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REPORT BY THE U.S.

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General Accounting Office

Changes In The U.S. Postal Service's Cash Management Practices Could Increase Income And Reduce Cost

The Postal Service's cash flow from its 40,000 installations exceeded $22 billion in fiscal year 1978. Investment income from these funds exceeded $176 million. While this task may seem overwhelming, the Service's proficiency in carrying it out is widely recognized and highly regarded.

As with any system of this size and complexity, improvements could be made. If banking practices were changed to require, where feasible, the same-day deposit of postal receipts--a day earlier than under the present system--investment income could be increased. Competitive bidding for banking services should result in a reduction of banking service costs and better control.

UNITED STATES GENERAL ACCOUNTING OFFICE

GGD-79-67

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

GENERAL GOVERNMENT DIVISION

B-114874

Mr. Jim Finch
Senior Assistant
Postmaster General
Finance Group
United States Postal Service

AGC00608
AGC00052

Dear Mr. Finch:

We have just completed a review of the U.S. Postal Service's cash management practices. This report discusses changes we believe should be made in certain banking and accounting functions to increase interest income, reduce costs, and provide greater management control.

We would be happy to meet with you or your staff to discuss these matters further if you so desire. Also, we would appreciate being advised of any actions taken in response to our recommendations.

Sincerely yours,

A R Voss

Allen R. Voss
Director

REPORT BY THE U.S GENERAL ACCOUNTING OFFICE

CHANGES IN THE U.S. POSTAL SERVICE'S CASH MANAGEMENT PRACTICES COULD INCREASE INCOME AND REDUCE COSTS

D I G E S T

During fiscal year 1978 the Postal Service collected about $22.5 billion through its 40,000 installations and earned over $176 million in interest income from investments in U.S. Treasury securities. While this task may seem overwhelming, the Service's proficiency in carrying it out is widely recognized and highly regarded.

As with any system of this size and complexity, improvements could be made. GAO is recommending some which could increase interest income, reduce costs, and provide greater management control.

EXPEDITIOUS DEPOSITS AND A BETTER MONITORED BANKING FUNCTION COULD INCREASE INVESTMENT INCOME

The Service could increase its investment income if its current banking practices were changed to require, where feasible, the same-day deposit of postal receipts--a day earlier than under the present system. The change would involve depositing a portion of receipts currently held overnight and changing the cutoff time for reporting deposits to speed up investment in U.S. Treasury securities. (See p. 3.)

Investment income could also be increased if the banking function were better monitored to ensure that postal installations follow established procedures. (See p. 5.)

Some post offices were late in reporting deposits while other post offices retained (did not deposit) more cash than authorized by postal guidelines. Both practices resulted in lost investment income. Reports that would enable managers to monitor post

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offices' banking practices were not always distributed to them. (See pp. 5 to 11.)

COMPETITIVE SELECTION OF BANKS COULD REDUCE COSTS

The competitive selection of banks could result in better control and reduced costs for obtaining banking services. The Service's current methods for compensating banks result in a variety of charges for similar and identical transactions. Recent tests by the Office of the Treasurer show that competitive selection can be beneficial. (See p. 14.)

OTHER ISSUES RELATED TO CASH MANAGEMENT NEED TO BE CONSIDERED

The Service may be exposing itself to financial risks in its commercial bank accounts because of inadequate collateralization of its deposits. (See p. 16.)

The Service has lost substantial interest income on a 7-year-old experimental program which permitted the delayed payment of postage fees by 10 large bulk mailers. (See p. 17.)

The Service should reverse its recent decision to decentralize the postmaster accounting function because the negative effects appear to outweigh the expected benefits. Decentralization will weaken internal controls and increase operating costs. (See p. 18.)

RECOMMENDATIONS

To increase investment income and to reduce banking costs, GAO recommends that the Senior Assistant Postmaster General, Finance Group:

--Require, where feasible, same-day deposit of receipts.

--Institute competitive bidding for banking services and a system for monitoring the reliability of bank charges.

GAO is also making recommendations to improve the Service's banking and accounting functions. (See pp. 12 and 25.)

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ABBREVIATIONS

BTR	Bank Transaction Record
CB	Concentration Bank
DTC	Depository Transfer Check
FDIC	Federal Deposit Insurance Corporation
FRB	Federal Reserve Bank
NCO	New Concept Office
NDC	National Data Corporation
PDC	Postal Data Center
PMA	Postmaster Account
SCF	Sectional Center Facility

CHAPTER 1

INTRODUCTION

In the 1960s each of the 32,000 postmasters had an account in a local bank where daily receipts were deposited. Each postmaster mailed a check in the amount of the deposit to one of the Federal Reserve Banks. Inherited by the U.S. Postal Service, this system was unsatisfactory to the Federal Reserve Banks, which, unlike commercial banks, are not organized to process large numbers of small deposits efficiently.

In March 1972, the structure of the system was changed to centralized banking and accounting to expedite the deposit and investment of receipts. The number of bank accounts was reduced to about 9,200 by 1973 and numbered over 10,000 as of September 1978.

Through its 40,000 facilities, the Service had a cash flow over $22.5 billion in fiscal year 1978. These funds were consolidated at about 10,000 banking post offices for deposit and subsequent transfer through 21 concentration banks to the New York Federal Reserve Bank for investment in Treasury securities. During fiscal year 1978 the Service earned interest income of over $176 million.

CHAPTER 2

EXPEDITIOUS DEPOSITS AND A BETTER MONITORED BANKING FUNCTION COULD INCREASE INVESTMENT INCOME

The Service could increase its investment income if its current banking practices were changed to require, where feasible, the same-day deposit of postal receipts--a day earlier than under the present system. Investment income could also be increased if the banking function were better monitored to ensure that postal installations followed established procedures.

CURRENT BANKING PRACTICES

The Postal Service's system for collecting, depositing, and investing its daily receipts takes 3 business days. On day 1, postal installations that are not banking post offices forward the current day's receipts in one or more dispatches, as registered mail, to a banking post office where the funds are held overnight and deposited in a primary bank with the banking post office's receipts on the following morning.

On day 2, the morning of the deposit, the banking postmaster telephones the deposit amount to the National Data Corporation (NDC) in Atlanta, Ga. NDC consolidates deposit information received by 11:30 a.m. local post office time and electronically transmits it that afternoon to the respective concentration banks. If the postmaster does not make his call before the 11:30 a.m. cutoff, the deposit is included in the next day's business. The concentration banks prepare depository transfer checks with the day 2 date drawn on each of the primary banks with a reported deposit. The depository transfer checks are forwarded to a Federal Reserve Bank in the afternoon or evening of day 2 to be collected through normal banking check collection channels.

On day 3, the concentration banks transfer the funds by wire to the Federal Reserve Bank of New York for credit to the Postal Service's account. At this point, the money is available for investment or expenditure by the Postal Service.

ACCELERATION OF DEPOSITS TO BANKS COULD INCREASE INCOME

The Postal Service's interest income on investments could be increased if current banking practices were changed to require, where feasible, same-day bank deposit of postal receipts--a day earlier than under the present system. This would involve depositing a portion of receipts currently held overnight and changing the cutoff time for reporting deposits to NDC.

Reduce overnight holding of receipts

Bank deposits could be accelerated 1 day by eliminating, as much as possible, the overnight holding of daily receipts. Although some of the larger postal installations make several daily dispatches of cash and checks to the banking post office, most postal installations wait until they close to count the day's receipts which they send by registered mail to the banking post office. The receipts arrive at the banking post office late in the afternoon or evening, where they are held overnight and deposited the following morning along with the receipts of the banking post office.

Most postal revenues are collected and deposited by banking post offices in larger cities. Major banks in these cities operate their transit (check-clearing) facilities around the clock, their busiest hours being from late afternoon to early the following morning. During that time the banks receive large volumes of deposited checks from their branches, correspondent banks, certain large customers, post office lock boxes, etc. Banking post offices in or near large cities should be able to arrange for their banks to accept deposits for same-day credit to their checking accounts well into the evening. Several bankers with postal bank accounts told us they would be willing to make adjustments to accommodate the Postal Service's needs. Officials in the Service's banking group acknowledged that same-day deposits could be made in the larger cities.

In many of the post offices visited, window clerks closed down their operations at various times during the day. Window closings would provide an opportunity to deposit at least a portion of the Postal Service's daily receipts on the same day as collected.

Cutoff time for NDC call-ins should be changed

With same-day deposit of daily receipts, the cutoff time for reporting bank deposits to NDC must be changed or the advantages of daily deposits of receipts will be lost. NDC has the capability to consolidate and forward information on bank deposits on a 24-hour basis.

A specific cutoff time can be established only after the Postal Service analyzes (1) the time needed by each of the 21 concentration banks to prepare and transmit depository transfer checks after receiving deposit information from NDC and (2) the Federal Reserve Banks' cutoff times for accepting depository transfer checks. Such an analysis may indicate a need for different cutoff times for banking post offices in different parts of the country.

Officials at a large eastern concentration bank advised us that information received from NDC as late as 9:00 p.m. or 10:00 p.m. local time could be transmitted to the Federal Reserve Bank for credit to the Postal Service's account on the following morning. Thus rather than the current 11:30 a.m. cutoff the call-in cutoff time could be as late as 7:00 p.m. or 8:00 p.m. local time, which should be adequate for banking post offices to make their deposits and call them in to NDC.

Need for uniform policy on transporting cash receipts

Sectional center facilities in the Western Region delayed bank deposits because of a regional policy to send only checks in the final dispatch to the banking post office. There are 92 sectional center facilities in the Western Region. The policy was instituted for security purposes following a robbery-murder in the Los Angeles area. Postal records covering a period of about 1 year show this policy had a significant impact on daily deposits by these facilities. The average daily amounts of cash not forwarded by postal installations under the banking jurisdiction of four sectional center facilities we reviewed are shown on the following page.

Sectional center facility	Average daily amount withheld
Las Vegas, Nev.	$ 10,525
Long Beach, Ca.	33,884
Phoenix, Ar.	25,000
San Diego, Ca.	43,031
Total	$112,440

According to postal officials, the Western Region is the only one of the five postal regions requiring that cash not be included in the final dispatch of daily receipts.

While the situation in Los Angeles was serious enough to have required protective measures, it is questionable whether these same protective measures should have been extended to the entire region with its varying degrees of risk. The Postal Service needs to establish a policy applicable to all regions indicating when and what protective measures should be taken.

MONITORING OF BANKING FUNCTION COULD BE IMPROVED

Better monitoring of the banking function could speed up or increase some bank deposits and earn added interest income on investments. Some post offices were untimely in reporting deposits to NDC while other post offices retained (did not deposit) more cash than authorized by postal guidelines. Reports that would enable managers to monitor the post offices' banking practices were not always distributed to them.

Some post offices late in reporting deposits to NDC

At 19 banking post offices we reviewed low priority was given to the banking function, resulting in late reports of bank deposits of up to $148 million 1/ in fiscal year 1977. Because the deposits reported late

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1/Expressed in dollar days; dollar days are calculated by multiplying the amount of each deposit by the number of calendar days' delay in reporting it. For example, $10 million dollar days could be $1 million delayed 10 days or $10 million delayed one day.

were not transferred to the Federal Reserve for investment in a timely manner, interest was lost. While reports identifying the post offices not making timely reports of deposits are available at the regional level, they are not always distributed to the proper management levels.

Postal Service procedures require banking post offices to report daily deposits over $2,000 to NDC before 11:30 a.m. local time to start action to transfer the funds to the Federal Reserve. Otherwise the deposits are included in the following day's business and a day's interest is lost.

We identified bank deposits which were not reported daily, were reported after established deadlines, or were only partially reported. These improperly reported bank deposits expressed in dollar days ranged from about $320,000 to almost $39 million. Appendix I has a listing of the amount for each of the 19 banking post offices we visited.

Reasons given by postal officials for late bank deposit reports included

--reports were not completed because the telephone lines were busy at NDC,

--reports were not made to NDC until a bank deposit confirmation was received on the deposit made that morning,

--reports were held until differences in the postal units' financial reports and bank deposit slips were reconciled,

--personnel were not aware of the 11:30 a.m. local time bank deposit reporting deadline,

--reports were delayed because of heavy workloads on Mondays, days following holidays, and days following the end of an accounting period,

--reports were delayed because bank deposit information from associate offices, stations, or branches was received late, and

--bank deposit reporting was assigned a low priority.

All of the reasons given simply indicate that the banking function receives a low priority. An NDC official advised us that the failure to complete a bank deposit telephone call should occur only rarely, since 90 percent of all calls are completed on the first try and nearly all calls are completed on the second try. According to postal instructions, reports of bank deposits are not to be held pending confirmation by the bank. Likewise, differences between internal reports and bank deposit slips should not delay deposits. Heavy workloads on certain days of the week and the other reasons given indicate that a low priority is being given to timely reporting of bank deposits.

Need to disseminate reports

The St. Louis Postal Data Center prepares reports--Non-Reporting Post Office Summary, and NDC Call-Ins Analysis--on post office bank depositing from data furnished by NDC and sends each regional office the reports on postal facilities under its jurisdiction that fail to report deposits on time. The regions are supposed to distribute the reports to the management levels responsible for monitoring bank depositing; however, this was not always being done in three of the four regions involved. We found that many of the 19 sectional center facilities were not receiving the reports. (See app. II.)

One regional official advised us that the reports are not clear, and as an alternative he sends a letter to a postal facility whenever it fails to make a call or calls in less than $2,000. However, we found no such letters at the four sectional center facilities visited by us in that region, although each of the facilities had instances of reporting late or reporting deposits less than $2,000. Postal officials at several of the sectional center facilities that did not receive the reports expressed the opinion that such reports are necessary and would be useful in helping them to properly manage their operations.

During our review of the NDC call-in procedure we noted a programing error which should be changed to make banking reports more useful. When a post office calls in after the 11:30 a.m. cutoff time, NDC will count it as a missed call for the day ending at 11:30 a.m. However, the call would count as an on-time call for the next business day. If a postal facility was consistently late on its calls it would show up in the NDC data as reporting on time every day except for the first day. Because of this, NDC data on late calls probably does not show the full extent of late deposits. The problem, however, can be resolved by a change in NDC's computer program.

Written authorizations may reduce retention of excess cash

The Postal Service is losing interest income because postal installations are retaining cash that could be included in bank deposits.

Postal instructions permit the retention of cash equal to 5 percent of the average daily stamp sales. Exceptions to this level are granted where adherence would adversely affect window operations or hamper other cash-oriented postal operations. Retention of amounts above this level, however, require written authorization. Postal criteria for cash reserves state that:

> " * * * No more than the amount of the cash authorized may be retained, except funds accumulated after the last opportunity to deposit. * * * Postmasters will determine the amount of cash which each station or branch may retain as a central source of change and, where necessary, for making cash disbursements. The authorization, will be in writing and must be on file at the station, for audit purposes. * * * "

We identified 14 banking postal installations that had retained excess cash. The amounts of cash ranged from a few dollars to $29,000. We also found that the 14 banking postal installations did not have written authorizations for the amounts of cash retained. (See app. III.)

Our discussions with postal personnel and examination of records disclosed the following reasons for retaining excess cash:

--Need for emergency pay.

--Mistakes in preparing the daily financial reports.

--Verbal authorization was given to retain additional cash.

--Postmasters felt more comfortable with extra cash.

However, when excess cash is retained, interest is lost on these uninvested funds.

The Postal Service's Inspection Service has also issued a number of reports on cash management. The retention of excess cash has been a continuing problem as evidenced by a June 1974 report, which refers to a pilot study by consultants projecting a potential recovery of $35 million in excess retained cash. A March 1977 report noted that one postal installation had retained an average daily amount of cash 100 times the amount allowable.

Call-ins under authorized amounts result in unnecessary costs

Post offices are reporting deposits to NDC of less than $2,000 which, from an interest earnings standpoint, is less than the cost of a call-in. Postal instructions state that post offices should not call in deposits of less than $2,000 to NDC.

The Postal Data Center prepares reports of first- and second-class post offices that call in deposits of less than the $2,000 minimum. The reports, covering the postal facilities under each regional office's jurisdiction, are sent to the regional offices for distribution to the appropriate management levels. From these reports for one accounting period in fiscal year 1977, we identified 261 first- and second-class post offices making calls for deposits of less than $2,000. Considering there are 13 accounting periods in the fiscal year, the number of such calls could be significant. Each call represents a loss to the Postal Service. For 10 of 19 sectional centers, the management level that should be monitoring this activity was not receiving the Postal Data Center report. (See app. II.)

Deficiencies in records of bank transactions

Our review of post office bank transaction records revealed two major deficiencies--failure to record the time the bank deposit was reported to NDC and failure to identify the employee who made the deposit report.

Without such information it is difficult to determine if such reports were made on time and whom to hold accountable when bank deposit reports are late or incorrect.

Postal Service criteria in effect during the period of our review required that banking post offices maintain a bank transaction record including information such as the

--date of the transaction;

--type of transaction (deposit, bank deposit report, correction);

--amount of the transaction (deposit, withdrawal, balance);

--time of the bank deposit report to the data collection center;

--initials of the employee making the bank deposit report; and

--explanations or remarks to explain corrections or adjustments.

Of the 19 sectional center facilities visited 8 did not record the time of the bank deposit during fiscal year 1977, and 6 other sectional center facilities had varying instances of not recording the time of the deposit report. The identification of the employee making the bank deposit report was not always recorded at 16 of the 19 sectional center facilities. Other bank transaction deficiencies included missing adjustments or explanations of adjustments, missing bank deposit confirmation codes, missing dates for transactions, missing entries in the balance column, and erroneous bank deposit report dates. Appendix IV shows the bank transaction deficiencies noted at each of the 19 sectional center facilities.

Postal personnel stated these deficiencies occurred because employees were unaware of the requirement to record certain information, were lax in their duties, or were untrained substitutes. As a result of our review, a number of sectional center facilities revised their recordkeeping procedures to record information such as the time of the bank deposit report to NDC.

Changes in Postal Service instructions on the preparation of bank transaction records, however, have eliminated the requirement to record important information such as the time of the bank deposit call-in to NDC and the identification of the employee making the entry. We believe that this information is necessary to properly monitor the banking function.

CONCLUSIONS

Postal Service deposits average over $86 million per day. Not all deposits could be accelerated by 1 day since many locations are remote and some deposits would only be a part of the day's receipts. However, the potential for additional earnings is there.

We believe postal banking practices should be revised to eliminate the overnight concentration of daily deposits and enable postal installations to make same-day deposits of current receipts into a local bank and notify NDC of the deposits. Further, the cutoff time for NDC call-ins should be moved back sufficiently to enable a postal installation to call in current day receipts.

The Postal Service often places a low priority on the banking function as indicated by the reasons given for not making timely deposits of postal receipts, the retention of more cash than authorized by postal guidelines, and the failure of regional offices to distribute reports to postal managers that would enable them to monitor the banking function.

Eliminating the requirement to record the time of call-ins on bank deposits and the identification of the individuals making calls on bank transaction records, seriously impacts on the Postal Service's cash management activities because it eliminates a critical function--accountability. Our review has shown that controls over bank deposits need to be strengthened, rather than relaxed, if the Postal Service wants to maximize its investment income.

RECOMMENDATIONS

We recommend that the Senior Assistant Postmaster General, Finance Group,

--revise current banking practices to require, where feasible, same-day deposit of receipts,

--reemphasize the importance of timely deposits of postal receipts and establish a uniform policy on sending cash in final dispatches of bank deposits,

--reemphasize the need to adhere to Postal Service criteria relating to retained cash and written authorizations thereof,

--require regional offices to distribute the "Non-Reporting Post Office Summary" and the "NDC Call-In Analysis" reports to the proper management levels, and

--restore the former requirement of recording the time of NDC call-ins and the identification of employees making the calls to provide a more complete record of transactions.

CHAPTER 3

BANKING PRACTICES COULD BE IMPROVED

The Service's banking network, consisting of some 7,100 primary and 21 concentration banks, evolved through the elimination and consolidation of the much larger network of accounts inherited from the old Post Office Department. We believe the use of competitive bidding to obtain banking services would result in better control and would reduce the cost of obtaining banking services.

The Service's current methods for compensating banks result in varied charges for similar and identical transactions. With the vast number of bank accounts, it is difficult to determine the actual cost of banking services and impractical to monitor bank service charges for more than a few hundred of the largest bank accounts on a regular basis.

CURRENT BANK COMPENSATION METHODS UNECONOMICAL

Compensation by the Service for banking services varies substantially, even for identical transactions. The 21 concentration banks are the best illustrations of this point. All concentration banks prepare depository transfer checks on the primary banks within their geographic areas to move funds to the Federal Reserve Bank for investment. An analysis of compensation received during the period May through September 1977, however, showed a range of $.13 to $1.15 per transaction among these banks.

The Postal Service does not make direct payments for banking services. The concentration banks and the 325 largest primary banks are compensated by funds left on deposit with them for which the Postal Service earns no interest. The interest on these funds, which total several million dollars in some banks, accrues to the credit of the bank of deposit. The Postal Service negotiates with these banks the earnings credit rates (interest expected to be earned from funds left on deposit) and the activity charges (fees charged for servicing the Postal Service's account). The funds left on deposit are periodically adjusted to bring the earnings credits in line with activity charges. The adjustments are based on bank-prepared monthly analyses of the earnings credits and activity charges in Postal Service accounts.

The remaining primary banks receive no compensation for transactions other than the use of Service funds which remain in the account between the time deposits are made and the time depository transfer checks are presented for payment. The compensation for banking services varies depending on the balance in the Service's bank accounts.

The Service's Director of Banking estimated in November 1977 that the cost of compensating the primary banks was about $14 million. This estimate was based on an estimated $204 million in total demand deposits with a cost of money valued at 6.85 percent. An analysis of data in the report shows that if the present compensation system were revised and the total nationwide primary bank services were priced out at typical unit prices for each type of account activity, the annual total bank charges would be about $8.8 million. This does not mean that the full $5.2 million difference could be realized. However, it does show substantial savings may be possible. Savings realized in this area would be in addition to, and not duplicative of, any savings described in chapter 2.

COMPETITION COULD REDUCE COSTS AND PROVIDE GREATER CONTROL

The potential benefits of competitive bidding in selecting a bank were pointed out in a December 20, 1974, Office of the Treasurer report which stated that, "The experience of the U.S. Treasury Department as well as others, indicates a high likelihood that significant cost savings are available through competitive bidding." No policy decision has been made by the Service on this recommendation. However, recent tests by the Office of the Treasurer show that competitive selection can be beneficial.

In recent tests primary banks in the Miami, Fla., and Manchester, N.H., areas were selected on a competitive bid basis. The difference between high and low bids was 56 and 1,600 percent, respectively. The Treasurer is also making preparations for competitive selection of several concentration banks. We were advised by the Treasurer's office that substantial support would be required from the Postal Service's Procurement and Supply Department and the Management Information Systems Department to undertake the selection of any significant number of banks through a program of competitive bidding within a reasonable time frame.

Better control over the cost of banking services may also result from the competitive selection of banks. As the Treasurer's December 1974 report pointed out, the use of compensating account balances for payment and the vast number of accounts made it difficult to measure the actual cost to the Service and impractical to monitor balances on a regular basis.

The Postal Service receives monthly analyses of accounts (bank-prepared statements showing transactions and charges) for 240 of the largest bank accounts. The Banking Division of the Postal Service does not have sufficient personnel to adequately review these monthly analyses. Even if the Service thoroughly reviewed the monthly analyses for all 10,000 bank accounts, the only disclosure would be under- or over-compensation based on bank-generated data. The adequacy of these charges could not be determined except by a review of the banks' records. This would not be practical for monthly analyses of thousands of accounts.

A competitive selection process would provide better control over bank charges. A program for banks to bid for Postal Service business should apply to all concentration accounts and to the largest primary accounts, i.e., primary accounts with average deposit balances of $50,000 or balances that are considered sufficiently large to make the bidding process cost effective.

Competitive selection would result in a fixed price for each banking transaction. Consequently, if the data on daily deposits in the computer at St. Louis were combined with bid prices, it would be possible to computerize the monitoring of bank charges at the St. Louis Postal Data Center by matching monthly transaction charges to the bid prices. Postal personnel would then be free to handle bank analyses on an exception basis.

CONCLUSION

The Service should use competitive selection to obtain the lowest bank service cost and to provide better control over actual compensation to banks for services rendered.

RECOMMENDATION

We recommend that the Senior Assistant Postmaster General, Finance Group, institute competitive selection procedures in contracting for banking services and a system for monitoring the reliability of monthly bank charges.

CHAPTER 4

OTHER ISSUES RELATED TO CASH MANAGEMENT

NEED TO BE CONSIDERED

The Service may be exposing itself to financial risks in its commercial bank accounts because of inadequate collateralization of its deposits. Also, the Service has lost substantial interest income on a 7-year-old experimental program which permitted the delayed payment of postage fees by 10 large bulk mailers.

The Service's recent move to decentralize the postmaster accounting function should be reversed because the negative effects appear to outweigh the expected benefits. Decentralization will weaken internal controls and increase operating costs.

PLEDGED COLLATERAL ON BANK DEPOSITS NOT ADEQUATE

Using average postal bank balances on deposit in commercial banks as a basis for determining the amount of pledged collateral may be exposing the Postal Service to financial risks because actual daily balances often far exceed the collateral pledged.

Collateralization of accounts or pledges of collateral to cover any uninsured portion of Government funds in a commercial bank is required to fully protect the Government's interest in the event of a bank failure. Postal Service instructions state, "Any balance, as shown by bank statements, in excess of funds insured by the FDIC must be protected by a pledge of collateral by the bank." Postal Service criteria also require that each banking post office have information on file as to the amount of pledged collateral on deposit at its bank.

In our review of 19 Postal Service bank accounts, we found 12 accounts were not adequately protected with pledged collateral over and above the basic $40,000 Federal Deposit Insurance Corporation insurance as required by the U.S. Treasury Department regulations and Postal Service criteria. The highest deficiencies in pledged collateral ranged from about $7,000 to over $550,000 for the period October through December 1977. Appendix V contains a list of sectional center facilities and the deficiencies in their accounts.

Information on pledged collateral was not available at some of the Western Region's banking post offices we visited. Postal Service officials advised us, however, that the amount of pledged collateral required is computed on the basis of the average ledger balance rather than an amount necessary to cover the highest bank account balance.

Obviously, pledged collateral based on an average balance is insufficient to cover the highest balance in some of the accounts. For example, at the Las Vegas, Nev., Sectional Center Facility, the bank's pledge was $115,000, or $385,000 below the required amount of $500,000. The bank's Controller-Cashier Department said it was not necessary to shift collateral from one Government agency to another if the total amount of collateral was sufficient to cover the amounts pledged. However, the U.S. Treasury Department's Banking Staff Director said collateral pledged by a bank to one agency's account cannot be used to offset shortages in collateral pledged to another agency's account.

QUESTIONABLE NEED TO CONTINUE COSTLY EXPERIMENT

The Postal Service has lost substantial interest income because of a 7-year-old experimental program started in April 1972 that permitted 10 bulk mailers to delay payment of postage fees totaling over $100 million per year.

The purpose of the Bulk Mail Postage Collection System experiment was to (1) provide a more efficient method for collecting postal revenues, (2) minimize publishers' cash float, and (3) eliminate many of the account processes associated with the present system.

The experimental program allowed 10 bulk mailers to pay their postage charges after a mailing was made and the mailing statements were received and processed by the Postal Service. At that time the Service drew the amount of the postage charges from the mailers' bank accounts.

Our review of selected mailings of 5 of the 10 participants in the experimental program showed delays as long as 17 days between the mailing date and the payment of postage fees. Delays were caused by the mailers and by postal personnel. One of the largest weekly mailers averaged 10 days' delay (delays ranged from 8 to 17 days) from the date of mailing until postage was paid. This publication accounts for $33.5 million in the total of over $100 million in postage paid last year by mailers in the experimental program. Another large mailer, accounting for over $12 million of the total postage, averaged 7 days' delay.

A management study performed by the Postal Service in August 1975 concluded the experimental program should be terminated or drastically modified because it was (1) costly to administer, (2) incompatible with the requirement for payment of postage before mailings, (3) not of substantive benefit to the Postal Service, and (4) unduly discriminatory in favor of 10 large mailers.

The Postal Service advised us in March 1979 that 7 of the 10 mailers have been phased out. The remaining three mailers will remain in the experimental program until a new bulk mailing procedure is initiated in May-June 1979.

THE SERVICE SHOULD CENTRALIZE ACCOUNTING

The Service began consolidating its widely decentralized post office accounting functions shortly after reorganization in an effort to obtain more qualified specialists to handle the complex accounting functions and to provide better control. However, a recent decision to again decentralize this function seems to go against the results of pilot projects and the views of regional financial managers and is resulting in additional costs and weakening management control over the accounting and banking functions.

A brief history of the Service's accounting function

Decentralized cashbook accounting and banking existed from the late 1800s to early 1972. By late 1960, about 32,000 postmasters were maintaining their own accounting/banking functions. During this period each postmaster had several cashbooks to summarize his financial transactions--the Postmaster Account (daily receipts and disbursements), Domestic Money Orders, International Money Orders, stamp stock, etc.

When the accounting/banking functions were centralized in 1972, responsibility for the various cashbooks was removed from the postmasters and assigned to financial specialists in central finance offices. The benefits of centralized accounting were (1) better control over operations by the entity having responsibility for the postal facilities under its jurisdiction, (2) qualified people performing complex accounting functions, and (3) separation of financial responsibilities resulting in better controls over assets.

The application of centralized accounting, however, was uneven among the Postal Service's five regions. The Southern Region had centralized most of its accounting functions, the Northeastern Region very few, and the remaining regions were somewhere in between.

During 1977 a decision was made to again decentralize certain postmaster accounting functions. Since the regions had adopted centralized accounting in varying degrees, the change had the greatest impact on the regions that had made the greatest attempt to centralize since 1972, especially the Southern Region.

Questionable decentralization of accounting functions

The focus of decentralization was on the individual post office as the basic unit in the Postal Service's management structure and as such, input for management information and control systems required that data be identified with each post office through the use of the postmaster account book. Because of the many negative effects of decentralization, however, we believe the Service should reverse its decision. It seems that decentralization weakens internal controls, costs more, and is widely disliked. The controversy centers on maintenance of the postmaster accounting function.

The postmaster account book is used to record all receipts and disbursements of a post office. Separate accountabilities for stamp stock, money orders, food coupons etc., are posted to the accountbook. Under decentralized accounting the accountbook is maintained at the post office, but under centralized accounting the accountbook and the accountabilities for stamp stock, etc., are kept at the central finance office. Postal installations reporting financial activities to a central finance office do so through a daily financial report.

In May 1975, a National Postmaster Account Task Force study was initiated using pilot projects to see if postal stations and branches could take back certain accounting/banking functions and report directly to a Postal Data Center. The study's purpose was to provide for direct reporting of financial data from the basic accountable unit in the postal system, the individual office.

The objectives of the pilot projects were:

--To determine the cost effectiveness of the concept.

--To determine the effect on financial controls.

--To train a cadre of people in each region who could install the concept if a decision were made to go systemwide.

Ten pilot sectional center facilities (two in each region) were converted to report directly to the Postal Data Centers beginning in March 1976.

The Inspection Service initiated a review of the pilot projects on May 4, 1976, and issued its report on November 24, 1976, giving conditional approval provided that (1) adequate training programs would be developed for new unit managers (otherwise, accounting accuracy could deteriorate and losses could increase); (2) financial functions--handling of cash, preparation of financial records, responsibility for stamp stock, etc.--would be separated; and (3) the new system would gradually be implemented after each of the problems disclosed at the test sites have been evaluated and resolved. The Inspection Service also expressed concern that the cost savings anticipated would not be fully realized because the elimination of positions in central accounting offices have been offset by an equal or greater amount of time expended at the stations in assuming the accounting functions.

In December 1976 the Western Region issued its final evaluation report to headquarters on its assessment of the pilot projects. In the report the Western Region stated that the five Regional Directors of Finance recommended unanimously that the decentralized accounting concept be abandoned, the pilot program be discontinued, and the pilot sites revert to their previous methods of handling postmaster accounts at the earliest possible time.

The report pointed out that at each of the pilot sites, the total increase in station workhours reported for financial recordkeeping had been greater than the number of hours reverted. Most importantly, Customer Services managers predicted an adverse impact on the line managers' performance and execution of their primary function--moving the mail.

On April 11, 1977, the then Senior Assistant Postmaster General-Finance Group advised all regional officials that the Executive Committee had reviewed the proposed decentralization of postmaster accounting and had approved a position paper for implementation nationwide. The paper required that all centralized accounting for post offices be terminated. The paper concluded the pilot project had demonstrated that it was feasible to report station and branch financial data directly to a Postal Data Center for processing, but did not say whether the objectives of cost effectiveness and financial controls could be achieved.

We discussed the decentralization of accounting with several sectional center accounting managers. All saw no benefit in the change, but cited increased problems of control over postal installations under their jurisdiction with no lessening of responsibility for properly operating the facilities. In addition, some reductions in accounting personnel at sectional centers have made it difficult for the centers to visit postal installations and correct problems. For example, a followup examination of decentralized accounting at several sectional center facilities in the Postal Service's Eastern Region shows that decentralization has caused problems and is more expensive than the former centralized method.

One sectional center facility formerly used 5 accounting clerks or 40 hours per day to handle the accounting function for over 100 postal installations under its jurisdiction. Now 4 of the 100 largest postal installations require 36 hours per day to do their accounting. It is not known how much time is used daily for the other 100 plus installations to do their accounting but it is estimated to be substantial. With the removal of the accounting function from the sectional center facility, the accounting clerks were reduced resulting in an inadequate number of personnel to followup on financial problems at the post office level.

In another sectional center facility, the accounting function, when centralized, required the services of 6 clerks or 48 hours per day. Now 2 postal installations alone use 32 hours per day to do their own accounting. It is not known how much time is being used by the other 50 plus installations under this sectional center facility to do their accounting.

Although the purpose of decentralized accounting is to obtain precise operating costs of each post office, we found that this is not being accomplished in at least the Eastern Region. The Eastern Region does not know what actual personnel costs are for each post office, even though personnel costs comprise about 86 percent of the Postal Service's total costs. In place of actual personnel costs for each post office, the region substitutes regionwide average figures. Average salary figures tend to overstate costs for post offices with many junior employees and understate costs for post offices with a majority of senior employees.

Decentralization shown as
inadequate in some instances

Decentralized accounting has been recognized by the Postal Service as inadequate in some locations, and permission has been given to continue with centralized accounting.

For example, in May 1977, an Inspection Service study was made to determine whether centralized accounting in Alaska could help reduce the number of hours being expended by the Postal Data Center, the region, Alaska districts and sectional centers, and Inspection Service personnel to resolve the many problems that the smaller post offices experience in regard to accounting procedures and paperwork. In addition, a number of embezzlements totaling about $100,000 had been disclosed since January 1977.

The Inspection Service report noted that under the system being used (decentralized accounting), daily posting of the cashbook was on the honor system ,and the 3-month frequency for reporting to the Postal Data Center allowed considerable time for problems, including embezzlements, to develop without detection other than by a site audit.

In requesting approval of centralized accounting for Alaska from postal headquarters, the Western Region cited the favorable experience in Hawaii after centralization of the accounting function. It stated:

> "Prior to centralization, the few associate offices in the Honolulu District constituted a very large share of the number of embezzlements, delinquent money order reconciliations, delinquent Statements of Account, and Statements of Differences occurring within the

region. The conditions in the Honolulu District then were very similar to the conditions being found in Alaska now. * * * With the establishment of centralized accounting in the Honolulu District, we have noticed significant improvements in the proper recording of all financial transactions and the timely submission of necessary supporting documents by the NCO's (new concept offices). The postmasters of these NCO's have rigorously stated their opposition to having the accountbook returned to them." (Parenthetical note added).

As a result, exceptions to decentralized accounting for Alaska and Hawaii were approved by Postal Service Headquarters on October 5, 1977.

Prior to implementing the headquarters decision to decentralize postmaster accounting, the Western Region initiated before-cost studies to determine the ultimate cost impact. Its after-cost studies showed immediate out-of-pocket cost increases of $340,000. The Western Region recommended that the order to decentralize be reconsidered because decentralization would cost more and weaken control over financial operations, and postmasters and managers were reluctant to return to decentralized accounting.

The Southern Region also issued a report in January 1978 on the results of its study of decentralized accounting. The report stated that the decision to revert to decentralized accounting was having a detrimental effect on the Southern Region and cited savings and better internal controls under the prior centralized accounting system.

Both the Western and Southern Regions asked to be exempted from the requirement that they dismantle their centralized accounting facilities. Their requests were denied.

Internal controls will be inadequate under decentralization

The decision to decentralize the accounting function could lead to serious internal control problems. A recent change in the Inspection Service's audit approach provided that beginning in fiscal year 1978 audits at postal installations will be made on the basis of stratified sampling. The 26 largest postal installations are audited annually and 282 of the remaining 30,000 installations, or about 1 percent of total post offices, are audited annually on a random sample basis. The stratified sample of 1 percent represents about 50 percent of Postal Service's total receipts. Some of these units will never be audited even though each has an equal chance of being selected.

Under the old system of cyclic audits, every unit was audited at least once every 2 or 3 years. Although it may not be cost effective to audit these small units with the same frequency as in the past, the dismantling of controls over them under the recently instituted decentralized accounting system, coupled with a diminished audit presence, forebodes problems similar to those experienced in Hawaii and Alaska.

The Inspection Service, in its comments on the proposed decentralization of accounting, reported a 174-percent increase in audit staff hours based on an audit of 1 of the 10 pilot sites located at the Seattle Post Office and its stations and branches. The Inspection Service said that the only alternative to increased audit time would be strengthened internal controls at the new units (stations and branches) and effective performance of Postal System Examiners that perform financial observations and examinations. Implicit in this recommendation is the presumption that accounting centralized at the main post offices would result in better control and require fewer audit staff hours.

Also, the Postal System Examiner function has recently been dismantled. Examiners were employed by and operated out of the larger first class post offices. They conducted financial examinations of activities under their jurisdictions and kept postmasters informed of the results. The dismantling of the Postal System Examiner function worsens the problem of adequate controls over postal installations.

The Western Region, in its final evaluation report of December 1976, noted that it was assumed that postmaster account books would be posted by qualified personnel; however, "* * * managers have a range of abilities, and they are seldom selected on the basis of aptitude for numbers."

Other problems resulting from decentralization include

--lack of controls now that accounting personnel and postal system examiners are not available to follow up on problems out in the post offices,

--difficulty in establishing a valid starting point in examination of postal records unless a recent audit was made (no continuity in data validation),

--inexperience, because most of the old postmasters with experience in doing their own accounting have been replaced, and

--more frequent issues of Statements of Differences on post offices, a further indication of problems.

CONCLUSIONS

The Postal Service criteria requiring each banking post office to have information on file on the amount of pledged collateral at its bank should be enforced. Further, the Postal Service criteria should be clarified to eliminate a misunderstanding that average balances can be collateralized instead of the highest balances as required under Treasury's circular. Under the present system, Postal Service deposits are not adequately protected.

We believe that the change to decentralized accounting is unwise because it has not been shown to be cost effective or able to provide adequate controls over financial data and reports, or adequate controls over postal assets, particularly at a time when audits are diminishing and the Postal System Examiner function has been dismantled.

The proposed termination of the Bulk Mail Postage Collection System experiment should enable the Postal Service to increase its investment income.

RECOMMENDATIONS

We recommend that the Senior Assistant Postmaster General, Finance Group,

--require banking post offices to conform to Treasury's collateralization requirements and maintain this information on file at each banking post office and

--centralize, rather than decentralize, the postmaster accounting function.

CHAPTER 5

SCOPE OF REVIEW

We conducted our review at Postal Service Headquarters, at the metropolitan area post offices of Washington, D.C., and at 19 sectional center facilities in four postal regions. In addition, we discussed Service banking activities with officials at the National Data Corporation, Atlanta, Ga.; the Federal Reserve Banks in New York, N.Y., and Cincinnati, Ohio; the U.S. Department of Treasury; and various banks with which the Service has accounts. The period reviewed was fiscal year 1978-79.

We reviewed Service manuals and instructions on postmaster accounting and banking, Inspection Service audit reports, and Service banking studies.

SCHEDULE OF DELAYED BANK DEPOSIT REPORT AMOUNTS EXPRESSED AS DOLLAR DAYS FOR 19 SECTIONAL CENTER FACILITIES (SCFs), FY 1977

SCF	Amount
Birmingham, AL	$ 12,913,226
Phoenix, AZ	321,289
Long Beach, CA	4,427,726
San Diego, CA	3,329,725
Hartford, CN	2,262,986
Tallahassee, FL	7,622,844
Macon, GA	2,881,610
Columbus, ID	734,833
Louisville, KY	38,859,084
Springfield, MA	871,747
Las Vegas, NV	599,401
Albany, NY	1,688,732
New York, NY	25,111,221
Syracuse, NY	1,688,085
Cincinnati, OH	13,710,669
Columbus, OH	18,450,348
Steubenville, OH	1,770,451
Zanesville, OH	930,537
Nashville, TN	9,967,024
Total	$148,141,538

LISTING OF NON-REPORTING SUMMARIES AND NDC CALL-IN ANALYSIS REPORTS RECEIVED BY THE 19 SCFs

	Non-Reporting Post Office Summary		NDC Call-in Analysis or Substitute Form	
SCF	Received	Not received	Received	Not received
Birmingham, AL		a/X	X	
Phoenix, AZ		X		X
Long Beach, CA		X		X
San Diego, CA		X		X
Hartford, CN		X		X
Tallahassee, FL		X	X	
Macon, GA		a/X		a/X
Columbus, ID		X		X
Louisville, KY	X		X	
Springfield, MA		X		X
Las Vegas, NV		X		X
Albany, NY		X	X	
New York, NY		X		X
Syracuse, NY		X		X
Cincinnati, OH	X		X	
Columbus, OH	X		X	
Steubenville, OH	X		X	
Zanesville, OH	X		X	
Nashville, TN		a/X	X	
Total	5	14	9	10

a/Not received on a continuous basis.

SCHEDULE OF SCFs THAT LACKED WRITTEN RETAINED CASH AUTHORIZATIONS AND/OR HAD EXCESS CASH DURING FY 1977-78

SCF	Cash authorizations lacking	Excess cash
Birmingham, AL	X	X
Phoenix, AZ	(a)	X
Long Beach, CA	X	X
San Diego, CA	X	X
Hartford, CN		X
Tallahassee, FL	X	X
Macon, GA	X	X
Columbus, ID	X	X
Louisville, KY	X	X
Springfield, MA		X
Las Vegas, NV	X	
Albany, NY	X	
New York, NY		X
Syracuse, NY	(a)	(a)
Cincinnati, OH		X
Columbus, OH	X	X
Steubenville, OH	X	
Zanesville, OH	X	
Nashville, TN	X	X
Total	13	14

a/The retained cash balance authorizations were not examined at these SCFs.

SCHEDULE OF DEFICIENCIES IN BANK TRANSACTION RECORDS OF THE 19 SCFs REVIEWED, FY 1977

SCF	Time of call not always recorded	Initials of employee not alway recorded	Other deficiencies
Birmingham, AL	X	X	X
Phoenix, AZ	X	X	
Long Beach, CA	X	X	
San Diego, CA			
Hartford, CN	X	X	X
Tallahassee, FL	X	X	
Macon, GA	X		X
Columbus, ID	X	X	
Louisville, KY		X	
Springfield, MA	X	X	
Las Vegas, NV	X	X	
Albany, NY		X	X
New York, NY	X	X	X
Syracuse, NY	X	X	X
Cincinnati, OH	X	X	X
Columbus, OH			
Steubenville, OH	X	X	
Zanesville, OH		X	
Nashville, TN	X	X	
Total	14	16	7

SCHEDULE OF THE HIGHEST BANK DEPOSIT COLLATERAL DEFICIENCIES FOR THE 19 SCFs REVIEWED, OCTOBER-DECEMBER 1977

SCF	Amount
Birmingham, AL	$ 35,216
Phoenix, AZ	551,596
Long Beach, CA	(a)
San Diego, CA	446,169
Hartford, CN	337,799
Tallahassee, FL	0
Macon, GA	0
Columbus, ID	0
Louisville, KY	15,237
Springfield, MA	10,048
Las Vegas, NV	93,887
Albany, NY	270,249
New York, NY	145,147
Syracuse, NY	252,273
Cincinnati, OH	178,379
Columbus, OH	0
Steubenville, OH	6,840
Zanesville, OH	0
Nashville, TN	0
Total	$2,342,840

a/Information not available at the time of visit.

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