

RELEASED



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548



LM102500

JUN 7 1977

GENERAL GOVERNMENT
DIVISION

B-114874

RESTRICTED — Not to be released outside the General
Accounting Office except on the basis of specific approval
by the Office of Congressional Relations.

The Honorable Richardson Preyer
Chairman, Subcommittee on Government
Information and Individual Rights
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

On September 7, 1976, the Subcommittee requested an audit of the third-class nonprofit classification to determine whether all organizations presently using preferential postal rates should legitimately be doing so. It was subsequently agreed that our review would be done at the Baltimore Service Center and limited to determine (1) the criteria used by the Postal Service in granting reduced third-class rates to nonprofit organizations, (2) whether selected organizations were qualified for reduced rates, and (3) the number and nature of requests for reduced rates that were rejected by the Baltimore Postal Service Center and appealed to Postal Service Headquarters.

From June 21, 1975, to September 30, 1976, the Baltimore Post Office received \$23 million in revenues from third-class permit mailings. Thirteen percent--\$3 million--of this revenue came from mailings by nonprofit organizations who are entitled to reduced rates. (See app. I.)

Our review of the file folders for 110 selected nonprofit organizations showed that the Service followed its criteria for granting reduced third-class rates. We could not determine, however, how many applications for reduced rates were denied by the Baltimore Center and subsequently approved at the Postal Headquarters.

The results of our work are discussed in greater detail in the following sections.

RELEASED

000000

SERVICE CRITERIA FOR
GRANTING REDUCED THIRD-CLASS
RATES TO NONPROFIT ORGANIZATIONS

The Postal Reorganization Act of 1970 (39 U.S.C. 101), creating the United States Postal Service states that the responsibility for establishing classes of mail and setting appropriate rates for their delivery and transportation is vested with the Postal Service Board of Governors. Under this authority, certain categories of nonprofit organizations, when approved, are permitted to mail at reduced second- and third-class postage rates. The reduced rates for third-class bulk nonprofit postage are about one-third the rate for regular third-class mail. (See app. I.) The Postal Service estimated that revenue foregone ^{1/} in fiscal year 1976 for third-class bulk reduced rate mailings amounted to about \$293 million. This amount was included in the Service's Revenue Foregone Appropriations for fiscal year 1976.

The Postal Service requirements and procedures for application for and approval of reduced third-class rates are published in the Postal Service Manual. To qualify, an organization must

- not be organized for profit,
- not have any net income benefiting private stockholders or individuals, and
- meet the definitions for one of the eight categories of organizations set forth in the Manual.

The definitions of the eight kinds of organizations that may qualify (religious, educational, scientific, philanthropic, agricultural, labor, veterans, and fraternal) are described in the Service Manual. The Manual also contains the provision that organizations, although properly defined in any of the first four nonprofit categories (religious, educational, scientific, philanthropic), will not qualify if a substantial part of their activity is politically related. Appendix II lists examples of organizations that may and those that may not qualify for reduced third-class postal rates.

^{1/}Revenue foregone refers to the amount appropriated annually to the Service by Congress as reimbursement for revenue not received by it in providing certain postal services at reduced rates.

The Postal Service requires an applicant to submit evidence showing that the organization is nonprofit and, if available, a certificate of exemption from Federal income tax. The Postal Service also suggests the applicant submit evidence, such as a copy of the organization's charter, constitution, bylaws, bulletins, or programs, as proof of eligibility for reduced postal rates. When an organization submits proof it has received income tax exemption under 26 U.S.C. 501(c)(3), (5), (8), or (19), it will be considered as qualifying for special third-class rates unless some other evidence discloses some basis for disqualification. (See app. III.)

SAMPLED NONPROFIT ORGANIZATIONS
MET CRITERIA FOR REDUCED
THIRD-CLASS RATES

To determine whether the Postal Service followed its criteria for granting reduced third-class rates, we selected (1) 100 organizations randomly from the 1,841 nonprofit organizations approved since 1952 and authorized to deposit third-class reduced rate mail at the Baltimore Post Office and (2) the 10 largest volume nonprofit organizations mailing from Baltimore during 1976. (See app. IV for a list of selected organizations.)

Based on the information contained in the organizations' individual files, all the organizations meet the Service's criteria for reduced third-class rates. None of the files contained any disqualifying evidence. Records at the Baltimore Post Office showed that 70 organizations received tax exemptions from the Internal Revenue Service and 55 organizations submitted charters or bylaws as evidence of their eligibility for reduced postal rates.

SERVICE MONITORS CONTINUING
ELIGIBILITY FOR REDUCED RATES

The Postal Service uses a Mailing Fee Notice as its primary method to insure continuing eligibility of nonprofit organizations authorized to use special reduced third-class bulk rates. All mailers are annually required to complete and sign the Mailing Fee Notice and to remit a fee (currently \$40) for the privilege of using a bulk meter, permit imprint, or precanceled stamp permits. The Notice includes a question as to whether the purpose, function, and nonprofit status of the organization and the exemption status for Federal tax purposes have changed during the preceding 12 months. If an

B-114874

organization indicates that such a change has occurred, it must provide an explanation of the change.

The Postal Service also relies on customer complaints, inspection of mailings by receiving clerks, and quality control tests of processed mail to insure revenue protection and compliance with requirements. Baltimore Post Office officials advised us that no records were maintained at Baltimore on problems or abuse of reduced third-class rates.

Our sample of 110 nonprofit organizations included 78 who mailed at reduced third-class rates during 1976. Baltimore Post Office records showed that all 78 had paid the required mailing fee; however, 20 failed to respond to the questions as to whether the organizations' function had changed during the year. The other 58 mailers answered that there were no changes in the nonprofit status during the period. Baltimore Post Office officials advised us that their primary concern had been with the receipt of the fee. As a result of our inquiry, the Baltimore Post Office established followup procedures to insure the completeness of returned notices.

NUMBER AND NATURE OF REQUESTS FOR
REDUCED THIRD-CLASS RATES REJECTED
AND SUBSEQUENTLY APPROVED
CANNOT BE DETERMINED

The Baltimore Post Office retains those applications for reduced third-class rates which are ultimately denied. There is no separate accounting for appeals that are approved at headquarters. The files of organizations with successful appeals are incorporated with the files of all other authorized nonprofit organizations.

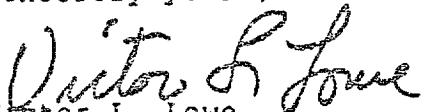
Our review showed that 32 rejected applications were on file at Baltimore covering the period 1970 to 1976. Only two of these applicants had appealed to Postal Service Headquarters. Their appeals were denied. The resulting denial decisions for both applicants indicate that the organizations were classified by the Internal Revenue Service as civic leagues, under 26 U.S.C. 501(c)(4), and as such did not qualify for third-class reduced rates under Postal Service criteria.

- - - -

B-114874

The above information has been discussed with your staff and it was agreed that this letter would satisfy the Subcommittee's request. As indicated to us by your staff, we did not obtain formal agency comments.

Sincerely yours,


Victor L. Lowe
Director

BULK THIRD-CLASS RATES AND
BALTIMORE PCST OFFICE IMPRINT MAILINGS

	<u>Rates</u>	
	<u>Commercial</u>	<u>Nonprofit</u>
Books and catalogs	\$.36/lb.	\$.13/lb
Circulars	.30/lb.	.11/lb.
Pieces:		
First 250,000 annually:	.075	.02
In excess of 250,000	.077	.02

Mailings
(June 21, 1975, to September 30, 1976)

	<u>Revenue</u>	<u>Per-</u> <u>cent</u>	<u>Pieces</u>	<u>Per-</u> <u>cent</u>	<u>Pounds</u>	<u>Per-</u> <u>cent</u>
Commer- cial	\$20,278,146	87	206,130,629	56	47,577.130	79
Non- profit	<u>2,973,411</u>	<u>13</u>	<u>159,970,308</u>	<u>44</u>	<u>12,563.008</u>	<u>21</u>
Total	<u>\$23,251,557</u>	<u>100</u>	<u>366,100,937</u>	<u>100</u>	<u>60,140,138</u>	<u>100</u>

EXAMPLES OF ORGANIZATIONS THAT MAY
AND THOSE THAT MAY NOT QUALIFY FOR REDUCED
THIRD-CLASS POSTAL RATES

Examples of Organizations That May Qualify

Masons	Mosques
Knights of Columbus	Museums
Elks	Zoos
College fraternities	Planetariums
Churches	Symphony orchestras
Synagogues	Employee associations
Temples	

Examples of Organizations That May Not Qualify

Automobile clubs	Professional associations
Business leagues	Service clubs:
Chambers of commerce	Civitan
Citizens' and civic	Kiwanis
improvement associations	Optimist
Individuals	Rotary
Municipal, county, or State	Social and hobby clubs
governmental bodies	Rural electric
Mutual insurance associations	cooperatives
Political organizations	Trade associations

TYPES OF ORGANIZATIONS GRANTED INCOME TAX
EXEMPTION BY IRS AND QUALIFYING FOR REDUCED
POSTAL RATES

<u>IRS 501(c)</u>	<u>Type or nature of organization</u>	<u>Postal Service nonprofit category</u>
1	Instrumentalities of U.S.	
2	Title holding corporation for exempt organization	
3	Religious, educational, charitable, scientific, literary, public safety, SPCA	R, E, S, P
4	Civil leagues, social welfare, local employees association	
5	Labor, agricultural, horticultural organizations	L, A
6	Business leagues, chambers of commerce, real estate boards	
7	Social and recreation clubs	
8	Fraternal beneficiary societies and associations	F
9	Voluntary employees' beneficiary association	
10	Domestic fraternal societies and associations	
11	Teachers' retirement fund association	
12	Benevolent insurance associations, mutual ditch or irrigation companies	
13	Cemetery companies	
14	State chartered credit unions, mutual reserve	
15	Mutual insurance companies	
16	Cooperative organization to finance coop operations	
17	Supplemental unemployment benefit trusts	
18	Employees' funded pension trusts	
19	Posts or organizations of war veterans	V

Nonprofit categories

R - Religion	P - Philanthropic	V - Veterans
E - Educational	A - Agricultural	F - Fraternal
S - Scientific	L - Labor	

RANDOM AND SELECTED SAMPLES OF REDUCED THIRD-CLASS
RATE MAILERS AT BALTIMORE POST OFFICE SHOWING
NONPROFIT CATEGORY AND REVENUE GENERATED DURING
10-MONTH PERIOD ENDING OCTOBER 1976

Random Sample of Approved Organizations

<u>Name</u>	<u>Nonprofit category (note a)</u>
AFGE Local 2987 (American Federation of Government Employees)	L
Altrua Guild, Inc.	P
American Chemical Society	S
American Heart Association, Inc.	S
American Psychological Association	E
Amicable Lodge, #25 A.F. and A.M.	F
Arena Players, Inc.	E
Association of the Miraculous Medal	R
Baltimore Building and Construction Trade Council	L
Baltimore City Lodge #3 Fraternal Order of Police	F
Baltimore County Lodge #4 Fraternal Order of Police	F
Baltimore Heritage, Inc.	E
Baltimore Ostomy Association, Inc.	E
Baltimore Urban Coalition, Inc.	E
Betty Berkowich Fund for Cancer	P
Bishop Neumann Council #5421 Knights of Columbus	F
Boys Town of Maryland	E
Private Wm. J. Buhl 3217 Veterans of Foreign Wars	V
Cardinal Gibbons Council #2521 Knights of Columbus	F
Catholic High School of Baltimore	E
Center for Community Organization	E
Chesapeake College	E
Christ Episcopal Church	R
Christus Victor Evangelical Lutheran Church	R
Church of the Holy Apostles	R
Citizens for Washington Hill, Inc.	E
Commission on Chronic Illness	E
Contact Baltimore Teleministries	R
Danish Seamens Church of Baltimore, Inc.	R
Dumbarten Junior High School	E
East Baltimore Church of God	R
Edith Rosen Strauss Organization, Inc.	P
English Speaking Union of Maryland	E
Evangelical Lutheran Church of Our Savior	R

a/See page 12.

APPENDIX IV

APPENDIX IV

<u>Name</u>	Nonprofit category (note a)
Federal Law Enforcement Lodge 2 Fraternal Order of Police	F
First English Evan. Lutheran Church	R
Franklin Street Presbyterian Church	R
General John Stricker Junior High School	E
Grace Bible Baptist Church	R
Greater Baltimore Medical Center	S
Hamilton Presbyterian Church	R
Hebrew Noble Ladies Society of Baltimore, Inc.	E
Holy Nativity Lutheran Church	R
Hungarian Freedom Fighters Federation	E
Institutes of Religion and Health	R
Israel Baptist Church of Baltimore City	R
John Hopkins Lung Project	S
Junior Board of Union Hospital	
The Korean Presbyterian Church	R
The Lewis and Harriet Lederer Foundation, Inc.	R
Linden Heights Methodist Church	R
Lovely Lane Methodist	R
Lutheran Social Services of Maryland	R
Mars Hill Baptist Church	R
Maryland Children's Aid Society	P
Maryland English Journal	E
Maryland Public Health Association	S
Maryland State Firemen's Association	P
Memorial Church (Episcopal)	R
Metropolitan Senior Citizens Center, Inc.	P
Monroe Street Methodist Church	R
Mt. Olivet Christian Church	R
National Bird Watching Society	E
National Rifle Association	E
Newman Bookstore of Baltimore	R
Northwest Health Services, Inc.	P
Operation H.E.L.P., Inc.	R
Our Lady of Victory Homes of Charity	R
Parent Teacher Guild of the Catholic High School of Baltimore	E
Patapsco United Methodist Church	R
Philadelphia Baptist Convention, Inc.	R
Polynesian Youth Crusade	R
Randall St. Christian Church	R
Rockefeller University Press	E
St. Agnes Council #4449 Knights of Columbus	F
St. Benedict Church	R
St. Francis Xavier Catholic Church	R
St. Johns The Evangelist Church	R
St. Mathews Lutheran Church	R

a/See page 12.

APPENDIX IV

APPENDIX IV

<u>Name</u>	Nonprofit category (note a)
St. Lukes's Church	R
St. Paul's Lutheran Church	R
St. Thomas More Church	R
Santa Claus Anonymous	P
Self Help, Inc.	P
Shrine of the Sacred Heart	R
Society for Technical Communications	E
Strawbridge Shrine Associations	R
Teamsters Local Union #311	L
Toastrmasters International District 18	E
Trinitarian Fathers	R
Union Memorial Hospital	P
United States Naval Institute	E
University of Pittsburgh	E
Watchtower Bible and Tract Society	R
Westside Church of Christ	R
Women's Auxiliary of Mercy Hospital	P
Yeshiva Shearith Hapleita	E
AUM, Inc.	E
Alumnae Association College of Notre Dame of Maryland	E
American Cancer Society	P

Postal Service revenue for 100 organizations
(January 1 to December 31, 1976) \$35,887.52

Largest Volume Organizations

<u>Organization</u>	Nonprofit category	Revenue (January 1 to October 31, 1976)
Pallotine Fathers	R	\$649,511.51
Korean Relief, Inc.	E	89,080.90
Trinity Mission	R	65,285.25
Holy Trinity Fathers	R	34,187.45
World Mercy Fund	R	27,957.56
Jesuit Seminary Guild	E	8,051.90
Washington Cathedral	R	7,286.37
The Conference Board	S	6,669.85
Missionhurst	R	4,590.78
Augustinian Recollect Fathers	R	4,279.77
		<u>\$896,901.34</u>

a/Nonprofit categories

R - Religion	P - Philanthropic	V - Veterans
E - Educational	A - Agricultural	F - Fraternal
S - Science	L - Labor	