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B-161568
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REPORT TO THE CONGRESS

Postage Due And Handling Costs
For Processing Mail With
Insufficient Postage
Are Not Being Recovered B-161568

Post Office Department

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MARCH 31, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-161568

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on postage due and handling costs for processing mail with insufficient postage not being recovered by the Post Office Department.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the act of September 2, 1960 (39 U.S.C. 2206).

Copies of this report are being sent to the Director, Office of Management and Budget, the Postmaster General, the U.S. Postal Service Board of Governors, and the Postal Rate Commission.

A handwritten signature in cursive script that reads "James B. Stets".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

For mail without sufficient prepaid postage, the Postmaster General is required by law to collect postage due and to recover the cost of handling such mail. He may, however, waive the handling charge when he deems it to be in the interest of the Government. Collection of the charge has been waived by the Postmaster General since August 1, 1958. (See pp. 3 and 6.)

The General Accounting Office (GAO) wanted to know (1) if the Postmaster General's indefinite waiver of the handling charge was consistent with the intent of the law, (2) how much mail was being sent without sufficient postage, (3) the costs incurred to collect the deficient postage, and (4) the effectiveness of the Department's procedures for detecting and handling such mail. (See p. 3.)

FINDINGS AND CONCLUSIONS

The Department incurs additional costs to detect and collect postage due for mail with insufficient postage and does not recover these costs from postal patrons contrary to law. Since August 1958, the Department has waived the collection of the handling charge. GAO believes that the Congress did not intend that the handling charge be waived indefinitely. The Department, however, expressed the view that no restriction was placed on the Postmaster General's waiver authority. (See pp. 6 and 9.)

GAO found that some mail with insufficient postage was not being detected by the Department. If the conditions noted in 13 postal facilities covered by GAO's review are typical, the Department is incurring significant losses nationwide. A 1969 Department study showed that an estimated loss of \$5 million annually resulted from not detecting and collecting for mail with insufficient postage. A Department official advised us, however, that the study was not conclusive and that it probably understated the actual loss. (See p. 6.)

The absence of an effective policy to prescribe the methods and responsibility for detecting mail with insufficient postage has contributed to revenue losses. (See p. 7.)

The Postal Reorganization Act provides for abolishing the Post Office Department and creating the United States Postal Service as an independent establishment. The Postmaster General will no longer be required to collect a charge for handling mail without the proper postage. GAO believes, however, that, as a prudent business practice, the Department should recover its costs; and the act requires the Postal Service to become self-sustaining. (See pp. 4 and 27.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is making several recommendations designed to help solve this problem, including a recommendation that the Department return mail with insufficient postage to senders rather than forward such mail to the addressees. (See p. 17.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postmaster General said that, to better appraise the problem and the solutions available to the Department, a cost-benefit analysis would be made and that this analysis would generally recognize GAO's recommendations.

GAO plans to review the results of the Department's analysis and to evaluate the actions to be taken in response to its recommendations. (See p. 18.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report informs the Congress (1) that, in GAO's opinion, the Department has not complied with the intent of the provisions of the act of April 9, 1958, and (2) of the need for the Department to improve its management to ensure that proper postage is collected. (See p. 6.)

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CHAPTER 1

INTRODUCTION

The General Accounting Office has made a review to determine whether the Post Office Department's policies and practices for detecting and handling mail with insufficient postage are consistent with the intent of law and to examine into the incidence of short-paid and unpaid mail, the costs being incurred by the Department to collect the deficient postage, and the effectiveness of the Department's procedures for detecting and handling such mail. Short-paid mail is mail on which some, but not all, of the required postage has been prepaid. Unpaid mail is mail on which none of the required postage has been prepaid.

The U S postal laws generally require that postage be prepaid at the time of mailing. Postage may be prepaid by use of postage stamps, meter stamps, or permit indicia. For mail without sufficient prepaid postage, the Postmaster General is required by the act of April 9, 1958 (39 U.S.C. 4110), to collect the deficient postage plus a charge to cover the cost of handling such mail. The act provides that the collection of any handling charges may be waived by the Postmaster General when he deems a waiver to be in the interest of the Government.

During fiscal year 1969 the Department handled about 81 billion pieces of domestic mail and about 830 million pieces of international mail. Our review did not cover international mail, because it is a small proportion of the total mail volume. Also, the amount of postage paid is not shown on certain types of mail (nonrated mail). For example, mailings made in bulk generally are imprinted with permit indicia. Following is an example

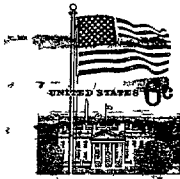
Bulk Rate U S Postage PAID Permit No Falls Church, Va
--

Since nonrated mail does not show the amount of postage paid for each piece, we did not include nonrated mail in our review. Such mail represented about 40 percent of the total fiscal year 1969 domestic mail volume, or about 33 billion pieces.

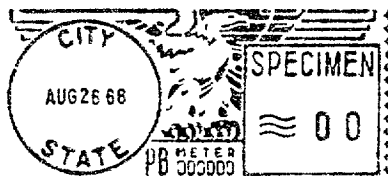
Also, postage on about 4 percent, or 3 billion pieces, of the domestic mail handled during fiscal year 1969 was not required to be prepaid and was not included in our review. Such mail includes penalty mail (official Government mail), franked mail (mail used primarily by members of Congress), and certain other types of mail.

We estimate that about 56 percent, or 45 billion pieces, of fiscal year 1969 domestic mail had the amount of postage paid indicated on the mail (rated mail) and that such mail could have been examined at any time after mailing and prior to delivery to addressees to determine whether the required postage had been prepaid. Our review concerned itself with this type of mail. Following are examples of a postage stamp and metered stamp--the most frequently used methods of indicating the amount of prepaid postage

Postage stamp



Metered stamp



In fiscal year 1970 the Department handled about 84 billion pieces of domestic mail and about 900 million pieces of international mail. Of the 84 billion pieces of domestic mail, 48 billion pieces, or about 57 percent, represented rated mail, 32 billion pieces, or about 39 percent, represented nonrated mail, and 3.5 billion, or about 4 percent, represented penalty, franked, and other special mail.

The Postal Reorganization Act, approved on August 12, 1970 (84 Stat. 719), provides for abolishing the Post Office Department and creating the United States Postal Service as an independent establishment of the executive branch of the Government of the United States. In accordance with a resolution by the Board of Governors of the United States

Postal Service (36 F R 785), all provisions of the act are to be in effect as of July 1, 1971

The act does not require the Postmaster General to prescribe a handling charge to be collected for matter mailed without prepayment of required postage as does 39 U S.C 4110. The act, however, requires the Postal Service to become self-sustaining. Postal rates and fees are required to be set so that all postal revenues (including appropriations that the Congress may make to cover the loss of revenues on congressionally declared free and reduced-rate mail) equal expenses

The Assistant Postmaster General, Bureau of Finance and Administration, is responsible for developing and recommending rates and fees for mail services. The Assistant Postmaster General, Bureau of Operations, provides functional direction for the execution of policies, programs, regulations, and procedures governing operational activities of the Department which involve admissibility, classification, collection, processing, dispatch, and delivery of mail.

In fiscal year 1969 the Department's total income was \$6,256 million and its costs were \$7,279 million, which resulted in a deficit of about \$1,023 million. In fiscal year 1970 the Department's total income was \$6,473 million and its costs were \$8,097 million, which resulted in a deficit of about \$1,624 million

CHAPTER 2

OPPORTUNITY FOR REDUCING LOSSES INCURRED

IN HANDLING MAIL WITH INSUFFICIENT POSTAGE

The Department is incurring additional handling and delivery costs to detect and collect postage due for mail with insufficient postage. The Department has not recovered these costs from postal patrons through the collection of a handling charge, contrary to law, because the Department, under the waiver provision in the law, has suspended the collection of the handling charge since August 1, 1958. We believe that the Congress did not intend that a waiver of the collection of a handling charge be continued indefinitely. In addition, some mail with insufficient postage was not being detected by the Department.

At the 13 postal facilities where we made our review, the Department detected insufficient postage on 18,916 pieces of mail, or 0.33 percent of the 5.8 million pieces of rated mail processed on the days that we conducted our tests. For this mail, the Department collects the deficient postage from postal patrons but does not recover the related handling costs. According to 1960 Department data (the latest Department data available), the cost of handling detected short-paid and unpaid mail varied from about 6 cents to about 12 cents a piece, depending on the class of mail.

Also, insufficient postage was affixed to 592 pieces, or 1.04 percent of the 56,699 pieces of rated mail we examined, but was not detected by the Department (undetected mail). The average amount of deficient postage on this mail was about 6 cents a piece.

If the conditions we noted at the 13 postal facilities are typical of the handling of the approximately 48 billion pieces of rated mail delivered annually by all postal facilities, we believe that the Department is incurring significant losses nationwide because of (1) unrecovered costs of handling detected short-paid and unpaid mail and (2) revenue losses resulting from undetected short-paid and unpaid mail. We noted that a 1969 Department study showed that an

estimated revenue loss of about \$5 million annually resulted from undetected short-paid and unpaid mail. A Department official advised us that the study was not conclusive and that the actual loss probably was greater.

The Department does not have a stated policy which assigns responsibility for detecting short-paid and unpaid mail. Department officials have informed us that all postal employees generally understand that they are responsible for detecting such mail. Our review showed, however, that some postal employees did not understand that they had this responsibility. We believe that the absence of an effective policy which assigns the responsibility and prescribes the methods for detecting short-paid and unpaid mail has contributed to revenue losses.

CHARGES NOT ASSESSED FOR HANDLING MAIL
WITH INSUFFICIENT POSTAGE

In 1957 the Department requested the Congress to amend the postal laws to give the Department more flexibility in issuing regulations for handling mail with insufficient postage and for prescribing a handling charge to recover related costs. As a result of the Department's request, sections 4109 and 4110 were added to Title 39, United States Code, by the act of April 9, 1958. Section 4109 provides that

"The Postmaster General shall prescribe the conditions for delivery to the addressee, return to the sender, or other disposition, of matter mailed without prepayment of the postage required by law."

Section 4110 provides that

"The Postmaster General shall prescribe from time to time the charges to be collected for matter mailed without prepayment of required postage. The charges--

(1) shall be in addition to the payment of lawfully required postage,

(2) may not be adjusted more frequently than once every two years, and

(3) when adjusted, shall equal, as nearly as practicable, the approximate cost incurred by the Department with respect to the delivery of such matter and the collection of postage and other charges thereon

"The Postmaster General may waive the collection of any charges when he deems a waiver to be in the interest of the Government."

On June 26, 1958, the Department issued instructions to implement the act of April 9, 1958. The instructions, which became effective July 1, 1958, required that short-paid and unpaid mail be (1) marked to show the amount of the deficient postage plus a handling charge of 5 cents and (2) delivered to the addressee upon payment by him of both the deficient postage and the handling charge. With respect to first-class mail, including airmail, the instructions provided that, in the event the addressee refused to pay the deficient postage plus the handling charge, the mail be returned to the sender and delivered upon payment by him of the deficient postage and the handling charge of 5 cents.

With respect to all other classes of mail, the instructions provided that, if the addressee refused to pay the deficient postage plus the handling charge, the mail be returned to the sender and delivered upon payment by him of the deficient postage, the forwarding postage, if any, the return postage, and a handling charge of 5 cents. All undeliverable mail which did not bear a return address was to be disposed of in accordance with applicable postal regulations.

On July 17, 1958, the Department issued instructions suspending the collection of the handling charge for short-paid and unpaid mail during the period of August 1 through October 31, 1958. The instructions stated that the suspension was to provide mailers with time to become familiar with the new postage rates which became effective August 1,

1958 On October 2, 1958, the Department issued instructions extending the suspension period through January 31, 1959. No reason was given, however, for the extension of the suspension period.

On January 15, 1959, a bill (H R 2502) to eliminate the requirement that a handling charge be collected on short-paid and unpaid mail was introduced in the House of Representatives and referred to the House Committee on Post Office and Civil Service. On January 16, 1959, the Postmaster General publicly announced an indefinite suspension of the handling charge pending congressional action on House bill 2502. The bill, however, was not enacted.

On January 25, 1960, another bill (H R 9889) with the same purpose as House bill 2502 was introduced in the House of Representatives and referred to the House Committee on Post Office and Civil Service. After the Committee recommended on April 12, 1960, that the bill be passed, the House of Representatives approved House bill 9889 on April 19, 1960. House bill 9889 was introduced in the Senate on April 20, 1960, and referred to the Senate Committee on Post Office and Civil Service, but the Senate Committee took no action on the bill.

The suspension of the handling charge on short-paid and unpaid mail has remained in effect from August 1958 to the present--over 12 years. The Postmaster General said that, in view of the language of 39 U.S.C. 4110, it was difficult to conclude that any restriction was placed on the Postmaster General's waiver authority. (See app. I.)

Our review of the legislative history of the act of April 9, 1958 (39 U.S.C. 4110), indicates that it was the intent of the Congress that the additional costs incurred by the Post Office Department in detecting and collecting postage due on short-paid and unpaid mail be recovered from postal patrons through a handling charge. In its report dated June 20, 1957, on the act of April 9, 1958 (H. Rept. 580, 85th Cong., 1st sess.), the House Committee on Post Office and Civil Service stated that the amendment to 39 U.S.C. 4110 would provide

**** a guideline for the Postmaster General in the determination of the charges to be prescribed by

regulation, to be collected on delivery of matter mailed without prepayment of the lawfully required postage thereon. It clarifies the intent of the bill that such charges, which represent payment for a special service, shall be in addition to lawful postage, that they may not be adjusted more often than once every 2 years, and that, when adjusted, they shall equal, as nearly as practicable, the approximate cost of rendering such special service. *** This amendment is consistent with the policy of the committee and of the Post Office Department that postal revenues and fees for special services--and delivery of short-paid mail, as well as collection of charges thereon, represent special services--shall more nearly equal the costs incurred." (Underscoring supplied.)

The act of April 9, 1958, allows the Postmaster General to waive collection of the handling charge when he deems it to be in the interest of the Government. Our review of the legislative history of the act, however, did not indicate that the Congress intended that the requirement for the collection of handling charges be waived for a substantial period of time or indefinitely. We believe, therefore, that it is reasonable to conclude that the Congress intended that the waiver authority be exercised by the Postmaster General only in those instances where it could be shown that collection of a handling charge would not be in the interest of the Government.

Since House bill 2502 and House bill 9889 were not enacted into law, we believe that the Postmaster General was not justified in continuing the suspension of the handling charge indefinitely

DEPARTMENT'S POLICY AND PRACTICES
FOR DETECTING SHORT-PAID AND UNPAID MAIL

The Department does not have a stated policy which assigns responsibility for detecting short-paid and unpaid mail. Department officials informed us that, although the Department did not have a stated policy on this matter, the Department's unwritten policy provided that all postal

employees who handle the mail be responsible for detecting short-paid and unpaid mail and that this unwritten policy was generally understood by all Department employees.

To determine what practices were being followed by post offices to detect short-paid and unpaid mail, we made inquiries at 13 postal facilities. These inquiries revealed that formal procedures had not been established to guide employees in detecting mail with insufficient postage and that the postal employees had been following practices which were not effective in detecting mail with insufficient postage.

At one postal facility, employees sorting outgoing mail were told not to specifically examine mail for proper postage because mail with insufficient postage would be identified during subsequent processing at the recipient postal facility. At another postal facility, an official stated that the identification of short-paid and unpaid mail was made primarily at the outgoing facility.

A supervisor at one postal facility told us that the procedure at his location was for mail clerks to be concerned only with mail with insufficient postage that could be easily detected, such as unpaid mail. He said that this procedure was in accordance with national policy. The superintendent of another postal facility said that employees attempted to detect all short-paid and unpaid mail and that this procedure was in accordance with national policy.

On the basis of our findings, we believe that the Department's unwritten policy concerning the detection of short-paid and unpaid mail is not generally understood by postal employees. Also, our review revealed that some mail with insufficient prepaid postage was not being detected at either the originating or the destination postal facility. This is more fully discussed beginning on page 14.

Low priority given to detecting short-paid and unpaid mail

Several employees informed us that they did not look for short-paid and unpaid mail because to do so would have slowed the flow of mail. We noted that, during the period covered by our review, it was the policy of the Department

to attempt overnight delivery of first-class mail. The effect of this policy on mail processing is summarized in an excerpt from "Toward Postal Excellence--The Report of the President's Commission on Postal Organization," dated June 1968

"The goal of overnight delivery leads directly to a major problem the 'daily peak.' Instead of working an even flow of mail throughout the day, most mail must be processed during a relatively short period

"The largest peak occurs in the evening. The natural inclination of most businesses is to deposit first-class mail late in the afternoon, near or after the close of the workday. Determined Post Office efforts to persuade users to 'mail early' have been productive but have not succeeded in eliminating the peak. With the goal of overnight delivery, this flood of mail collected in the late afternoon must be sorted in a few evening hours to make night dispatches to non-local destinations. Another smaller peak occurs during the early hours of the morning when mail arriving from other cities is sorted for delivery that day. Thus, over half the mail is processed in about eight hours of the evening and early morning."

The Department's policy requires that mail be handled within prescribed time limits. For example, first-class mail is generally required to be ready for transportation toward its destination within 90 minutes from the time it is received at the post office.

Use of mechanized equipment

The Department's use of mechanized sorting machines was also cited by postal employees as a cause of not effectively detecting short-paid and unpaid mail. In recent years letter sorting machines, which allow operators to mechanically sort each piece of mail, have been introduced into a number of post offices. These machines operate at a speed of about one letter a second, and the operators usually do not handle the mail.

A sorting machine supervisor at one of the 13 postal facilities included in our review told us that very little short-paid mail was detected when these machines were used because the time limit allowed for the sorting operation left little time for the operator to scan mail to detect insufficient postage. Other major mail-handling processes, facing of letters--turning letters so that the addresses face in one direction with the stamp or meter imprint in the upper right corner--and cancellation of postage stamps, are also being automated at more post offices, and, as a result, manual handling of mail will be further reduced.

We believe that, although machine processing may not permit detection of short-paid and unpaid mail at certain points where it is used, such mail could be detected at other mail-processing points. For example, even though a letter may be machine sorted from the time it is placed into the mail-processing operation until it is distributed to a carrier (an employee who delivers mail to addressees) for delivery, the carrier would have an opportunity to detect short-paid or unpaid mail, since each piece of mail must be handled by him for sorting to the addressee.

We believe also that the use of certain machines could result in increased detection of mail with insufficient postage. For instance, a recent modification to automatic facer/canceling machines, which enables the machines to detect stamps impregnated with a phosphorescent ink, should assist the Department in detecting unpaid mail since mail without such stamps will be rejected by the machines. The automatic facer/canceling machines, however, do not provide for detection of short-paid mail.

Statements by postal officials and others in congressional hearings on the modifications to facer/canceling machines indicate that the purpose of the modification was to provide greater effectiveness in the automatic canceling process and not to detect unpaid mail. We believe, however, that the Department should consider the detection of short-paid and unpaid mail in the development of mechanized handling equipment.

UNRECOVERED COSTS AND REVENUE LOSS
DUE TO SHORT-PAID AND UNPAID MAIL

Detected mail

On the days that we conducted our tests, the 13 postal facilities in four postal regions included in our review processed a total of 5.8 million pieces of rated mail. The volume of short-paid and unpaid mail detected by the postal service was 18,916 pieces, or about 0.33 percent of the 5.8 million pieces. The volume of mail processed by the four regions in fiscal year 1969 totaled 16.8 billion pieces.

Although increased handling costs were incurred in collecting the additional postage due on the mail detected with insufficient postage, a handling charge was not assessed or collected. Because the Department did not have current data on the costs incurred in special handling of mail with insufficient postage, we were unable to estimate the extent of the unrecovered costs.

The extent of such costs, however, is indicated by a Department study conducted in 1954, and subsequently updated to 1960 cost levels, which estimated that the extra handling cost of each piece of short-paid and unpaid mail was 6.3, 10.8, 7.1, and 11.7 cents for first-, second-, third-, and fourth-class mail, respectively. Several pay raises given to postal employees since 1960 have probably increased this cost.

If the detection rate of short-paid and unpaid mail at the 13 postal facilities is similar to the detection rate for all other postal facilities nationwide, we believe that, on the basis of the Department's cost study, the unrecovered costs of handling such mail could be substantial.

Undetected mail

We examined 56,699 pieces of rated mail at the 13 postal facilities to determine whether the required postage had been prepaid. Our examination was conducted after the mail had been processed and immediately prior to its being routed to carriers for delivery or to clerks for distribution to post-office boxes. We found that 592 pieces of

such mail, or 1.04 percent, did not have sufficient postage and had not been detected by postal employees. The postage due averaged about 6 cents a piece. In view of the percentage of undetected short-paid and unpaid mail at the 13 postal facilities included in our review and the substantial amount of rated mail processed by the Department (48 billion pieces annually), we believe that the potential revenue loss nationwide from such mail could be substantial.

A measure of this loss is indicated by a 1969 Department study which estimated that an annual revenue loss of about \$5 million resulted from undetected short-paid and unpaid mail. A Department official advised us that the study was not conclusive and that the estimated loss probably was a conservative figure.

The results of our tests to ascertain the quantity of undetected short-paid and unpaid mail processed by the 13 postal facilities included in our review are shown in the following table:

<u>Post office and delivery unit</u>	<u>Pieces of mail reviewed by GAO</u>	<u>Short-paid and unpaid mail not detected by the Department</u>	
		<u>Number of pieces</u>	<u>Percent of mail reviewed</u>
Hartford, Connecticut			
Main office station	10,167	113	1.11
Wethersfield branch	9,485	100	1.05
Denver, Colorado			
Alcott station	972	12	1.23
Capitol Hill station	1,216	12	.99
Main office station	3,603	43	1.19
Englewood, Colorado			
Main office	3,201	28	.87
Golden, Colorado			
Main office	6,388	42	.66
Phoenix, Arizona			
Downtown station	4,812	44	.91
Minneapolis, Minnesota			
Bloomington branch	1,066	12	1.13
Main station	2,684	31	1.15
Minnehaha station	1,361	7	.51
Seattle, Washington			
Ballard station	6,763	94	1.39
Main office station	<u>4,981</u>	<u>54</u>	<u>1.08</u>
Total	<u>56,699</u>	<u>592</u>	

Because the short-paid and unpaid pieces of mail we found were subject to further handling and possible detection by the carriers, we established controls to determine whether any of this mail was subsequently detected by carriers. Carriers at 11 of the 13 postal facilities did not detect any of this mail, whereas carriers at the other two offices detected only four pieces of this mail.

In addition to making our review at the 13 postal facilities, we made two tests in the Denver area during 1968 and 1969. These tests consisted of mailing specially prepared test letters that were short-paid or had no postage attached. The results of these tests were as follows:

Test mailing	Pieces mailed	Pieces not detected		Pieces detected	
		Number	Percent	Number	Percent
1968	124	67	54	57	46
1969	<u>119</u>	<u>75</u>	63	<u>44</u>	37
Total	<u>243</u>	<u>142</u>		<u>101</u>	

DEPARTMENT'S POLICY FOR COLLECTING POSTAGE DUE ON MAIL

The Department's policy generally requires collection of postage due on short-paid and unpaid mail from the addressee. An exception is made when quantity mailings of 10 or more pieces of short-paid or unpaid mail from the same sender are found at the postal facility where the mail was deposited. In such cases, the sender is notified so that correct payment can be made before the mail is dispatched for delivery. As previously pointed out, in neither case is a charge made for the additional handling costs incurred by the Department.

Postal personnel informed us that one cause for short-paid mail was that company representatives were sending mail to home offices with little regard concerning the sufficiency of postage. Employees of one post office cited as an example a company that received such a large volume of short-paid mail from its sales representatives that special postal measures were taken to check the postage on all mail from these representatives. The estimated costs borne by

the Department to check postage and to collect postage due on this mail was about \$11,200 a year, and the company estimated its annual postage-due payments at about \$40,000.

We believe that the Department should return short-paid and unpaid mail to the senders whenever practicable so as to place financial responsibility for the postage due and handling charge on the senders of such mail. Also, such a policy may deter senders from entering such mail into the postal system.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Postmaster General take the following courses of action

- Develop data on the cost to detect and collect postage due on short-paid and unpaid mail and prescribe a handling charge, based on such cost, to be collected.
- Establish procedures for measuring the revenue losses resulting from undetected short-paid and unpaid mail. This information would provide Department officials with data to assess the Department-wide significance of the revenue loss so that they would have a sound basis for planning corrective actions.
- Issue a policy and implementing instructions for assigning specific responsibilities and prescribing methods for detecting mail with insufficient postage.
- Change the policy from generally forwarding short-paid and unpaid mail to addressees to returning such mail to senders unless it can be shown by adequate study that under certain circumstances it is not practicable to do so. Returning mail to senders could serve to deter such mail from entering the postal system in the future
- In connection with research and development efforts, explore techniques which can be utilized with mechanized mail-processing equipment to aid in the detection of short-paid and unpaid mail.

The Postmaster General, in a letter to us dated October 1, 1970 (app I), stated that, to better appraise the problem discussed in our report and the solutions available to the Department, a cost-benefit analysis would be made and that this analysis would generally recognize our recommendations. He stated, however, that forwarding mail with postage due to the addressee was the most expedient and economical method of processing such mail. We plan to review the results of the Department's analysis and to evaluate the actions to be taken in response to our recommendations.

The Postmaster General provided additional comments on our draft report, which are included along with our evaluation in appendix II.

CHAPTER 3

SCOPE OF REVIEW

During the period October 1968 to July 1969, we reviewed the handling of short-paid and unpaid mail at the following 13 postal facilities in four postal regions

<u>Region and delivery unit</u>	<u>Name of post office</u>
Boston region	
Main office station	Hartford, Connecticut
Wethersfield branch	Do.
Denver region	
Alcott station	Denver, Colorado
Capitol Hill station	Do.
Main office station	Do
Englewood post office	Englewood, Colorado
Golden post office	Golden, "
Downtown station	Phoenix, Arizona
Minneapolis region	
Bloomington branch	Minneapolis, Minnesota
Main station	Do.
Minnehaha station	Do.
Seattle region	
Ballard station	Seattle, Washington
Main office station	Do

Our review consisted primarily of observing the handling of short-paid and unpaid mail being processed at the delivery offices and at mail-handling facilities and of holding discussions with employees and supervisors at these locations. Also, we held discussions with regional officials and with officials in Washington, D C. We reviewed pertinent legislation, legislative history, Department publications and regulations, and certain other records at local, regional, and national levels

APPENDIXES



The Postmaster General
Washington D.C. 20260

October 1, 1970

Dear Mr Neuwirth

Your recent proposed report to the Congress on Mail with Insufficient Postage (1) questions the Postmaster General's authority to waive collection of deficient postage penalty charges for an indefinite period and (2) alleges that we are not detecting a significant volume of short-paid and unpaid mail

With regard to the first point, the language of 39 U S C 4110 is quite clear It provides that the Postmaster General "may waive the collection of any charges when he deems a waiver to be in the interest of the Government" (underscoring provided). It is difficult, in the face of this language, to conclude that any restriction is placed upon the Postmaster General's waiver authority Further, since the new U S Postal Service has been authorized, the effectiveness of 39 U S C 4110 is of limited duration

With regard to your second point, any prudently run postal administration will pursue the protection of its revenues, and we have employed a number of techniques, as discussed in the Attachment. We have made extensive collection efforts where deficiencies are substantial, and we cover the proper collection of postage during our audit inspections of post offices

[See GAO note]

We have weighed the costs of collection and adverse patron response against the potential revenue gain and have arrived at our current approach of collecting insufficient postage for the reasons detailed in the Attachment So that we may better appraise the extent of the problem and the solutions available to us, I am directing a cost/

GAO note The deleted comments relate to matters which were discussed in the draft report but omitted from this final report

benefit analysis which will, generally, recognize the recommendations on pages 22 and 23 of your draft report

We shall be glad to inform you of the results of this analysis

Sincerely,



Winton M Blount

Mr. Max A. Neuwirth
Associate Director, Civil Division
U. S. General Accounting Office
Washington, D C 20548

Attachment

ATTACHMENT

FACTORS CONTRIBUTING TO CURRENT PRACTICES RELATING
TO MAIL WITH SHORT-PAID AND UNPAID
POSTAGESURCHARGE

The occurrence of frequent rate increases over the past 12 years has inhibited imposition of a surcharge because we did not want to aggravate adverse patron reaction and because rate increases may easily result in honest mistakes on the part of patrons. Further, we have solicited patron cooperation in a number of programs, such as ZIP Coding, which benefit us but add to our patrons' cost of mailing.

We have been able to collect short-paid postage from addressees. However, we met with great resistance when, for a brief period in 1958, we attempted to collect a surcharge from addressees. Imposition of a surcharge would result in an increase in the amount of mail refused by addressees and a concomitant increase in our handling expenses. Further, a procedure of collecting a surcharge will significantly add to costs.

EDUCATION

We believe it necessary to a large volume, low cost delivery system to assume that the vast majority of our patrons are honest and to tactfully solicit their cooperation through a program of education. This program includes the dispatch of customer-relations men to major mailers, the use of training films for postal personnel, and the free distribution of millions of booklets which indicate the latest rates.

FORWARDING TO ADDRESSEE OR RETURN TO SENDER

Forwarding postage due mail to the addressee is the most expedient and economical method of processing such mail in a large volume operation such as the Postal Service. It facilitates swift transmission of the mail. It avoids the criticism that, for modest sums of money, we delay pieces of mail that have important time value. Further, it is the only practicable way to handle mail without a return address, or mail whose unpaid or short-paid condition was first discovered at the office of destination.

A system for returning short-paid mail to the sender can be unintentionally or intentionally rendered inoperative by failure to provide a return address. Thus, a return to sender system would not deter the conscious offender.

OFFSETTING FACTOR

Though there are pieces of short-paid mail entering the system, there are also pieces of mail with excess payments. This factor, though never measured, serves to offset the loss of revenues suffered through insufficient payment of postage.

DETECTION BY CARRIERS

Since postal rates are based upon per piece weight, it is impracticable to place the burden of detecting insufficient postage upon the carriers. To do so would require an increase in their in-office time with corollary increases in postal labor costs, and necessitate the issuance, to them, of scale equipment.

TAGGED STAMPS

Increased mechanization of mail sorting is essential to reduction of postal costs and improvement of delivery time. However, mechanization has made more difficult the verification of postage. Through employment of luminescent inks, we have narrowed the possibility of unpaid mail flowing through the mail stream. Our Mark II facer - canceler machines, which are used in larger offices, are now sensitive to luminescent inks. Most of our stamps are "tagged" with luminescent inks and we are working toward the use of such inks in postage meters. This "tagging" facilitates facing and canceling and "flags" those envelopes which bear no stamps or stamps which are not "tagged" -- such as trading stamps. Thus, it aids identification of unpaid -- though not necessarily of short-paid -- mail.

GAO EVALUATION OF AGENCY COMMENTS

HANDLING CHARGE ON SHORT-PAID AND UNPAID MAIL

The Postmaster General said that 39 U S C 4110 was quite clear in that it provided that "the Postmaster General 'may waive the collection of any charges when he deems a waiver to be in the interest of the Government' (underscoring provided) " He said that, in view of this language, it was difficult to conclude that any restriction was placed upon the Postmaster General's waiver authority.

As previously discussed in this report, our review of the legislative history of the act of April 9, 1958, indicated that it was the intent of the Congress that additional costs incurred by the Department in detecting and collecting postage due on short-paid and unpaid mail be recovered from postal patrons through a handling charge. Moreover, we did not find any indication of congressional intent that the waiver authority should be so flexible, or could be so interpreted and applied, as to negate the collection requirement by waiving collection action over a substantial period of time. Over 12 years have now elapsed since the waiver was invoked by the Department

The Postmaster General said that, since the new U S Postal Service had been authorized, the effectiveness of 39 U.S C. 4110 was of limited duration.

The Postal Reorganization Act (84 Stat. 719) approved August 12, 1970, provides for creating the United States Postal Service as an independent self-supporting establishment in the executive branch of the Government to furnish postal services throughout the United States. The provisions of the Postal Reorganization Act, which will supersede the existing provisions of 39 U.S C 4110, will become effective on July 1, 1971.

Although the provisions of the Postal Reorganization Act will supersede the provisions of 39 U S C 4110, we believe that, as a prudent business practice, the Department should assess a charge to recover its added cost of handling and collecting postage due on short-paid and unpaid

mail, irrespective of whether there is a legal requirement to do so, unless the Postmaster General determines that it would not be in the Government's best interest to collect the charge. Such collection would assist the Postal Service to comply with the legal requirement in the new act that it be self-supporting.

The Postmaster General stated that the occurrence of frequent rate increases over the past 12 years had inhibited the imposition of a handling charge for short-paid and unpaid mail because the Department did not want to aggravate adverse reactions by patrons and because rate increases might easily result in honest mistakes on the part of patrons.

Although we understand the Department's desire to avoid adverse reactions by postal patrons to the imposition of a handling charge during periods of adjustment to increased postal rates, we believe that the Department was not justified in invoking, in all cases, the waiver authority of 39 U.S.C. 4110 for a period of over 12 years.

The Postmaster General said that the Department had solicited patron cooperation in a number of programs, such as ZIP coding, which benefited the Department but added to patrons' cost of mailing.

One of the primary incentives which the Department offers to mailers to obtain their cooperation and assistance in such programs as the ZIP program is improved mail processing and delivery service. We recognize that such cooperation may increase costs to the mailer and reduce costs to the Department. Such cooperation, however, usually results in a mutual benefit to the Department and the mailers. The Department incurs lower mail processing and delivery costs, and the mailers receive faster mail service.

The Postmaster General said that the Department had been able to collect short-paid postage from addressees but that it had encountered great resistance when, for a brief period in 1958, it had tried to collect a handling charge from addressees. He expressed the view that the imposition of a handling charge would result in an increase in the amount of mail refused by addressees.

and a concomitant increase in the Department's handling expenses.

We recognize that it may be impracticable to collect the handling charge from addressees, and this is, in part, the reason why we are recommending that short-paid and unpaid mail be returned to the senders, when practicable, for collection of the deficient postage and the handling charge. We believe that the financial responsibility for postage due and the handling charge should be placed on the sender

Further, about 13 percent of all mail is personal correspondence and the remaining 87 percent is primarily business mail. Returning short-paid and unpaid mail to the senders, mostly business firms, may deter such firms from entering such mail into the postal system and thereby reduce costs to the Department for detecting and handling mail with insufficient postage.

Concerning the Department's comment that the imposition of a handling charge would increase its handling expenses, we believe that it would be reasonable to consider such expenses in determining the handling charges to be assessed against senders of short-paid and unpaid mail.

FORWARDING MAIL TO ADDRESSEE
OR RETURNING IT TO SENDER

The Postmaster General said that forwarding postage-due mail to the addressee was the most expedient and economical method of processing such mail in a large-volume operation, such as the Post Office Department, because (1) it facilitated swift transmission of the mail and (2) it avoided the criticism that, for modest sums of money, the Department delayed delivery of pieces of mail that had important time value.

We agree that the Department's present policy for handling short-paid and unpaid mail probably facilitates swift transmission of such mail to addressees and avoids the criticism that the Department is delaying important time-value mail for modest sums of money. The policy, however, results in additional costs over and above normal mail-processing costs that are not recovered, and the policy does not provide a deterrent to the mailing of short-paid and unpaid mail.

The Postmaster General stated that forwarding postage-due mail to the addressee was the only practicable way to handle mail without a return address or mail whose short-paid or unpaid condition was first discovered at the office of destination. He also said that a system for returning short-paid and unpaid mail to the sender could be unintentionally or intentionally rendered inoperative by failure to provide a return address. Thus, a return-to-sender system would not deter the conscious offender.

We recognize that the only practicable way of handling a short-paid or unpaid letter which has no return address is to forward it to the addressee and request him to pay the postage due and the handling charge. Department officials advised us that the Department did not have data on the volume of short-paid and unpaid mail without return addresses, but they expressed the opinion that a very small percentage of mail did not have return addresses.

We do not agree that mail should be forwarded to addressees because the mail's short-paid or unpaid condition was first discovered at the office of destination. We believe that, as a general rule, a short-paid or unpaid letter that has a return address should be returned to the sender. Such a policy would serve as a deterrent to the sending of short-paid and unpaid mail since senders would be faced with the return of such mail if detected.

OFFSETTING EFFECT OF POSTAGE OVERPAYMENTS

The Postmaster General stated that, although there were pieces of short-paid mail entering the system, there were also pieces of mail with excess payments. This factor, though never measured, serves to offset the loss of revenues suffered through insufficient payment of postage.

The postal laws generally require that the proper amount of postage be prepaid at the time of mailing. In our opinion, the fact that certain patrons overpay their postage does not excuse other patrons who underpay postage required by law to be paid at the time of mailing.

DETECTION BY CARRIERS

The Postmaster General said that, since postal rates were based on piece weight, it was impracticable to place the burden of detecting insufficient postage upon the carriers. To do so would require an increase in the carriers' in-office time with corollary increases in postal labor costs and would necessitate the issuance to the carriers of scale equipment.

We do not advocate that complete responsibility for detection of all short-paid and unpaid mail be placed upon the carriers, and we recognize that it would be unreasonable to expect all such mail to be detected by carriers. We believe, however, that carriers should be expected to detect obvious cases of short-paid and unpaid mail which have been processed through the system undetected.

As stated on page 16 of this report, carriers detected only four of 592 pieces of short-paid and unpaid mail, which we had previously identified. Thus it appears to us that carriers are not reporting obvious cases of insufficient pre-paid postage inasmuch as many of the 592 pieces of mail were unpaid or obviously short-paid. We believe that the Department should emphasize to carriers their responsibility to detect and report short-paid and unpaid mail.

DEPARTMENT'S EFFORTS TO COLLECT
FULL POSTAGE REVENUES

The Postmaster General said that any prudently run postal administration would pursue the protection of its revenues and that the Department had made extensive collection efforts where deficiencies were substantial. He said also that the proper collection of postage was covered during the Department's audit inspections of post offices.

Department officials advised us that during fiscal year 1969 postal inspectors collected deficient postage of about \$172,000 in 148 cases and that during fiscal year 1970 they collected about \$47,000 in 86 cases. Moreover, for fiscal year 1970 the inspectors detected revenue deficiencies totaling about \$387,000 in 813 cases and collection action is in process on these cases.

A Department official stated that these identified deficiencies resulted from examinations of large mailings of first-, second-, third-, and fourth-class mail but that there was no written requirement that audit inspections cover individual short-paid or unpaid first-class letters or small mailings of other classes of mail. He said that postal inspectors were supposed to generally review ordinary first-class mail when time permitted but that there were no specific instructions concerning this matter.

Although the postal inspectors cover certain aspects of the proper collection of postage during their audit inspections, we believe that our review indicates that the Department needs to take other actions as described on page 17 to improve its management control over the collection of postage.

PRINCIPAL MANAGEMENT OFFICIALS OF
THE POST OFFICE DEPARTMENT
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
POSTMASTER GENERAL		
Winton M. Blount	Jan 1969	Present
W. Marvin Watson	Apr 1968	Jan. 1969
Lawrence F. O'Brien	Nov. 1965	Apr. 1968
John A Gronouski	Sept. 1963	Nov 1965
J Edward Day	Jan 1961	Aug 1963
Arthur E. Summerfield	Jan 1953	Jan. 1961
DEPUTY POSTMASTER GENERAL		
E T. Klassen	Feb. 1969	Jan 1971
Frederick C. Belen	Feb. 1964	Jan. 1969
Sidney W. Bishop	July 1963	Feb. 1964
Vacant	July 1962	July 1963
Haran W. Brawley	Jan. 1961	July 1962
John M McKibbin, Jr.	Oct. 1959	Jan. 1961
Edson O. Sessions	Sept. 1957	Oct. 1959
ASSISTANT POSTMASTER GENERAL, BU- REAU OF OPERATIONS (note a)		
Frank J. Nunlist	Apr. 1969	Present
Vacant	Dec. 1968	Apr. 1969
William M. McMillan	Feb 1964	Dec. 1968
Frederick C. Belen	Mar. 1961	Feb. 1964
Bert B. Barnes	Nov. 1959	Mar. 1961
John M. McKibbin, Jr.	Feb. 1957	Oct. 1959
ASSISTANT POSTMASTER GENERAL, BU- REAU OF FINANCE AND ADMINISTRATION (note b)		
James W. Hargrove	Feb 1969	Present
Ralph W Nicholson	Mar 1961	Feb 1969

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ASSISTANT POSTMASTER GENERAL, BU- REAU OF FINANCE AND ADMINISTRA- TION (note b) (continued)		
Vacant	Jan 1961	Mar 1961
Hyde Gillette	Feb 1957	Jan 1961

^aBureau of Post Office Operations prior to July 1, 1957.

^bBureau of Finance prior to April 26, 1964