Treasury and the Postal Service had originally agreed would be necessary to complete the study. Treasury said it was concerned that this information would be used to enhance the position of private sector competitors at the expense of the Bureau. As a result, the Bureau has not furnished that information. Additionally, in its written comments, Treasury said that the baseline of any reexamination of stamp production should be the cost-effectiveness of the Bureau’s current stamp manufacturing operation and the validity of the Postal Service’s long-range forecast of stamp demand. Treasury said that any results of the Deloitte Haskins and Sells study must be evaluated in this more comprehensive context if they are to contribute to a practical plan for future stamp production.

With regard to recommendation (4), the Postal Service reported that it was willing to review its communications of stamp requirements and problems, but said it did not believe that communication of stamp production issues between it and the Bureau had been a problem. Rather, it said that the issue was Bureau responsiveness to what the Postal Service communicated.

Major contributors to this report are listed in appendix III. Please contact me on 275-8676 if you or your staff have any questions concerning the report.

Sincerely yours,


L. Nye Stevens
Director, Government Business
Operations Issues

**Appendix I
Comments From the Department of
the Treasury**

agreement which defines standards of cost, quality, security, and service performance, can go a long way toward forcing the kind of planning required to crystalize the issues, allow authoritative measurements of the comparative cost-effectiveness of the existing Bureau/private company production arrangements, and provide a genuine basis for later privatization decisions.

- 3) The clarification of expectations and requirements in such an agreement can only help to improve communications and production performance; and
- 4) We will be pleased to report to the Chairman the Treasury Department's assessment of progress made regarding these recommendations.

In sum, we would welcome a revision of the draft that gives proper weight to the consideration of the cost-effectiveness issue in explaining to the Chairman all of the factors relating to this initiative. Likewise, we would continue to welcome the opportunity to assist with an examination of manufacturing alternatives that compares relative cost-effectiveness to arrive at production arrangements best serving the public interest.

Sincerely,



Linda M. Combs
Assistant Secretary (Management)

Comments From the United States Postal Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE POSTMASTER GENERAL
Washington, D.C. 20260-0010

October 20, 1989

Dear Mr. Fogel:

This refers to your draft report entitled POSTAGE STAMP PRODUCTION: The Bureau of Engraving and Printing's Future Role upon which you requested our comments.

The report contains four recommendations for actions that the Secretary of the Treasury and the Postmaster General should jointly take. The recommendations and our comments are as follows:

- (1) "Ensure that the results of the Deloitte, Haskins and Sells study of stamp production options currently being done for the Postal Service are jointly evaluated by proper Treasury/Bureau and Postal Service officials and that the concerns and interests of all parties are adequately considered before plans for future stamp production are completed."

Accepted, providing the Bureau of Engraving and Printing provides meaningful responses to Deloitte, Haskins and Sells. As of October 5, the Bureau was refusing to participate in the study. In order for the study to be of value to the Postal Service and the Treasury Department, it must include information about Bureau capabilities and needs. Without meaningful responses from the Bureau, the study will be of limited value in planning future stamp production.

- (2) "Determine whether a more specific agreement detailing production standards, requirements, and responsibilities would benefit the relationship between the Bureau and the Postal Service and whether such an agreement would help forestall problems such as those that occurred in the past that may have been exacerbated by the informal nature of the existing interagency agreement."

Accepted. The Postal Service is willing to work with the Treasury Department on a mutually acceptable agreement that would include more specific language regarding production standards, requirements and responsibilities.

See comment 1.

Appendix II
Comments From the United States Postal
Service

The following are GAO's comments on the United States Postal Service's letter dated October 20, 1989.

GAO Comments

1. Comparable recommendations are now numbered 2 through 4.
2. We did not reproduce the attachment.

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Appendix II
Comments From the United States Postal
Service

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- (3) "Ascertain whether information about philatelic stamp requirements and problems as well as mailstream stamp requirements and problems is being adequately communicated between the Postal Service and the Bureau, thereby precluding recurrence of problems in those troublesome areas."

Accepted with reservations. The Postal Service's position is that communication has not been a primary problem. The Postal Service has communicated in a timely manner comprehensive information about stamp and mailstream requirements. The Postal Service, of course, is willing to review these communications and will support initiatives to improve communications. But it emphasizes that the issue is Bureau responsiveness to what is communicated and points out that no communications agreement can address that problem.

- (4) "Issue a joint report to the Chairman of the House Committee on Post Office and Civil Service--within 90 days of the issuance of the Postal Service's contract study--on progress made regarding our recommendations."

Accepted, providing the Bureau participates in the study to the extent that it provides sufficient information for meaningful discussions and comprehensive planning. Since the Bureau's refusal to participate has already delayed completion of the study, we are not able to predict when (or if) it will be issued.

We also have comments on statements in the report with which we take issue. Since many of the points are rather technical, we are submitting them as an attachment.

Thank you for the opportunity to review your report.

Sincerely,


Anthony M. Frank

Mr. Richard L. Fogel
Assistant Comptroller General
United States General
Accounting Office
Washington, D.C. 20548-0001

Attachment

See comment 2.

**Appendix I
Comments From the Department of
the Treasury**

The following are GAO's comments on the Department of the Treasury's letter dated October 12, 1989.

GAO Comments

1. Comparable recommendations are now numbered 2 through 4.

Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

October 12, 1989

Mr. Richard L. Fogel
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Your recent letter to the Secretary, requesting comments on your draft report regarding the Postal Service's initiative to increase private sector stamp production, has been referred to our office for reply. While we believe that this draft essentially provides an accurate description of the status of that initiative, we feel that it is deficient in identifying all the reasonable factors that would lead to an objective re-examination of production alternatives. With regard to the specific recommendations in this draft report, we offer, respectively, the following comments:

- 1) As with many governmental activities, the Department of the Treasury believes that the factors supporting current stamp production arrangements merit careful re-examination to ensure continued cost-effectiveness. Primary baselines from which to measure private sector production options should be the cost-effectiveness of current postage stamp manufacturing operations conducted by the Bureau of Engraving and Printing and the validity of the Postal Service's long range forecast of stamp demand. Any findings resulting from the Deloitte, Haskins and Sells study must be evaluated in terms of this more comprehensive context if they are to contribute to a practical plan for future production;
- 2) We do support placing the relationship between the Bureau and the Postal Service on a more business-like basis rather than continuing to rely on an operating relationship which is devoid of clear performance standards and, therefore, is open to repeated subjective interpretations of results. We believe a contract-like

See comment 1.

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Major Contributors to This Report		

Abbreviations

ABN	The American Bank Note Company
ATM	Automated Teller Machine

Our draft report had also included a recommendation to the heads of the two agencies that they prepare a joint report on their progress in implementing recommendations (2) through (4) within 90 days of the issuance of the Deloitte Haskins and Sells study. However, it was unclear from the agencies' overall responses whether they would be able to work together on their own to resolve their disagreements and prepare a joint report. Additionally, as the Postal Service said that the Bureau's refusal to participate in the study had delayed the completion of the study, the Postal Service could not predict when or if the study would be completed. As a result, we are now recommending that the Committee direct the agency heads to prepare the joint report within 180 days of the date of our report.

In its written comments, Treasury said that our report essentially provided an accurate description of the status of the initiative, but was deficient in identifying all the reasonable factors that would lead to an objective reexamination of production alternatives, namely, those factors listed above. However, examining the cost-effectiveness of the Bureau's current stamp manufacturing operation and the validity of the Postal Service's long-range forecast of stamp demand was outside the scope of our review. The Deloitte Haskins and Sells study is designed to address many cost aspects of stamp production and the advantages and disadvantages to the public and the government of procuring more postage stamps from the private sector in the future. However, the Postal Service and the Treasury need to act on our recommendations to resolve the disagreement related to the study and jointly evaluate the study results so that the concerns of all parties are considered before plans for future stamp production are completed.

We believe the disparate nature of the Postal Service's and the Treasury's comments—particularly with regard to the Deloitte Haskins and Sells study—illustrates the fragile relationship between the Postal Service and the Bureau and underscores the need for the Secretary of the Treasury and the Postmaster General to give sustained attention to stabilizing and improving the agencies' relationship.

As arranged with the Committee, we are sending copies of this report to the Secretary of the Treasury, the Postmaster General, the Deputy Treasurer of the United States, the Director of the Bureau of Engraving and Printing, and other interested parties.

positive aspects of their agencies' relationship, they should be able to resolve their disagreements.

Recommendations to the Secretary of the Treasury and the Postmaster General

We recommend that the Secretary of the Treasury and the Postmaster General jointly take the following actions:

- (1) Review and resolve any disagreement about the extent to which the Bureau will participate in the Deloitte Haskins and Sells study.
- (2) Ensure that any results of the Deloitte Haskins and Sells study are jointly evaluated by proper Treasury/Bureau and Postal Service officials so that the concerns and interests of all parties are adequately considered before plans for future stamp production are completed.
- (3) Determine whether a more specific agreement detailing production standards and requirements would benefit the relationship between the Bureau and the Postal Service and whether such an agreement would help forestall problems such as those that occurred in the past that may have been exacerbated by the unspecific nature of the existing inter-agency agreement.
- (4) Ascertain whether information about philatelic stamp requirements and problems, as well as mailstream stamp requirements and problems, is being adequately communicated between the Postal Service and the Bureau, thereby precluding recurrence of problems in these troublesome areas.

Recommendation to the Committee

Given the uncertainty of the relationship between the Treasury/Bureau and Postal Service, we recommend that the Committee direct the Secretary of the Treasury and the Postmaster General to issue a joint report to the Chairman of the House Committee on Post Office and Civil Service—within 180 days of the date of this report—on progress made regarding our recommendations.

Agency Comments and Our Evaluation

We obtained written comments from the Postal Service and the Treasury on a draft of this report. Treasury's comments are included as appendix I. The Postal Service's comments on our recommendations are included as appendix II. Technical comments submitted by the Postal Service were incorporated into the report as appropriate but were not reprinted.

the Bureau more difficult, more time consuming, and consequently, more costly than might be the case in the private sector.

Postal Service officials emphasized that any changes resulting from the study that will affect the Bureau, such as acquiring a modern stamp production facility for the government, will be worked out with Treasury, since the former Secretary supported the Postal Service's initiative to contract out for a study of stamp production options. Bureau officials emphasized that they should also be involved in the evaluation of the Postal Service's contract study, since their employees and facility would be directly affected by any decision to significantly alter the means for future stamp production.

A disagreement has recently developed between the Postal Service and the Treasury/Bureau concerning the extent to which the Bureau will provide detailed information about its operations for the Postal Service's contract study. According to the Postal Service, unless this disagreement is resolved, the study will have limited value for planning future stamp production.

Future Treasury and Congressional Support

The former Treasurer said that Treasury supports the Bureau's efforts to produce quality stamps at cost-effective prices but said she did not believe that Treasury would consider acquiring a new facility to enhance the Bureau's stamp production operation. She said that it would be in the Nation's best interest for the Bureau to remain the core producer of postage stamps—as long as it produces quality stamps at reasonable prices. She also said that should it become evident that the private sector is capable of printing quality stamps at more reasonable prices than the Bureau, she did not believe Treasury would oppose the Postal Service exploring the feasibility of obtaining its total stamp requirement from the private sector.

The former Treasurer said that the issue of contracting out government operations is one that frequently provokes serious political debate. For that reason, she anticipated that any Postal Service initiative that would challenge the Bureau's role would ultimately be scrutinized by Congress and be subject to Congress' willingness, at such a time, to encourage the contracting out of a function critical to the everyday commerce of the Nation that has been maintained in-house for almost 100 years. Of concern would also be the government's investment in the Bureau's stamp production operation and the welfare of the approximately 600 employees involved in stamp production.

However, while Postal Service and Bureau officials agree on the need for good planning, their current relationship may not adequately facilitate good planning. Bureau officials said that under the current inter-agency agreement between the Bureau and the Postal Service—which lacks specificity in such areas as production standards and requirements—Postal Service officials have not paid enough attention to planning for long-range stamp production. Accordingly, Bureau officials maintain that the Postal Service has not clearly communicated anticipated stamp requirements and, in some cases, has changed requirements and standards in midstream.

Bureau officials indicated that operating under a more specific agreement in which production standards and requirements are documented might help resolve this situation. However, they pointed out that such an agreement could limit the flexibility of both the Postal Service and the Bureau, which both agencies value. The officials were uncertain how this might ultimately affect the efficiency of stamp development/production processes. They stressed that the Postal Service needs to better communicate its plans so that the Bureau can develop an appropriate agenda for the future that will best serve its own needs as well as those of the Postal Service. Bureau officials stressed the importance of the Bureau and the Postal Service jointly evaluating the current study of stamp production options being done by Deloitte Haskins and Sells.

Postal Service officials said they believed that a contractual type of agreement would probably not be efficient. They contend that stamp production requires immediate production flexibility, which cannot be effectively accomplished under a rigid agreement. However, they said that they plan to work closely with the Bureau in the future to ensure that production standards and requirements are clear. They also said that they would be willing to consider creating a more specific inter-agency agreement detailing production standards and requirements.

The Results of the Study of Stamp Production Options

Postal Service officials said that their future plans for stamp procurement will be significantly influenced by the results of the current contract study of stamp production options. They said that should the study recommend a significantly different approach to stamp production—such as acquiring a modern, more efficient stamp production facility for the government—they intend to pursue those recommendations with Treasury, since the former Secretary of the Treasury supported the Postmaster General's decision to contract out for the study.

However, while these issues are being resolved, the relationship between the agencies remains tenuous. Because the interagency agreement under which stamps are produced is not specific about production standards and requirements, disagreements could arise and relations could quickly deteriorate again. To permanently improve their relationship, the agencies must work together to ensure that production standards and requirements are clear and that communication remains effective.

The Bureau's Future Role as the Nation's Stamp Producer

The Postal Service and the Treasury agree that it is in the government's best interest for the Bureau to continue to produce the core of the Nation's stamp requirements as long as it produces quality stamps at reasonable prices. The 1982 Arthur Young study as well as a March 1989 study by the Office of the Treasurer evaluated the advantages and disadvantages of contracting out stamp production to the private sector. Both studies recommended that the Postal Service continue to obtain the majority of its stamps from the Bureau and acquire selected stamp issues from the private sector. According to the study prepared by the Office of the Treasurer, "...maintaining the status quo is more cost effective and more politically palatable to all concerned than any of the other (contracting out) options examined...", and the "Postal Service...can avoid added cost, labor dislocation, and adverse political impact in varying degrees by improving on the status quo instead of replacing it."

According to the Bureau's Director, the Bureau (1) ensures that the Nation has a reliable source of stamps for its mail system; (2) insulates the Postal Service from the sometimes uncertain nature of the market place; and (3) because of its unique institutional expertise and the high skill of its employees, represents a genuine national resource that has unfailingly carried out its mission since being founded. However, until recently, the Postal Service was dissatisfied with the quality and related costs of the Bureau's stamps and said that, if necessary, it would turn increasingly to the private sector for its stamp requirements. While the relationship between the Bureau and the Postal Service has improved, we believe the Bureau's future role as the core stamp producer will ultimately depend on (1) further improvement in the relationship between the Bureau and the Postal Service, (2) the results of the Deloitte Haskins and Sells study of stamp production options, and (3) future Treasury and congressional support if the Bureau's role as the core stamp producer is challenged.

firms would then furnish those stamps the Bureau would not have the capacity to produce. Postal Service officials emphasized, however, that this scenario will depend upon the Bureau producing cost-effective, quality stamps in the required product mix. Postal Service officials said they believe that increasing the private sector presence by contracting for stamps the Bureau does not have the capacity to produce would create a sense of competition between the Bureau and the private sector and, ultimately, would decrease stamp costs and improve stamp quality. At the same time, the Bureau would remain the Nation's core stamp producer and guarantee the government a flexible, reliable source of stamps that would be safe from private sector disruptions, such as strikes or bankruptcies.

Deteriorated Working Relationship Between the Bureau and the Postal Service

From 1985 until late 1988, the working relationship between the Bureau and the Postal Service deteriorated as a result of the agencies' inability to resolve disagreements over stamp quality issues and related costs. According to Postal Service officials, the Bureau was slow in making requested stamp production changes and did not provide the Postal Service adequate customer service. For example, Postal Service officials reported that the Bureau did not respond quickly in correcting problems the Postal Service identified with stamp adhesives, philatelic stamp quality, and other technical issues. Postal Service officials reported that they had expressed dissatisfaction to the Bureau over the additional operating costs the Postal Service incurred as a result of (1) inadequate adhesives that caused stamps to fall off mail and (2) other technical problems that prevented proper stamp cancellation and allowed stamps to be fraudulently reused. They had also expressed dissatisfaction with the inconsistent quality of the philatelic stamps they received. They said that if the Bureau did not address these concerns, they were prepared—whether or not there was a significant increase in stamp demand—to turn increasingly to the private sector for their stamp needs, possibly removing stamp production from the Bureau altogether.

Bureau officials, however, reported that the Postal Service did not adequately communicate its concerns with stamp problems in the mailstream. According to the officials, all official Postal Service communications, including communications regarding the performance of stamps in the mailstream, came to the Bureau through one conduit—the General Manager for the Stamps Division, who reports to the Assistant Postmaster General, Philatelic and Retail Services Department. As a result, Bureau officials said that they believed the Postal Service's concerns were focused on philatelic quality rather than on factors affecting

We did our work from January to October 1989, in accordance with generally accepted government auditing standards. We did our work primarily at Postal Service and Bureau headquarters in Washington, D.C. We did not independently verify agency data used in this report.

The Department of the Treasury and the Postal Service provided written comments on a draft of this report. Their comments are appended. Our evaluation of their comments is on page 14.

Status of the Postal Service's Initiative to Contract Out More Stamp Production to the Private Sector

The Postal Service's initiative consists primarily of a contract study started in June 1989, by the firm of Deloitte Haskins and Sells. The study is to evaluate future stamp production options that could encompass a larger role for the private sector. The study's objectives are to identify additional private sector sources capable of producing stamps and to address the advantages and disadvantages of contracting out all, or part of, stamp production to the private sector. Among other things, the study will explore the feasibility of dividing stamp production evenly between competing private sector firms and a government-owned facility.

According to Postal Service officials, a government-owned facility that could share stamp production with the private sector might be (1) the current Bureau facility, (2) a new Bureau facility, or (3) a Postal-acquired and -owned facility operated by the Bureau or by a private sector contractor. As the results of the study are not complete, Postal Service officials would not speculate as to which of these alternatives, if any, might be selected for future stamp production.

The Postal Service is, in the meantime, acquiring additional private sector stamp suppliers. While ABN had been the only private sector stamp supplier for the last decade, in March 1989 the Postal Service entered into a developmental contract with Avery Label Systems Division to develop pressure-sensitive stamps to be sold through automated teller machines (ATMs). Additionally, in May 1989, the Postal Service awarded a contract to the United States Banknote Company for one prime rate stamp issue with options for future issues. Nonetheless, for fiscal year 1990, the Bureau will continue to provide most of the Postal Service's stamp requirements (about 84 percent) and the private sector will provide the balance.

Background

Postal Service figures show that in fiscal year 1988, about 42 billion stamps were supplied to United States post offices.¹ These stamps cost the Postal Service approximately \$81 million and had a face value of approximately \$9 billion. Stamp production is a complicated process that includes stamp designing, engraving, printing, perforating, packaging, storing, and distributing. Stamps are produced in three formats—booklets, sheets, and coils—which make up the stamp product mix.

Most stamps are used to post mail. Some are sold to stamp collectors and seldom, if ever, enter the mailstream. These “philatelic” stamps are selected from regular stamp issues on the basis of their near perfect aesthetic characteristics. According to Bureau officials, about 1 percent of the stamps produced are selected for philatelic purposes. Philatelic stamps are high-profit items for the Postal Service since collectors retain most of them, thereby sparing the Postal Service from providing mail delivery service.

The Bureau of Engraving and Printing, overseen by the Treasurer of the United States, has supplied the Postal Service (and its predecessor, the Post Office Department) with most of the Nation’s stamp requirements for almost 100 years. The Bureau’s multistoried production facility, located at 14th and C Sts., S.W., in Washington, D.C., was built in 1914, and an annex was added in 1938.

The Bureau functions on a revolving-fund basis. Its operating costs determine the prices it charges its customers—primarily the Federal Reserve and the Postal Service. In fiscal year 1988, currency production for the Federal Reserve accounted for about 65 percent of the Bureau’s gross revenue, while stamp production accounted for about 32 percent. In 1986, the city of Ft. Worth, Texas, donated a single-level building to the Bureau, which the Bureau is equipping for supplemental currency production. Although the facility is due to be operational in 1990, the Bureau has no current plans to produce stamps there.

The Postal Service is not legally required to obtain its stamps from a government supplier and, for the last decade, has contracted out selected stamp issues to one private sector supplier, the American Bank

¹Fiscal year 1988 figures are somewhat higher than usual because of a 1988 postage rate change that necessitated additional stamp distribution.

