

092270

X



FILE COPY - COMP. GEN.

Possible Need For Changing The Postal Money Order System

B-114874

Post Office Department

13-114874

UNITED STATES
GENERAL ACCOUNTING OFFICE

JAN. 12. 1971

~~715660~~ / 092270



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

B-114874

Dear Mr. Postmaster General:

This is our report on the possible need for changing the Postal Money Order System.

We appreciate the cooperation and assistance which your representatives have given to us. We shall appreciate being advised of any action taken on the matters presented in this report.

Sincerely yours,

A. T. Samuelson

Director, Civil Division

The Honorable Winton M. Blount
The Postmaster General

D I G E S T

WHY THE REVIEW WAS MADE

The Postal Money Order System was established in 1864 to

- accommodate the public by providing a safe, practicable method for transmitting small sums of money from one section of the country to another,
- provide soldiers with a safe means for transmitting money, and
- provide a much-needed source of revenue to the Government.

Because of indications that the conditions which warranted the establishment of the system have changed substantially, the General Accounting Office has made a review to determine whether the system should be continued at its present scale.

FINDINGS AND CONCLUSIONS

Conditions which warranted creation of the Postal Money Order System have changed substantially.

Many institutions actively compete with the Post Office Department for the money order market and provide a convenient means to the general public for transmitting funds safely from one location to another. Money orders are sold by banks, savings and loan associations, and other commercial outlets and are usually less expensive than postal money orders. Other banking services (such as checking accounts) are also available and compare favorably to money orders. The military services provide, under the allotment system, a means of transmitting money safely to designated recipients. (See pp. 5 and 6.)

In some rural areas, however, postal money orders are the only kind available. Also, many military personnel are stationed in locations (for example, aboard ships) where commercial money orders are not readily obtainable. In such situations, continuation of postal money orders seems to be justified. (See p. 10.)

During fiscal year 1969 money order revenues represented only about 1 percent of the Department's total revenue collections of \$6.3 billion. Also, postal money order sales generally have been declining since 1960--and the Department anticipates that the decline will continue--while sales of money orders by private firms have been increasing. (See pp. 6 and 12.)

The present status of the Postal Money Order System is, in many respects, similar to that of the Postal Savings System which the Congress discontinued in March 1966. Both were established many years ago to meet specific needs not then provided by commercial firms. Subsequently, conditions changed and the needs were increasingly met by private enterprise. As a result, demand for the services declined steadily over a period of years so that the number of transactions were reduced markedly. (See p. 23.)

In recent years the Department has consistently reported losses on its money order operations. The losses range from a low of \$1.2 million in fiscal year 1945 to a high of \$32.8 million in fiscal year 1969. (See p. 35.) However, not all the costs associated with postal money orders will be eliminated by reducing the system. (See pp. 26 to 30.)

RECOMMENDATIONS OR SUGGESTIONS

The Department should evaluate the Postal Money Order System to determine what adjustments should be made to the system and develop plans to put such adjustments into effect.

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	3
2 POSSIBLE NEED FOR CHANGING THE POSTAL MONEY ORDER SYSTEM	5
Money order services available to the general public	6
Services offered by banks	6
Services offered by commercial money order houses	9
Results of Post Office Department study	11
Revenue from postal money order operations	15
Sales of money orders to military personnel	17
Personnel engaged in postal money order operations	20
Theft of money orders	21
Similarity with discontinued Postal Savings System	23
Financial effect of changing the Postal Money Order System	26
Allocation of costs	26
Possible reduction of costs	28
Losses	29
3 CONCLUSION AND RECOMMENDATION	31
Recommendation to the Postmaster General	31
4 SCOPE OF REVIEW	32
APPENDIX	
I Revenues, costs, and losses of money order operations each fiscal year since 1926	35

D I G E S T

WHY THE REVIEW WAS MADE

The Postal Money Order System was established in 1864 to

- accommodate the public by providing a safe, practicable method for transmitting small sums of money from one section of the country to another,
- provide soldiers with a safe means for transmitting money, and
- provide a much-needed source of revenue to the Government.

Because of indications that the conditions which warranted the establishment of the system have changed substantially, the General Accounting Office has made a review to determine whether the system should be continued at its present scale.

FINDINGS AND CONCLUSIONS

Conditions which warranted creation of the Postal Money Order System have changed substantially.

Many institutions actively compete with the Post Office Department for the money order market and provide a convenient means to the general public for transmitting funds safely from one location to another. Money orders are sold by banks, savings and loan associations, and other commercial outlets and are usually less expensive than postal money orders. Other banking services (such as checking accounts) are also available and compare favorably to money orders. The military services provide, under the allotment system, a means of transmitting money safely to designated recipients. (See pp. 5 and 6.)

In some rural areas, however, postal money orders are the only kind available. Also, many military personnel are stationed in locations (for example, aboard ships) where commercial money orders are not readily obtainable. In such situations, continuation of postal money orders seems to be justified. (See p. 10.)

During fiscal year 1969 money order revenues represented only about 1 percent of the Department's total revenue collections of \$6.3 billion. Also, postal money order sales generally have been declining since 1960--and the Department anticipates that the decline will continue--while sales of money orders by private firms have been increasing. (See pp. 6 and 12.)

The present status of the Postal Money Order System is, in many respects, similar to that of the Postal Savings System which the Congress discontinued in March 1966. Both were established many years ago to meet specific needs not then provided by commercial firms. Subsequently, conditions changed and the needs were increasingly met by private enterprise. As a result, demand for the services declined steadily over a period of years so that the number of transactions were reduced markedly. (See p. 23.)

In recent years the Department has consistently reported losses on its money order operations. The losses range from a low of \$1.2 million in fiscal year 1945 to a high of \$32.8 million in fiscal year 1969. (See p. 35.) However, not all the costs associated with postal money orders will be eliminated by reducing the system. (See pp. 26 to 30.)

RECOMMENDATIONS OR SUGGESTIONS

The Department should evaluate the Postal Money Order System to determine what adjustments should be made to the system and develop plans to put such adjustments into effect.

CHAPTER 1

INTRODUCTION

The General Accounting Office reviewed the Postal Money Order System of the Post Office Department to ascertain whether conditions that warranted its establishment in 1864 had changed sufficiently to indicate that the system should be changed. Our review did not include an examination into international money order operations since such money orders account for a very small part of the total number of money orders sold. Details on the scope of our review are shown on page 32 of this report.

The Postal Money Order System, established by the act of May 17, 1864 (13 Stat. 76), provided that money orders in amounts of up to \$30 could be transmitted through the mails. The present limit of \$100 has been in effect since March 3, 1883 (22 Stat. 527).

A postal money order is issued by a U.S. post office, branch, or station or by a facility provided for members of the Armed Forces, for payment of a specified sum of money to the payee, indorsee, or remitter. The range of money order amounts and related fees charged for domestic money orders are as follows:

<u>Amount of money order</u>	<u>Amount of fee</u>
\$ 0.01 to \$ 10.00	\$0.25
10.01 to 50.00	0.35
50.01 to 100.00	0.40

A postal money order may be cashed by any post office, bank, or rural postal carrier. Money orders issued at military post offices are payable at those offices; at U.S. military banking facilities; or at post offices or banks located in the United States, its possessions or territories, and certain foreign countries. Money orders issued by military post offices are not considered to be international money orders even though they may be issued or paid in a foreign country.

After the establishment of the Postal Money Order System in 1864, the number of domestic money orders issued increased from about 74,000 in fiscal year 1865 to a high of about 375.2 million in fiscal year 1952. Since fiscal year 1952 the number of domestic money orders issued has declined steadily to about 188.1 million in fiscal year 1969. In 1864 money orders were issued by 141 post offices; during fiscal year 1969 they were issued by approximately 43,200 post offices, stations, and branches within the United States. Revenues collected from domestic and international money orders in fiscal year 1969 totaled \$61.5 million. The total number of international money orders issued accounted for less than 1 percent of the total number of money orders issued.

The Assistant Postmaster General, Bureau of Finance and Administration, is responsible for the development of policies and for administration of the domestic, international, and military money order operations. The Money Order Division of the Bureau is directly responsible for administering the operations of the Postal Money Order System.

CHAPTER 2

POSSIBLE NEED FOR CHANGING THE

POSTAL MONEY ORDER SYSTEM

We believe that the Department should evaluate the need for continuing the Postal Money Order System in certain locations because of the availability of alternative services. The system, as established in 1864 during the Civil War period, was intended to

- accommodate the public by providing a safe, practicable method for transmitting small sums of money from one section of the country to another,
- provide soldiers with a safe means for transmitting money to their families and friends at very little expense, and
- provide a much-needed source of revenue to the Government.

Since the passage of the enabling legislation in 1864, conditions in the United States have changed. Many institutions now actively compete with the Department for the money order market and provide a convenient means to the general public for transmitting funds safely from one location to another. For example, various types of money orders are sold by banks, savings and loan associations, and other commercial outlets. Other banking services, such as checking accounts, are also available. Under rules adopted by the Federal Deposit Insurance Corporation, checking accounts, money orders, and other bank instruments are insured against loss resulting from bank failures.

In many instances commercial money orders and other banking services are available to members of the Armed Forces. Also, the military services provide, under the allotment system, a means of transmitting money safely to the relatives of military personnel and to other recipients. Under this system a specific sum is withheld from the pay of military personnel and Government checks are transmitted

to designated recipients. If a check is lost or stolen, a duplicate check is issued by the Government and thereby provides adequate protection for such designated recipients.

Although nonpostal money orders have become increasingly accessible, there are places where nonpostal money orders are not available. (See p. 10.)

Since the peak fiscal year of 1960, money order revenue has generally been declining. For instance, the Department reported money order revenues amounting to about \$81.2 million in fiscal year 1960 and \$61.5 million in fiscal year 1969, or a decrease of \$19.7 million. Also, the money order collections in fiscal year 1969 represented only about 1 percent of the Department's total revenue collections of \$6.3 billion.

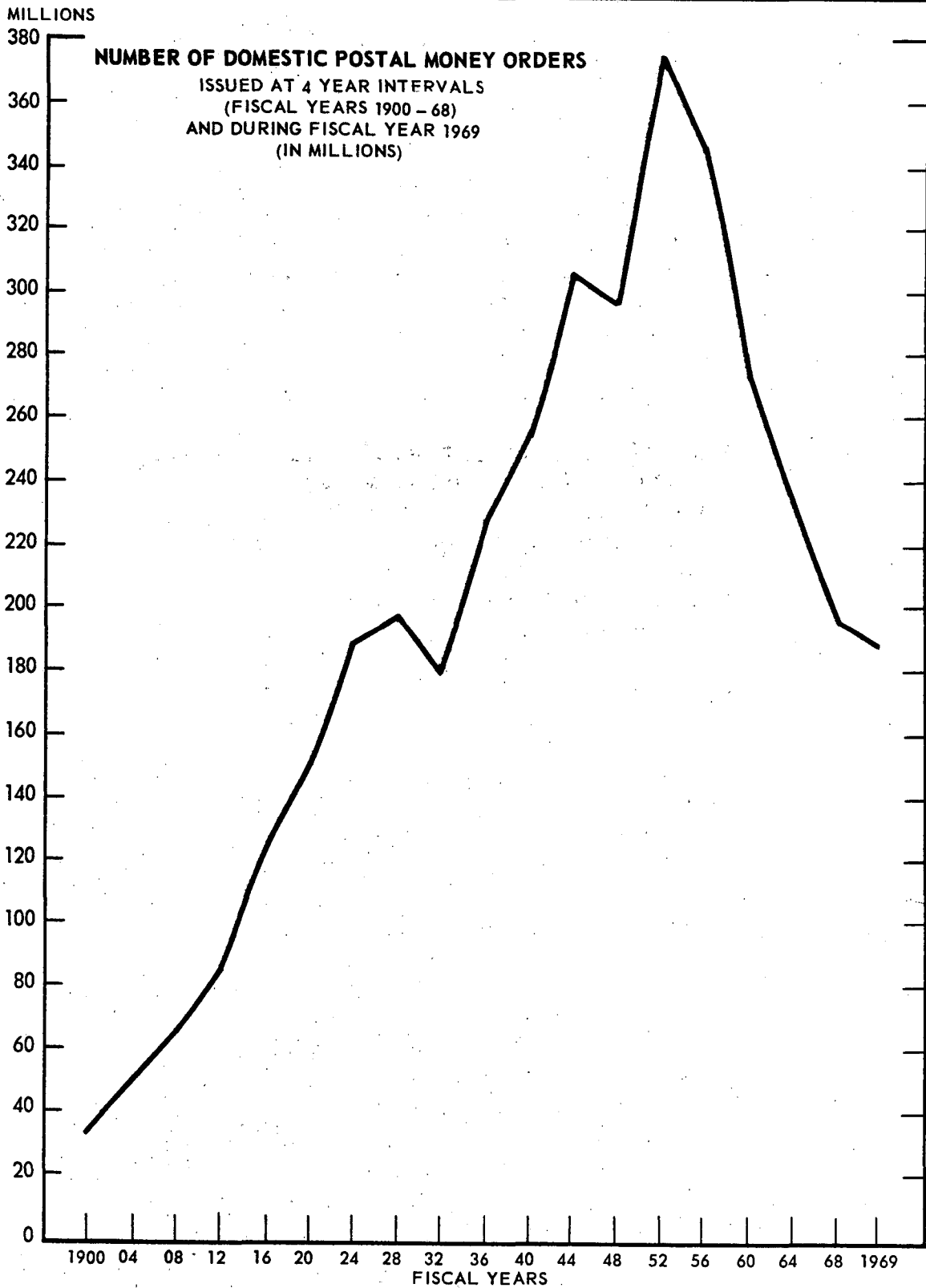
MONEY ORDER SERVICES AVAILABLE TO THE GENERAL PUBLIC

Evaluations of the money order market by the Department and others indicate that money order services rendered by private firms are increasing and are generally available to the public and that the role of the Postal Money Order System as a service is decreasing. The number of domestic postal money orders sold during fiscal year 1969 was 188.1 million--the lowest since fiscal year 1933 when about 171.5 million of such money orders were sold.

The graph on the following page shows the number of postal money orders sold at 4-year intervals since 1900, the number in fiscal year 1969, and the steadily declining volume of postal money order sales over the past several years.

Services offered by banks

Many banks issue bank or personal money orders. Bank money orders are signed by an authorized bank employee, whereas personal money orders are signed by the customer. A 1966 American Bankers Association sampling survey of money order sales of 2,405 banks showed that 37 percent of the commercial banks sold personal money orders and that 44 percent sold bank money orders. The survey report concluded that about three quarters of the nation's banks sold money



orders. Most banks also offer other services to their customers, such as regular checks, certified checks, and cashier's checks, which can be used in lieu of postal money orders.

About 85 percent of the total domestic postal money orders were sold by first- and second-class post offices in fiscal year 1969. According to the 1966 survey, money orders sold by banks are available in nearly all communities having a first-class post office and in many communities having a second-class post office. The survey also showed that most of the banks issuing money orders increased their sales over the 5-year period prior to the study.

According to a 1967 Department study, the fees charged by banks for money orders were generally less than those charged by the Department. For more information on the Department's study, see pages 11 through 14. For example, the fee for a \$50 postal money order is 35 cents; however, the fee for a \$50 bank money order ranged from 15 cents to 25 cents, and the prevailing fee was 15 cents. Also, the maximum amount of a postal money order is \$100. Most banks, however, place ceilings of \$200 to \$250 on personal money orders and place no dollar limit on bank money orders.

The average amounts of various types of money order transactions, as indicated by the American Bankers Association's 1966 survey, were: bank money order, \$365; personal money order, \$34; and postal money order, \$22. Another study issued in January 1966 by a private firm indicated that the average amount of a commercial money order issued by a private money order firm was about \$20.

Checking account services offered by banks for individuals, partnerships, and corporations have increased substantially over the years. Federal Deposit Insurance Corporation reports show that the number of such accounts increased by about 53 million, or about 240 percent, from 1936 to 1966. From June 30, 1966, to June 29, 1968, the number of checking accounts increased 5.9 percent from about 74.7 million to about 79.1 million.

According to a 1966 report resulting from a marketing research study performed for a commercial money order house,

checking accounts represent a major competitor of money orders. The study showed that there had been an upward trend since 1940 in the proportion of families who had checking accounts and indicated that many people were probably using checking accounts in lieu of money orders. The study showed that checking accounts were preferred because checks were cheaper and easier to use than money orders and provided a record of payment.

The American Bankers Association 1966 survey indicated that about 28,000 banking offices (branches and main offices) were providing money order and checking account services. Although there were more post offices than banks selling money orders, the survey indicated that, in most large communities where most of the domestic postal money orders were sold in recent years, money orders were also sold by banks and commercial money order houses. Also, a 1967 Department report estimated that the nation's savings and loan associations sold about 28.5 million money orders annually, although it was not known exactly how many of these institutions, which totaled about 6,200, sold money orders.

Services offered by commercial money order houses

Commercial money order houses are major competitors in the money order market. Commercial vendors operate in all 50 States and are represented in urban and rural areas. Sales are usually made through retail outlets, such as grocery stores, drug stores, and department stores.

According to the Department's 1967 report, the largest commercial money order house has representatives in all States and claims to have about 34,000 agents in the field. The second largest firm has about 15,000 outlets in 47 States.

The business of commercial money order houses is generally comparable to the postal money order business. Commercial money order houses, however, generally serve urban areas more extensively than rural areas. An official of one of the commercial money order houses that we visited informed

us that, for the areas serviced by the company, additional sales outlets could be established should the need for outlets develop.

There is one notable advantage for serving the public that commercial money order houses have over both the Department and banks. Such companies generally distribute money orders through retail stores which do not have the limited business hours of banks and post offices. For example, drug stores often sell commercial money orders and generally stay open during evening hours. Also, they are normally open 6 or 7 days a week.

Since the Postal Money Order System was established, many nonpostal alternative services have become available and actively compete with the Department for the money order market. Because alternative services are readily available to the public in many locations (e.g., urban areas), we believe that there is a need to consider whether postal money order services should continue to be provided by the Department. In certain areas (e.g., rural areas), however, postal money orders are the only such services readily available; and, in such places, there is an apparent need to continue to provide postal money order services.

Also, although nonpostal money orders are readily available to many members of the Armed Forces through post exchange facilities, many military personnel are stationed in locations (e.g., aboard ships) where commercial money orders are not readily available. In such locations the continuation of postal money order services seems to be justified. Further, as a convenience to postal patrons, money orders might be retained for use in international and collect-on-delivery transactions.

RESULTS OF POST OFFICE DEPARTMENT STUDY

In 1967 a Department report on its study of the Postal Money Order System concluded that the Department should continue to provide money order services because (1) money orders contributed millions of dollars for the payment of the Department's overhead costs; that is, some of the costs allocated to money order services were fixed costs and would not be reduced if money order services were to be curtailed (for our evaluation of this matter see pp. 26 through 30) and (2) money orders fulfilled a need for many patrons who continue to purchase money orders (for our evaluation of this matter see p. 10).

The report recommended that postal money order services not be expanded because (1) the money order system was auxiliary to the Department's principal function of carrying the mail and an expansion in the number of offices or hours of business should be made on the basis of the needs of the mails, not the money order business, and (2) from the viewpoint of maintaining the proper roles for the economy's public and private sectors, expansion of the service could easily result in undue competition with private business.

The 1967 study stated that the Department was the most important money order vendor and attributed its market strength to (1) public awareness that the Post Office Department sells money orders, (2) consumer acceptance built up over a 102-year period, (3) 45,000 domestic outlets in all but the tiniest hamlets of the nation, (4) a logical tie-in with the mail service in that most money orders were purchased to transmit funds through the mail and a money order could be bought and posted at the same post office, and (5) the confidence which people have in dealing with an agency of the Federal Government.

According to the Department's 1967 study, 614 million money orders were sold annually and the money order market was shared as follows:

We believe that the fact that about two thirds of all money orders sold are nonpostal money orders indicates that a large number of money order users purchase nonpostal money orders at an accessible commercial outlet and mail the money orders at a nearby mail receptacle rather than make a trip to the nearest postal facility to purchase and mail a postal money order.

Concerning the confidence which persons have in postal money orders, the fact that about two thirds of all money orders sold are nonpostal money orders indicates a high degree of customer confidence in nonpostal money orders.

The Department report also stated that:

- Private firms generally provided adequate money order services in urban areas, but postal money orders were the only money orders available in many rural areas whose residents need access to money order services.
- Most money order business came from the less prosperous, less educated, historically bank-shy industrial workers.
- Despite steady losses in sales volume, postal money order sales represented about one third of the nation's money order market and postal money order sales were greater than the money order sales of any single competitor or type of competitor, such as commercial banks.
- The importance of postal money orders to the city dweller was evidenced by the fact that, despite the availability of commercial vendors, most postal money order sales were in the larger, urban post offices, which indicated a high degree of consumer satisfaction.
- The decline in money order sales over the 6-year period between 1960 and 1966 was shared by all classes of post offices, all regions, and most States; and the rate of decline in sales was almost equal for each class of post office.

--The trend of declining sales between 1964 and 1966 (years for which data was available by States) was experienced in most of the States as follows: In first-class post offices, 45 of 50 States and the District of Columbia; in second-class post offices, 32 of 50 States; in third-class post offices, 44 of 50 States; and in fourth-class post offices, 44 of 48 States.

REVENUE FROM POSTAL MONEY ORDER OPERATIONS

The graph on the following page illustrates, for fiscal years 1960-69, the postal money order revenues and the total costs and losses attributable to money order operations.

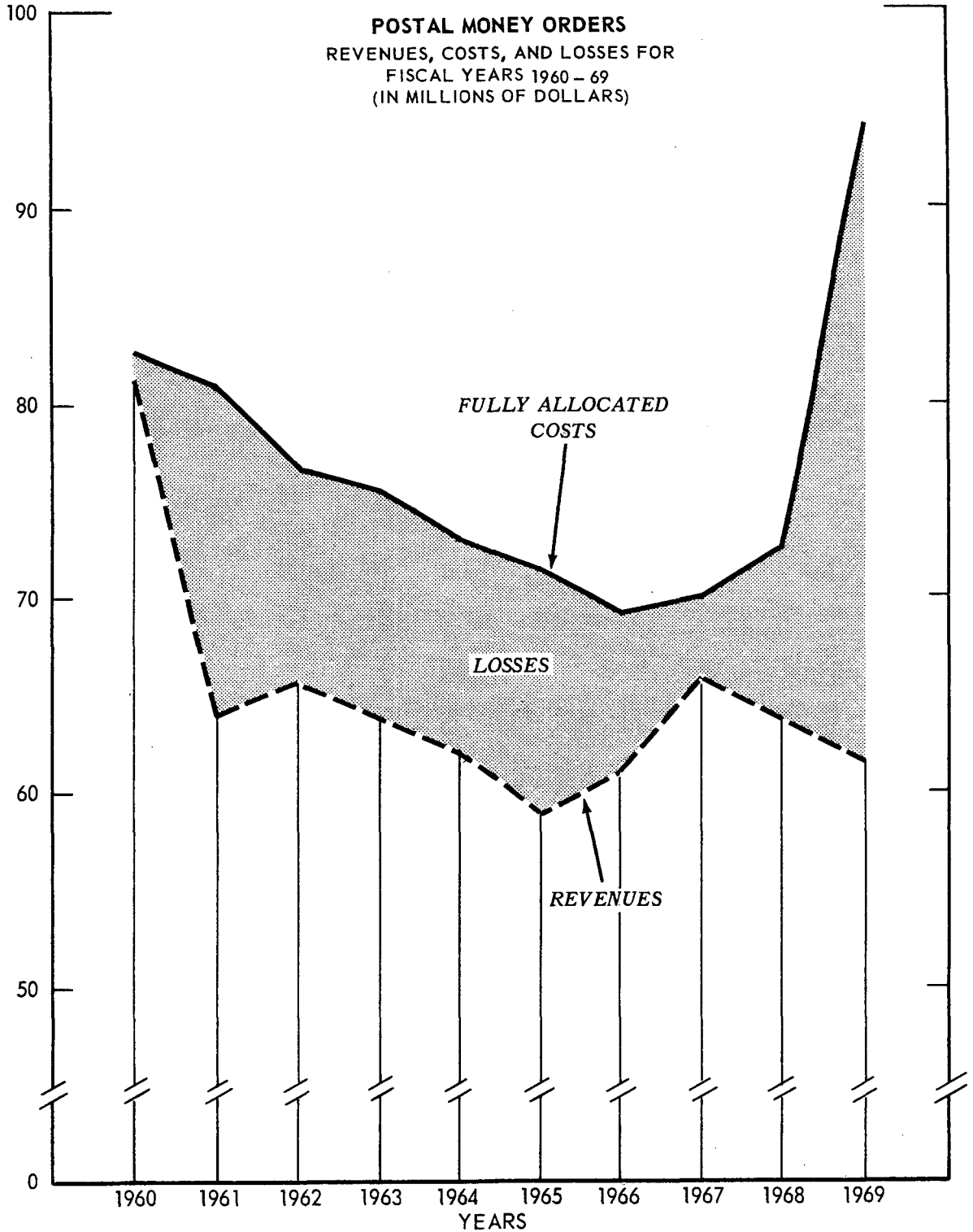
Appendix I shows the revenues, costs, and losses attributed to postal money order operations since fiscal year 1926.

Although the Department reported financial losses on its money order operations, the curtailment of the Postal Money Order System would not necessarily result in avoiding all costs allocated to money order operations. For a further discussion of the financial effects of revising the money order system, see pages 26 through 30.

One of the reasons for authorizing the establishment of the Postal Money Order System in 1864 was to provide a source of revenue to the Government. Revenues from the sale of money orders (domestic and international orders) in fiscal year 1969 amounted to about \$61.5 million, a decrease of \$19.7 million from the revenues in 1960--the peak year--of about \$81.2 million. Revenues from the sale of money orders in fiscal year 1969 were about 1 percent of the revenue collections of about \$6.3 billion reported by the Department. Further, as shown in appendix I, the costs allocated by the Department to postal money order operations have consistently exceeded the revenues derived from sales of money orders.

MILLIONS OF DOLLARS

POSTAL MONEY ORDERS
REVENUES, COSTS, AND LOSSES FOR
FISCAL YEARS 1960 - 69
(IN MILLIONS OF DOLLARS)



SALES OF MONEY ORDERS TO MILITARY PERSONNEL

Military post offices provide postal services, including the sale of money orders, to military personnel in areas where there are no civilian post offices and in other places designated by the military. Until September 1969 the fees for postal money orders sold to military personnel were the same as the fees charged other persons. In September 1969 the Department revised its policy and stated that no fee would be charged for postal money orders issued to military personnel and their dependents at military post offices located in Vietnam or on board a ship in contiguous waters. Also, the fee for money orders issued to military personnel on board any ship or at any other military post located outside the 50 States, Puerto Rico, and Guam, was reduced to 15 cents. Their dependents also may purchase money orders at this rate.

An exception to the general trend of the steadily declining number of postal money orders sold is the sale of money orders to military personnel. About 9.9 million postal money orders were sold through military post offices in fiscal year 1967, a 26-percent increase over the number sold in fiscal year 1966. Sales continued to increase during fiscal year 1968 when about 10.2 million money orders were sold through military post offices. According to a Department official, the recent increases in the sales of money orders through military post offices were due primarily to the large buildup of our military forces overseas. Sales during fiscal year 1969, however, decreased to 9.9 million.

Our review indicated that in many instances commercial money orders and other private banking services were available to members of the Armed Forces. Information obtained from the Army and Air Force Exchange Service headquarters indicated that commercial money orders were readily available to Army and Air Force personnel at 86 post exchange facilities. In addition, Army regulations provide for the sale of banking instruments, such as bank money orders and cashier's checks, by banking facilities on military installations. We were also informed that commercial money orders were available to Navy personnel assigned to land installations.

Sales of commercial money orders through Army and Air Force post exchange facilities are governed by contract agreements negotiated with commercial firms. The negotiated contracts usually cover a period of 2 years and have an option to renew for 3 more years, if mutually agreeable. Several commercial firms have expressed interest in selling money orders to military personnel. During a recent, advertised solicitation for bids from firms to sell money orders through post exchanges, about 12 firms responded to the solicitation, and four of the firms were awarded contracts. Also, the Army and Air Force Exchange Service received inquiries from nine other firms which were interested in contracts for the sale of money orders.

The four contracts awarded provide for a flat fee of \$0.20 a money order. Of these contracts, two provide for issuing individual money orders in any amount up to \$250 and two provide for issuing money orders in the maximum amounts of \$200 and \$100, respectively.

For the year ended January 28, 1968, the Army and Air Force Exchange Service estimated that about 1,068,000 commercial money orders were sold under these contracts in the continental United States and overseas and that gross income of \$120,400 accrued to the service. The service's net income from the sales (gross income less operating expenses) is ultimately distributed to the Army and Air Force Welfare and Recreation Fund.

The Department authorized the Air Force to discontinue selling postal money orders at its installations as of June 28, 1968, because (1) the military personnel would realize a direct savings from the lower fee charged for commercial money orders and (2) military personnel would benefit since a portion of the money order fee would revert to the Army and Air Force Welfare and Recreation Fund. Subsequently, the Army reported receiving an offer from a commercial vendor to issue commercial money orders at Army installations.

On September 15, 1969, the Department announced that money orders issued by all military post offices in Vietnam or on board a ship in contiguous waters would be provided without charge and that the fee for money orders sold at

other overseas military post offices and aboard any ship outside the United States was reduced to 15 cents. Also, on January 15, 1970, the Department issued a new postal money order form, for use at all overseas military post offices, which bears the restriction "not payable through banks outside the United States of America other than through U.S. Military banking facilities." This money order was developed to stem the illicit exchange of money orders for foreign currency purchased in South Vietnam's black market.

On February 3, 1970, the Secretary of Defense directed the Secretary of the Air Force to resume issuing postal money orders at Air Force postal facilities at the earliest practicable date. This directive was issued to resolve the "controversy with Post Office Department regarding Air Force sale of commercial money orders instead of postal money orders." Air Force personnel in Vietnam would gain an immediate personal benefit since postal money orders were issued free to servicemen in that area.

Although nonpostal money orders are available to members of the Armed Forces in many instances, there are situations in which members of the Armed Forces must depend upon postal money orders for transmitting funds. For example, military personnel on board ship or in combat zones probably could not purchase nonpostal money orders. Therefore it appears that there is a need for continuing postal money order services in certain military areas.

PERSONNEL ENGAGED IN POSTAL
MONEY ORDER OPERATIONS

On the basis of information contained in the Department's Revenue and Cost Analysis Report and the National Payroll Hours Report, we estimated that the equivalent of about 5,991 postal clerks were engaged in money order operations during fiscal year 1969. Our estimate showed that during this period over 1 million man-days were devoted to money order transactions by postal clerks who worked full- or part-time issuing money orders and that rural carriers devoted the equivalent of about 75,600 man-days to money order operations.

Of the total costs of about \$94.3 million allocated by the Department to money order operations in fiscal year 1969, about \$78.8 million represented personnel costs. Of these costs, about \$48.8 million, or about 52 percent, represented salaries of postal clerks. A breakdown of the fiscal year 1969 costs follows.

	Costs of postal money order operations fiscal year 1969 (note a)	
	Costs (000 omitted)	Percent
Postmasters' salaries	\$19,682	20.9
Supervisors' salaries	<u>8,021</u>	<u>8.5</u>
Total	27,703	29.4
Postal clerks' salaries:		
1st- and 2d-class offices	44,742	47.5
3rd-class offices	2,334	2.5
Contract station service	<u>1,740</u>	<u>1.8</u>
Total	48,816	51.8
City delivery service	11	-
Rural carriers	<u>2,217</u>	<u>2.3</u>
Total	2,228	2.3
Other costs	<u>15,529</u>	<u>16.5</u>
Total	<u>\$94,276</u>	<u>100.0</u>

^aRepresents fully allocated costs. See pages 26 through 30 for a discussion of fully allocated costs and costs demonstrably related to postal money orders.



Department officials have advised us that the face value of stolen money orders is normally recovered through banks from the persons presenting such money orders to the Government for payment and that the only losses sustained by the Department result from a few stolen or otherwise irregular money orders which are cashed by postal employees under circumstances which warrant ultimate release of the employees from financial responsibility.

The Department's Bureau of the Chief Postal Inspector investigates such money order irregularities as lost, stolen, and incorrectly paid money orders. A representative of the Bureau of the Chief Postal Inspector advised us that during fiscal year 1969 about 25 man-years were spent investigating matters relating to money orders.

In the event that the Postal Money Order System is curtailed, we believe that a reduction will occur in the manpower required to investigate money order thefts. We noted that, in the 1970 budget hearings before the Treasury, Post Office and Executive Office Subcommittee of the House Committee on Appropriations, the Chief Postal Inspector requested 250 additional inspectors to handle the increase in the inspection service work load due to the increase in crimes involving postal services.

SIMILARITY WITH DISCONTINUED
POSTAL SAVINGS SYSTEM

The conditions affecting the Postal Money Order System are, in many respects, similar to the conditions which affected the Postal Savings System when the Congress authorized its discontinuance in March 1966. Both systems were established many years ago to meet specific needs not then provided by the private sector of the economy. Subsequently, conditions changed and the needs were increasingly met by the private sector. As a result, the demand for the services declined steadily over a period of years so that the number of transactions were reduced markedly.

The Postal Savings System was established in 1910 to provide savings deposit facilities in those communities which lacked adequate savings banking services and to attract the savings of those individuals who lacked confidence in the Nation's banking system.

Prior to the discontinuance of the Postal Savings System in 1966, the General Accounting Office issued three reports¹ on postal savings activities, in which we pointed out that the Congress might wish to consider the need for continuing the system because of the nationwide development of insured banking and savings facilities which appeared to satisfy the purposes for which the system was originally established.

We reported that, after the enabling legislation was passed in 1910, the banking industry of the country expanded and numerous savings facilities were offered to small

1

"The Postal Savings System for the Fiscal Years Ended June 30, 1952 and 1953" (B-114853, November 4, 1954).

"The Postal Savings System, Post Office Department, For the Fiscal Year Ended June 30, 1954" (B-114853, December 2, 1955).

"Audit of The Postal Savings System, Post Office Department" (B-114853, May 15, 1963).

depositors by commercial and savings banks and by the savings and loan type of financial institutions. In addition, after the formation of the Federal Deposit Insurance Corporation in 1933 and the Federal Savings and Loan Insurance Corporation in 1934, the security of savings deposits sought by depositors but previously not obtainable except in postal savings was afforded to nearly all savings deposits up to \$10,000.

The similarity between various aspects of the Postal Savings System and the present Postal Money Order System is presented in the following table.

	<u>Postal Savings System</u>	<u>Postal Money Order System</u>
System in operation many years	Yes (1910-66)	Yes (Since 1864)
System established to meet specific needs not provided by the private sector of the economy	Yes	Yes
Subsequently, alternative methods of meeting needs became generally available	Yes	Yes
Service provided not related to primary purpose of delivering mail	Yes	Yes
Decline in use of the system	Yes	Yes
Revenue received in excess of allocated costs	Yes	No
Postal clerks largest cost factor	Yes	Yes
Principal business in urban areas (first- and second-class post offices)	Yes	Yes

The Department has stated that the Postal Money Order System is not comparable to the Postal Savings System because the public has proven much less receptive to privately issued money orders than to private savings banks, as proven by Post Office market dominance. In addition, the Department has expressed the view that, although the Federal Deposit Insurance Corporation (FDIC) protects savings accounts across the country, it is questionable whether all purchasers of privately issued money orders enjoy equal protection.

The Department's 1967 study showed that sales of postal money orders accounted for about one third of the total money order market and were declining but that sales of money orders by private firms were increasing. Also, in public testimony the Postmaster General mentioned that the Department's share of the money order market was declining (see p. 12). We believe that these facts indicate that the public is becoming increasingly receptive to privately issued money orders.

We believe also that purchasers of nonpostal money orders have confidence in those instruments since their purchases account for about two thirds of all money order sales. Also, the FDIC insures the deposits (including money orders) of all national and most State banks against bank failures. Therefore money orders purchased from member banks of the FDIC are insured by the FDIC. Further, the Department's 1967 study stated that several States had enacted laws requiring that firms selling money orders be bonded.

FINANCIAL EFFECT OF CHANGING
THE POSTAL MONEY ORDER SYSTEM

Allocation of Costs

The Department's 1969 Revenue and Cost Analysis Report--formerly known as the Cost Ascertainment Report--allocates "demonstrably related costs" to the four classes of mail and to other postal services. Generally, demonstrably related costs, according to the Department, are postal costs which can be demonstrated (1) to vary in response to changes in volumes of a particular class, subclass, or category of service or (2) to be the consequence of providing one specific class, subclass, or category of service. For example, all costs which would be eliminated because a service was either curtailed or discontinued would be classified as demonstrably related costs.

All other costs (institutional costs), according to the Department, are not directly responsive to changes in postal volume and would not normally be affected by the elimination of a particular class of mail or service. For example, the cost of space in a building would not be reduced if a service were curtailed or discontinued. The space would probably be used for other purposes, but no reduction in total space costs would occur.

The total of demonstrably related costs and institutional costs represents fully allocated costs.

The Department's Revenue and Cost Analysis Report for fiscal year 1969 showed that the money order revenue was \$61.5 million and that the demonstrably related costs allocated to money order operations totaled only \$2.2 million. The demonstrably related costs of \$2.2 million represent (1) \$764,000 for administration and regional operations, including costs of the Money Order Division in Washington, D.C., which is responsible for administering the money order operations; (2) \$913,000 for the cost of money order forms, including printing costs; and (3) \$484,000 for reimbursements to the Department of the Treasury for processing money orders. Costs for such items as handling and transportation of money order forms to locations throughout the country, although directly related to money order operations, have

not been included but, in our view, should have been, included in demonstrably related costs by the Department.

For fiscal years 1926 through 1969, the Department reported an accumulated loss of about \$578 million on money order operations, based on the allocation of all postal costs to the various classes of mail and to other postal services (fully allocated costs). The loss each year has ranged from a low of about \$1.2 million in fiscal year 1945 to a high of about \$32.8 million in fiscal year 1969 (see app.I).

The following information presents the costs allocated by the Department to money order operations on a fully allocated cost basis and on a demonstrably related cost basis for fiscal year 1969.

<u>Type of cost</u>	<u>Fully allocated costs</u>	<u>Demonstrably related costs</u>
(000 omitted)		
Postmasters' salaries and other personnel costs	\$19,682	\$ -
Supervisors' salaries and other personnel costs	8,021	-
Clerks' salaries and other personnel costs	48,816	-
Post Office Registry	3,488	-
Stamps and accountable paper (printing of money orders)	913	913
City delivery service	11	-
Rural carriers' salaries and other personnel costs	2,217	-
Custodial service, salaries, and other personnel costs	2,311	-
Building occupancy	3,262	-
General overhead	3,000	1,248
Depreciation	691	-
Miscellaneous	<u>1,864</u>	<u>-</u>
Total	<u>\$94,276</u>	<u>\$2,161</u>

Possible reduction in costs

If the Department should decide to curtail the Postal Money Order System, we believe that savings would result in the following ways:

1. Postmasters' salaries in some instances eventually would be affected because, in determining the level of these salaries, the total amount of postal receipts which includes money order sales is considered.

Postmasters' salary levels in first-, second-, and third-class offices are generally based on three factors--(1) revenue units, (2) delivery routes, and (3) number of employees. A revenue unit is the average revenue from postal rates and fees for 1,000 pieces of originating mail (e.g. generated and mailed in the same geographic location) and for special service (e.g. money orders) transactions during a fiscal year. Thus, the number of money orders issued and the related revenue are included in the determination of postmasters' salary levels in first-, second-, and third-class post offices.

In fourth-class post offices, postmasters' salaries are adjusted on the basis of hours actually worked on postal matters. If the money order system were changed, the time spent by some postmasters on postal operations would also change and would eventually cause revisions in these postmasters' salaries.

2. The total amount of supervisors' salaries probably would not be affected because supervisors salaries are generally considered to be an overhead expense, and we believe that the curtailment of money order activities would have an insignificant effect on their total responsibilities.
3. Savings would occur in the cost of clerks' salaries allocated to money orders through reduction of clerks engaged full-time on money order matters and through

assignment of clerks presently working part-time on money orders to other activities (see pp. 20 and 21).

4. Post Office registry costs are costs for shipping blank money order forms via registered mail from the Department's Eastern Area Supply Center to all post offices. In the event that money order services are curtailed, this cost would be reduced.
5. Costs allocated to printing of money orders would decline proportionately with any reduction in the scale of money order operations because these costs are considered by the Department to be demonstrably related to money order operations.

Losses

In determining the net financial effect of any changes in the Postal Money Order System, consideration should be given to the savings in interest costs on Government borrowings, which result from the availability of funds for use by the Government from the date of the sale of money orders until the date that money orders are redeemed. The use of these funds by the Government has the effect of reducing the amount of Treasury borrowings needed to meet the obligations of the Government.

According to the Postmaster General's 1969 Annual Report to the President, the amount of money orders outstanding totaled about \$135.5 million as of June 30, 1969. The funds were available to the Government interest free. By applying the average interest rate of 5.94 percent on outstanding marketable bills of the U.S. Treasury during fiscal year 1969 to the average amount (\$103 million) of domestic money orders outstanding during the year, we estimated that the annual interest savings was about \$6.1 million.

Because we are uncertain what, if any, changes will be made in the Postal Money Order System, we could not compute the financial effects of any changes. As discussed above however, we believe that the Department's allocation of \$2.2 million of demonstrably related costs to the Postal Money Order System (see pp. 26 and 27) does not accurately

measure the amount of costs that would be affected by a curtailment of the System.

- - - -

Department officials stated that the Department should try to raise the level of its services and reduce the postal deficit and that to abandon the Postal Money Order System would be a move in the opposite direction.

Although we agree that the Department should continually strive to reduce the postal deficit, we do not agree that raising the level of money order services will necessarily result in a reduction in the postal deficit. For example, as discussed on page 17, in September 1969 the Department improved the money order services available to military personnel stationed overseas by reducing the fees on money orders and by providing money orders free to servicemen stationed in certain combat zones. Although this action improved money order services available to military personnel stationed overseas, this reduction in money order fees also resulted in a reduction of revenues from money order sales to military personnel.

CHAPTER 3

CONCLUSION AND RECOMMENDATION

Since the Postal Money Order System was established in 1864, conditions in the United States have changed significantly and money order services and other similar services are now offered by banks, savings and loan associations, and other types of establishments serving most of the public throughout the United States. Commercial money orders, regular checks, certified checks, and cashier's checks are used in lieu of postal money orders, and this use has significantly reduced money order sales by the Department. Also, as pointed out on pages 5 and 17 through 19, members of the Armed Forces often have access to alternative means of safely transmitting funds.

It appears to us that, since the conditions which warranted the establishment of the money order system have significantly changed, some revision of the system seems justified.

RECOMMENDATION TO THE POSTMASTER GENERAL

In light of the downward trend in money order volume and revenues and the increasing availability and acceptance of alternative means of remitting monies through the mails, we recommend that the Department evaluate the Postal Money Order System to determine what adjustments should be made to the system and develop appropriate plans to put such adjustments into effect.

CHAPTER 4

SCOPE OF REVIEW

Our review included an examination into major aspects of the Domestic Postal Money Order System, as well as certain aspects of commercial money order activities. We did not examine into international money order operations since these operations accounted for less than 1 percent of the total number of money orders sold and of the total fees collected.

We reviewed Post Office regulations, procedures, and accounting records relating to postal money order activities. Also, we reviewed the legislation and legislative history related to the establishment of the Postal Money Order System. In addition, we obtained information on money orders from commercial sources and from the Army and Air Force Exchange Service. Further, we conferred with representatives of the Department and with officials of commercial money order firms. The review was made at the Post Office Department headquarters, Washington, D.C., and at various cities in the United States.

APPENDIX

REVENUES, COSTS, AND LOSSES OF MONEY ORDER OPERATIONS
EACH FISCAL YEAR SINCE 1926

(Domestic and International Money Orders)

<u>Fiscal year</u>	<u>Revenue</u>	<u>Cost</u>	<u>Loss</u>
	(000 omitted)		
1926	\$ 16,853	\$ 25,249	\$ 8,396
1927	17,923	25,647	7,724
1928	17,940	26,244	8,304
1929	18,323	28,044	9,721
1930	18,403	28,890	10,487
1931	17,117	27,705	10,588
1932	16,449	26,985	10,536
1933	17,228	24,292	7,064
1934	19,414	23,705	4,291
1935	21,339	27,610	6,271
1936	22,305	31,351	9,046
1937	24,244	32,376	8,132
1938	24,567	33,569	9,002
1939	24,425	34,056	9,631
1940	24,907	34,943	10,036
1941	26,957	35,603	8,646
1942	32,221	38,195	5,974
1943 ^a	-	-	-
1944	42,444	45,684	3,240
1945	47,390	48,562	1,172
1946	35,652	64,580	28,928
1947	37,823	61,591	23,768
1948	37,283	63,433	26,150
1949	51,534	75,096	23,562
1950	56,406	77,695	21,289
1951	60,602	85,166	24,564
1952	71,232	95,200	23,968
1953	69,440	95,082	25,642
1954	69,419	92,461	23,042
1955	65,649	95,792	30,143
1956	65,405	90,419	25,014
1957	63,880	79,594	15,714
1958	71,018	79,002	7,984
1959	67,089	78,801	11,712
1960	81,189	82,706	1,517
1961	64,164	81,040	16,876
1962	65,782	76,943	11,161
1963	63,880	75,688	11,808
1964	62,155	73,029	10,874
1965	58,965	71,538	12,573
1966	60,968	69,114	8,146
1967	65,884	69,991	4,107
1968 ^b	63,800	72,563	8,763
1969 ^b	61,515	94,275	32,760
Total	<u>\$1,921,183</u>	<u>\$2,499,509</u>	<u>\$578,326</u>

^aNo cost ascertainment information compiled.

^bBeginning with fiscal year 1969, the Department also reported costs attributable to money orders on a demonstrable basis (see pp. 26 through 30).