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REPORT TO THE CONGRESS

Better Controls Needed
Over Assessment And Collection
Of Postage For Second-Class Mail,
A Money Loser To The
Post Office Department B 161568

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on better controls needed over assessment and collection of postage for second-class mail, a money loser to the Post Office Department. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the act of September 2, 1960 (39 U.S.C. 2206).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Postmaster General.


Comptroller General
of the United States

BEST DOCUMENT AVAILABLE

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D I G E S T

WHY THE REVIEW WAS MADE

Second-class mail--periodicals and newspapers--is a money loser to the Post Office Department. It has consistently contributed to the annual postal deficit. In fiscal year 1968, a deficit of over \$435 million on second-class mail was reported by the Department. Such information was not available for fiscal year 1969; however, based on the most recent financial data available for that year, revenues from second-class mail fell short, by about \$202 million, of covering even "demonstrably related costs"--costs which vary in response to volume changes and other costs directly relatable to second-class mail operations. (See p 6)

The General Accounting Office (GAO) noted that the Department appeared to place almost complete reliance on information provided by the mailers (publishers) in determining the amount of postage for their mail. Postal inspectors frequently reported that publishers paid insufficient postage on certain copies of publications. Therefore, GAO examined into the Department's administration of second-class mail operations

FINDINGS AND CONCLUSIONS

The Department needs to improve its administration of second-class mail operations to ensure collection of proper postage from patrons afforded second-class mail privileges.

On the basis of an examination of 334 publications involving annual mailings of about 373 million pieces of second-class mail, GAO estimates that the Department undercharged postage of at least \$700,000 annually on 176 publications. In view of the estimated 9 billion pieces of second-class mail handled annually, the Department's revenues could be significantly increased if administrative improvements are made. The postage undercharges noted by GAO occurred because

--Publishers were charged the lower second-class postal rates, although the publications failed to meet the legal or regulatory requirements for second-class mail privileges. In many cases, Department records showed that publications were ineligible for the lower postal rates for at least 4 years and, in two cases, as long as 9 years. (See pp. 8 to 12)

- The Department had not established adequate specific criteria to guide publishers and postal employees in appropriately classifying certain free copies of publications for postal-rate purposes. (See pp 13 to 18.)
- The Department's examinations of publishers' records were neither timely nor effective. Consequently, certain copies of some publications which had been improperly classified by publishers were not detected. A second-class postal rate, lower than that required by postal regulations, was charged. (See pp 19 to 23.)

RECOMMENDATIONS OR SUGGESTIONS

The Department should

- take prompt action to revoke or suspend second-class mailing permits for publications ineligible for second-class mailing privileges and establish a policy of charging postage at the appropriate rate on all copies of publications mailed after the date that publications first fail to meet second-class mail eligibility requirements (see p. 12).
- revise regulations to clearly define sample copies (free copies) and establish time limits during which samples may be mailed to the same person at the lower preferred or regular second-class rates (see p. 18); and
- strengthen its internal management review to ensure effective and timely examination of publishers' records for publications mailed at second-class postal rates. (See p. 23.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postmaster General informed GAO that he was ordering, on a high-priority basis, a complete examination of all pertinent regulations, including the administration thereof, and the specific provisions of the second-class mail privileges discussed in the GAO report. The Postmaster General indicated that the problems cited in the GAO report may have to be remedied by changes in laws and regulations.

GAO believes that the Department's study is a necessary and desirable step which should lead to improved administration of second-class mail operations. Because of the substantial amount of revenue not being collected by the Department, GAO believes that its recommendations concerning timely revocation of permits of ineligible publications and a strengthened internal management review to ensure effective and timely examination of publishers' records should be implemented without waiting for completion of the Department's study.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report informs the Congress of the potential for significantly increasing Department revenues by improving the administration of second-class mail operations. The Postal Reorganization Act (84 Stat 719), approved August 12, 1970, established the United States Postal Service and the Postal Rate Commission, independent establishments of the executive branch of the Government. The act specifically retained some provisions of existing law relating to second-class mail and also granted to the new Postal Service and Rate Commission broad authority over the establishment of classes and rates of postage.

CHAPTER 1

INTRODUCTION

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The General Accounting Office has reviewed the Post Office Department policies and procedures for assessing and collecting correct postage for publications mailed as second-class matter. Such mail consists generally of newspapers and other periodic publications which disseminate information of interest to the public or which are devoted to literature, the sciences, the arts, or a special industry.

The review was made in Washington, D.C., and in the Cincinnati, New York, Philadelphia, and San Francisco Postal Regions.

The scope of our review is described on page 25. A list of the principal management officials of the Post Office Department responsible for the administration of the activities discussed in this report is included as appendix III.

Section 4354 of title 39, United States Code, provides that a qualified publication is entitled to be entered as second-class mail if it has a legitimate list of subscribers, is regularly issued at stated intervals as frequently as four times a year, is not designed primarily for free circulation or for circulation at nominal rates, and is not primarily for advertising purposes. These requirements are discussed more fully in later sections of this report.

Certain organizations--such as fraternal orders, institutions of learning, and departments or agencies of States, as prescribed in 39 United States Code 4355--are not required to have a legitimate list of subscribers when the publications contain only the publishers' own advertising.

Before publications may be mailed at second-class postal rates, publishers must file an application for a second-class mailing permit with local postmasters. The postmasters are required to verify, by examining the

publishers' records, the information on the applications concerning the distribution of the publications.

The applications are then forwarded to the Director, Office of Mail Classification, Bureau of Finance and Administration, at Department Headquarters, who is responsible for determining whether publications meet the legal eligibility requirements and for approving or disapproving the applications. Postmasters are responsible for ensuring that only approved second-class publications are mailed at second-class rates and for collecting the proper amount of postage from publishers. Eligibility or rate questions arising after applications have been approved are referred to the Director, Office of Mail Classification, for resolution.

Sections 4358, 4359, and 4362 of title 39, United States Code, set forth the second-class postal rates. Effective January 7, 1968, the law was amended to separate the rates into three categories--preferred, regular, and transient.

Preferred rates, the lowest second-class rate, generally apply to publications to be delivered in the county in which mailed, to classroom publications, and to publications of nonprofit organizations--such as religious, educational, scientific, or philanthropic--that qualify for the preferred rates. Regular rates are higher than preferred rates and are applicable generally to all other second-class publications. Transient rates, the highest second-class rate, are charged for copies of publications mailed to persons not included on a legitimate list of subscribers and for sample copies in excess of 10 percent of the total weight of subscriber copies mailed during a calendar year.

The Postal Reorganization Act (84 Stat. 719), approved August 12, 1970, established the United States Postal Service and the Postal Rate Commission, independent establishments of the executive branch of the Government. The act specifically retained some provisions of existing law relating to second-class mail and also granted to the new Postal Service and Rate Commission broad authority over the establishment of classes and rates of postage.

In fiscal year 1968, the Department handled about 9 billion pieces of second-class mail and reported a deficit of \$435.2 million on second-class mail operations. Costs to the Department were about \$569 million, while revenues were only about \$133.8 million. About \$186.5 million of the second-class mail deficit was allocated to public service losses. Such losses represent rate concessions granted by the Congress for certain mail.

Because the Department changed its method of allocating costs among classes of mail and services, information comparable to fiscal year 1968 was not available for fiscal year 1969.

However, in fiscal year 1969, the Department reported that second-class mail revenue was not sufficient to cover "demonstrably related costs" by about \$202 million. Such costs generally include only those costs which vary in direct response to volume changes and other costs directly relatable to second-class mail operations.

CHAPTER 2

IMPROVED ADMINISTRATION

SHOULD INCREASE REVENUE

We estimate, on the basis of our examination of 334 publications involving annual mailings of about 373 million pieces of second-class mail at 22 post offices, that the Department undercharged postage of at least \$700,000 annually on 176 publications because (1) publishers were charged second-class postal rates, although the publications failed to meet, over extended periods of time, the basic legal and regulatory requirements for second-class mail privileges, (2) the Department did not detect that certain copies of publications had been improperly classified by publishers and, as a result, the Department charged a lower second-class postal rate than that required by postal regulations, and (3) the Department had not established adequate specific criteria for properly classifying free copies for postal-rate purposes.

In view of the estimated 9 billion pieces of second-class mail handled annually by the Department, the reported deficit of about \$435 million in fiscal year 1968, and the failure to recover at least \$202 million of "demonstrably related costs" in fiscal year 1969, we believe that it is important for the Department to improve its administration of second-class mail operations to ensure that the proper amount of postage is collected from patrons.

The Department can improve its administration of second-class mail operations (1) by taking timely action to revoke or suspend second-class mail privileges and by ensuring that proper postal rates are assessed when publications no longer qualify for such privileges, (2) by establishing clear and specific criteria for use by postal employees and publishers in classifying free copies of publications, and (3) by taking steps to ensure that postmasters examine publishers' records more effectively and within the Department's prescribed time frequency.

These matters are discussed in detail in the following sections of this chapter.

TIMELY ACTION NEEDED TO REVOKE
OR SUSPEND SECOND-CLASS MAIL
PERMITS FOR INELIGIBLE PUBLICATIONS

The Department did not revoke second-class mail permits of publishers who had mailed millions of copies of publications at the reduced second-class postal rates, although Department records showed that the publications were not eligible for second-class-mail privileges. Many of these publications had been ineligible for at least 4 years. Our examination of certain publishers' records revealed that postal employees who had examined publishers' records had failed to detect other ineligible publications.

Of the 334 publications included in our review, 115 were not entitled to second-class mail privileges because they (1) did not meet the Department's requirement of 65-percent paid circulation, (2) exceeded the 75-percent limit on advertising, or (3) were not published within the required frequency. We estimate that postage undercharges amounted to about \$429,000 annually on about 17 million copies of the 115 ineligible publications.

Section 4354 of title 39, United States Code, states that publications designed primarily for free circulation are not eligible for second-class mail privileges. The Department has interpreted this provision of law to mean that publications having over 35-percent free circulation in a 12-month period are "designed primarily for free circulation." Therefore postal regulations (P.M. 132.227) require the paid circulation to be at least 65 percent of the total number of copies distributed for a publication to qualify for second-class mail privileges. The law also requires that advertising space in a publication not exceed 75 percent and that a publication be published at least four times a year.

Section 4369 of title 39, United States Code, provides that each owner of a publication having second-class mail privileges furnish data to the Postmaster General at least once a year, showing, among other things, the extent and

nature of the circulation of the publication, including the number of copies distributed and the extent that such distribution is either fully or partially paid.

The annual statements filed by publishers with the Department showed that, of the 115 ineligible publications, 90 did not have the required 65-percent paid circulation. Department records showed that most of these publications had not been eligible for second-class mailing privileges for at least 4 years and that two publications had not been eligible for as long as 9 years.

Many of the publications were initially delivered to news agents who subsequently distributed copies to newsstands. Because sufficient information was not readily available as to the quantity of copies of ineligible publications mailed by news agents, we were unable to estimate the total amount of undercharged postage. However, we identified at least 11.7 million copies of the publications that had been mailed annually at second-class rates during the periods of ineligibility. We estimate that the revenue not collected by the Department on these copies amounted to about \$220,000 annually. In reviewing publishers' records, we identified 23 other publications involving 4.3 million copies which did not meet the 65-percent paid circulation requirement. We estimated that the uncollected revenue amounted to about \$178,000 annually. (See p. 19.)

Also, data submitted to post offices by publishers at the time publications were mailed showed that two publications were ineligible for second-class mailing privileges--one publication contained more advertising than legally permitted and one was issued less frequently than four times a year. These two publications involved mailings of about 725,000 copies annually. We estimate that the revenue uncollected on these publications amounted to about \$31,000 annually.

Department officials informed us that they were reluctant to revoke second-class mailing permits and preferred to give publishers every opportunity to retain their permits if they promised to meet eligibility requirements. The Department's position is illustrated by the chronology of events

concerning one publication that had been ineligible for at least 9 years. (See app. I.)

Records clearly show that the Department had ample evidence that the publication had not qualified for second-class mail privileges since at least 1960. We believe that, when the publisher submitted data which showed that the publication was ineligible, the Department should have initiated action to suspend or revoke the second-class permit and should have required the publisher to pay postage at the legally applicable rate--not the second-class rate--until the publication became eligible for the preferential second-class rate.

During our review we advised the Department or the local postmasters of 36 ineligible publications, and the Department confirmed our findings that 30 publications did not meet the eligibility requirements for second-class mail. At the time our field work was completed, the Department had not completed its review of the other six publications.

The publishers of eight publications surrendered their second-class permits; and the publishers of the other 22 publications have taken action or proposed to take action to qualify their publications for second-class mail privileges, such as by increasing the number of subscribers or by reducing the number of free copies distributed. The Department does not plan to take any action to collect additional postage on the basis of the legally applicable rate, such as the higher third-class rate. A Department official informed us that, since the publications were covered by second-class permits, they were entitled to be mailed at the second-class postage rates even though the publications did not meet the eligibility requirements for second-class mailing privileges.

We believe that, since the publications were ineligible for second-class rates, postage should have been charged at the rates and classes for which the publications could qualify. The difference between second-class rates and third-class rates is substantial. For example, the Department, using second-class rates, computed postage undercharges of about \$55,000 for eight publications which were ineligible for second-class mailing privileges. However,

using the legally applicable third-class rate, we estimate that the postage undercharges on the eight publications should have been about \$110,000.

Section 4352(b) of title 39, United States Code, provides that the Postmaster General may revoke a publication's entry into the mails at second-class rates whenever he finds, after a hearing, that the publication is no longer entitled to be entered as second-class mail. Postal regulations (P.M. 132.8) provide that, when a publication is no longer entitled to second-class entry into the mails, the Director, Office of Mail Classification, Bureau of Finance and Administration, issue a ruling of suspension or revocation to the publisher. The ruling becomes effective in 15 days unless the publisher files a petition with the Department appealing the Director's ruling, in which case the Department holds a hearing and renders a final decision.

In addition, sections 1001 and 1722 of title 18, United States Code, provide penalties for knowingly submitting false evidence for the purpose of mailing publications at second-class rates.

Conclusions

Although the Department's administrative regulations provide for revocation or suspension of second-class mail permits when publications are no longer entitled to second-class mail privileges, the Department has not taken timely action to do so. As a general rule the Department's action has been directed toward influencing the publishers to reduce the number of free copies circulated or whatever other action was necessary to qualify the publications for second-class mail privileges. Apparently this approach has not been effective since some of the publications discussed in this report have been ineligible for second-class mailing privileges for a number of years, despite the Department's efforts. In the meantime the Department failed to collect substantial revenues because it had allowed the ineligible publications to be mailed at the second-class postal rates.

Because second-class postal rates are a privilege which gives publishers substantially lower rates than the rates for other classes of mail, we believe that the

Department should ensure that only those publications which meet the legal requirements are afforded this privilege.

Recommendation

We recommend that the Department take prompt action to revoke or suspend second-class mailing permits for publications ineligible for second-class mailing privileges and to establish a policy of charging postage at the appropriate rate on all copies of publications mailed after the date that publications first fail to meet second-class mail eligibility requirements.

SPECIFIC CRITERIA NEEDED FOR
CLASSIFYING CERTAIN FREE COPIES
OF PUBLICATIONS

Because pertinent postal regulations lack specific criteria for assisting publishers and postal employees in classifying free copies of publications mailed by publishers, the Department has not collected all the revenue to which it is entitled. Of the 334 publications we examined, about 3 million free copies involving 148 publications had been mailed at rates which resulted in what we believe to be an undercharge of postage estimated at \$221,000 annually.

As provided by section 4359 of title 39, United States Code, preferred or regular second-class postal rates apply to sample copies of publications to the extent of 10 percent of the weight of copies of publications mailed to persons who are on a legitimate subscription list. The law (39 U.S.C. 4362) provides that transient second-class postal rates, which are higher than preferred or regular rates, be charged for sample copies of publications mailed in excess of the 10-percent limitation and for other free copies mailed to persons not included on a legitimate list of subscribers.

Under common usage, a subscription to a publication is normally considered to be an agreement to pay a sum of money for a certain number of copies extending over a period of time. On January 6, 1915, the U.S. Circuit Court of Appeals (First Circuit), in deciding the case of Myrick v. United States 219 F.1, defined the term "legitimate list of subscribers" as follows.

"The phrase 'a legitimate list of subscribers' evidently means a list of subscriptions taken at more than a nominal price, and the price must have been paid, or the subscriber, or some one in his behalf, be under obligation to pay the agreed price, and that subscriptions taken at a nominal price, or without price, do not answer the requirements of the statute in this particular and cannot be counted in making up a legitimate list."

The legislative history relating to section 4362 of title 39, United States Code, contained in House Report 681 and Senate Report 946, Seventy-second Congress, first session, dated March 3 and June 28, 1932, respectively, defines "sample copies" as those sent to persons for the purpose of inducing them to subscribe for, advertise in, or become agents for the publication. However, the policy of the Department is to accept the publishers' classification of free copies of publications as sample copies provided that the words "SAMPLE COPY" be shown on the address side of wrappers or on the outside covers of unwrapped copies. A Department official stated that the Department has to accept such designations because it has no way of determining publishers' intent.

The publishers of 148 publications included in our review, mailed free copies regularly and for extended periods of time to various recipients. The publishers reported these copies as subscriber or sample copies on which the preferred or regular second-class rates were charged. On the basis of our examination of publishers' records and discussions with publishers, we estimate that at least 3 million free copies--that were not subscriber copies or could not reasonably be classified as sample copies under the definition of "samples" contained in the committee reports--were mailed annually at the preferred or regular second-class rates.

For example, all copies mailed (about 2 million annually) by the publisher of a weekly newspaper were classified as subscriber copies, and postage was computed at the regular second-class rates. The publisher's records showed that thousands of copies were mailed annually to certain recipients, such as other news media, libraries, show people, and radio and television stations. These recipients were on the publisher's regular mailing list and had regularly received the newspaper free of charge for extended periods of time. When we advised the postmaster that the publisher had erroneously classified these free copies as subscriber copies, the postmaster recomputed the postage, using the transient rate, and charged the publisher additional postage of \$956 for the 10,000 free copies mailed during the prior year.

The following varying actions taken by local postmasters on some of the other cases we referred to them involving publishers' erroneously classifying free copies, in our opinion, clearly demonstrate the need for the Department to establish more adequate guidelines.

1. Three postmasters charged additional postage of \$9,500, on the basis of the transient rate, for past mailings of eight publications and instructed the publishers that in the future the transient rate will be charged on all such copies.
2. Six postmasters informed the publishers of 11 publications that, in the future, postage at the transient rate will be charged on such copies. No charge was made for additional postage on the past mailings.
3. Five postmasters instructed the publishers of 28 publications that, in the future, such copies should be stamped "sample" and should be reported as such. No charge was made for additional postage on the past mailings.

Apparently some postmasters considered the free copies as those mailed to persons not on a legitimate list of subscribers and therefore applied the transient rate. Other postmasters considered the free copies as samples and therefore applied the lower regular or preferred rate.

In our opinion, a number of factors have influenced the incorrect and inconsistent application of postal rates to free copies of publications. The primary reason is that existing postal regulations do not clearly distinguish between free copies that are samples and free copies that publishers give to persons not on a legitimate list of subscribers. Under current Department procedures, complete reliance is placed on the classifications made by the mailers (publishers).

We believe that such a situation does not ensure that the postal rates prescribed by the Congress are charged.

Officials of the Department told us that, for the purpose of applying postal rates, limiting sample copies to only those copies which the publisher sends with the hope of inducing the recipient to become a subscriber, advertiser, or agent requires the Department to judge the publisher's intent, which is very difficult.

Although we agree that it would be difficult to make such a judgment, we believe that the intent of the legislation could be carried out by establishing specific criteria which would specify a reasonable limitation on the period of time, taking into consideration the frequency of issue, that a publication may be mailed at the lower regular or preferred postal rates to the same person as a sample copy.

In this regard the Department has established a limit on the period that samples can be sent to former subscribers, one type of recipient of free copies, at the lower second-class postal rates. Postal regulations (P.M. 132.465) provide that sample copies may be mailed to former subscribers at preferred or regular second-class postal rates for a period of 6 months after the subscriptions expire. After 6 months, free copies mailed to former subscribers appear to be subscriptions given free by the publishers and the higher second-class transient rate must be paid on these copies. It does not appear reasonable [to us] to limit the period for sending sample copies at reduced postal rates to former subscribers, ^{and to not limit the period for mailing samples at the reduced postal rates to other recipients because a recipient who has continuously received a publication free for a number of years has no inducement to subscribe to the publication.} ^{while at the same time} ^{may be sent}

In a letter to the Postmaster General in August 1968, we stated that publishers were mailing free copies regularly to the same recipients over extended periods of time, which indicated that there was no intent to induce recipients to subscribe for, advertise in, or become an agent for, the publication. We stated that, in our opinion, the policy of permitting free copies to be mailed indefinitely at the lower second-class postal rates was inconsistent with the intent of the law as shown in congressional committee

reports. We suggested that the Department establish reasonable limits on the number of sample copies that can be mailed at reduced rates to the same recipient during a specific period.

The Department, in its reply to us on November 1, 1968, stated that it did not share our view that the definition of sample copies contained in the Senate and House Reports constituted a showing of congressional intent to legislate that definition into law. The Department stated that the Senate and House Reports had repeated a departmental definition first issued in 1879. The Department also expressed the opinion that the law limits neither the number of sample copies which can be sent to any person nor the period.

Conclusions

Although the law does not make reference to limitations on time periods or number of sample copies, we believe that the Congress had not contemplated or intended that copies of publications mailed regularly to the same person for an extended period of time be classified as sample copies.

Our view concerning the intent of the Congress appears to be supported because the law (39 U.S.C. 4362) provides for different rates to be applied to free copies, depending on whether publications are sent to persons as samples or to persons not on a legitimate list of subscribers. Section 4362(3) of the law states that the higher transient postal rate applies to all copies "*** mailed by the publishers to persons who may not be included in the required legitimate list of subscribers ***." The law also requires that the higher transient rate be applied only to those sample copies in excess of 10 percent of the weight of subscriber copies. Without specific criteria for classifying sample copies, a distinction cannot be made--for postal rate purposes--between sample copies which are subject to a lower postal rate and copies sent to persons not included on a legitimate list of subscribers, which are subject to a higher postal rate. The Department will continue to undercharge postage until such specific criteria are established.

Recommendations

We recommend that the Postmaster General (1) revise postal regulations to clearly define sample copies and (2) establish a reasonable limitation on the period of time, taking into consideration the frequency of issue, that sample copies can be sent to the same person at the lower preferred or regular second-class rate.

PUBLISHERS' RECORDS SHOULD BE EXAMINED
MORE FREQUENTLY AND EFFECTIVELY

We believe that, to provide greater assurance that proper postage is paid on second-class mailings, the Department's examination of publishers' records should be made ~~more effectively~~ and within the Department's prescribed time frequency. At three of the post offices we visited, ~~no~~ examinations of publishers' records had ^{been} made, even though the Department had established such a requirement ~~several years earlier~~. At the other 19 post offices we visited, we found that generally the examinations of publishers' records had been ineffective and had not been made within the required time frequency. ^{??}

Our examination of publishers' records for selected publications showed that 23 publications had not met the 65-percent paid circulation requirement for second-class mail privileges for several years. About 4.3 million copies of these publications had been mailed annually, and we estimate that, if the legally appropriate postal rate rather than the second-class postal rate had been charged, the Department would have received additional revenue of about \$178,000 annually.

We also found that about one million copies of publications had been misclassified by publishers, as subscriber or sample copies and had been mailed annually at the lower preferred or regular second-class rates instead of the higher transient rate. ~~We estimate~~ postage undercharges of about \$62,000 annually ^{were made} on these copies. The various types of misclassifications ~~we~~ found are shown below. There were

- 368,000 more advertisers' proof copies mailed to advertisers or advertising agents than there were advertisers in the issues. Postal regulations provide that the number of proof copies mailed at the preferred or regular rates not exceed the number of advertisers in the issue. (P.M. 132.466)

- 284,000 copies mailed to former subscribers whose subscriptions had been expired for more than 6 months. Postal regulations require that the higher transient

rates be paid for copies mailed after 6 months to former subscribers who had not renewed their subscriptions. (P.M. 132.465)

--96,000 copies in excess of the 10-percent limitation mailed as samples. The law and postal regulations require that the higher transient rates be paid for sample copies mailed in excess of 10 percent of the weight of subscriber copies. (P.M. 132.461)

--85,000 copies paid for by advertisers or others, apparently to promote their own interests. Postal regulations require that the higher transient rates be paid for copies paid for by advertisers or others to promote their own interests. (P.M. 132.462)

--190,000 copies mailed by printers to publishers. Postal regulations require that postage at the third- or fourth-class rates be paid for copies mailed by printers to publishers. (P.M. 132.467)

In January 1964, the Department established procedures (P.M. 126.66) requiring postal employees to annually review the records at publishers' offices to verify the data submitted by publishers, ~~except that post offices handling more than 100 publications~~ ^{could cycle these reviews over a longer period of time} ~~not to exceed 5 years~~ ^{but should not exceed more than 5 years} ~~cycles~~

The stated purposes of the reviews of publishers' records by postal employees are to determine that the number of (1) copies reported as subscriber copies does not include nonsubscriber copies, (2) nonsubscriber copies mailed at the transient second-class rate or declared as samples does not exceed the quantity allowable, and (3) copies distributed to paid subscribers and to purchasers of single copies constitutes at least 65 percent of the ~~total~~ ^{total} copies distributed.

We reviewed the work performed by postal employees in examining publishers' records and discussed various aspects of the reviews with them. Postal employees had examined the records of many of the publications that we examined but had not detected that certain publications were ineligible

and that copies were misclassified. In our opinion, the reviews made by postal employees were not timely or effective.

We noted the following matters which raise questions as to the effectiveness of the reviews made by postal employees.

- The total number of copies printed was not accounted for. This is necessary to verify the accuracy of the number of copies reported as mailed and to determine the extent of paid and unpaid circulation for all copies distributed. These factors affect the eligibility of a publication for continued second-class mailing privileges.
- The accuracy of the ^{Classification and Count of} ~~breakdown~~ ^{copies} between subscriber and sample copies reported to the post office by the publisher was not verified. Without ~~verifying the accuracy of these data,~~ ^{verification,} ~~sample copies in excess of the legally required 10-percent limitation would not be detected.~~ ^{error could}
- Recipients of nonsubscriber copies were not identified; therefore it could not be determined whether the proper postage was charged for these copies.
Postal regulations require that postage be charged at the transient rate for copies mailed to persons whose subscriptions have been expired for more than 6 months and for advertiser proof copies in excess of the number of advertisers in an issue.

Large post offices usually have finance examiners who are required to make periodic reviews of post office operations, including second-class mail operations, and to report the results of their reviews directly to the postmasters.

In their reviews of second-class mail operations, the finance examiners are required to determine whether postal employees have reviewed publishers' records at required intervals. Finance examiners at only two of the 22 post offices included in our review reported that postal employees'

reviews of publishers' records were inadequate. In view of the significant deficiencies discussed in this report, we believe that there is a need for finance examiners to intensify their evaluations of postal employees' reviews of publishers' records.

At the Department level the internal review function is the responsibility of postal inspectors and internal auditors. We were informed that the internal auditors do not regularly conduct audits of the procedures and controls over the collection of revenue from second-class mail. Postal inspectors, however, as part of their periodic reviews of procedures and controls over postal operations at post offices, are required to evaluate the effectiveness of the controls over this revenue. Postal inspectors are specifically instructed to review the work of postal employees in examining publishers' records. Postal inspectors' periodic reviews have detected sizable second-class mail revenue deficiencies. However, according to information furnished by the Chief Inspector, corrective action has been directed to recovering underpaid postage on specific cases, rather than dealing with the underlying causes of the problem.

Conclusions

Which one?

We recognize that second-class mail operations at large post offices are only one of the many activities that postal inspectors are required to examine during a limited period of time. However, in view of the problems we found in the administration of second-class mail operations, we believe that increased surveillance of this operation is warranted.

We believe that the review of publishers' records to verify data furnished by publishers on second-class mailings is a necessary management control to ensure that the proper postage has been paid. Independent examination of publishers' records is the Department's primary control to ensure that publications are eligible for second-class mail privileges and that copies are classified properly since, at the time of mailing, almost complete reliance has to be placed on the publishers' declarations.

Recommendation

We recommend that the Department strengthen its internal management review to ensure that postmasters require postal employees to effectively review publishers' records within the required frequency.

CHAPTER 3

AGENCY COMMENTS AND GAO EVALUATION

In commenting on our draft report, the Postmaster General, in a letter dated May 4, 1970 (app. II), stated that he was ordering a complete, high-priority study of the matters discussed in our report. He also indicated that the problems cited in our report may have to be remedied by changes in laws and regulations.

We believe that the high-priority study ordered by the Postmaster General is a necessary and desirable step which should lead to improvement in the Department's administration of second-class mail operations. Since the Department is not collecting a substantial amount of revenue because ineligible publications are being mailed at second-class postal rates and because certain copies of publications are being mailed at postal rates lower than those required by postal regulations, we believe that two of our recommendations concerning (1) timely revocation or suspension of permits for ineligible publications (see p. 12) and (2) a strengthened internal management review (see p. 23) should be implemented without waiting for completion of the study.

CHAPTER 4

SCOPE OF REVIEW

Our review of policies and procedures used by the Post Office Department in assessing and collecting postage on publications mailed as second-class matter included a review of the enabling legislation and postal regulations and an appraisal of the work of postal inspectors, finance examiners, and postal employees who had reviewed publishers' records. We also evaluated the procedures followed at post offices in computing postage charges and in verifying weights and percentages of advertising reported by publishers for publications mailed. We examined the records of selected publishers, involving 334 publications and annual mailings of about 373 million pieces of second-class mail. Some publications are included in more than one of the findings discussed in the report.

The review was made at the Department's headquarters in Washington, D.C., at the Cincinnati, New York, Philadelphia, and San Francisco Postal Regional Offices, and at 22 post offices and selected publishers' mailing offices within the postal regions.

APPENDIXES

CHRONOLOGY OF DEPARTMENT ACTIONS
CONCERNING A PUBLICATION THAT
HAD BEEN INELIGIBLE FOR
SECOND-CLASS MAIL PRIVILEGES
FOR 9 YEARS

(Average annual mailings--more than 100,000 copies)

- January 25, 1956 The publisher filed an application for second-class mail privileges on Form 3501: Application for Second-Class Mail Privileges.
- February 14, 1956 The application for second-class mail privileges was approved by the Department.
- February 2, 1960 The postmaster requested the publisher to furnish data showing the circulation of the last two issues of the publication, along with evidence regarding the actual sales and returns of news agents' copies.
- March 11, 1960 Because no response to the February request for circulation data had been received, the postmaster again requested the publisher to furnish such data.
- March 18, 1960 The publisher furnished the requested data which showed that the paid circulation was 32 percent of the total circulation for the October 1959 issue and 41 percent for the December 1959 issue.
- July 14, 1960 The Department advised the publisher that the publication did not meet the 65-percent paid circulation requirement for entry as second-class matter and

requested circulation data for the May and July issues. The Department also advised the publisher that his second-class permit would be revoked if the publication did not meet the circulation requirements.

March 16, 1961

The Department directed the postmaster to have the publisher furnish the statements of circulation previously requested.

March 20, 1961

The postmaster requested the publisher to furnish circulation data for the May and July 1960 issues which had been previously requested in July 1960.

April 21, 1961

The Department asked the postmaster to advise when it might expect the requested circulation data.

April 26, 1961

The postmaster again requested the publisher to furnish circulation data for the May and July 1960 issues.

April 28, 1961

The publisher advised the postmaster that information regarding the May and July 1960 issues was being completed and would be forwarded.

June 6, 1961

The postmaster again requested the publisher to furnish circulation data for the May and July 1960 issues.

July 24, 1961

The Department directed the postmaster to obtain the circulation data for the May and July 1960 issues.

July 27, 1961

The postmaster again requested the publisher to furnish circulation data for the May and July 1960 issues.

August 2, 1961

The publisher furnished the requested circulation data which showed that the

paid circulation for the May 1960 issue was 41 percent and the paid circulation for the July 1960 issue was 44 percent of the total circulation.

- August 15, 1961 The Department directed the postmaster to request the publisher to furnish circulation data for the next two issues. The Department also requested that the postmaster suggest that the publisher abandon his second-class permit if he could not comply with the circulation requirements.
- August 22, 1961 The postmaster requested the publisher to furnish circulation data for the next two issues and suggested that the publisher abandon his second-class mail permit if he could not comply with the circulation requirements.
- September 19, 1961 The postmaster requested the publisher to reply to his letter of August 22, 1961.
- October 20, 1961 The postmaster told the publisher that, if he did not reply to the letter of August 22, by October 27, the publication would be deemed not to have fulfilled the requirements for second-class mail.
- October 25, 1961 The publisher notified the postmaster that the next two issues after August 22 would be the issues of December 1961 and February 1962. Circulation data for the December 1961 issue would be available about January 25, 1962, and for the February 1962 issue, on or about March 25, 1962.
- February 8, 1962 The postmaster requested the publisher to submit circulation data for the December 1961 and February 1962 issues as soon as possible.

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- March 13, 1962 The postmaster asked the publisher to reply to the February 8, 1962, letter.
- April 4, 1962 The postmaster again asked the publisher to reply to the February 8, 1962, letter.
- April 16, 1962 The publisher furnished circulation data which showed that the paid circulation of the December 1961 issue was 40 percent and the paid circulation of the February 1962 issue was 36 percent of the total circulation.
- June 5, 1962 The Department advised the postmaster that the data for six issues had shown that only 39 percent of the total copies distributed was paid circulation and directed the postmaster to inform the publisher that he must comply with the paid circulation requirements, or action would be taken to revoke his second-class mail permit. The Department further told the postmaster to suggest that the publisher abandon his second-class-mail permit or furnish a statement showing what he intends to do to comply with the circulation requirements. The Department also asked the postmaster to obtain circulation data from the publisher for the next two issues of the publication.
- June 12, 1962 The postmaster complied with the Department's letter of June 5, 1962.
- October 26, 1962 The postmaster asked the publisher to furnish the data requested June 12, 1962.
- November 15, 1962 The postmaster again asked the publisher to furnish the data requested June 12, 1962.
- December 26, 1962 The postmaster advised the publisher that, if he did not reply to the letter

of June 12, 1962, in 10 days, the matter would be reported to Department Headquarters.

- January 3, 1963 The publisher furnished the postmaster with data which showed the paid circulation for the August 1962 issue was 34 percent and for the October 1962 issue was 35 percent of the total circulation. The publisher further told the postmaster that he would make an effort to reduce the number of copies circulated.
- January 10, 1963 The postmaster furnished the data to the Department.
- March 1, 1963 Because the publisher had stated that he would reduce the number of copies circulated, the Department asked the postmaster to obtain circulation data for the next two issues from the publisher.
- March 5, 1963 The postmaster asked the publisher for circulation data for the next two issues, as requested by the Department.
- March 19, 1963 The postmaster again asked the publisher to furnish the data for the next two issues.
- April 16, 1963 The postmaster again asked the publisher for the issue dates of the next two issues and when the circulation data would be submitted.
- May 20, 1963 The postmaster told the publisher that, if he did not comply with the requests of March 5 and 19 and April 16, the matter would be reported to the Department.

- May 23, 1963 The publisher informed the postmaster that the two issues published after March 5, 1963, would be the August 1963 and October 1963 issues. The information on the August 1963 issue should be available on or about September 30, 1963, and on the October 1963 issue, on or about November 30, 1963.
- May 28, 1963 The postmaster relayed the information contained in the publisher's letter of May 23, 1963, to the Department.
- June 8, 1964 The postmaster requested circulation data for the August and October 1963 issues from the publisher.
- June 12, 1964 The publisher sent the postmaster data showing the circulation of the August and October 1963 issues. The August 1963 issue had 45-percent paid circulation, and the October 1963 issue had 35-percent paid circulation.
- June 16, 1964 The postmaster sent the Department the circulation data for the August and October 1963 issues.
- June 29, 1964 The Department requested the postmaster to again explain to the publisher the provisions of second-class mailing privileges and to inform the publisher that, if he could not meet the requirements, action would be taken to revoke the second-class entry of the publication.
- July 2, 1964 The postmaster informed the publisher of the Department's letter of June 29, 1964. The postmaster also told the publisher that, if he intended to comply with the circulation requirements, he should send circulation data for the next two issues.

- July 21, 1964 The postmaster asked the publisher that, if he intended to take any action, he comply with the second-class entry and suggested that, if he did not intend to take any action, he abandon the permit. The postmaster also requested circulation data for the next two issues.
- August 19, 1964 The postmaster reiterated the requests made in his letter of July 21, 1964.
- September 21, 1964 The postmaster again requested the circulation data which he had already requested in his letter of July 2, 21, and August 19, 1964.
- September 25, 1964 The publisher informed the postmaster "*** that we are taking steps through a comprehensive analysis of our present distribution pattern to comply with your circulation requirements." The publisher furnished circulation data showing that the paid circulation for the February 1964 issue was 42 percent of the total circulation.
- October 1, 1964 The postmaster sent the Department the circulation data for the February 1964 issues.
- October 1, 1965 The publisher filed Form 3526. Statement of Ownership Management and Circulation, showing that the average paid circulation for the previous year was 42 percent of the publication's total circulation.
- March 28, 1966 A review of the publisher's records by postal employees for the January 1966 issue showed that the paid circulation for that issue was 36 percent of the publication's total circulation.

- October 1, 1966 The publisher filed form 3526 with the postmaster, which showed that the average paid circulation for the previous year was 39 percent of the total circulation.
- June 29, 1967 The acting postmaster furnished to the Department a list of 135 publications which failed to have the required paid circulation for the 12-month period ended September 30, 1966. Included in this list was the publication we are commenting on in this appendix.
- July 7, 1967 The Department asked the postmaster what action was being taken to have the publisher comply with the 65-percent paid circulation requirements and whether the publisher's records were being verified.
- July 24, 1967 The postmaster advised the Department that the publisher's records were being verified.
- October 1, 1967 The publisher filed form 3526 with the postmaster, which showed that 39 percent of the publication's total circulation was paid circulation.
- November 30, 1967 In connection with a request for a change in frequency of publication, the publisher furnished the postmaster with data showing the paid circulation for the April 1967 issue was 30 percent of the publication's total circulation.
- October 1, 1968 The publisher furnished the postmaster with circulation data on form 3526 that showed the publication's average paid circulation for the preceding 12 months was 41 percent of its total circulation.

October 1, 1969

The publisher submitted form 3526 showing the publication's average paid circulation for the preceding 12 months was 34 percent of its total circulation.



The Postmaster General
Washington, D.C. 20260

May 4, 1970

Dear Mr Neuwirth

We appreciate the opportunity to review your proposed report to the Congress entitled "Potential Increase in Revenue by Improving the Administration of Second-Class Mail Operations."

Upon the basis of our review, I am ordering a complete examination of all pertinent regulations, including the administration thereof, and the specific provisions of the second-class mail privileges treated in your report.

The study I am ordering will be conducted on a high-priority basis. I will assign expert personnel who can review with detachment and objectivity the abuses cited in your report. It may well be that these problems can be remedied only through changes in laws and regulations which have proliferated over many years and now confront the Department with a total system that is too complex to insure both economical and adequate enforcement.

I shall be pleased to inform you of our findings.

Sincerely,

A handwritten signature in black ink, appearing to read "Winton M. Blount".

Winton M. Blount

Mr Max A Neuwirth
Associate Director, Civil Division
U S General Accounting Office
Washington, D C. 20548

PRINCIPAL MANAGEMENT OFFICIALS OF
THE POST OFFICE DEPARTMENT
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
POSTMASTER GENERAL:		
Winton M. Blount	Jan. 1969	Present
W. Marvin Watson	Apr. 1968	Jan. 1969
Lawrence F. O'Brien	Nov. 1965	Apr. 1968
DEPUTY POSTMASTER GENERAL:		
Elmer T. Klassen	Jan. 1969	Present
Frederick C. Belen	Feb. 1964	Jan. 1969
ASSISTANT POSTMASTER GENERAL BUREAU OF FINANCE AND ADMINIS- TRATION (note a):		
James W. Hargrove	Feb. 1969	Present
BUREAU OF OPERATIONS (note a):		
Frank J. Nunlist	Apr. 1969	Present
Vacant	Jan. 1969	Mar. 1969
William M. McMillan	Feb. 1964	Dec. 1968

^a Responsibility for administration of second class mail operations was transferred from the Bureau of Operations to the Bureau of Finance and Administration in August 1969.