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REPORT TO THE CONGRESS

72-C35428



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Need To Increase Rates To Recover The Cost Of Providing Service To Commercial Firms Renting Multiple Post-Office Boxes

B-114874

United States Postal Service

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~700700~~ 095562

JULY 19, 1971



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

B-114874

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

This is our report on the need to increase rates to recover the cost of providing service to commercial firms renting multiple post-office boxes.

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; to the Postmaster General; and to each member of the Postal Rate Commission and the Board of Governors of the U.S. Postal Service.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Many commercial firms receiving large volumes of mail have been renting numerous post-office boxes (multiple boxes) for the purpose of having Post Office Department employees sort their mail. Each box is designated by a firm as the address to which its customers and other correspondents are to send particular types of business correspondence. In many instances there is no actual lockbox, but mail addressed to a box number is sorted and placed in a mailbag for pickup by the addressee. Boxes rented under these circumstances are referred to by the Postal Service as phantom boxes. (See p. 3.)

The Department has been aware for some time that the cost of providing service to commercial firms renting multiple and phantom boxes exceeds the revenues derived from the rental of such boxes. The Department, however, has not taken affirmative action to adjust the rates to recover the cost. Therefore, the General Accounting Office (GAO) has reviewed the Post Office Department's policy of establishing rental rates for multiple and phantom boxes rented to commercial firms. (See p. 5.)

The Postal Reorganization Act (84 Stat. 719), approved August 12, 1970, provides for abolishing the Post Office Department and creating the U.S. Postal Service and the Postal Rate Commission as independent establishments of the executive branch of the Government.

The Commission is responsible for reviewing and making recommended decisions on changes in postal rates and fees as proposed by the Postal Service. Upon receipt of the Commission's decision, the Board of Governors of the Postal Service may approve, allow under protest, reject, or modify the decision. The act also requires that all classes of mail and all types of mail services recover their related costs. (See p. 3.)

FINDINGS AND CONCLUSIONS

GAO estimates that the cost of providing mail service to commercial firms renting multiple and phantom boxes at 80 selected large post offices exceeds revenues by about \$3.1 million annually. The excess cost primarily consists of the increased clerical cost of sorting a large volume of mail sent to one recipient who has numerous post-office boxes. (See pp. 5 and 6.)

RECOMMENDATIONS OR SUGGESTIONS

2 GAO recommends that the Postmaster General propose to the Postal Rate Commission that: 700

--Two classes of post-office-box delivery service be established--one class for the individual or the businessman who rents one box to receive mail normally delivered to his home or business and one class for the commercial firm which rents more than one box.

--Box rental rates for each class of box delivery service be adjusted so that they will be sufficient to recover the cost incurred in providing such service. (See p. 13.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postmaster General advised GAO that the box rental policy would be revised and that an announcement of the new service and fees would be made soon. (See p. 12.)

On February 9, 1971, however, the Executive Assistant to the Deputy Postmaster General informed GAO that, because the Postal Rate Commission must review proposed fee changes, the Postal Service could not say with assurance when new fees or services it might propose would become effective. (See p. 13.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report informs the Congress that the Postal Service has acknowledged the need for modifying the rental policy for multiple and phantom boxes to recover the costs of providing service to such boxes.

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RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that the Postmaster General propose to the Postal Rate Commission that:

- Two classes of post-office-box delivery service be established--one class for the individual or the businessman who rents one box to receive mail normally delivered to his home or business and one class for the commercial firm which rents more than one box.
- Box rental rates for each class of box delivery service be adjusted so that they will be sufficient to recover the cost incurred in providing such service. (See p. 13.)

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MATTERS FOR CONSIDERATION BY THE CONGRESS

This report informs the Congress that the Postal Service has acknowledged the need for modifying the rental policy for multiple and phantom boxes to recover the costs of providing service to such boxes.

CHAPTER 1

INTRODUCTION

The Postal Service rents post-office boxes for the convenience and privacy of the public in accepting delivery of their mail. In recent years many commercial firms receiving large volumes of mail have been renting numerous post-office boxes (multiple boxes) for the purpose of having Postal Service employees sort their mail. Each box is designated by a firm as the address to which its customers and other correspondents are to send particular types of business correspondence. A department store, for example, may rent one box to receive remittances from customers and another box to receive merchandise orders.

In many instances, when post-office boxes are not available in post offices or when the volume of mail received by a patron exceeds the capacity of the largest post-office box, businesses renting multiple boxes do not have lockboxes assigned to them, but their mail is sorted and placed in a mailbag or other container and held for pickup by the addressee. Boxes rented under these circumstances are referred to by the Postal Service as phantom boxes.

Before the Postal Reorganization Act became effective, the Postmaster General prescribed policies and rates for the rental of post-office boxes (including phantom boxes) pursuant to general authority contained in the United States Code (5 U.S.C. 301 and 39 U.S.C. 501).

The Postal Reorganization Act provides for abolishing the Post Office Department and creating the U.S. Postal Service and the Postal Rate Commission as independent establishments of the executive branch of the Government of the United States. Effective January 20, 1971, the Commission is responsible for reviewing and making recommended decisions on changes in postal rates and fees as proposed by the Postal Service. Upon receipt of the Commission's decision, the Board of Governors of the Postal Service may approve, allow under protest, reject, or modify the decision. In accordance with a resolution of the Board (36 F.R. 785), all provisions of the act are to be in effect as of July 1, 1971.

The act requires the Postal Service to become self-sustaining. Postal rates and fees are required to be set so that all postal revenues (including appropriations that the Congress may make to cover the loss of revenues on congressionally declared free and reduced-rate mail) equal expenses as nearly as practicable. The act provides criteria for establishing postal rates and fees and includes a requirement that all classes of mail and all types of mail services recover their related costs.

In fiscal years 1969 and 1970, box rentals received from all 32,000 post offices totaled about \$42 million and \$44 million, respectively. At the time of our review, box rental rates ranged from \$1.40 to \$48 a box annually, depending on the size of the box and the salary level of the postmaster or superintendent in charge of the local facility. The Department did not have data readily available showing the total number of post-office boxes rented.

CHAPTER 2

NEED TO INCREASE RATES TO RECOVER

COST OF PROVIDING SERVICE TO COMMERCIAL FIRMS

RENTING MULTIPLE POST-OFFICE BOXES

The cost of providing post-office-box mail service to commercial firms renting multiple and phantom boxes substantially exceeds related revenues, because rental rates are not sufficient to recover the cost associated with sorting the large volume of mail addressed to these boxes.

On the basis of a Department study, we estimate that the cost of providing mail service to commercial firms renting multiple and phantom boxes at 80 selected large post offices exceeds revenues by about \$3.1 million annually.

Although the Department has recognized for some time that the rental rates for post-office boxes are not adequate to recover the cost of providing service to commercial firms renting multiple and phantom post-office boxes, the Department has not taken affirmative action to adjust post-office-box rental rates to recover such cost.

USE OF MULTIPLE AND PHANTOM POST-OFFICE BOXES BY COMMERCIAL FIRMS

A Department official advised us that, within the last 15 years, the use of multiple and phantom post-office boxes by commercial firms had become widespread. For example, in April 1968 a bank in Detroit, Michigan, in commenting on a Department proposal to curtail the renting of multiple and phantom boxes, advised the Department that it was renting 225 post-office boxes to segregate its mail. The bank stated that during a typical month about 190,000 pieces of mail were handled through its multiple post-office boxes.

On May 2, 1968, a Department official, in reply to an organization that had commented on the Department's proposal to curtail the renting of multiple and phantom boxes, gave the following description of the evolution and use of multiple and phantom boxes.

"The practice of renting multiple and nonexistent [phantom] boxes has developed because of the advantages to firms, banks, and mailer agents, in having post office employees perform an intra-firm separation of their mail by individual departments, client accounts, etc. As many as 600 boxes or box numbers for nonexistent boxes have been rented to one firm which acts as a representative for many clients. As many as 14,700 nonexistent boxes are rented at a single post office. These practices are proving burdensome and costly."

Department officials advised us that the use of multiple and phantom boxes went far beyond the scope of the original intent of post-office-box service. They stated that post-office-box service originally was intended to provide convenience and privacy to private individuals in the delivery of mail and that it was not intended that Department employees would sort large volumes of mail addressed to one firm into various boxes.

ADDITIONAL COST INCURRED IN PROVIDING
MAIL SERVICE TO FIRMS RENTING
MULTIPLE AND PHANTOM BOXES

In many instances the cost to the Department of providing service to firms renting multiple and phantom boxes greatly exceeds the rental fees. The additional cost primarily consists of the increased clerical cost of sorting a large volume of mail being sent to one recipient who has numerous post-office boxes.

A 1957 Department study showed that at the Minneapolis Post Office the additional clerical cost to the Department to segregate mail of holders of commercial multiple and phantom boxes was about \$38,000 a year and that revenues of about \$4,200 a year were received from the three firms which accounted for most of such mail.

Moreover, a study of post-office boxes performed by the Department in 1968 showed that, on the basis of the average clerical salary applicable at that time, the annual cost of providing mail service to multiple and phantom boxes in 80 large post offices was about \$3.3 million, whereas the revenues received from rental of the boxes were about \$1 million.

Because the Department's 1968 study had been conducted before our review was undertaken and because supporting documents were not available for our inspection, we were unable to verify the Department's data. We visited two of the 80 post offices included in the Department's 1968 study and one other post office to observe the handling of multiple and phantom box mail and to discuss such mail with postal employees.

Our observations and discussions confirmed that additional labor costs were associated with sorting mail to multiple and phantom boxes. For example, at the Washington, D.C., Post Office, a bank rents 33 post-office boxes to have its mail sorted by depositors having large volumes of transactions. When mail arrives at the post-office-box section of the Washington, D.C., Post Office, postal employees sort the bank's mail from all other mail. Post office employees must then sort the bank's mail to the 33 individual box numbers. This letter sorting would not be required if multiple boxes were not involved.

A post-office employee in the box section estimated that mail for this bank and another bank which rented 26 post-office boxes accounted for about 10 to 15 percent of the total volume of mail handled in the box section. He advised us that sorting mail for the two banks was cumbersome and time-consuming and estimated that about 34 postal-clerk-hours a week were required to sort mail to the banks' multiple boxes.

On the basis of this estimate and the Department's national productive hourly pay rate for postal clerks of \$5.61, the clerk time required to sort mail to the two banks' multiple boxes costs about \$9,900 annually. The annual revenue received from the two banks for box rentals is about \$2,800, leaving an excess of cost over revenue of about \$7,100 annually.

In several letters written during April and May 1968 to organizations and individuals who had commented on the Department's proposal to curtail the renting of multiple and phantom boxes, Department officials gave the following explanation of the additional cost associated with multiple and phantom boxes.

"Distribution costs to the Department constitute the basic problem involved in this service. Never less than two, generally three, and sometimes four additional handlings are required to effect delivery under the present practices. Additional equipment and space are necessary. The post office is providing personnel to perform clerical mail distribution duties which should be performed by the personnel employed by those renting multiple and nonexistent boxes. This detailed separation of mail before delivery for a single recipient is not an inherent service of the post office. It is a separation which naturally should be made according to the recipients' internal organization, by the recipients' own employees, after the mail is delivered."

In a letter dated August 15, 1968, another Department official, in commenting on an organization's recommendations for improving the mail service, stated that space limitations at many post offices precluded the installation of additional box equipment and that firms renting multiple boxes deprived other patrons of the use of the post-office-box service.

DEPARTMENT PROPOSALS TO INCREASE
RENTAL RATES FOR MULTIPLE BOXES

In June 1962 a Department study of multiple and phantom boxes recommended that the Department curtail the multiple and phantom box service. The Department did not propose changes in post-office-box service until 1968. The Department deferred action on the 1962 proposal, because it believed that action at that time would adversely affect the cooperation of large-volume mailers in the Department's Nationwide Improved Mail Service program. This program, which was initiated in July 1961, was a cooperative program under which the Department encouraged large-volume mailers to pre-sort and schedule their mailings so that mail could be handled more efficiently by the Department.

In March 1968 the Department proposed in the Federal Register that, effective July 1, 1970, multiple and phantom boxes be eliminated and postal patrons be allowed to rent only one box at each post office.

On April 15, 1968, the Department initiated its study of post-office-box service at 80 selected large post offices throughout the country. The purpose of the study was to determine the number of multiple and phantom boxes being rented, the rental revenues received from those boxes, and the additional clerical cost incurred in providing mail service to such boxes. Reports on the study, issued in May 1968, showed that the 80 post offices were renting over 40,000 multiple and phantom boxes, that the annual rental revenues were about \$1 million, and that the annual cost of providing mail service to the multiple and phantom boxes was about \$3.3 million.

On the basis of the results of the 1968 study, Department officials on August 27, 1968, proposed to the Executive Assistant to the Postmaster General that the rental rates for multiple and phantom boxes be increased to three times the then-existing rental rates, which ranged from \$1.40 to \$48 a box annually depending on the size of the box and the salary level of postmaster or superintendent in charge of the local facility. A Department official advised us that

the proposed rate increase was intended to recover most, if not all, of the additional cost incurred by the Department in providing service to holders of these boxes.

On September 20, 1968, the Department published a notice in the Federal Register, which

- proposed that the rental rates on all multiple and phantom boxes in excess of an initial box be increased to three times the regular rate;
- rescinded the March 1, 1968, proposal to restrict postal patrons to one box at each post office; and
- announced that the Department would undertake a full-scale study of post-office-box service, including the cost problems that prompted issuance of the March 1, 1968, proposal.

The decision to rescind the March 1, 1968, proposal was based on the complaints of many commercial firms that they relied heavily on the convenience of renting multiple boxes. A Department official advised us that about 20 percent of the firms commenting to the Department on the proposal had volunteered to pay increased rates to maintain the service, even though the Department had not requested interested parties to comment on the acceptability of increased rental rates.

On January 17, 1969, the Postmaster General announced that the proposal to triple the rental rates for multiple and phantom boxes was being withdrawn, pending the completion of a more detailed study which was expected to be completed in the spring of 1969. He stated, however, that an adjustment in the rental rates for post-office boxes could be expected.

The Department initiated the study in February 1969 and obtained data from 288 post offices in different parts of the United States during the period February through March 1969. A study report was not prepared, however, nor were any conclusions or recommendations finalized. A Department official informed us that the study was not completed because of other high-priority assignments.

The data obtained by the Department from the 288 post offices included the number of all post-office boxes by size, the number of patrons renting these boxes, and the volume of letter mail processed in the box sections of the post offices during a 4-week period. The Department, however, did not obtain data on the cost incurred in distributing mail to multiple and phantom boxes, and a responsible Department official informed us that he did not know why such cost data was not obtained.

In view of the lack of such cost data, we believe that the data obtained in 1969 from the 288 post offices will not afford a sound basis for establishing rates for the rental of multiple and phantom boxes.

INCREASE IN RENTAL RATES
OF ALL POST-OFFICE BOXES

Due to increased labor cost, the Department, in December 1970, increased rental rates for all post-office boxes an average 20 percent. Applying the increased rental rates and labor cost to the data obtained in the Department's 1968 study of post-office boxes, we estimated that the annual rental rates from multiple and phantom boxes at the 80 post offices would be about \$1.2 million, whereas the cost of providing services to these boxes would be about \$4.3 million.

CHAPTER 3

AGENCY COMMENTS AND

GAO EVALUATION AND RECOMMENDATIONS

On September 29, 1970, we brought our findings to the attention of the Postmaster General and suggested that rental rates for multiple and phantom boxes be increased to recover the cost incurred by the Department in providing mail service to such boxes.

In responding to our proposal, the Postmaster General informed us on December 16, 1970 (see app. I), that the Department had reviewed its policy on the rental of multiple and phantom boxes and had concluded, in part, that:

--The postal lockbox system served two distinct markets--the individual or businessman who rented one or more boxes in the lobby of post offices to receive mail normally delivered to his home or place of business and the commercial firm which received large volumes of mail addressed to one or more post-office boxes but who, for reasons of volume, did not use lockboxes.

--There should be separate schedules of fees for the two different services.

A Department official advised us that commercial firms which rented multiple post-office boxes and which received large volumes of mail should be included with those which used phantom boxes.

The Postmaster General also said that the Department's box rental policy would be revised in accordance with our suggestion that rental rates for multiple and phantom boxes be increased to recover the cost of providing the service and that an announcement of the new service and fees would soon be made.

The Postmaster General also stated that, on a national basis, the \$41 million currently received in box rentals

covered the cost of providing the service, although at certain large post offices the added cost of providing commercial box service exceeded the revenue derived therefrom.

Department data shows that the box rentals received from all 32,000 post offices in fiscal year 1969 were about \$42 million and costs allocated to box rental service were about \$38 million. In fiscal year 1970 total box rentals were about \$44 million and the cost was about \$40 million.

The cost allocated by the Department to the box rental service primarily consists of depreciation, space, maintenance, and clerks' salaries for collecting rent from post-office-box patrons. The cost of sorting mail to multiple and phantom boxes, however, is allocated by the Department to the class of mail being sorted, rather than to box rental service. Therefore the Department's cost data for all post offices does not include all the cost associated with providing mail service to multiple and phantom boxes.

On February 9, 1971, the Executive Assistant to the Deputy Postmaster General informed us that, effective January 20, 1971, because the Postal Rate Commission must review and make recommended decisions on proposed fee changes the Department could not say with assurance when any new fees or services it might propose would become effective. He stated, however, that the Department would inform us of its progress in obtaining approval of new fees and services for multiple and phantom boxes.

On June 2, 1971, a Department official advised us that the Department was developing proposals that would make the renting of multiple post-office boxes equitable.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Postmaster General propose to the Postal Rate Commission the establishment of two distinct classes of post-office-box delivery service--one for the individual or businessman who rents one box to receive mail normally delivered to his home or place of business and one for the commercial firm which, for reasons of volume, rents multiple or phantom boxes. We recommend also that the Postmaster General propose adjustments in box rental rates

sufficient to recover the cost incurred by the Postal Service in providing mail service to each class of box delivery service.

CHAPTER 4

SCOPE OF REVIEW

We reviewed Department policies, procedures, and records relating to the renting of post-office boxes and interviewed Department officials responsible for making cost studies and administering multiple and phantom post-office-box activities. We visited postal facilities in Denver and Boulder, Colorado, and Washington, D.C., to observe the handling of mail for multiple and phantom boxes and discussed the handling of such mail with postal employees. Our work was performed primarily at Department headquarters, Washington, D.C., during the period March 1970 through April 1971.

APPENDIXES



The Postmaster General
Washington, D.C. 20260

December 16, 1970

Dear Mr. Neuwirth:

On the basis of your letter of September 29, I have directed that a review be made of our policy on the rental of multiple and phantom boxes.

This review has concluded that:

- (a) there is a demonstrated public need for the lockbox services we offer, including multiple and phantom boxes;
- (b) the postal lockbox system serves two distinct markets: the individual or businessman who rents one or more lobby boxes to receive mail which would normally be delivered to his home or place of business, and the commercial customer who receives large volumes of mail addressed to one or more P. O. Box numbers, but who, for reasons of volume, does not use physical boxes;
- (c) on a national basis, the \$41 million currently received in box rentals covers the cost of providing the service, although at certain large offices the added cost of providing commercial box service exceeds the revenue derived therefrom; and
- (d) there should be separate schedules of fees for the two different services.

As a result of these findings, we are adopting your suggestion that adjustments be made. Before new rates can be announced, however, it will be necessary to define the new service and to promulgate instructions to post offices. In light of the reaction to earlier Post Office Department proposals, first to restrict box services and then to modify the pricing schedule, we believe it desirable to discuss our proposals with representatives of those industries most directly affected, before announcing them publicly.

APPENDIX I

I have directed that steps be taken promptly to modify our box rental policy in accordance with your recommendations and the above findings, with a target date for the announcement of the new fees and service in January, 1971.

Sincerely,

A handwritten signature in dark ink, appearing to read "Winton M. Blount", written in a cursive style.

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 ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	<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
John A. Gronouski	Sept. 1963	Nov. 1965
J. Edward Day	Jan. 1961	Aug. 1963
Arthur E. Summerfield	Jan. 1953	Jan. 1961
DEPUTY POSTMASTER GENERAL:		
Vacant	Jan. 1971	Present
Elmer T. Klassen	Feb. 1969	Jan. 1971
Frederick C. Belen	Feb. 1964	Jan. 1969
Sidney W. Bishop	July 1963	Feb. 1964
Vacant	July 1962	July 1963
H. W. Brawley	Jan. 1961	July 1962
John M. McKibbin	Oct. 1959	Jan. 1961
Edson O. Sessions	Sept. 1957	Oct. 1959
Maurice H. Stans	Oct. 1955	Sept. 1957
ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS:		
Frank J. Nunlist	Apr. 1969	Present
Vacant	Dec. 1968	Apr. 1969
William M. McMillan	Feb. 1964	Dec. 1968
Frederick C. Belen	Mar. 1961	Feb. 1964
Bert B. Barnes	Nov. 1959	Mar. 1961
John M. McKibbin	Feb. 1957	Oct. 1959

APPENDIX II

Tenure of office		
	<u>From</u>	<u>To</u>
ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE AND ADMINIS- TRATION:		
James W. Hargrove	Feb. 1969	Present
Ralph W. Nicholson	Mar. 1961	Feb. 1969
Vacant	Jan. 1961	Mar. 1961
Hyde Gillette	Feb. 1957	Jan. 1961
ASSISTANT POSTMASTER GENERAL, BUREAU OF PLANNING AND MARKET- ING (note a):		
Ronald B. Lee	June 1969	Present

^aOn June 5, 1969, the functions of the Office of Planning and Systems Analysis, Bureau of Operations, were transferred to the Bureau of Planning and Marketing which was created as an independent establishment reporting to the Postmaster General through the Deputy Postmaster General.