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Potential Interest Savings By Depositing Postal Funds Directly In Federal Reserve Banks

B-114874

Post Office Department

UNITED STATES
GENERAL ACCOUNTING OFFICE

NOV. 18, 1970

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B-114874

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

CIVIL DIVISION

B-114874

Dear Mr. Postmaster General:

This is our report on potential interest savings by depositing postal funds directly in Federal Reserve banks.

We shall appreciate being advised of any further action taken or planned by the Department on the matters presented in this report.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the House and Senate Committees on Post Office and Civil Service. Also, pursuant to his request for copies of our reports concerning the Post Office Department, we are sending a copy to Congressman William L. Scott.

Sincerely yours,

A. T. Samuelson

Director, Civil Division

The Honorable
The Postmaster General

GENERAL ACCOUNTING OFFICE
REPORT TO THE POSTMASTER GENERAL

POTENTIAL INTEREST SAVINGS BY DEPOSITING POSTAL FUNDS DIRECTLY IN FEDERAL RESERVE BANKS
Post Office Department B-114874

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) noted that in the New York Postal Region some postmasters were depositing receipts directly in the Federal Reserve Bank (FRB) of New York and some were using commercial banks as interim depositories.

GAO made this review because of preliminary indications that significant savings in interest costs on Government borrowings could be achieved if the eight postmasters in the New York City area deposited receipts directly in the FRB of New York rather than in commercial banks.

FINDINGS AND CONCLUSIONS

If the postmasters in the New York City area deposited postal funds directly in the FRB of New York, those funds would become available for use by the Government earlier than is possible under the present procedures and cash balances being maintained in commercial banks by those postmasters could be released to the Government.

Such action would result in an estimated net saving to the Government of about $83,000 annually at the New York City Post Office, plus additional interest savings at seven other New York City area post offices of about $96,000 annually, less the cost of armored-car service to take the deposits to the New York FRB. (See pp. 6 to 12.) FRB's, including branch offices, are located in 35 other cities. During fiscal year 1969, the postal revenue of post offices located in those cities was about $1.7 billion, or about 26 percent of the total postal revenue. The revenue of the New York City Post Office was about $370 million, or 6 percent of the total postal revenue for that year.

GAO believes that, in view of the potential for significant savings in interest costs, the Post Office Department should consider the feasibility of the direct deposit procedure in all cities where FRB's are located. (See p. 21.)

NOV.18,1970

RECOMMENDATIONS OR SUGGESTIONS

GAO is recommending that the Department

- --require the New York Post Office to deposit receipts directly in the FRB of New York,
- --expedite its proposed cost-benefit and security survey of New York City area post offices in view of the potential for significant savings to the Government indicated by GAO's review, and
- --evaluate the feasibility of postmasters' making direct deposits in the FRB's in other areas where FRB's are located.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postmaster General stated that, before authorizing the eight New York area postmasters to deposit their receipts directly with the FRB of New York or considering a change in policy for other postmasters throughout the country, the Department would make a cost-benefit and security survey for the New York City area and possibly for other major areas. He said that the survey would consider the increased risks and the cost of such additional safeguards as armored-car service, compared with the estimated savings. (See p. 17.)

The Postmaster General also indicated that certain problems needed to be overcome before any changes were made to existing deposit arrangements. GAO believes that such problems can be solved without eliminating the savings obtainable by a direct deposit procedure. (See pp. 17 to 21.)

Contents

ABBREVIATIONS

FDIC	Federal Deposit Insurance Corporation
FRB	Federal Reserve Bank
GAO	General Accounting Office
IAD	Internal Audit Division of the Post Office Department
POD	Post Office Department

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CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed the Post Office Department (POD) policy of requiring post offices to use commercial banks as interim depositories for surplus postal funds. During our review we examined into the practices of the eight New York City area postmasters in implementing the policy. For purposes of this report, the New York City area includes the five boroughs of New York City. The scope of our review is discussed in more detail on page 22.

The act of September 2, 1960 (39 U.S.C. 2209), provides that postmasters keep all money coming into the custody of their post offices until it is required to be transferred or paid out by order or regulation of the Postmaster General. Postmasters are required by POD regulations to send surplus postal funds daily to a designated depository. Surplus postal funds are the amounts on hand after excluding any authorized cash reserves and/or change funds.

At first-class post offices there is no specified amount which may be retained by postmasters for a change fund. The maximum change fund which may be retained by other postmasters is $100 at second-class post offices, $50 at third-class post offices, and $25 at fourth-class post offices. Authorized cash reserves are used for payment of such items as local transportation fares, tolls, or parking fees.

POD regulations require that surplus postal funds be deposited either by using commercial banking facilities as interim depositories before transfer to a Federal Reserve Bank (FRB) or by mailing directly to an FRB. Whenever feasible, postmasters must use a "qualified" bank to deposit surplus postal funds. POD considers a bank to be qualified if it is a member of the Federal Deposit Insurance Corporation (FDIC). If FDIC-insured banks are not available, postmasters may, at their own risk, use uninsured State or national banks or they may send deposits directly to an FRB. POD headquarters is responsible for designating the banks to be used as interim depositories.

Postmasters are required to use an FRB designated by POD as the ultimate depository. For example, all postmasters in Louisiana and Texas are required to use the FRB at Dallas, Texas, regardless of whether they use commercial banking facilities as interim depositories or mail deposits directly to the FRB.

POD deposit procedures provide that:

> "Postmasters using local banking facilities will *** be instructed to deposit all commercial checks, Treasury checks, and cash in the local bank and to remit a single check to the Federal Reserve Bank."

POD procedures also provide that the procedures:

> "*** are subject to such review and amendment as operations indicate are desirable. Upon agreement between the Federal Reserve Banks and the Post Office Department such changes may be made."

When a commercial bank is used as an interim depository, a service charge is made by the bank based upon the activity in the postmaster's account--demand account--used for transmitting funds to the FRB. The bank's earnings from the use of funds in the demand account are applied by the bank to its cost of servicing the postmaster's demand account. If earnings are insufficient to defray such cost, the bank may request additional funds in the form of an inactive demand balance or of a time deposit. An inactive demand balance may be withdrawn at any time, but 30 days' written notice must be given to withdraw funds from a time deposit.

Data furnished by POD headquarters showed that, of 32,600 post offices nationwide in June 1969, 13,600, about 42 percent, had demand accounts in local banks. Data showing the total amount of deposits in these accounts was not readily available at the time of our review. Of the 13,600 post offices maintaining demand accounts, 1,090 also maintained inactive demand balances and 439 also maintained time deposits. In fiscal year 1969, about 90 percent of the total postal collections of about $11 billion, including funds received from the sale of money orders, was initially deposited in commercial banks.

Of the 32,600 post offices, 19,000, about 58 percent, mailed remittances directly to FRB's. During fiscal year 1969, these offices deposited about $1 billion, or about 10 percent of the total postal collections, directly in FRB's.

We were informed by POD officials that these post offices do not use qualified commercial banks because such banks (1) are not located in a conveniently accessible location, (2) do not want to service the postmasters' accounts, (3) are unwilling to handle the postmasters' accounts without excessive service charges, or (4) do not have hours of business convenient for the postmasters' use.

The Postal Reorganization Act, approved August 12, 1970, provides for reorganizing the Post Office Department as the U.S. Postal Service, an independent establishment within the executive branch of the Government. Section 2003 of the act provides that, with the approval of the Secretary of the Treasury, the Postal Service may deposit revenues and other receipts in any Federal Reserve bank, any depository for public funds, or other places which the Postal Service and the Secretary may mutually agree upon.

The Bureau of Finance and Administration, POD, is responsible for developing and recommending policies and for directing the administration of regulations and procedures for handling and banking postal funds. The Finance Division of each postal region directs the regional banking program.

CHAPTER 2

NEED TO REVISE POLICY FOR

DESIGNATING BANKS AS DEPOSITORIES

We believe that the Government can save a significant amount of interest on its borrowings if POD requires postmasters to deposit surplus postal funds directly in the FRB when economically feasible, rather than in commercial banks. The Government's borrowings for day-to-day transactions would be reduced because the surplus postal funds would become available to the Government sooner than is possible under the existing arrangements of making interim deposits in banks for subsequent transfer to FRB's.

As of June 30, 1969, FRB's (including branch offices) were located in 36 cities throughout the United States, including New York City. During fiscal year 1969, the postal revenue received by post offices located in these cities was about $2 billion (excluding receipts for the face value of money-order sales), or about 32 percent of the total postal revenue. Also, during fiscal year 1969, the New York City Post Office revenue was $370 million, or about 6 percent of the total postal revenue.

Since each of the FRB's and FRB branch offices is located in principal cities throughout the United States, we believe that qualified commercial banks would be located in most, if not all, of those cities. In keeping with POD policy, the post offices located in those cities would be depositing postal funds with commercial banks. Therefore we believe that the opportunity for significant savings exists if postmasters in those cities are required to deposit funds directly in FRB's when economically feasible, rather than in commercial banks.

SAVINGS AVAILABLE IN THE NEW YORK CITY AREA BY DIRECT DEPOSIT OF SURPLUS POSTAL FUNDS IN THE FRB

If the New York City area postmasters deposited funds directly in the FRB of New York, we believe that the

Government would realize significant savings in interest costs on its borrowings. Our review showed that the Government would have saved an estimated $83,000 in interest costs in fiscal year 1968 if the New York City postmaster had used the direct deposit procedure. Also, if seven other New York City area postmasters had used the direct deposit procedure, we estimated that the Government would have saved $95,594 in interest costs during fiscal year 1968, less an undetermined cost for armored-car service for transmitting deposits from these seven post offices to the New York FRB.

In view of higher interest rates on Government borrowing and of increasing postal revenue, we believe that the potential savings in interest costs in the New York area may now be greater than those indicated by our review.

Deposit of postal receipts by New York area postmasters

Our computation of the estimated savings in interest costs to the Government for fiscal year 1968 is summarized in the following schedule.

	New York, N.Y., postmaster	Seven other New York City area postmasters	Total New York City area
Amount of demand account funds accelerated	$2,080,000	$1,226,000	$3,306,000
Time deposits to be freed	405,000	1,225,000	1,630,000
Total	$2,485,000	$2,451,000	$4,936,000
Interest cost to Government on borrowed funds at Treasury rate of 4.757% effective 6-30-68	$ 118,211	$ 116,594	$ 234,805
Less estimated additional FRB servicing cost (see p. 12)	14,000	21,000	35,000
Estimated interest savings to the Government based on fiscal year 1968 activity	104,211	95,594	$ 199,805
Less estimated additional cost of armored-car service (see p.10)	21,000	(a)	
Net savings to the Government	$ 83,211	(a)	

[a]Undetermined.

The New York City area postmasters are following the same deposit procedures that existed during fiscal year 1968. For fiscal year 1969, the latest year for which data was available at POD headquarters, the total revenue for the eight New York City area postmasters was about $481 million, compared with about $455 million for fiscal year 1968. Also, as of May 31, 1970, the interest rate on Government borrowing was 6.032 percent and has been generally increasing since fiscal year 1968. Therefore we believe that the current potential savings to the Government would be higher than those determined by our review of fiscal year 1968 activity.

A discussion of how we computed the interest savings for the New York City area postmasters follows.

<u>New York, N.Y., postmaster's deposits</u>

In June 1968, the postmaster of the New York Post Office had demand accounts in two banks with a total daily average balance of about $3.5 million and time deposits totaling about $405,000. During fiscal year 1968, the total daily average deposit of the New York postmaster amounted to about $1.6 million. About one-half of the deposits are made to each of the two banks. One bank collects its deposits at the New York City General Post Office, and the second bank collects its deposits at both the Church Street and Grand Central Stations.

These deposits usually include cash, Treasury checks, money orders, and local and out-of-town commercial checks. Under present procedures the Government is credited by the FRB's 2 days after the daily deposits of about $1.6 million are received by the commercial banks.

In contrast, New York FRB officials indicated that cash, Treasury checks, and money orders would be credited to the account of the Government on the day of deposit if the New York postmaster's deposits were made directly in the FRB. Local checks--those drawn on banks within New York City--would be credited 1 day after deposit, and out-of-town checks would be credited 2 days after deposit.

Our review showed that during fiscal year 1968 an average deposit for the New York Post Office included the above items in the percentages indicated below. The availability of such items to the Government was provided by officials of the FRB of New York.

Item	Percent of deposit	Availability to Government if deposited directly with FRB
Cash	26	Same day
Treasury checks	4	Do.
Money orders	1	Do.
Local checks	68	One day after deposit
Out-of-town checks	1	Two days after deposit
Total	100	

On the basis of the above estimate and of an average daily deposit of about $1.6 million, we estimated that an average of about $2,080,000 daily would become available to the Government before any of the funds deposited would become available under the present procedures. For example, on a given day (Tuesday) the Government presently would not have available any of the funds deposited on that day (Tuesday) or on the preceding day (Monday).

If deposits were made directly in the FRB, the Government would have available by Tuesday about $1,584,000, or 99 percent of the deposit made on Monday representing cash, Treasury checks, money orders, and local checks. In addition, about $496,000, or 31 percent of Tuesday's deposit, representing those items which would receive same-day credit, would also become available on Tuesday for a total of about $2,080,000.

FRB officials informed us that an armored car made a daily pickup at the General Post Office of funds mailed to the FRB by those postmasters in the New York Region presently making direct deposit in the FRB. The officials said that they could pick up the New York postmaster's funds deposited by the General Post Office, about $800,000 daily, on their regularly scheduled pickup, if requested by the Treasury Department. Treasury Department officials in Washington, D.C., told us that they would not object to such a procedure.

FRB officials advised us that they could not arrange to pick up deposits made at the other two locations. They also stated that processing the additional deposits would not delay the processing of funds of postmasters who were presently making deposits directly in the FRB of New York.

With respect to the deposits at the Church Street and Grand Central Stations, a representative of the armored-car service which collects the deposits for the FRB informed us recently that the cost to POD of picking up deposits at those two stations for transfer to the FRB would be about $21,000 a year. According to reports submitted to the New York Post Office by the bank which presently collects these deposits, the cost to the bank for collecting deposits at those two stations by armored car was about $15,000 for fiscal year 1968.

We therefore believe that any additional cost to POD to have such deposits transported to the FRB by armored car, if deemed necessary, would be significantly less than the estimated interest savings to be realized if the New York postmaster deposited funds directly in the FRB.

Seven New York City area postmasters' deposits

In June 1968, postmasters of the seven New York City area post offices other than the New York Post Office had a combined daily average demand balance of about $1.8 million and maintained total time deposits of about $1.2 million, as shown below:

Post Office	Daily average demand balance	Time deposit
Bronx	$ 288,000	$ 465,000
Brooklyn	630,000	650,000
Far Rockaway	53,000	-
Flushing	305,000	-
Jamaica	221,000	-
Long Island City	198,000	-
Staten Island	76,000	110,000
Total	$1,771,000[a]	$1,225,000

[a]In comparison, the New York, N.Y., postmaster's daily average demand balance was about $3.5 million, or about two-thirds of the total demand balance of $5.2 million maintained by the eight New York City area postmasters.

Each of the seven postmasters made deposits to commercial banks and sent checks for the amount of the deposit to the FRB of New York, in accordance with POD policy requiring the use of commercial banks as interim depositories when feasible.

In June 1968, bank statements for each of the seven post offices showed that the daily average demand balance was equivalent to about 2.25 days' deposits, which indicated that a 2-day lag was also being experienced by these post offices in sending funds to the FRB of New York.

New York FRB officials informed us that they would have no objection to servicing the accounts of these seven postmasters.

On the basis of a computation similar to that made for the New York Post Office, we estimated that the availability to the Government of $1,226,000 of funds deposited by these postmasters could also be accelerated by direct deposit in the FRB of New York.

Time deposits

Four of the eight New York City area postmasters maintained time deposits totaling about $1.6 million on

June 30, 1968. Such deposits are maintained in the banks whose interest earnings on the demand balances are insufficient to defray the banks' cost of servicing the postmaster's account. If banks were not used by postmasters as interim depositories, the time deposits could be eliminated. The release of these funds to the Government would result in additional savings in interest costs on Government borrowings.

Cost for banking service

For fiscal year 1968, POD paid $35,000 to the New York FRB for handling deposits from those postmasters in the New York Postal Region making deposits directly in the FRB. New York FRB officials estimated that such costs were not expected to increase by more than 100 percent, or by more than $35,000, if the eight New York City area postmasters deposited daily receipts directly in the FRB. Such an increase represents the cost of additional employees who may be needed by the FRB.

Comments of local POD officials

New York Post Office officials could not foresee any major problems or complications if the method of depositing postal funds were changed. We believe that the New York postmaster can follow procedures similar to those used by postmasters of other first-class post offices in the New York Postal Region, who send their receipts directly to the FRB of New York. We discussed the procedure with one of these postmasters, who informed us that the present system of banking was functioning well and had not created any problems or complications for his post office.

During fiscal year 1968, about $119 million, or about 8 percent of the total postal receipts of $1.5 billion in the New York Postal Region, was deposited in the FRB of New York by 953 postmasters authorized to make such deposits.

New York Post Office officials said that the post-office stations depended upon the commercial banks to provide them, without charge, with wrapped coins needed to make change in daily transactions, and they expressed concern that the FRB of New York would not supply such a service. We were advised by the Manager of the Cash Department of the FRB of New York that the FRB of New York did not wrap coins.

POD instructions authorize the stations to retain change funds from daily collections resulting from stamp and other sales. It therefore appears to us that necessary change funds can usually be obtained from daily collections. If certain types of coins are needed, they can be obtained from commercial banks. Also, as pointed out on pages 18 and 19 our review indicated that the cost of rolled-coinage services was relatively insignificant in relation to the Government savings which would result from expediting the deposit of surplus postal funds to the FRB.

New York Post Office officials said that the Army and Air Force Post Offices and Navy Fleet Post Offices, under the jurisdiction of the New York postmaster, mailed their deposits, including such supporting documentation as stamp requisitions and meter-setting reports, to one of the commercial banks that processed the New York postmaster's receipts. During fiscal year 1968, deposits from military post offices amounted to about $16 million and an average daily deposit amounted to about $65,000.

Such deposits are processed by the New York bank upon receipt, and the New York postmaster is notified of the amount of military deposits credited to his account. The bank sends the supporting documentation to the New York postmaster for his records. The New York postmaster sends the amount of military deposits to the FRB of New York via check drawn on the commercial bank. The New York Post Office officials indicated that, if deposit procedures were changed, a new arrangement would have to be made for handling military deposits.

We believe that military post-office deposits could be mailed directly to the FRB of New York where these funds could be processed and the supporting documentation forwarded to the New York postmaster. As an alternative, we believe that military post-office receipts could be mailed to the New York Post Office where they could be prepared for deposit in the FRB of New York in the same manner as receipts at the main New York Post Office would be prepared for deposit.

On the basis of information obtained from post-office officials, we estimated that, if this alternative procedure were implemented, the increased workload at the New York Post Office would result in an additional cost to POD of about $4,000 annually. If the former procedure were implemented, the additional workload created by processing military deposits at the FRB of New York could be assigned to employees who were responsible for processing all postal deposits.

Postal officials at the Brooklyn, Bronx, and Flushing Post Offices did not object to making direct deposit with the FRB of New York if instructed to do so by POD headquarters. These officials pointed out, however, that mailing deposits directly to a post-office box at the New York Post Office for pickup by the FRB would create a security problem because the deposits would be sent via registered mail and would be transported to the New York Post Office by ordinary mailtruck. These postal officials believe that this problem can be overcome by using an armored car.

We recognize that Government funds must be adequately safeguarded and that in some instances the amount of funds and negotiable instruments to be transferred by POD will justify the use of armored-car services. As pointed out on page 18, however, we believe that the additional cost to POD for armored-car service in certain instances would be significantly less than the interest savings to the Government resulting from the direct deposit of Government funds in the FRB.

Internal Audit recommendation

In August 1963, POD's Internal Audit Division (IAD) recommended a plan to accelerate the flow of post-office deposits from commercial banks to the FRB's. IAD suggested that commercial banks transfer postmasters' deposits daily to FRB district or branch banks. The report estimated that the Government could save about $328,000 annually if 84 large post offices adopted the plan.

POD did not take action to implement the proposal. In September 1966, 3 years after receiving the IAD report, the POD Bureau of Finance and Administration advised the IAD that it did not "anticipate establishing a special project for accelerating the flow of cash to the Treasury Department." The Bureau further advised IAD that:

> "Tests have been conducted in which commercial banks have drawn drafts daily on their reserve accounts as a means of remitting postmasters' funds to Federal Reserve Banks. This procedure resulted in a net acceleration of funds into our account with the Treasury Department. However, time deposits of government funds had to be arranged in each case to compensate the bank for its service. This arrangement caused extra expense in the Post Office Department to calculate and verify the amount of time deposit necessary to earn interest equivalent to the reimbursable expense claimed by each bank. We do not think the extra expense of determining the amount of the

time deposit and up-dating the amount of deposits on a nationwide basis is justifiable. Furthermore, we do not think it appropriate to ask for appropriated funds to pay banks for their services directly."

In April 1967, the Bureau again expressed an unwillingness to implement the plan by informing IAD that:

"In view of the considerable time and expense involved in establishing special depositing and remitting arrangements at many additional post offices, which expense must be borne by this Department, and in view of the questionable value to the Treasury Department of our efforts, higher priority has been given to other projects for system improvement."

and that:

"If we decide to give this project further consideration in the future, we will advise you accordingly."

CHAPTER 3

AGENCY COMMENTS AND GAO EVALUATION AND RECOMMENDATIONS

We proposed to the Postmaster General that POD

--authorize the eight New York City area postmasters to deposit their receipts directly in the FRB of New York and to release their time deposits to the U.S. Treasurer and

--evaluate whether the depositories used by other postmasters result in the most economical method for depositing postal receipts.

The Postmaster General, in commenting on our proposals by letter dated April 29, 1970 (see app. I), stated that, before authorizing the eight New York area postmasters to deposit their receipts directly with the FRB of New York or considering a change in policy for other postmasters throughout the country, the Department would make a cost-benefit and security survey for the New York City area and possibly for other major areas. He said that the survey would consider the increased risks and the cost of such additional safeguards as armored-car service, compared with the estimated savings.

He said also that the transfer of funds to the Federal Reserve through utilization of commercial banks throughout the country had been the least costly and most satisfactory method for the Post Office Department and that certain problems needed to be overcome before any changes were made to existing deposit arrangements. The problems mentioned by the Postmaster General and our comments follow.

POD stated that when commercial banking facilities in close proximity to the local post office were used for making deposits, losses were virtually nonexistent. POD explained that armored-car pickup service was an advantage of using commercial banks for making deposits and that the matter of providing adequate protection and security for funds en route to depositories was a critical problem, especially in the New York City area.

We agree that adequate security of Government funds must be provided. A POD representative advised us that POD did not have information available showing the estimated cost of providing armored-car service from the eight New York City area post offices to the New York FRB, assuming a change were to be made in the method of depositing funds. As indicated on page 17, however, POD stated that it would consider the cost of such additional safeguards as armored-car service in its planned survey of the benefits and costs of depositing funds directly with FRB's.

We believe that in some instances the cost of safeguarding funds in transit from post offices to FRB's will be relatively insignificant and that in other instances there will be no cost at all for this service. For example, as previously explained on page 9 , the New York FRB could pick up deposits at the New York City General Post Office at no additional cost to POD. Further, as pointed out on page 10, we believe that the cost of collecting deposits at two other locations of the New York Post Office would be significantly less than the interest savings to be realized by making deposits directly in the FRB.

POD stated that the advantages of using commercial banks to transfer funds to the FRB included (1) rolled coinage for customer service counter use and (2) counting costs.

The cost of rolled coinage is included in the cost of servicing postmasters' accounts, and, as stated on page 4 , bank earnings from the use of funds in the postmasters' accounts are applied to the banks' cost of servicing postmasters' accounts.

In reporting the costs of servicing postmasters' accounts, four commercial banks separately stated the costs for providing rolled coins to the New York Post Office and to three of the seven New York City area post offices. For fiscal year 1968, charges for rolled coins were about $900 for the New York Post Office and about $200 total for three New York City area post offices.

For the Brooklyn Post Office, the largest of the seven area post offices, the average daily requirement for rolled coins was about 28 rolls for all of its 77 stations. We therefore believe that the cost of rolled-coinage service is not a significant factor in relation to the potential savings to the Government which can result from expediting the deposit of postal funds to the Government.

With regard to the counting costs, we were informed by a POD official that such costs were related to the charges made by the FRB for tasks performed in connection with deposits of postal funds, such as verifying deposits, preparing certificates of deposit, and handling various other administrative details. Such services are provided by the commercial banks. In computing the estimated savings to the Government, however, we considered such charges by the FRB for servicing the eight New York City area postmasters' accounts. (See p. 12.)

> POD stated that making deposits directly to the FRB would result in increased costs for the postal inspector service because of a probable increase in registry remittance losses and in station robberies resulting from accumulated funds.

A POD official explained that an increase in remittance losses would probably occur when deposits entailed additional handling in passing through transfer points, such as airmail facilities, en route from the post office to the FRB. For example, the post office in a certain city in New York State about 250 miles from New York City presently deposits its funds at a commercial bank in the same city where the post office is located.

If that post office were to transmit its deposits through the mail for deposit in the FRB in New York City, the deposits would be more susceptible to loss because of the increased handling and transportation of the deposit. He stated that this POD comment would not be applicable to New York City area post offices, assuming that deposits would be adequately safeguarded during transit from the post offices to the FRB.

We recognize that it may not be economical or practicable for all post offices to directly deposit funds in FRB's, and our proposal is not intended to suggest that all post offices deposit funds directly in FRB's. We believe, however, that, in other areas where conditions similar to those in New York City prevail, particularly in cities where FRB's are located, the opportunity exists for substantially greater savings in interest costs to the Government.

We noted that as of June 30, 1969, FRB's (including branch offices) were located in 36 cities throughout the United States. The total revenue received by post offices located in those cities was about $2 billion during fiscal year 1969, or about 32 percent of the total postal revenue. The revenue received by the New York Post Office was about $370 million, or about 6 percent of the total postal revenue.

With regard to a probable increase in station robberies, the procedures for handling remittances at stations would not be changed under our proposed method of depositing funds. Stations would continue to transmit their deposits by registered mail at the close of each business day. We were informed by a POD official that an increase in station robberies would be of concern only if there were a change in the procedure for remitting deposits from stations. However, we have not proposed any changes in procedures for handling station deposits.

> POD stated that since January 1969 inactive demand balances and time deposits held in commercial banks had been reduced by more than $2 million and that the ultimate objective was the elimination of such balances throughout the country.

As stated on page 4, bank earnings from the use of funds in postmasters' demand accounts are applied to the cost of servicing the postmasters' accounts. A POD representative advised us that the above POD comment referred to recent actions taken by POD to encourage banks to recognize the generally higher prevailing interest rates in determining the earnings from the use of funds in the postmasters' demand accounts. In other words, POD is trying to prompt banks to recognize a higher interest rate on the "float" in postmasters' demand accounts which, under existing POD procedures, is about 2 days.

He also stated that, as banks begin to use higher rates in computing earnings on postmasters' demand deposits, the inactive demand balances and time deposits held by commercial banks may be reduced or possibly eliminated. The reduction of demand balances, however, would not reduce the 2-day lag caused by making interim deposits in banks rather than making deposits directly in the FRB.

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We believe that our report shows that it would be feasible and more economical for the New York Post Office to deposit its receipts directly in the FRB without further study and that POD should implement such a procedure. We believe also that, in view of the significant amount of revenue collected by post offices in other cities where FRB's are also located, POD's planned survey should be extended to consider the feasibility of the direct deposit procedure at such locations.

RECOMMENDATIONS TO POSTMASTER GENERAL

We recommend that POD require the New York Post Office to deposit receipts directly in the FRB of New York.

We recommend also that the proposed cost-benefit and security survey of New York City area post offices be expedited in view of the potential for significant savings to the Government and that POD evaluate the feasibility of postmasters' making direct deposits in FRB's in other areas where FRB's are located.

CHAPTER 4

SCOPE OF REVIEW

We reviewed POD policies, procedures, and records relating to the deposit of surplus postal funds and interviewed POD officials responsible for administering banking functions. Our work was performed at the New York Postal Regional Office; the Brooklyn, Bronx, Flushing, and New York, N.Y., Post Offices; the two commercial banks servicing the New York postmaster; the FRB of New York; and POD headquarters, Washington, D.C. We also reviewed selected banking operations pertaining to postal accounts at the FRB of New York and interviewed FRB officials.

APPENDIX

The Postmaster General
Washington, D.C. 20260

April 29, 1970

Dear Mr. Neuwirth:

We appreciate the opportunity to review your proposed report to the Congress on "Need to Revise Policy for Designating Banks as Depositories," based on your review of the New York City area postmasters' practice of using commercial banks to remit postal funds to the Treasury via the Federal Reserve System.

GAO RECOMMENDATIONS

- The Department should adopt a policy that deemphasizes the selection of commercial banks as depositories and emphasizes the selection of depositories that are deemed to be the most economical for use by the Government.

- The Department should authorize the eight New York City area postmasters to deposit their receipts directly with the FRB of New York and release their time deposits to the U. S. Treasurer.

- The Department should evaluate the depositories designated for use by other postmasters to determine whether they are the most economical available for the Government's use.

POD COMMENTS

The policy of transferring funds to the Federal Reserve Bank through commercial banks throughout the country has been predicated upon three factors--convenience, safety, and minimal costs. When we use commercial banking facilities in close proximity to the local post office, our losses are virtually non-existent. Among the advantages of using commercial banks to transfer funds to the Federal Reserve Bank are: (1) armored car pick-up service; (2) rolled coinage for customer service counter use; (3) counting costs; and (4) avoidance of costs for additional postal inspector service, because of a probable increase in registry remittance losses and in station robberies resulting from accumulated funds. The transfer of funds to the Federal Reserve through utilization of commercial banks throughout the country has been the least costly and most satisfactory method for the Post Office Department.

We are continually trying to improve transfer-of-funds procedures. We are now in the process of reducing amounts in inactive demand balances and time deposits held in commercial banks. Our program to reduce these bank processing costs, and thereby reduce the balances retained, has shown positive results. Throughout the country, these time deposits and inactive demand balances have been reduced by more than $2 million since January 1969. The ultimate objective is the elimination of such balances in accounts throughout the country.

The matter of providing adequate protection and security for funds enroute to depositories is a much more critical problem today than it was in 1968 when GAO initiated its study, especially in the New York City area. For this reason, and because of the considerations mentioned above, we would not favor authorizing the eight New York area postmasters to deposit their receipts directly with the FRB of New York or consider a change in our policy for other postmasters throughout the country without a comprehensive cost-benefit and security survey.

Such a survey would consider the increased risks as well as the cost of such additional safeguards as may be required (e.g. armored truck services) vs. the estimated savings accruing to the Government from reduced interest on funds in "float." We plan to make such a survey for the New York City area, and possibly other major areas, and we shall be pleased to inform you of our findings.

Sincerely,

Winton M. Blount

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

U.S. GAO Wash., D.C.