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DECISION



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

FILE: B-212745

DATE: April 15, 1985

MATTER OF: Postal Service-Air Force Postage
Billing Dispute.

DIGEST: 1. The Air Force should pay the Postal Service amounts due for postage calculated on the basis of a statistical sampling method. The Postal Service's sampling method has a rational basis and the Air Force has not established a more realistic computation. Further, the Department of Defense, acting on behalf of military departments including the Air Force, agreed to the Postal Service's statistical sampling method in 1972.

2. Although an Air Force contractor used an improper form for bulk mailing, the Air Force should nonetheless be charged at bulk rate in view of the longstanding Postal Service practice of accepting bulk mailings without proper form.

This decision is in response to separate requests from the Air Force, acting through the Military Postal Service Agency, and from the United States Postal Service. The Air Force requests a decision pursuant to 31 U.S.C. § 3529 (1982) regarding whether it may properly pay certain disputed postage bills. The Postal Service requests the aid of this Office in collecting the amounts due under the disputed bills pursuant to 39 U.S.C. § 2601(a) (1982). As set forth below, we conclude that the Air Force is indebted to the Postal Service in the total amount of \$9,680,109.

The dispute for resolution here is, in fact, a series of disputes, covering the fiscal years 1976 through 1983. In each of those years, the Air Force has refused to pay a portion of the bill for postage submitted to it by the Postal Service. The Air Force complains that the Postal Service: 1) used an invalid statistical sampling system in some years to measure the Air Force's use of "penalty" mail, (2) applied incorrect postage rates to certain Air Force contractor bulk mailings and (3) incorrectly calculated certain bills. Because of the

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complex statistical and factual analysis required to resolve this dispute, we requested and received the attached analyses from our Postal Service Audit Group.

Statistical Billing Procedures

The largest part of the dispute concerns \$9,640,851, which the Postal Service calculates the Air Force owes for "penalty mail." Penalty mail is defined in 39 U.S.C. § 3201(1) (1982) as "official mail, other than franked mail, which is authorized by law to be transmitted in the mail without prepayment of postage." Pursuant to 39 U.S.C. § 3206(a) (1982), Government agencies must "transfer to the Postal Service as postal revenue out of any appropriations or funds available to them, as a necessary expense of the appropriations or funds and of the activities concerned, the equivalent amount of postage due, as determined by the Postal Service, for matter sent in the mails by or to them as penalty mail * * *." The Postal Service determines the "equivalent amount of postage due" from the Air Force by a complex statistical sampling method, whereby a sample of the volume and type of mail is taken at selected Air Force post offices. From this sample, the total Air Force mail usage is computed. See Letter Report to the Chairman, Committee on Appropriations, United States Senate, GGD-75-71, B-182343, February 20, 1975.

The statistical sampling method for determining the Air Force's penalty mail usage is used by the Postal Service pursuant to a letter agreement dated March 6, 1972 between the Postal Service and DOD. The agreement provides, in part:

We further agree that beginning with Fiscal Year 1973 the United States Postal Service will conduct sampling of DOD penalty mail usage, as a subsystem of the on-going Revenue/Cost Analysis--Random Sample of Revenue, Pieces and Weight of Mail--PS Form 1120, and will submit a quarterly bill to the DOD based on the sample results priced out at prevailing rates.

In 1975, GAO reviewed the Postal Service's statistical sampling method for measuring DOD's penalty mail usage and found that it was reasonably reliable. GAO/GGD 75-71, supra, at 3. We concluded that "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." Id.

Discussion

In B-183734, September 15, 1975, this Office resolved a similar dispute between the Postal Service and the General Services Administration (GSA). GSA had declined to pay a Postal Service bill, based on, in part, its contention that the Postal Service sampling procedure had "no more validity than picking percentages at random." We resolved the dispute in favor of the Postal Service, concluding:

While the basic approach of estimating the equivalent value of penalty mail remains appropriate under the Postal Reorganization Act, we believe, as stated previously, that the equivalency concept requires reimbursement in an amount reasonably calculated to approximate the actual value of penalty mail used. Any lesser standard would effectively result in the provision of an unauthorized subsidy by the Postal Service. Conversely, an unreasonably high reimbursement amount would afford an unauthorized subsidy to the Postal Service. In the instant case, while the Postal Service's method of computing the additional amount due from GSA is far from precise, it does have a rational basis. Moreover, due to the misunderstanding between the parties, it constitutes the only method available to it, as indicated by the record before us. GSA has failed to offer a more realistic computation, and certainly such failure cannot excuse its liability.

Attachment 2 to this decision describes the statistical sampling method used by the Postal Service to calculate Air Force postage charges. The relatively small size of the sample resulted in high sampling errors for the Air Force, in comparison with the Department of Defense as a whole, during the period analysed by our Office. See Attachment 2, page 6. This high statistical sampling error strongly supports the contention of the Air Force that the statistical sampling method is no longer an acceptable method of calculating the Air Force's use of penalty mail and that the accuracy of the Postal Service's billings may be suspect.

However, this high estimated sampling error does not indicate that the results of the statistical sampling method are wrong or that the method does not have at least a "rational basis." Rather, the sampling error merely shows the maximum amount by which the estimate obtained from any given sample may differ, either plus or minus, from the value estimated for the whole. Thus, a high sampling error indicates that the sampling may not be highly reliable. However, this doesn't necessarily

mean that the Air Force was overcharged. It is equally likely that it was undercharged, or that the plus and minus deviations cancelled each other and the estimate closely approximates the true cost. Further, since the sampling method produced reasonably accurate estimates for the Department of Defense as a whole, total payments to the Postal Service will closely approximate actual costs.

Similar to the GSA-Postal Service dispute in B-183734, discussed above, the method of estimate used here, although not precise, is not demonstrably unreasonable. In any event, the Air Force has failed to establish a more realistic estimate for the entire period from 1976 through 1983. In fact, based on the record, the Postal Service statistical estimates now constitute the only bases for determining Air Force mail usage during the years in question.

More importantly, as noted above, the Department of Defense, acting on behalf of the military departments, including the Air Force, entered into an agreement with the Postal Service on March 6, 1972, in which the parties agreed that the Postal Service's statistical sampling method would be used to calculate the military departments' penalty mail usage. When the Air Force found the agreement unsatisfactory, its proper course would have been to obtain release from its terms, not to abrogate it unilaterally.^{1/} While we are sympathetic with the Air Force's problem in this case, we can find no legal basis to relieve it of its obligations under the agreement. Accordingly, we conclude that the Air Force should remit to the Postal Service \$9,640,851 for penalty mail usage between fiscal years 1976 and 1983.

Contractor Bulk Mailings

A total of \$460,676 is in dispute because of a difference between the Postal Service and the Air Force regarding an Air Force contractor's use of an improper form for certain third class bulk mailings. The Postal Service contends that the form used by the contractor is not acceptable for third class bulk mailings, because its use causes the receiving post office to omit certain verification procedures necessary to determine that a mailing, in fact, qualifies for the bulk rate.

^{1/} We note that recently the Air Force has, in fact, elected to resolve this problem by ceasing to use penalty mail except in carefully limited circumstances. See USPS Postal Bulletin 21496, January 17, 1985 at 17.

Accordingly, the Postal Service billed the Air Force at the higher single piece rate. The Air Force contends that proper procedures were followed and that other mailings have been accepted by the Postal Service when the form in question was used.

In a recent report to the Postmaster General, this Office found that 225 of 346 bulk mailings were accepted by the Postal Service even though they did not meet the bulk rate requirements. GAO, Acceptance Procedures For Bulk Mailings: Postal Initiatives Show Promise, GGD-82-72, B-202339, June 28, 1982. Because the Postal Service has historically accepted bulk rate mailings from a variety of sources which do not meet the bulk rate requirements, we do not believe it is appropriate to charge the Air Force at the single piece rate in the instant case. We note that 39 U.S.C. § 403(c) (1982) bars undue or unreasonable discrimination among mail users.

Accordingly, we conclude that the Air Force should have been billed for the bulk mailings in question at the third class bulk rate, equaling a total of \$279,867. Because the Air Force has already paid \$242,817 for these bulk mailings, it should remit an additional \$37,050.

Parcel Mailings

The last disputed amount concerns two billings totaling \$2,218 for mailings of parcels by the Air Force in 1980. The Air Force has not paid either of these bills. The Postal Service has agreed that there was a \$10 error in one of these billings. Accordingly, the Air Force is indebted to the Postal Service in the amount of \$2,208.

for Harry D. Du Clos
Comptroller General
of the United States

Attachments

AMOUNTS IN DISPUTE

Fiscal Year	Amount	Reason		
		Statistical Sampling Billing Procedure	Contractor Bulk Mailings	Supplemental Billing
1976	2,599,315	\$2,599,315		
1977	3,128,486	3,128,486		
1978	-0-			
1979	2,161,313	2,053,168	\$108,145	
1980	111,932		109,714	\$2,218
1981	242,817		242,817 ^{1/}	
1982	849,451	849,451		
1983	<u>1,010,431</u>	<u>1,010,431</u>	_____	_____
	<u>\$10,103,745</u>	<u>\$9,640,851</u>	<u>\$460,676</u>	<u>\$2,218</u>

^{1/}This item has been paid by the Air Force.

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STATISTICAL SAMPLING
BILLING PROCEDURE

The Air Force has refused to pay postage totaling \$9,640,851 for the period from the first quarter of fiscal year 1976 through the third quarter of fiscal year 1983. Basically, the Air Force has refused to pay the billed amounts because of "extreme" increases in quarterly volumes which caused them to believe that the sample results could not be correct.

Before the enactment of the Postal Reorganization Act (P.L. 91-375), 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 former 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.

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 annual 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.

The Department of Defense's (DOD) bill is computed differently. In October 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 for Estimating Revenue Pieces and Weight of Domestic Mail (RPW) and a subsystem of the Service's Revenue and Cost Analysis System for Estimating Revenue Pieces and Weight of Mail to Foreign Destinations. Both systems are based on a continuous statistical sampling of revenue and cost data.

Domestic RPW

The domestic RPW sampling plan can be generally described as a stratified, two-stage probability sample of clusters of mail (when a secondary sampling unit contains a large volume of mail, a third stage was introduced as a subsampling procedure).

The first stage selected a sample of post offices from the universe of all post offices. Each of the 30,000 post offices was assigned, based on revenue units, to one of the cost accounting groups (CAG). A sample was then taken of each CAG. The number of post offices and the number of offices selected for sampling during fiscal year 1984 is shown in the following table.

<u>Cost Accounting Group</u>	<u>Total Offices</u>	<u>Offices Selected</u>	<u>Percent Offices Selected</u>
A	42	42	100.0
B	87	87	100.0
C	499	180	36.1
D	464	48	10.3
E	1,121	72	6.4
F	1,656	46	2.8
G	2,515	25	1.0
H	3,376	25	.7
I	4,558	6	.1
J	11,418	30	.3
K	<u>4,085</u>	<u>30</u>	<u>.7</u>
Total	29,821	591	2.0

The total number of post offices to be sampled was determined on the basis of experience and judgment. All large offices--CAG A and CAG B--were selected. For the remaining strata the number of offices selected were in proportion to the strata's contribution to remaining total revenue. A sampling interval was computed and a random start determined. The sequence number represented by the random start indicated the first post office to be included in the sample. By systematic addition of the sampling interval to the random start number, successive sequence numbers were obtained, thus designating the post offices to be included in the sample.

For the second stage, all delivery routes are grouped into defined categories such as a post office box section.¹ Here the purpose is to get a representative sample of each category. A computer is used to randomly select the route or unit to be sampled, and the day on which the sample was to be taken.

On the day of the sample, unless the volume was too large, all pieces of mail at the unit selected were reviewed for the RPW system. If the unit's mail-volume was too large, sub-sampling procedures were utilized to reduce the sample to a manageable amount.

Foreign RPW

The foreign RPW differs from the domestic RPW in that all offices handling foreign mail are included. For each type of mail, at each office, a sampling interval is calculated. A random start was obtained, and that bag, and every bag determined

¹For this purpose, originating C.O.D. mail, originating registered mail and originating insured mail units are also included as a sampling category.

by the sampling interval, was included in the sample. This sample has been taken continuously since July 1965.

Sampling Error

The sampling error is a statistical measure of the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the value estimated for the true universe. At a 90 percent confidence level, this means that any additional samples of the same size would, 90 percent of the time, give a result within the range of the sample result plus or minus the sampling error.

For the period beginning with fiscal years 1980 through the third quarter of fiscal year 1983, we computed an estimated sampling error². Sufficient data was not available to estimate the sampling error for fiscal years 1976 through 1979. The following table gives the estimated sampling error for all units of the Department of Defense combined and the Air Force.

²The sampling error is an estimate since it was determined from Postal Service computed sampling errors for individual classes of mail rather than from the raw data. The Postal Service did not compute a total sampling error.

Estimated Sampling Errors
Postal Service Revenue, Pieces and Weight Sample
October 1979 through June 1983

Period	Revenue, Pieces Weight Sample	Department of Defense Postage			Air Force Postage		
		Total	Estimated Sampling Error ^a	Percent	Total	Estimated Sampling Error ^a	Percent
		(Thousands)	(Thousands)		(Thousands)	(Thousands)	
Oct. 1979-Dec. 1979	Domestic	\$19,568	\$1,403	7.17	\$ 791	\$356	45.00
Jan. 1980-Mar. 1980	"	20,876	1,624	7.78	716	434	60.65
Apr. 1980-June 1980	"	20,668	1,921	9.29	1,065	524	49.24
July 1980-Sept. 1980	"	28,508	2,111	7.40	1,023	538	52.55
Oct. 1980-Dec. 1981	"	19,175	1,573	8.20	605	265	43.73
Jan. 1981-Mar. 1981	"	17,388	1,419	8.16	596	368	61.71
Apr. 1981-June 1981	"	26,630	1,952	7.33	1,359	751	55.22
July 1981-Oct. 1981	"	29,654	2,292	7.73	893	637	71.28
Oct. 1981-Dec. 1981	"	25,169	1,879	7.46	2,025	545	26.93
Jan. 1982-Mar. 1982	"	22,273	1,947	8.74	862	713	82.66
Apr. 1982-June 1982	"	25,156	2,128	8.46	752	562	74.72
July 1982-Sept. 1982	"	34,875	2,705	7.76	1,115	677	60.69
Oct. 1982-Dec. 1982	"	20,729	1,661	8.01	628	443	70.58
Jan. 1983-Mar. 1983	"	26,131	2,079	7.96	470	427	90.78
	Foreign	2,571	96 ^b	3.74	75	31	41.11
	Combined	28,702	2,082	7.25	545	428	78.55
Apr. 1983-June 1983	Domestic	21,240	1,900	8.95	609	356	58.36
	Foreign	2,419	90 ^b	3.73	92	37	39.76
	Combined	23,659	1,902	8.04	701	358	50.98

^aComputed at a 90% confidence level based on the amount for each mail class adjusted for the Department of Defense's (or the Air Force's) portion of the total volume.

^bThe Foreign sample sampling error was estimated from standard deviations, in pieces, computed for each class of mail at each location. The sampling error was converted from pieces to total postage.

The above table shows that, for Department of Defense agencies combined, the sampling error for the domestic sample varied from 7.17 percent to 9.29 percent. However, for just the Air Force the sampling error varied from 26.93 percent to 90.78 percent.

In a previous report³ we stated that based on our review of the Postal Service's sample designs, we believed, because of the large sample size, that the statistical method of estimating Department of Defense volume was acceptable for producing reasonable estimates for the Department of Defense as a whole and for some of the larger agencies, such as the Army, Navy, and Air Force.

The above sampling errors for Air Force mail volume measured by the system during the period October 1979 through June 1983 indicate that the estimate for the Air Force may no longer be acceptable. A larger sample than that provided under RPW would have been required to accurately measure the Air Force mail volume. However, since a better statistical sample than that taken under RPW does not exist and the total postage for the Department of Defense as a whole is reasonably accurate the Postal Service should be paid the \$9,640,851.

³Letter Report to the Chairman, Committee on Appropriations, United States Senate (B-182343, GGD-75-71, February 20, 1975).

CONTRACTOR BULK MAILINGS

During the period from fiscal year 1979 through 1981, an Air Force contractor used GPO form 712 rather than Postal Service form 3602-PC for seven third-class bulk mailings. The Postal Service billed the Air Force at the third-class single piece rate. As shown on the following table, \$460,676 is in dispute because of the use of different rates.

Date	<u>Pieces</u>	<u>Postage at</u>		<u>Difference</u>
		<u>Piece</u>	<u>Bulk</u>	
<u>GPO-712</u>		<u>Rate</u>	<u>Rate</u>	
4-9-79	465,792	\$93,158	\$ 39,126	\$ 54,032
6-8-79	466,490	93,298	39,185	54,113
8-17-79	477,307	95,461	40,094	55,367
11-7-79	468,512	93,702	39,355	54,347
10-17-80	478,092	95,618	40,160	55,458
12-12-80	480,924	96,185	40,398	55,787
2-18-81	<u>494,632</u>	<u>173,121</u> ^{1/}	<u>41,549</u>	<u>131,572</u>
	<u>3,331,749</u>	<u>\$740,543</u>	<u>\$279,867</u>	<u>\$460,676</u>

^{1/}Charged at the rate of \$.35 (over 1 ounce).

The Postal Service position is that GPO form 712 is not acceptable for third-class bulk mailings, as the use of the GPO form causes the receiving post office to omit the third-class bulk rate verification procedures.

The Air Force position is that the bulk-rate procedures were followed even though a GPO form 712 was used rather than the Postal Service form 3502-PC. Also, the Air Force contends that other mailings have been accepted by the Postal Service where GPO form 712 was used.

In our report to the Postmaster General "Acceptance Procedures for Bulk Mailings: Postal Initiatives Show Promise" (GGD-82-72, June 28, 1982) we noted that 225 of 346 bulk mailings (65 percent) were accepted by the Postal Service even though they did not meet the bulk rate requirements. Also, a 1981 Postal Service study disclosed that over 60 percent of bulk mailings accepted, contained a bulk rate procedure error rate in excess of 20 percent.

Since the Postal Service had consistently accepted bulk rate mailings which did not meet the bulk rate requirements, we believe it is unfair to charge the Air Force the single piece rate because the wrong form was submitted with the mailing.

Since the Air Force has already paid \$242,817 of these billings, they still owe the Postal Service \$37,050 at the third-class bulk rate.

SUPPLEMENTAL BILLING

Two groups of September 1980 parcel mailings make up the supplemental billings totaling \$2,218.

The first group of parcels were mailed by an Air Force contractor using the permit imprint procedure. The 253 parcels weighed an average of five-pounds and registration, return receipt and restricted delivery services were requested. The PS form 3877, "Acceptance of Registered, Insured, C.O.D., and Certified Mail" was submitted with the mailing, rather than the required form 3602 or 3605 "Mailing Statement." Permit imprint mail is only billed to the agency from the "mailing statement" form. Thus no postage was paid for the mailing. For this mailing, the Postal Service billed the Air Force \$1,951 for priority mail, registration, return receipt and restricted delivery services. For these services the per parcel charge would be \$7.67--priority mail \$3.42, registration \$3.00, return receipt \$.45 and restricted delivery \$.80. The total bill should have been \$1,941. Postal Service officials have agreed that there was a \$10 error in their billing.

The second group consisted of 49 parcels mailed by Air Force personnel. At the time of mailing, the receiving post office noted that the meter postage on the parcels were short-paid a total of \$267. After discussion with the Air Force and Postal Service headquarters, the parcels were released into the mail stream.

The Postal Service is owed \$2,208 for the two mailings.