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

GENERAL GOVERNMENT
DIVISION

APRIL 26, 1979

B-114874

The Honorable William F. Bolger
Postmaster General
United States Postal Service

Dear Mr. Bolger:

The Senate Appropriations Committee asked us to review the [Postal Service's method of billing the Congress for postage]. We were to determine if the quarterly bills sent to the Congress reflect the revenue due to the Service for franked mail service.

We examined the Service's procedures for sampling franked mail and its practices for collecting, recording, and processing data used to compute franked mail revenue. We have concluded that while the design of the sampling system for detecting franked mail seems adequate, poor implementation and a lack of adequate monitoring have resulted in numerous billing errors.

These errors were so numerous and significant that we were unable to determine what relationship there may be between the bills sent to the Congress and the amount that should have been charged. We found

- errors in collecting and recording required samples,
- errors in calculating volume and rates, and
- limited control over franked mail entering the system outside Washington, D.C.

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While the Postal Service has taken some actions in recent months to improve the billing system, we believe that errors can be significantly reduced only by

- assuring that the system's procedures are clearly understood by employees involved in providing input to the quarterly bills and
- monitoring the sampling and the bill preparation to insure that the quarterly bills reflect the postage due the Service.

HOW CONGRESSIONAL POSTAGE BILLS ARE COMPUTED

To accurately compute the quarterly bill for congressional mail, the Postal Service must determine the volume of franked mail and apply the proper postage rates. Postal Service instructions prescribe procedures for determining volume and rates and state that care must be exercised when gathering or processing franked mail data.

Volume is determined either through actual piece count or through sampling procedures at all points where franked mail enters the postal system. The largest piece count is taken of House third-class bulk mailings, which accounted for 65 percent of the total volume of franked mail in fiscal year 1978.

Sampling for volume by type of franked mail is performed daily at the various input points. The average number of pieces per pound for each type of mail is determined and then multiplied by the total weight of that type of mail. Piece counts and sample data are recorded on worksheets which are sent to Service headquarters. There, total volumes by type of mail are computed by combining data from the various input points.

To develop estimates of the postage rates associated with various types of franked mail, the Postal Service collects samples during one randomly selected week each quarter. Employees take a predetermined weight of each type of franked mail and compute the average rate per piece. This data is sent to Service headquarters where it is applied against the quarterly volumes and used to produce the quarterly bill by type of mail. Enclosure I illustrates the format used by the Service to bill the Congress.

SAMPLE DATA NOT ALWAYS OBTAINED AND
SOMETIMES RECORDED IMPROPERLY

The quarterly sample is essential in determining the postage rate to be applied to various types of franked mail. On each day of the week designated for sampling, rate data should be obtained. However, for one type of mail--House of Representatives letter mail--no rate samples were obtained for five quarters during fiscal years 1977 and 1978. In addition, during one of the other quarters, the Service obtained rate data for only one of the five days.

Because no sample data was obtained, the Postal Service used the minimum prevailing rate (\$0.13 through May 28, 1978, and \$0.15 thereafter) for four of the quarters when computing the bill. The fifth quarter, however, was incorrectly computed using data from another type mail--expedited green pouch 1/.

While we could not determine the rate that should have been used for these four quarters, a Service official said that if sample data had been obtained, the rates most likely would have exceeded the minimum prevailing rate. Considering that there were about 33 million House letters during the four quarters, any rate over the minimum rate would have a significant impact on the bill. For example, on the one day the Service did obtain rate data from the sample, the average was \$0.1336, or \$0.0036 above the minimum prevailing rate of \$0.13. Projecting this one day's sample, the Service would have lost over \$118,000 in revenue from House letters (\$0.0036 X 33 million pieces).

In two other quarters, the Service probably charged more than it should have for House letter mail. This happened because of errors in recording the data on the worksheets. The rate that should have been charged for another type of mail--expedited green pouch--was charged to about 15 million pieces of House letter mail. Postage charges for first-class expedited green pouch mail usually run \$0.02 to \$0.03 higher per piece than the rate for first-class House letters.

1/Expedited green pouch mail is high priority mail programed specifically for the Congress.

Other instances occurred where required samples were not taken. On one occasion, we visited the Washington, D.C., Post Office to observe the quarterly sampling scheduled for the week of August 21-25, 1978. However, the sample was not being taken because the clerk who performs the sample had not been informed that it was scheduled for that week. After we brought this to the attention of the data collection officer at that post office, sampling was begun on August 24, 1978.

In another instance, we found that, in postal quarter III of fiscal year 1978, approximately 7 percent of the daily worksheets for Senate letters contained incomplete data on mail samples. These omissions went undetected throughout the sampling system. Without complete data it is not possible to accurately compute the volume of Senate letters.

IMPROPER TREATMENT OF SUBSAMPLES DISTORTS ESTIMATES OF FRANKED MAIL VOLUME

Postal Service instructions provide that subsampling may be used to determine volume when a large quantity of one type of franked mail is exactly the same size and weight. To subsample, the average number of pieces per pound and the total weight of the mail entering the system is determined. This data is used by headquarters officials to compute the total volume of the mail. In our opinion the results of the subsampling have become distorted because pieces per pound are being averaged together before being applied to the total weight. We believe that unless the averages are weighted the total volume will be incorrect.

We estimate that the Service undercounted Senate letters for postal quarter III of fiscal year 1978 by approximately 2.6 million pieces. This represents approximately 11 percent of the total letters actually billed by the Service and resulted in a quarterly revenue loss to the Service of at least \$338,000. While we did not determine the impact on other quarterly bills, we found that similar computational errors were made.

INCORRECT QUARTERLY TEST DATA USED TO COMPUTE BILLS

Each quarterly bill is computed using test data from the most recent and three most previous quarters. In computing the postage bill for postal quarter IV of fiscal

year 1977 and postal quarters I and II of fiscal year 1978, however, the Service incorrectly omitted the test data for postal quarter III of fiscal year 1977. Instead, historical test data which should have been dropped was used to compute these quarterly bills. These omissions would have an impact on each type of franked mail and may result in understating some quarterly bills and overstating others. In the interest of time, we did not determine the dollar impact on each quarter.

INCORRECT CHARGES FOR FIRST-CLASS MAIL

Certain first-class letter mail charges were for less than the applicable rate for that class of mail. The undercharges resulted from obvious computational errors in quarterly test data from postal quarters IV and II of fiscal years 1977 and 1978, respectively. Since each quarterly bill is computed using test data from the three most previous quarters, these undercharges were perpetuated in a moving average used to compute the congressional bills for postal quarter IV of fiscal year 1977 and postal quarters I and II of fiscal year 1978. Using the correct first-class letter charge, we estimated that the three quarterly bills were understated by at least \$500,000.

SOME FRANKED MAIL NOT REPORTED BY TYPE AS REQUIRED

Although each type of franked mail should be counted and reported separately, the Service has improperly included several types of mail in its count of House letters. By doing this, one type of mail is being charged a rate which was computed for another mail type. Mixing types of mail affects the accuracy of the bill sent to the Congress.

The mail prepared by the House Folding Room is predominantly letters but also contains flats, packages, and other mail. The Postal Service records this mail by completing worksheets indicating actual weight and piece data. The instructions for reporting this mail specify that separate worksheets should be used for the different mail types. However, the Service has been using one worksheet marked "letters" for recording various mail types. An asterisk by an entry on the worksheet

was used to indicate flats; however, this was not acknowledged by those processing the data and has resulted in the Service billing all mail recorded on the worksheets at the House letter rate.

For postal quarters II and III of fiscal year 1978, approximately 48,000 flats were billed as letters. Since the rate billed for flats is higher than the rate billed for letters, this resulted in an undercharge of over \$14,000 for the two quarters. We were unable to determine the amount of other mail that was incorrectly billed at the letter rate.

LIMITED CONTROL OVER FRANKED MAIL ENTERING
THE SYSTEM OUTSIDE WASHINGTON, D.C.

Many local post offices serving congressional home offices are not submitting required data on franked mail originating in their area. Franked mail originating outside of Washington, D.C., is not sampled; rather, the Postal Service relies on data submitted by post offices serving congressional home offices. Post offices are instructed to use Postal Service Form 103 in recording the number of originating franked mail pieces, address corrections, and postage due items processed. If no franked mail items are processed during the accounting period, negative reports must be submitted. This data is then combined with the data from the sampling system to determine the Congress' franked mail bill.

We compared the number of Senate home offices with the number of Forms 103 received during postal quarter III of fiscal year 1978 and found that almost one-half of the post offices serving Senate home offices were not submitting the data as required. In addition, no procedure exists to follow-up on missing forms.

Another problem with franked mail entering the system from outside the Washington, D.C., area relates to address corrections. The Postal Service provides address corrections at a cost of \$0.25 per address. The Congress often uses the address correction service to update mailing lists for newsletters sent to constituents.

To charge the Congress for address correction service, the Postal Service gathers data at the Washington, D.C., Post Office and post offices serving congressional home offices. Personnel at the Washington, D.C., Post Office gathering this data were confused as to which address corrections they should be counting and which ones had been counted outside Washington, D.C. In addition, some address correction data reported by post offices outside the Washington, D.C., area was omitted from the bill during postal quarters II and III of fiscal year 1978.

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In an October 4, 1978, letter to the Senior Assistant Postmaster General, Finance Group, we pointed out some of the computational errors found early in our review. His November 8, 1978, response was that measures would be taken by the responsible organizations to identify obvious errors in past billings and to detect questionable data in future reports. We have also pointed out other computational and sampling errors to your staff during the course of our work. Your staff has been extremely cooperative, and prompt corrective actions have begun.

Copies of this report are being sent to the Chairman, House Committee on Post Office and Civil Service; Chairman, Senate Committee on Governmental Affairs; Chairman, House Committee on Government Operations; and the Chairmen of the House and Senate Committees on Appropriations.

Sincerely yours,



Allen R. Voss
Director

Enclosure

FRANKED MAIL

Postal Quarter FY 197
 SENATE HOUSE

Subcategories	Pounds	Pcs per Pound	Pieces	Rate(\$)	Amount(\$)
<u>1. Direct Sacks:</u>					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
<u>2. Outsides:</u>					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
<u>3. Letters:</u>					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
<u>4. Patron Mail (House):</u>					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
<u>5. Flats:</u>					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____

FRANKED MAIL

Postal Quarter FY 197
 SENATE HOUSE

Subcategories	Pounds	Pcs per Pound	Pieces	Rate(\$)	Amount(\$)
6. Drop Mail (House):					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
7. Other:					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
8. CPEDCM(Gr. Pouches):					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
9. Agriculture Bulletins:					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
10. Yearbooks:					
1st Class	_____	_____	_____	_____	_____
Priority-Under 16 oz	_____	_____	_____	_____	_____
Priority-16 oz & over	_____	_____	_____	_____	_____
3rd Class	_____	_____	_____	_____	_____
4th Class-Special Bk	_____	_____	_____	_____	_____
4th Class-Regular	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____

FRANKED MAIL

Postal Quarter FY 197
 SENATE HOUSE

	Pounds	Pcs per Pound	Pieces	Rate(\$)	Amount(\$)
Controlled Circulation	_____	_____	_____	_____	_____
Third-class Bulk-rate	_____	_____	_____	_____	_____
Cong. Frank Mail originating outside Washington, DC					
12 oz. or less	_____	_____	_____	_____	_____
12 oz. less 16 oz.	_____	_____	_____	_____	_____
16 oz. or over	_____	_____	_____	_____	_____
Year Books	_____	_____	_____	_____	_____
Total	_____	_____	_____	_____	_____
TOTAL POSTAL QUARTER FFY 197	_____	_____	_____	_____	_____
Address Corrections (3547)					_____
Mailing List Corrections					_____
Registry Fee					_____
Postage Due					_____
Mailgrams					_____
Questionnaires Returned under the "Franking Privilege"					_____
EXPRESS MAIL Service					_____
GRAND TOTAL POSTAL QUARTER					
					FFY 197