



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable John L. McClellan
Chairman, Committee on
Appropriations
United States Senate

Dear Mr. Chairman:

Your office requested us to (1) set forth the events leading to the Postal Service's current procedures for calculating the amounts due from the Department of Defense (DOD) for mail services and (2) give an opinion on the reliability of current procedures. We were informed that the Committee is concerned about the significant increase in DOD's postage bill for fiscal year 1973--\$71.6 million more than the preceding year. 1/

This increase was caused by a change in the procedures used to calculate DOD's postal bill. The new procedures, properly applied, appear to provide reasonable estimates of the amounts due from DOD.

FORMER PROCEDURES

Before the enactment of Public Law 91-375, the Postal Reorganization Act, which became effective on July 1, 1971, reimbursements to the former Post Office Department for official mail use by Government agencies were tied to agency budget figures. The budget figure was estimated several years in advance, and the agencies made very little effort to relate the estimate to actual use. The Post Office Department developed an estimate of overall Government mail volume which showed that actual volume exceeded that being budgeted for but made little effort to identify individual agency users or to collect the additional amounts due.

This method did not cause a financial problem for the Post Office Department since it, unlike the Postal Service, was appropriated funds to meet any shortfall between expense and revenue. The method did, however, understate agency operating costs and, by not relating charges to use, eliminated the incentive for agencies to effectively manage their mail volume.

1/ Fiscal year 1972 billing was \$67.8 million, and fiscal year 1973 billing was \$139.4 million.

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CURRENT PROCEDURES

The Postal Reorganization Act gave the Postal Service a mandate of self-sufficiency, the ultimate objective of which is to have mailers pay for total Postal Service operating costs. To comply with the new requirement, Government agencies are now expected to reimburse the Service on the basis of services rendered rather than some arbitrary amount, as in the past.

The Service now requires that each Government agency estimate by sampling its fiscal year mail volume. Unless other arrangements are authorized, complete counts must be made during at least 2 random weeks each year. The results of these samples are used to calculate the amounts due the Service.

DOD's bill is computed differently. On October 7, 1971, DOD and Postal Service officials met to discuss alternative methods of determining mail volume and costs. DOD officials stated that military installations could not be relied on to accurately measure mail usage. Consequently, the Service could not be assured of receiving equitable payment. The DOD officials suggested that, if the Service could independently determine the amount due, DOD would pay it.

The Service agreed and now computes the amounts due from DOD on the basis of sample-derived mail volume information obtained from a subsystem of the Service's Revenue and Cost Analysis System. The overall system is based on a continuous statistical sampling of revenue and cost data at selected post offices. It identifies revenues and costs associated with each class of mail and type of service. The subsystem identifies that part of the overall mail volume and service attributable to DOD.

Reliability of current procedures

On February 20, 1973, we issued a report on the Revenue and Cost Analysis System. Our objective in that review was to determine whether the data collection process provides accurate data for estimating postal revenues and costs. The Postal Service's sampling method was statistically acceptable for producing the data. But, because the procedures for collecting data were not always properly followed, erroneous data sometimes entered the system. The Service subsequently took actions to improve its data collection procedures.

After our review, an independent accounting firm, in reporting on its examination of the Service's financial statements, for the year ended June 30, 1973, stated that its tests of the Revenue and Cost Analysis System disclosed no errors which would materially affect volume determinations.

The subsystem dealing with DOD mail volume was not yet a part of the overall system during the period covered by our previous review. We have not made another review of the data collection procedures due to the time constraints of this request, the fact that the Service has taken corrective actions, and the subsequent review by the accounting firm.

On the basis of our review of the Postal Service's sample design to measure mail volume, we believe, because of the large sample size, the statistical method of estimating DOD volume is acceptable for producing reasonable estimates for DOD as a whole and for some of the larger agencies, such as the Army, Navy, and Air Force.

A problem arises when DOD uses the subsystem to estimate mail volume for a subagency, such as the Marine Corps. The subsystem was not designed to measure mail volume at this level. Mail volume at the subagency level is small compared to overall DOD mail. To measure subagency mail volume accurately would require a larger sample. The Service has stated that increasing the sample size is economically unfeasible.

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As you requested, we have not obtained the views of the Service on this report. We do not plan to distribute it further unless you agree or publicly announce its contents.

Sincerely yours,



Comptroller General
of the United States