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

GENERAL GOVERNMENT
DIVISION

MAY 19 1975

Mr. Richard F. Gould,
Assistant Postmaster General
Finance Department
U.S. Postal Service



Dear Mr. Gould:

The General Accounting Office has examined Postal Service procedures and practices for assessing and collecting fourth-class mail revenues in the Boston, Springfield, and White River Junction Districts of the Service's Northeast Region. The findings discussed in this letter relate only to the three districts visited in the Northeast Region. However, we believe they indicate problems which may be national in scope and should be brought to your attention.

In summary, the Postal Service can do more to prevent customers from over- and underpaying fourth-class mail fees. More specifically,

- sectional center facility (SCF) managers should more adequately monitor local post office compliance with the revenue protection requirements of the Postal Service Manual (PSM) and other Postal Service instructions, and
- the impact on revenues of over- and underpayments should be measured to establish the type and degree of corrective action required.

Fiscal year 1973 revenues for fourth-class mail (parcel post, bulk catalog, and special and library rate mailings) were \$759 million--about 10 percent of total Postal Service revenues. Revenue percentages by type of mail were:

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<u>Category</u>	<u>Percent</u>
Parcel Post	73
Catalogs	4
Special rate - educational matter	21
Library rate - library materials	1
Other	<u>1</u>
	100
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CUSTOMERS ARE OVER- AND UNDERPAYING PARCEL POST

We examined parcel post mailings at four SCF's in three districts. In four tests, parcels were randomly selected from all originating parcel post for the test day. In a fifth test, we selected only parcels sent by bulk mailers. Samples were drawn from parcels paid for at parcel post, special, and library fourth-class rates. At all locations, postal clerks familiar with postage rating procedures assisted us.

A combined summary of the five test results follows:

<u>Total parcels examined</u>	<u>Shortpaid</u>		<u>Overpaid</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
804	42	5.2	68	8.5

Postage on fourth-class mail is affixed by the mailer or by a postal clerk. For four of the five tests, we were able to determine who affixed the postage. In the four tests, most rating errors were committed by mailers, including a large percentage by bulk mailers. A total of 698 parcels were examined in these tests. The summary below does not include 129 pieces rated by postal workers in which only five errors were noted.

	<u>Rated by mailers</u>	<u>Shortpaid</u>		<u>Overpaid</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Pieces	569	38	6.7	56	9.8
Postage	\$713.48	\$4.78	0.7	\$8.94	1.3

As indicated, overpayments exceeded shortpayments on the parcels examined. Overpayments were apparently caused by (1) mailers estimating, rather than calculating postage costs; or (2) errors in rate computations. Most shortpayments were made by commercial mailers.

--only the Postmaster and postal inspectors could open parcels,

--only the SCF Inquiry Section was authorized to do so.

These responses indicate a need to clarify postal regulations for examining articles mailed at reduced rates. Without examinations, the Service has no way of assuring that articles qualify for the lower special and library rates.

MONITORING OF RATE VERIFICATION CAN BE IMPROVED

At the locations we visited, no one was specifically responsible for assuring that the proper postage and fees for fourth-class mail were collected.

Postal managers stated that fourth-class postage was assessed and collected according to PSM procedures. They also said all postal employees were responsible for verifying the correctness of such postage. We believe this collective responsibility contributed to a feeling among employees that these requirements were of minor importance because no specific person had been designated as being responsible.

Part 331.23 of the PSM applies to all fourth-class mail except catalogs and requires at least twice yearly verification of the postage and fees on fourth-class mail, except catalogs, that have postage affixed prior to deposit at the post office. If errors are found, subsequent mailings are required to be verified until the situation is corrected.

Compliance with the regulations varied among post offices. In some instances, test records were missing. In other instances, records were often incomplete. Although required by the PSM, few comparisons had been made between the latest and preceding tests.

In support of their position that the regulations were being complied with, local managers said that in addition to required tests, frequent parcel examinations were made but were not documented.

The Boston SCF Support Director recognized the need to assure that the proper postage and fees were being collected and in July 1974 requested Boston District headquarters to authorize a "Protection of Revenue Officer" position. In his justification, he cited the following factors:

--In the first 6 months of 1974, the SCF Mailing Requirements Section collected \$7,100 in postage deficiencies resulting from improperly prepared and misclassified mail,

--Form 3602's for bulk mailings that had by-passed weighing and verification procedures were being discovered at the SCF's bulk mail facility at the rate of at least one a day. This meant that postage for these mailings had not been charged against the mailer's trust accounts.

--SCF employees had found many instances of improperly classified mail, including improper use of the fourth-class special and library rates.

The Director estimated that a revenue protection officer would recover at least \$35,000 a year in postal revenues.

Boston District headquarters denied the request for the revenue protection officer position. According to a District official, district management believed that mail acceptance personnel are responsible for protecting revenues, and if they are properly trained, a revenue protection office is not needed. Also, new positions were not being allocated pending realignment of the Boston SCF management structure.

It may be true that proper training of mail acceptance personnel might reduce the amount of improperly rated mail. However, the basic mission of moving the mails may not allow adequate attention to be given to protection of revenues. Postal officials stated that revenue protection is everyone's responsibility. This statement indicates that no one is specifically responsible. Even though each person is secondarily responsible, primary responsibility should be vested in one person to enable management to exercise a higher degree of control over revenue collection. Whether the task would require a new position or could be assumed by someone in the present work force could be determined during the management structure studies.

IMPACT OF OVER- AND UNDERPAYMENTS SHOULD BE MEASURED

The Postal Service should determine over- or underpayments by mailers and make necessary corrections to protect its revenues and also to protect its customers.

One means of measuring the impact of over- and underpayments is to more fully utilize the Revenues, Pieces and Weights (RPW) test. The Postal Service projects revenues and volumes in each class of mail based on data from this test. This statistical

sampling device consists of counting, weighing, and recording the postage of all mail pieces on selected postal routes throughout the country. On parcel post route tests, short- and overpaid pieces are recorded, but the dollar amount of short- and overpayments are not, even though they have to be calculated to make the determination.

We observed an RPW test conducted on a parcel post route in Boston. Test results follow:

	<u>Parcel Post</u>	<u>Special Rate</u>	<u>Library Rate</u>
Total pieces	60	69	15
Pieces shortpaid	6	7	--
Pieces overpaid	2	5	5

The postal clerk who performed the test said that computing and recording the dollar amount of rating errors on short- and overpaid pieces would not require much additional time. Obviously, all that needs to be done is to record calculations already made.

CONCLUSIONS

The post offices we visited were accepting parcels with incorrect postage attached, both under- and overpaid. Such payments are not in the best interest of either the Postal Service or the mailers. Underpayments result in an immediate loss of revenue to the Postal Service. Overpayments result in increased cost to the mailer and could result in its seeking other, less expensive means of mailing thereby resulting in a long-term reduction in Postal Service revenue.

The Postal Service can do more to prevent its customers from making over- or underpayments. We believe one person, perhaps at the district level, should be given the responsibility of monitoring actions taken by the post offices to

--verify the correctness of postal rates and fees including the eligibility of mail for the special education and library fees, and

--notify mailers of both over- and underpayments.

We also believe the Postal Service could determine the adequacy of actions being taken on these matters by expanding the information recorded on RPW tests to include the amount of over- and underpayments for fourth-class mail. Nationwide projections of over- and underpayments will enable Postal Service to more accurately gauge the effects of incorrect postal payments and initiate necessary corrective action.

There was no clearly defined policy in any of the districts visited on follow-up of postage rating errors. Several postal officials said they would require a mailer to pay the correct postage before releasing a large number of shortpaid parcels. Many mailers, however, are not being notified of rating errors, instead the parcels are forwarded as postage due mail.

Some local postal officials said they contacted the mailers when rating errors were discovered. Other officials said they notified their SCF Customer Services Section. Most corrective actions were not documented, however, and we were unable to determine whether effective follow-up action was taken with postal customers.

Not notifying mailers of rating errors may result in (1) mailers continuing to shortpay postage, and (2) mailers who consistently overpay turning to less costly modes of parcel delivery.

Fees were both under- and overpaid, and because of this, some postal employees viewed them as offsetting one another. Such payments are not in the best interest of either the Postal Service or the mailers. Underpayments result in a loss of revenue to the Postal Service. Overpayments result in higher costs to the mailer and could result in its seeking other, less expensive means of mailing thereby further reducing Postal Service revenue.

Special and library rate mailings

Although special and library rate parcels are included among the pieces selected by the Service for postage verification tests, the parcel contents were generally not examined to determine if they qualified for reduced rates. Both the special and library rates are lower than parcel post.

Part 135.7 of the Postal Service Manual states in part:

"Mailing of sealed parcels at the fourth-class rates of postage is considered consent by the sender to postal inspection of the contents."

At one SCF, a randomly selected parcel marked "Special Fourth-Class Rate - Books" was opened at our request. The package contained pamphlets that were not eligible for the special rate.

Postal managers gave the following reasons for not opening special and library rate packages:

--they were not authorized to,