

DOCUMENT RESUME

03722 - [B2914146]

[Review of the U.S. Postal Service's Revenue Protection Function]. B-114874. October 13, 1977. 3 pp. + 3 enclosures (22 pp.).

Report to Benjamin F. Bailar, Postmaster General, Postal Service; by William J. Anderson (for Victor L. Lowe, Director, General Government Div.).

Contact: General Government Div.
Budget Function: General Government; Other General Government (806); Commerce and Transportation: Postal Service (402).
Congressional Relevance: House Committee on Post Office and Civil Service.

A limited review was conducted of the Postal Service's revenue protection activities in order to determine whether the agency had adequate controls to assure that it was receiving the proper postage from bulk mailers. All classes of mail were reviewed, but special attention was directed toward large second-class mailers since opportunities for underpayment seemed most prevalent in this class. The western region's Revenue Protection Program was also examined. Findings/Conclusions: Postage underpayments result from such causes as understatements of the number of copies mailed, copy weights, or advertising percentages. Several problems which could result in underpayment or overpayment of postage were related to the accuracy of information reported by publishers on second-class mailing statements, the adequacy of the agency's verification of second-class circulation, and the effectiveness of mail acceptance unit operations. Generally, these problems were consequences of a lack of controls over specific functions or failure to adhere to existing controls and could be corrected through a more organized and systematic approach to revenue protection. Since March 1976, the western region has been engaged in an effort to identify and collect postage due on mail. Such efforts have resulted in additional revenue collections, but certain changes need to be made to make it more effective. (SW)



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

OCT 13 1977

03722 GENERAL GOVERNMENT
DIVISION

B-114874

The Honorable Benjamin F. Bailar
Postmaster General
U.S. Postal Service

Dear Mr. Bailar:

We recently completed a limited review of the Postal Service's revenue protection activities. The objective of our review was to determine whether the Service had adequate controls to assure itself that it was receiving the proper postage from bulk mailers. While our review covered all classes of mail, special attention was directed toward large second-class mailers since opportunities for underpayment seemed most prevalent in this class. We also examined the Western Region's Revenue Protection Program.

During our review we became aware that the Service had established a task force to review its revenue protection activities and that the Inspection Service had been directed to review the Western Region's program. On July 28, 1977, we briefed members of the Revenue Protection Task Force in detail on the results of our work. A copy of the briefing document is enclosed. A summary of our observations follows.

Revenue protection controls
need strengthening and better
enforcement

We identified several problems which could result in underpayment or overpayment of postage. These problems primarily relate to (a) the accuracy of information reported by publishers on second-class mailing statements, (b) the adequacy of the Service's verification of second-class circulation, and (c) the effectiveness of mail acceptance unit operations.

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(22069)

Generally these problems were consequences of a lack of controls over specific functions or failure to adhere to existing controls and could be corrected through a more organized and systematic approach to revenue protection. The enclosed briefing document contains our views on possible solutions to these problems.

Our review also revealed other potential problem areas, including the:

- Need for and purpose of detached mail units,
- Use of below nominal rates by certain publications,
- Clarity of the policy on publishers' mailing second-class publications to advertisers,
- Effectiveness of the Bulk Mail Postage Collection System, and
- Control over the use of second-class publication shipping labels.

We did not, however, have adequate time before curtailing our effort to fully develop these areas, therefore the Service may wish to examine them more closely.

Western Region's Revenue
Protection Program can be
more effective and accountable

Since March 1976, the Western Region has been engaged in a region-wide effort to identify and collect postage due on mail. The region has demonstrated that a concerted emphasis on capturing otherwise lost revenue from postage due mail can be effective. While the region's program appears conceptually sound, it does have a number of policy and operational inequities that should be corrected to make it more effective and accountable. These operations relate to:

- providing an incentive base, if one is actually needed to encourage program participation, that is more representative of individual office revenue protection accomplishments;

- preventing an overstatement of program accomplishments by (a) excluding non-program related revenues, (b) documenting program-related revenues, and (c) identifying all program-related costs; and
- requiring offices to attempt to correct causes of unpaid or shortpaid mail.

The enclosed briefing document contains several recommended changes which, in our opinion, could make the Western Region's program more effective and accountable. While we believe the Western Region's program is sound, we also believe the Service should evaluate the revenue protection efforts of other regions and post offices to determine the most effective before implementing any revenue protection program on a nationwide basis.

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In view of the potential changes in revenue protection activities as a result of the Task Force's efforts, we do not plan to do any further work in the area at this time. However, we would appreciate being advised of any actions resulting from the matters discussed in our briefing as well as the recommendations of the Revenue Protection Task Force.

We would like to express our appreciation for the cooperation given us by Postal Service officials. Copies of this report are being sent to the Chairman, House Committee on Post Office and Civil Service; Chairman, Subcommittee on Energy, Nuclear Proliferation, and Federal Services, Senate Committee on Governmental Affairs; and to the Chairmen of the appropriate Subcommittees of the House and Senate Committees on Appropriations.

Sincerely yours,

W. J. Anderson
for Victor L. Lowe
Director

Enclosure

ENCLOSURE

ENCLOSURE

G.A.O. BRIEFING ON REVIEW OF
U.S. POSTAL SERVICE'S REVENUE PROTECTION FUNCTION

Presented to: The Revenue Protection Task Force

Date presented: July 28, 1977

SCOPE OF REVIEW

Our review was conducted at the Service's Headquarters in Washington, D.C. and at printer/publisher/mailing agent and postal facilities in the Service's Eastern, Central and Western Regions (see Appendix I). Our examination included all classes of mail with special emphasis on second-class mailers, since opportunities for underpayment seemed most prevalent in this class. This assumption was based on (1) the Service's dependency on publisher furnished data for postage determination, (2) statements of postal officials that second-class mail operates under the "honor system," and (3) the apparent close examination given other classes of mail before acceptance.

Based on available postal data, there were about 34,000 second-class publications that generated about 9,085,314,000 pieces of mail during fiscal year 1975 which accounted for over \$236,100,000 in postage. We selected six second-class publications with large annual mailing volumes for detailed review to determine whether the Service was obtaining the proper postage. Based on fiscal year 1975 data the six publications were ranked according to volume mailed as follows:

<u>Publication</u>	<u>Ranking in Annual Second-Class Mailings</u>	<u>Volume Mailed Annually (000)</u>
A	1	421,219
B	3	220,792
C	4	202,068
D	8	75,096
E	17	44,676
F	19	<u>43,548</u>
TOTAL		<u><u>1,007,399</u></u>

We also gave cursory examinations to other publications to determine whether the deficiencies noted were widespread or isolated.

For each publication, we examined from one to three issues to determine whether the "Statement of Mailing, Second-Class Publications" (Form 3541), which is prepared by the mailer, accurately described that issue's mailing. Our examination included such tests as:

- did the Form 3541 reasonably agree with publisher documents as to the number of copies mailed,
- was the weight or percent of advertising per copy adequately determined, and
- were there any unauthorized enclosures?

We examined mail verification policies and procedures used by postal acceptance units. When the postal facility was the original entry point we also reviewed the adequacy of its most recent annual verification of publication weights and copies mailed.

In addition, we reviewed the Western Region revenue protection program, which was initiated in November of 1974. Since we had been informed that the program was under consideration for nationwide implementation, we wanted to determine the validity of reported achievements and whether corrective actions were being taken. However, we did not perform a comprehensive analysis of this program since the Inspection Service had recently initiated such an analysis.

SUMMARY OF REVENUE PROTECTION DEFICIENCIES

Our review showed that the Service could be losing thousands of dollars in postage because it lacks adequate controls over second-class mailings. Additionally, present controls are not always being adhered to. The deficiencies we noted have resulted in actual postage underpayments from such causes as understatements of (1) the number of copies mailed, (2) copy weights, or (3) advertising percentages. There are also potential losses from such weaknesses as a failure to adequately protect postal seals for trucks.

Because of time constraints and a lack of available data we were unable to project the potential total loss to the Service, however, where possible we have included data on the number of times a particular problem was noted.

Our findings have been discussed with local officials and in some cases collection procedures have been started. In fact, over \$80,000 in underpaid postage has been recovered as a result of these actions.

With respect to the Western Region's revenue protection program, we feel that while this program has resulted in additional revenue collections, we feel certain changes need to be made to make it more effective. We are also aware of special revenue protection efforts of other postal regions and offices. We have not examined these programs but believe the Service should evaluate all such programs prior to implementing any one on a national basis.

The following is a presentation of our observations on revenue protection. We have grouped the deficiencies into four categories, each related to postage determination. These categories involve problems relating to:

- mailing statements,
- verification of second-class circulation,
- mail acceptance units, and
- general areas.

We have also included observations in other areas that the Service may wish to consider in greater detail than time permitted us to do. The last section of this summary presents our observations of the Western Region's revenue protection program.

Second-class mailing statement problems

Form 3541 "Statement of Mailing - Second-Class Publications" is the authorized form on which publishers must provide the following information for each issue:

- date of issue and mailing date.
- number of subscription copies and sample copies mailed.
- average weight per copy, and
- percentage of advertising.

The Postal Service must verify this information, particularly the weight per copy and the number of copies mailed, since this information is the basis for postage computation. The following is a listing of mailing statement problems identified during our review. These problems could result in underpayment or overpayment of postage.

PROBLEMS

1. The number of second-class publication copies mailed was not accurately reported. Postage is paid based on the number of copies reported.
2. The average weight per copy was not accurately reported. Weight is an important element in postage computation.
3. The advertising percentages were not accurately reported. Advertising percentages are important elements in postage computation.

CAUSES

Publishers or their agents were not reconciling total distribution with reported mailings. Publishers or their agents did not report sample copies mailed.

Publisher or agent failed to include all weight factors, such as enclosures, wrappers, or labels.

News agent reported subscription copy weights and advertising percentages rather than mailed newsstand copy weights and advertising percentages which were different.

INSTANCES NOTED DURING GAO REVIEW

We found variances in the number of copies reported as mailed in eight of the nine cases reviewed. See Appendices II and III for details.

We found weight variances in six of the nine cases reviewed.

POSSIBLE SOLUTIONS

Increase sectional center emphasis on monitoring the validity of publisher's distribution and mailing records. Periodic inspection Service audits of large second-class publication mailings.

Increase sectional center monitoring of publisher's responsibilities and periodic testing of publisher compliance with established criteria

We found advertising percentage variances in four of the eight cases reviewed.

Second-class mailing statement problems

PROBLEMS

CAUSES

INSTANCES NOTED DURING GAO REVIEW

POSSIBLE SOLUTIONS

4. Sample copies were improperly reported as subscription copies. The percent of samples to total estimated annual subscription copy weight is a factor in rate determination.
5. Composite rates for publications mailed in two or more postal zones (key rates) were not revised as required.
6. Improper rates were used for copies mailed to publishers.
7. Publisher's mailing statements did not always identify the particular edition being mailed. This information is necessary in verifying the accuracy of the mailing statement.

Publisher or agent did not comply with established criteria for reporting sample copies. (P.S.N. 132.46)

Publisher did not comply with established criteria requiring a new report showing the mailings to each zone when the volume of mailings to the zone varied, or there was an increase in the total copies mailed. (P.S.N. 129.73)

Publisher or agent did not comply with established criteria requiring that copies sent by a printer to a publisher were charged at the applicable third- or fourth-class rates, instead of the lower second-class rates. (P.S.N. 132.467)

Publisher furnished incomplete information on mailing statement.

We found sample copy variances in six of the nine cases reviewed. See Appendix III for details.

We found that required key rate changes were not made in the two cases reviewed.

We found that improper rates were being charged in the six cases reviewed.

We found that edition identification was missing in one of the six cases reviewed.

With publishers' computerized operations it may be possible to program postal zones and pay postage on the actual number of copies mailed in each zone. Increase sectional center monitoring of publishers' responsibilities and periodic testing of publisher compliance with established criteria.

Second-class mailing statement problems

PROBLEMS

8. Mailing statements were not adequately accounted for or controlled.

CAUSES

No requirements for mailing statements to be serially numbered or otherwise identified.

INSTANCES NOTED DURING GAO REVIEW

We encountered difficulties in accumulating mailing statements for some cases reviewed.

POSSIBLE SOLUTIONS

Serially number or otherwise identify all mailing statements.

Problems with the verification of second-class circulation

Publishers are required to submit mailing statements to report the number and types (subscriptions, sales, etc.) of copies mailed for each issue. Post offices must periodically verify the data on these mailing statements by examining the publisher's circulation and subscription records. The purpose of this verification procedure is to assure that the publisher's mailing statements are accurate, and that publishers are meeting the qualifications for second-class privileges. The verification is required annually for post offices having no more than 100 publications entered as second-class. At other offices verifications are cycled over a period not to exceed five years as follows:

Number of publications entered	Cycling period (years)
101 - 200	2
201 - 300	3
301 - 400	4
401 and above	5

We found a number of problems with the effectiveness of the verifications which serve as a control mechanism over second-class mail. These problems, which are presented below, could result in the underpayment of postage.

PROBLEMS

1. Verifications of publisher's second-class circulation were either not done or were inadequate. These verifications are important in determining a publisher's eligibility for the lower, second-class postage rates as well as ensuring all mailed copies are reported and paid for.

CAUSES

Sectional center personnel did not comply with requirements to perform verifications of circulation. (P.S.M. 125.661) Employees assigned to perform verifications were not properly trained. Sectional center personnel did not follow procedures when performing verifications.

INSTANCES NOTED DURING GAO REVIEW

All required verifications were not made at one of two sectional centers where verifications were reviewed. The one sectional center with up-to-date verifications, had done so in response to a GAO audit which disclosed that verifications were not being performed as required. Training of verification personnel was lacking at two sectional centers where it was reviewed. Guidelines for verifications were not followed at one of the two sectional centers where they were reviewed.

POSSIBLE SOLUTIONS

Increase sectional center monitoring to assure that verifications are being properly completed. Insure that verification personnel are properly trained.

Problems with the verification of second-class circulation

PROBLEMS

2. Determination cannot be made of whether verifications were done or were adequate.
3. Records of publishers were not always available for verification checks which results in an inability to verify circulation.
4. Verifications of circulation may not be made in a timely manner, and publishers could avoid verification through changes in the office of original entry. This results in inadequate control over second-class mailings.

CAUSES

- Sectional center personnel did not retain verification reports as required. (P.S.M. 125.661)
- USPS has not established a specific time period for retention of publisher's records of circulation. (P.S.M. 125.66)
- Current verification procedures allow for lengthy periods between verifications (up to five years), and do not require verifications to be performed when original entry offices are changed. (P.S.M. 125.66)

INSTANCES NOTED DURING GAO REVIEW

- Three postal facilities did not retain current verification reports.
- One computer firm destroyed certain information after 3 months.

POSSIBLE SOLUTIONS

- Retain copies of the most recent verification reports.
- Establish a specific time period for publishers' retention of circulation records.
- Increase the frequency of verifications, and require that verifications be performed when the original entry office is changed.

Mail acceptance unit problems

Mail acceptance unit responsibilities include:

- determining mailability relating to packaging and closure standards.
- verifying the accuracy of postage payments, and
- reporting deficiencies.

Mail may be accepted at postal facilities such as the main post office, stations, and branches. Other possible acceptance units include bulk mail centers and detached mail units of a sectional center. In some cases, mail is accepted at the mailer's own plants rather than transporting it to a post office. This mail is categorized as "plant loaded" mail. This system is used when firms generate mail in substantial quantities and it is advantageous to the Postal Service.

We identified numerous mail acceptance unit problems which could result in either underpayments or overpayments of postage. These problems also indicate a fundamental lack of control over large volume mailings. Generally, these problems could be corrected by improving mail acceptance unit operations.

PROBLEMS

A. Weight Determination

1. Improper weight determination practices.

CAUSES

Detached mail unit personnel use publisher's scales rather than USPS scales. USPS scales were tested for accuracy but publisher's scales may not be. Detached mail unit personnel used scales which were known to be inaccurate. (P.S.M. 3j1.32) Acceptance unit failed to notify the publisher of repeated errors in the reported average weight per copy. (P.S.M. 125.65) USPS employee was performing weight computations, which should be performed by the publisher, rather than verifying the publisher's reported average copy weights. (P.S.M. 125.6)

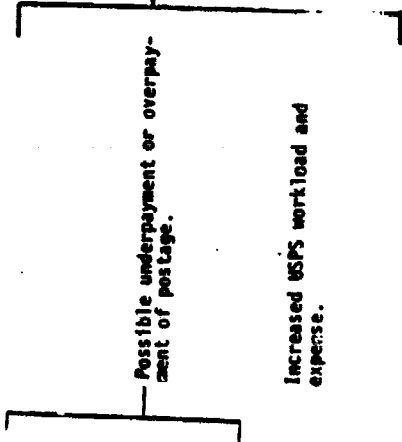
EFFECTS

Possible underpayment or overpayment of postage.

Increase sectional center monitoring, with periodic testing to ensure compliance with established procedures.

Increased USPS workload and expense.

POSSIBLE SOLUTIONS



Mail acceptance unit problems

PROBLEMS

B. Security

1. Detached mail unit employees were not periodically re-assigned to other postal work sites.
2. Improper control and use of USPS seals.

CAUSES

Lack of time period criteria for employee rotation at detached mail units.

Non-postal employees were allowed to affix USPS seals on truckloads of mail, or had access to the seal storage locations, which violates established criteria. (P.S.M. 583 23)

Some mail acceptance units used unauthorized "red tip" seals rather than the prescribed "ball-type" seals.

EFFECTS

Employee may be more concerned with maintaining his present position rather than protection of the mails.

POSSIBLE SOLUTIONS

Establish specific time periods for rotation of detached mail unit employees.

C. Control

1. Major mailer's plant loading operations were inadequately monitored and controlled.
2. Periodicals containing unauthorized enclosures were accepted at second-class rates.
3. Mail was accepted without efficient trust fund balances or payment of postage.

Large shipments of fourth-class mailings were made without USPS monitoring or sampling of the mailings.

Acceptance unit personnel did not obtain a copy marked to show advertising content of newsstand copies which were mailed. (P.S.M. 125.512)

Underpaid postage, approximately \$13,000 detected during our review, and a lack of control over the mail.

Underpayment of postage and misclassification of mail.

Loss of interest on trust fund deposits, and possible unpaid postage.

Increase sectional center monitoring with periodic testing to insure compliance with established procedure.

Inadequate security over the mail and protection of postal revenue.

Mail acceptance unit problems

PROBLEMS

4. Sample copy mailings were accepted without "sample copy" identification on mailing labels or envelopes.
5. The 250,000 - piece annual mailing criteria was inconsistently applied when computing bulk third-class rates.
6. Postage control documents did not provide the proper information to determine the timeliness of postage payments.
7. Newsstand copies which were mailed were accepted without verification of advertising percentages and average weight per copy.
8. Bulk mail center acceptance procedures did not assure proper payment of postage.

CAUSES

- Acceptance unit personnel did not verify that mailer had clearly marked and identified all sample copy mailings as required. (P.S.N. 132.461c)
- Acceptance unit did not follow established criteria to determine the correct rate. (P.S.N. 134.124)
- Sectional center personnel recorded posting dates rather than actual transaction dates on record of second-class postage (Form 3543).
- Mail acceptance unit personnel did not comply with established criteria for verification of data reported by publisher. (P.S.N. 125.55, 125.65)
- Bulk mail center personnel incorrectly authorized the acceptance of second-class mail which did not meet bulk mail center city acceptance criteria, and processed mail which had not been accepted and verified.

EFFECT

- Possible underpayment of postage.
- Overpayment of postage.
- Possible loss of interest on postage trust funds.
- Possible underpayment of postage.
- Possible underpayment of postage and lack of control over mail.

POSSIBLE SOLUTIONS

- Increase sectional center monitoring with periodic testing to insure compliance with established procedures.

Mail acceptance unit problems (con't.)PROBLEMS

9. Large shipments of second-class publications were not properly identified with pressure-sensitive labels to indicate the make-up and destination.

10. Detached mail unit at major mailer's plant did not have a Postal Service Manual.

CAUSES

Publisher did not affix color-coded adhesive labels to bundles of second-class periodicals as required. (P.S.M. 125.321)

Sectional center did not furnish the detached mail unit with the Postal Service Manual -- a major source of information concerning USPS regulations.

EFFECTS

Increase in mail processing time and cost.

Possible postage underpayments because of deviations from established USPS regulations.

POSSIBLE SOLUTIONS

Increase sectional center monitoring with periodic testing to insure compliance with established procedures.

Provide mail acceptance unit with postal manuals and other information sources.

General problems

PROBLEMS

1. Second-class mail was accepted at postal entry points without documentation showing postal employees had verified that proper postage had been paid.
2. Difficult to determine postage rates and calculate postage charges.

CAUSES

Mail enters the system and postage is paid at numerous locations without any required centralized control. There is no requirement that a document, which describes the contents and certifies that postage was paid, accompany shipments of mail entered at large mailer facilities (plant-loaded shipments).

Rates, especially second-class, are so complex that few employees have the expertise to properly administer them. There are numerous sources of information and criteria for postal rates and postage charges.

Effects

Possible underpayment of postage and lack of control over the mail.

Possible underpayment or overpayment of postage.

POSSIBLE SOLUTIONS

Establish centralized postage collection locations, such as at original entry points. Establish a requirement that a document accompany shipments of second-class mail describing the contents and certifying postage payment.

Establish a more unified, less complex source of information and criteria.

Observations

The following are our observations on potential problem areas. We did not have adequate time to fully develop the areas, therefore, the Service may wish to examine them more closely to determine the magnitude of the problems.

1. Detached Mail Units

Based on our observations of variances between sectional centers, the Service should review the detached mail unit program as to its need and purpose.

- Not all large sectional centers consider it necessary to establish detached mail units with full-time employees at major mailers' plants. One sectional center used USPS personnel on a part-time basis at various mailer locations.
- Some units appear to be functioning mainly as transportation control points, with little emphasis on revenue protection, such as monitoring the make-up of the mail or the accuracy of mailing statements.

2. Nominal Rate Publications

The Service should determine if its monitoring and testing of publishers' compliance with nominal rate publication regulations should be increased.

- Nominal rate publications include those sold to subscribers at a reduction of more than 50 percent of the basic annual rate. A number of medical and educational publications offer special discount rates to certain groups such as students and interns.
- Nominal rate subscriptions should be charged at the transient rate, which is higher than the regular second-class rate.
- Nominal rate subscriptions should not be included as part of the legitimate list of subscribers used to qualify for second-class privileges.

3. Advertiser's Copies

The Service should review its policy on classifying advertiser and sample copies since the criteria may not be followed.

- The Postal Service Manual states that only one complete copy of an issue may be mailed to advertisers as proof of printing at the regular second-class pound rates of postage. (P.S.M. 132.466.)
- Some publishers are mailing magazine copies to advertisers at regular second-class rates, which could result in an underpayment of postage.
- One publisher mailed 16,189 copies to advertisers which were marked as "sample" copies. A memorandum from the office of Mail Classification notified the publisher that it was the policy of the Service ". . . to accept as sample copies (at the second-class pound rate of postage) any copies endorsed "sample" by the publisher so long the quantities so designated remain within the 10% allowable limit specified in section 132.461(b), Postal Service Manual." The memorandum also stated that, "Uniform administrative practices are unlikely to result if postal employees must subjectively analyze publisher declarations to discern between sample and complimentary copies. The policy adopted makes the basis for judgment a simple mathematical analysis."

4. Bulk Mail Postage Collection System

The Service should review the Bulk Mail Postage Collection System to determine if revisions are needed to prevent the loss of interest from trust fund account balances and postage collections caused by the:

- Elimination of advance deposit of postage payment requirements, and
- Delayed submission of mailing statements.

We also noted delays in sectional center processing of the mailing statements for payment.

5. Second-Class Publication Shipping Labels

The Service should review its policy on second-class publication labeling requirements to determine if revisions are needed to prevent the potential loss of revenue from mail improperly entering the postal system.

--Some publishers used shipping labels which stated that second-class postage was paid at the office of original entry and at additional entry points.

--These non-mail shipments which were sent via private truck lines without payment of second-class postage, could possibly enter the postal system along with shipments that are suppose to be mailed.

Western Region's Revenue Protection Program

Background

In November 1974, the Regional Postmaster General, Western Region, implemented an experimental revenue protection program based on an Inspection Service report that the Service was losing an estimated \$92 million annually from unpaid, shortpaid, and misclassified mail and associated unrecovered handling cost. Also, a Western Region survey conducted at 45 offices by regional, district and post office representatives showed that only about 3 percent of all postage due revenue was collected in postage due units. Of this amount 2.65 percent was business reply and 0.35 percent short paid and undeliverable as addressed.

After a period of experimentation the revenue protection program was implemented throughout the region in March 1976. All large offices were required to participate because it had been determined that the majority of postage due mail was delivered by these offices. Other first-class offices were permitted to participate in the program at the discretion of district and sectional center managers.

An incentive was provided to stimulate participation. Districts were allowed flexible budget adjustments for a portion of the recovered revenue generated from the program. The amount of the adjustment is 50 percent of the difference between the total amount of postage due that is collected

under the program and a net base of postage due that was collected prior to implementing the program. The base was established as 0.35 percent of total postage revenue collected at the close of each accounting period. This base was determined during the previously mentioned effort by regional, district and post office representatives through visits to 45 locations within the region.

In implementing the programs, large offices were allowed to have a cadre of full-time revenue protection clerks while smaller offices were allowed to assign part-time clerks to this activity. Each office employing clerks is required to prepare a profitability analysis each accounting period to determine whether each clerk is detecting enough postage due mail to be cost effective.

Observations

The Western Region has demonstrated that a concerted emphasis on capturing otherwise lost revenue from postage due mail can be effective. While the Region's revenue protection program appears conceptually sound, it does have a number of policy and operational inequities that should be corrected to make it more effective and accountable.

- If an incentive is needed to encourage program participation, the use of a standard 0.35 percent base is questionable. The Western Region arrived at the 0.35 percent base by surveying the postage due sections at 45 post offices, and therefore, this base may not be applicable to any specific post office entering the program. Using a standard base for all offices makes achievement comparisons difficult since offices that were not revenue protection oriented prior to the program will show better program results than those offices that were.
- Revenue protection program results are overstated because certain non-program revenue, such as collections for 12-cent business reply trust fund accounts, customs handling, storage charges, and address correction fees are reported even though such transactions are not attributable to the program.
- Further overstatement of program results occurs because short paid revenue collected by bulk mail acceptance units is attributed to the program even though these units have the primary function of detecting short paid mail and were in operation prior to the program.

- The opportunity exists for certain amounts reported as program results to be inflated because controls and checks on such amounts are lacking, thus preventing verification of their validity. For instance, revenue collected on postage due mail of less than ten pieces does not have to be documented and bulk mail acceptance unit employees are not required to maintain proper documentation of amounts they report as additional revenue collected under the program.
- The cost effectiveness of revenue protection clerks can be overstated. For example, the San Francisco revenue protection unit did not include the full-time revenue protection coordinator's time in the profitability analysis it forwarded to the region.
- Because of the inherent need for revenue protection clerks to show they are cost effective and because participating post offices receive budget adjustments on additional revenue they collect under the program, an incentive exists to identify large volumes of unpaid and shortpaid mail without contacting the mailers in order to correct the causes of such postage due mail. Neither the San Francisco nor Los Angeles post offices had contacted mailers to correct the causes of shortpaid and unpaid mail even though these problems occurred at both offices.

Recommendations

Before implementing a revenue protection program on a nationwide basis, the Service should evaluate the revenue protection efforts of other regions and post offices to determine the most effective. Additionally, we believe the following changes should be considered in the Western Region's program.

- If the budget adjustment concept is used as an incentive for program participation, a base of postage due collected prior to program implementation should be determined for individual post offices.
- All non-program revenue should be excluded from reported program results, including revenue collection deficiencies by bulk mail acceptance units.

- Appropriate program controls should be instituted to insure that reported program results are accurate and can be verified. Also, periodic spot checks of program results should be made by either the Inspection Service and/or postal systems examiners.
- All direct labor costs associated with operating a revenue protection unit should be charged to the program in determining the cost effectiveness of a revenue protection unit.
- All large volume mailers who habitually enter or receive unpaid or shortpaid mail should be contacted on a routine basis to correct the causes of such mailings. The revenue protection unit staff should identify these abusers and customer service representatives should contact them.

POSTAL LOCATIONS VISITED

Postal Service Headquarters, Washington, D

Eastern Region

Washington, D.C.

Depew, New York

Central Region

Central Region Headquarters, Chicago, Illinois

Cincinnati, Ohio

Columbus, Ohio

Dayton, Ohio

Kokomo, Indiana

Western Region

Western Region Headquarters, San Bruno, California

Los Angeles, California

San Francisco, California

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B	April 18, 1977	3,801	--
B	April 25, 1977	10,280	--
A	May 28, 1977	--	--
C	May 1977	--	22,210
E	June 1977	--	2,449
F	November 1976	6,873	--
D	June 1976	--	462
D	September 1976	3,825	--
D	December 1976	<u>8,206</u>	<u>---</u>
		<u>32,985</u>	<u>25,121</u>
NET TOTAL UNDERPAID		<u><u>7,864</u></u>	

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<u>ISSUES</u>	<u>NUMBER OF COPIES</u>		
<u>1976</u>	<u>D</u>	<u>F</u>	<u>TOTAL</u>
January	7,471	a/	7,471
February	1,160	(14)b/	1,146
March	0	0	0
April	20	1,316	1,336
May	74	1,225	1,299
June	1,185	1,243	2,428
July	1,253	1,316	2,569
August	8,616	1,285	9,901
September	1,317	1,285	2,602
October	1,313	1,269	2,582
November	1,361	1,225	2,586
December	1,277	1,214	2,491
<u>1977</u>			
January	1,258	9,543	10,801
February	1,316	9,762	11,078
March	1,314	9,437	10,751
April	1,314	8,756	10,070

a/Data not available.

b/Overpayment