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

RELEASED

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AUG 22 1974

The Honorable Thaddeus J. Dulski  
Chairman, Committee on Post Office  
and Civil Service  
House of Representatives

Dear Mr. Chairman:

Pursuant to your request of January 31, 1974, and subsequent meetings with the committee staff, we reviewed the operation of the United States Postal Service's Capital Investment Program to determine the amount of capital commitments and expenditures, plans for future investments and the methods of financing. We also obtained information on capital investment data contained in the fiscal year 1972 and 1973 Annual Reports of the Postmaster General. (See encs. I-V.) Staff members of the committee have been briefed on the results of our examination.

BACKGROUND

The Service's Capital Investment Program is under the control of a Headquarters Capital Investment Committee and Regional Capital Investment Committees.

The cost and physical size of proposed projects and procurements determine the level of approval necessary to authorize implementation of such projects. The level of approval generally required for building projects is summarized below.

- The Board of Governors of the Service has approval authority for individual projects and procurements over \$10 million.
- The Headquarters Capital Investment Committee has approval authority for individual projects over \$2 million and/or 50,000 square feet of interior floor space.
- The Regional Postmasters General have approval authority for individual projects of less than \$2 million and/or 50,000 square feet of space. The Regional Capital Investment Committees review and make recommendations to the Regional Postmasters General on these projects.

*Investment - 5 states  
Pop. Proj.  
Federal programs*

The Headquarters Committee makes recommendations to the Board of Governors on projects and procurements costing more than \$10 million.

The Headquarters Committee consists of the Senior Assistant Postmaster General for Administration as Chairman, the General Counsel, the Senior Assistant Postmaster General for Finance, the Senior Assistant Postmaster General for Operations, and the Assistant Postmaster General for Planning.

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The Regional Committees' members are appointed by the Regional Postmasters General.

Service records show the Capital Investment Committee has been operating since 1969.

### PROJECT APPROVAL AND EXECUTION

The Headquarters Committee is responsible for developing capital investment strategy; recommending a 5-year Capital Investment Program; approving major capital investment projects; establishing priorities; establishing procedures and criteria for capital investment project planning, approval, execution, and control; and monitoring program execution and publishing periodic reports and summaries.

The Regional Committee responsibilities are similar but they do not develop overall capital investment strategy or the overall 5-year plan.

The committees are concerned with capital projects, the authorization of projects, and the commitment of funds to finance them. A capital project is a real property project that costs \$2,000 or more and must provide new buildings or land, provide useful features not previously available in the property, increase the space, or significantly extend the useful life of the facility. A project authorization authorizes a contracting or executing official within the Service to incur a commitment of funds. A commitment is a reservation of funds for the value of orders, contracts, options, and agreements consummated and requires the ultimate disbursement of Service funds.

#### Budget controls

Capital investment requirements are normally subject to the annual planning and budgeting cycles. Detailed analyses on individual projects and procurements are not required for the budget submissions. Each region prepares its budget, which includes its capital investment requirements, and forwards it to the Headquarters Budget Division. The regional budgets are reviewed, revised if necessary, and consolidated with headquarters budgets and presented to the Headquarters Capital Investment Committee, the Postmaster General, and Board of Governors for approval. The approved budgets are forwarded to the regional offices.

#### Approval for commitment of funds

The data supporting the proposed project or procurement must be approved by the appropriate Regional Postmaster General, Senior

Assistant Postmaster General, Assistant Postmaster General, or Head of a Department before submission to the Headquarters Capital Investment Committee. The supporting data includes a description of the requirement; reasons the investment is required; the benefits to be derived; the alternative solutions considered; a decision (economic) analysis; the projected costs of the project, including investment rate of return; and recommendation. The recommended alternative must be supported by the economic analysis.

Project approval by the Committee constitutes approval of the objective or intent of the investment, the implementation plan, and the total investment or cost required but does not constitute approval of the procurement method. Limitations may be placed on projects if deemed necessary. The sponsoring office is notified of the approval and may then authorize commitment of budgeted funds for the approved project.

#### Project execution

The responsibility for implementing, contracting, supervising, coordinating, and completing real estate and facility projects with related fixed mechanization is lodged in the Real Estate and Building Department or its counterpart in the regional organizations. The Department is charged with insuring that project intent is met and that approved total dollar limitations of the authorization are not exceeded.

#### Approval of project changes

The Headquarters Capital Investment Committee must be made aware of changing conditions and approve certain project alterations if

- objective or intent is to be changed;
- total investment is forecast to be insufficient to complete the project or procurement;
- the internal rate of return is forecast to decrease by 20 percent;
- building interior square footage or the number of items of equipment increases by 15 percent, even though the increase can be made within the approved total investment;
- investment for an individual line item of site, building, fixed mechanization, or nonfixed mechanization is forecast to be exceeded by 20 percent, even though the change can be made within the approved total investment; or

-- project and/or procurement acceptance or delivery date is to be deferred 180 days or more.

The Committee determines when a project or procurement over \$10 million must be returned to the Board of Governors for reapproval.

Monitoring and reporting of  
commitments and expenditures

The Postal Data Center (PDC) in St. Louis maintains financial data on regional and headquarters' facility and fixed mechanization projects. Financial data on nonfixed equipment procurements is maintained at the New York PDC and regional PDCs for headquarters' and regional projects respectively. These centers receive project authorization information on approved projects and copies of accounting documentation related to awarded contracts and signed purchase orders. Invoices and accounting documentation for capital projects are sent to the centers for examination and disbursement of funds after the contracting officer's certification of receipt of goods and services. The centers keep records of authorized dollar limitations, commitments made against the authorizations, and the ultimate expenditure of funds on a project-by-project basis. They prepare periodic reports to keep the regions' and headquarters' offices informed of the financial status of their respective projects.

The expenditure information is accumulated on each project and is not summarized or reported in the same detail as committed funds. According to a Service official, expenditure data will be summarized by some asset categories and reported to headquarters when a new automatic data processing system, now under development, becomes operational. Under its present procedures, the Service could not provide us with accumulated expenditure information for comparison with the capital asset commitments as shown in the budget or for the major projects in the Capital Investment Program. See enclosures I and II for capital commitments and related cash outlays made from fiscal year 1971 through 1973.

PROJECTED CAPITAL  
COMMITMENTS

The Service presented us with capital commitment projections for fiscal years 1975-79 (see enc. V) and said these projections were subject to future revision.

Financing of  
postal activity

The Service borrowed \$500 million from the Federal Financing Bank on June 27, 1974. The Service issued an unsecured promissory

note payable on June 30, 1975. Interest on the promissory note is 9.305 percent. The interest rate was based on the average bid and ask for 1-year Treasury bills at the June 26, 1974, auction.

CAPITAL INVESTMENT  
PRESENTATION IN BUDGET

The Service, beginning with the fiscal year 1975 budget, reported as actual capital commitments the amount incurred during the year reduced by prior year adjustments. As a result, capital commitments amounting to \$3,003,000 were not disclosed as actual capital commitments for fiscal year 1973 in section IX-A of the 1975 budget. The effect on the amount reported in the 1975 budget is summarized below.

Capital commitments made in FY 1973	\$805,899,000
Actual capital commitments reported in the budget	<u>802,896,000</u>
Capital commitments incurred in 1973 but not reported	<u>\$ 3,003,000</u>

There was a downward adjustment of \$3,003,000 in commitments incurred before fiscal year 1973. The Service reduced the 1973 commitments by this adjustment. Therefore, \$3,003,000 of capital commitments incurred in 1973 was not reported on page 66 in the budget. (See enc. IV.)

The following schedule shows the effect of reducing the fiscal year 1973 commitments by the prior year adjustment.

	Actual commitments in FY 1973	Commitments reported in the budget for FY 1973	Difference (prior year adjustment)
Facilities	\$487,186,000	\$484,764,000	\$ - 2,422,000
Mail processing equipment	232,045,000	231,398,000	- 647,000
Vehicles	43,248,000	43,098,000	- 150,000
Postal support equipment	34,570,000	34,786,000	216,000
Customer service equipment	<u>8,850,000</u>	<u>8,850,000</u>	<u>-</u>
Total	<u>\$805,899,000</u>	<u>\$802,896,000</u>	<u>\$ 3,003,000</u>

EXPLANATION OF INFORMATION  
IN THE ANNUAL REPORT

The committee's staff questioned apparent differences in capital commitments as shown in the Service's fiscal year 1973 annual report

and its 1975 budget--which contains actual expenditure and commitment data for fiscal year 1973. The commitment amount that appears in the financial statement footnote in the annual report represents the cumulative balance of capital commitments at the fiscal yearend. The capital commitments in the annual budget are limited to capital commitments incurred during the fiscal year.

We have excerpted statements from the annual reports for fiscal years 1972 and 1973 and compared them with information reported in the annual budgets. The explanations follow.

Fiscal year 1972 annual report (p. 9, par. 7)

"Obligations for new plant and equipment were up three-fold in fiscal 1972, to a record \$725,000,000."

Explanation: The amount of \$725,000,000 as stated in the 1972 annual report reflects actual commitments made in fiscal year 1972 for facilities and equipment rather than obligations. These were reported in the 1974 program budget as actual commitments for fiscal year 1972. Details of the actual commitments follow:

Actual commitments

Facilities:		
Construction	\$256,735,000	
Building purchase	62,632,000	
Building improvements	<u>73,345,000</u>	\$392,712,000
Mail processing equipment:		
Fixed mechanization	\$239,220,000	
Nonfixed mechanization	11,193,000	
Other mail handling equipment	<u>8,026,000</u>	258,439,000
Vehicles:		
Carrier motorization	\$ 41,961,000	
Bulk transfer	-	
Law enforcement	74,000	
Other vehicles	107,000	
Vehicle auxiliary equipment	124,000	
Freight	<u>1,752,000</u>	44,018,000
Customer service equipment:		
Lobby equipment	\$ 1,610,000	
Window service equipment	3,175,000	
Self-service equipment	<u>1,750,000</u>	6,535,000
Postal support equipment:		
Administrative and general support	\$ 9,106,000	
Maintenance equipment	2,053,000	
Automatic data processing	688,000	
Mail equipment shops	6,420,000	
Freight	<u>3,901,000</u>	22,168,000
Debt service		<u>1,375,000</u>
Total fiscal year 1972 commitments		<u>\$725,247,000</u>

Fiscal year 1973 annual report (p. 25, par. 3)

"In fiscal 1973, the Postal Service committed \$803 million to facilities, mechanization, and equipment--an 11 per cent increase over the \$725 million allotted in 1972. Most of the 1973 funds \$716 million--was directed toward construction, improvement and equipage of postal buildings. Other major commitments were for vehicles--\$43 million, data processing equipment, maintenance equipment--\$35 million, and \$9 million for equipment directly related to customer service."

Explanation: The Service committed nearly \$803 million for facilities, mechanization, and equipment in fiscal year 1973. This amount is comparable to the \$725,247,000 committed in 1972 for the same types of capital assets. The \$725 million was the fiscal year 1972 actual commitments rather than allotments as reported in the fiscal year 1973 annual report. Details of the \$803 million committed in fiscal year 1973 follow:

Actual commitments:

<b>Facilities:</b>		
Construction	\$401,799,000	
Building purchase	17,504,000	
Building improvements	<u>65,461,000</u>	\$484,764,000
<b>Mail processing equipment:</b>		
Fixed mechanization	\$186,282,000	
Nonfixed mechanization	33,970,000	
Other mail handling equipment	<u>11,146,000</u>	<u>231,398,000</u>
Total facilities and mail processing equipment		716,162,000
<b>Vehicles:</b>		
Carrier motorization	\$ 31,760,000	
Bulk transfer	7,818,000	
Law enforcement	333,000	
Other vehicles	\$ 1,634,000	
Vehicle auxiliary equipment	100,000	
Freight	<u>1,453,000</u>	43,098,000
<b>Customer service equipment:</b>		
Lobby equipment	\$ 4,636,000	
Window service equipment	1,409,000	
Self-service equipment	<u>2,805,000</u>	8,850,000
<b>Postal support equipment:</b>		
Administrative and general support	\$14,409,000	
Maintenance	3,429,000	
Automatic data processing	3,867,000	
Mail equipment shops	10,204,000	
Freight	<u>2,877,000</u>	34,786,000
<b>Debt service</b>		
		<u>-</u>
<b>Total fiscal year 1973 commitments</b>		<u><u>\$802,896,000</u></u>



Annual report (p. 25, par. 5)

"Of the original \$950 million allotted by the Board of Governors for the bulk mail centers, a total of \$884 million had been committed through fiscal 1973 and general construction contracts for all the major centers and satellite facilities had been signed."

Explanation: The \$884 million reported in the annual report represents the value of cumulative commitments incurred for the Bulk Mail Program.

The \$884 million consists of:	
Construction	\$465,700,000
Fixed mechanization	416,700,000
Equipment	<u>1,400,000</u>
Total commitments	<u>\$883,800,000</u>

Annual report (p. 25, par. 6)

"Construction costs in fiscal 1973 were some \$402 million for new post offices."

Explanation: The \$402 million represents the total actual construction commitments for fiscal year 1973 and not expenditures.

Annual report (p. 25, par. 7)

"Building purchases amounted to \$17.5 million. Capital building improvement commitments amounted to \$65.5 million."

Explanation: Commitments for building purchases amounted to \$17,504,000 in fiscal year 1973. Capital building improvement commitments were \$65,461,000 for fiscal year 1973. These amounts are actual commitments and not expenditures.

Annual report (p. 26, par. 2)

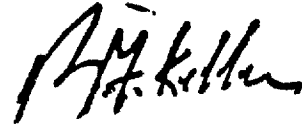
"In fiscal 1973, a total of \$27 million in capital funds was committed to better working conditions and in addition \$5.3 million was charged to operating expenses."

Explanation: The \$27 million for better working conditions was committed in fiscal year 1973. The Service could not provide details of the improvement types and related amounts. The \$27 million is included in the \$65.5 million reported on page 25 of the annual report as capital building improvements.

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As agreed by your office, we did not obtain formal agency comments; however, we discussed the report with Service officials and they generally agreed with its contents. We do not plan to distribute this letter further unless you agree or publicly announce its contents.

Sincerely yours,



Acting

Comptroller General  
of the United States

Enclosures - 5

CAPITAL COMMITMENTS

The actual commitments as reported in the Budgets for Post Office Department and Postal Service capital projects in fiscal years 1971-73 follow.

	Post Office Department				Postal Service			
	1971 (millions)	1971 (percent)	1972 (millions)	1972 (percent)	1973 (millions)	1973 (percent)	1972-73 (millions)	1972-73 (percent)
<b>Facilities:</b>								
Construction	\$82.7	35.1	a/\$256.7	35.4	a/\$401.8	50.0	\$658.5	43.1
Building purchase	-	-	62.6	8.6	17.5	2.2	80.1	5.2
Improvements	<u>32.0</u>	<u>13.6</u>	<u>73.4</u>	<u>10.1</u>	<u>65.5</u>	<u>8.2</u>	<u>138.9</u>	<u>9.1</u>
Total facilities	114.7	48.7	392.7	54.1	484.8	60.4	877.5	57.4
<b>Mail processing equipment:</b>								
Fixed mechanization	58.7	25.0	239.2	33.0	186.3	23.2	425.5	27.8
Nonfixed mechanization	2.9	1.2	11.2	1.5	34.0	4.2	45.2	3.0
Other	<u>6.2</u>	<u>2.6</u>	<u>8.0</u>	<u>1.1</u>	<u>11.1</u>	<u>1.4</u>	<u>19.1</u>	<u>1.3</u>
Total equipment	67.8	28.8	258.4	35.6	231.4	28.8	489.8	32.1
Vehicles	28.2	12.0	44.0	6.1	43.0	5.4	87.0	5.7
Customer service equipment	4.5	1.9	6.5	.9	8.9	1.1	15.4	1.0
Postal support equipment	20.2	8.6	22.2	3.1	34.8	4.3	57.0	3.7
Debt service expense	-	-	1.4	.2	-	-	1.4	.1
Total capital investment	<u>\$235.4</u>	<u>100.0</u>	<u>\$725.2</u>	<u>100.0</u>	<u>\$802.9</u>	<u>100.0</u>	<u>\$1,528.1</u>	<u>100.0</u>

a

The Bulk Mail Program accounted for 45% of the FY 1972 construction commitments and 77.5% of the FY 1973 construction commitments. The Preferential Mail Program accounted for 18.8% of the FY 1972 construction commitments and 9.8% of the FY 1973 construction commitments.

CAPITAL EXPENDITURES

The Service provided us with capital expenditures (cash outlays) for fiscal years 1971-73 and an example of the expenditure calculation for fiscal year 1973. (See p. 3.)

	Post Office Department	Postal Service		
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1972-73</u>
Postal public buildings	\$69,670,283	\$46,877,361	\$229,615,000	\$276,492,361
Building improvements	4,308,213	5,913,327	43,975,000	49,888,327
Equipment	173,783,238	283,830,778	130,089,000	413,919,778
Debt service	-	<sup>a</sup> 1,375,000	-	1,375,000
Total	<u>\$247,761,734</u>	<u>\$337,996,466</u>	<u>\$403,679,000</u>	<u>\$741,675,466</u>

<sup>a</sup>

This amount represents the Underwriters' fee for the 1972 bond issue.

EXPENDITURE CALCULATION

The Service's accounting records do not distinguish between capital expenditures and ordinary expenditures. The Service determines its capital cash expenditures by taking the balance of capital commitments at the beginning of the year, adding capital commitments incurred during the year--plus or minus any prior year adjustments--and subtracts the capital commitment balance at the end of the year. The difference is assumed to be capital cash expenditures for the year. The fiscal year 1973 expenditure calculation follows.

	<u>Equipment</u>	<u>Postal buildings</u>	<u>Building improvements</u>	<u>Total</u>
	----- (thousands) -----			
On order balance 6-30-72	\$279,497	\$319,553	\$115,507	\$714,557
Adjustment to opening balance	(685)	(586)	(1,753)	(3,024)
Delivered unpaid assets	<u>5,678</u>	<u>29,876</u>	<u>-</u>	<u>35,554</u>
Subtotal	284,490	348,843	113,754	747,087
Add: FY 1973 commit- ments	<u>318,713</u>	<u>419,988</u>	<u>67,198</u>	<u>805,899</u>
Total available for delivery	603,203	768,831	180,952	1,552,986
Less: on order balance 6-30-73	(460,070)	(539,216)	(136,977)	(1,136,263)
Delivered unpaid fixed assets 6-30-73	<u>(13,044)</u>	<u>-</u>	<u>-</u>	<u>(13,044)</u>
Capital cash outlays	<u>\$130,089</u>	<u>\$229,615</u>	<u>\$43,975</u>	<u>\$403,679</u>

RECONCILIATION OF CAPITAL  
COMMITMENTS AND EXPENDITURES

The capital asset balances as stated in the annual report reflect the assets on hand that have been paid for or a liability created for the unpaid balance. The lack of expenditure data precludes the preparation of a detailed comparison of commitments, expenditures, and construction in process using amounts reported in the annual report and program budget.

We did, however, reconcile the detailed commitments for capital assets with total capital expenditures for fiscal years 1971-73.

Fiscal year 1971

Beginning capital commitment balance	\$363, 102, 000
Less: prior year adjustments	(8, 092, 000)
Add: capital commitments in fiscal year 1971	235, 402, 000
Less: capital expenditures in fiscal year 1971	<u>(251, 028, 000)</u>
Reconciled balance June 30, 1971	<u><u>\$339, 384, 000</u></u>

Ending capital commitment balance per annual report	<u><u>\$339, 484, 000</u></u>
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a  
We were unable to reconcile the difference of \$100, 000 between the commitment balance in the annual report (\$339, 484, 000) and the reconciled balance (\$339, 384, 000). The Service could not explain the difference.

b  
The commitment balance consists of:

Fixed assets	\$330, 888, 000
Postal buildings	<u>8, 596, 000</u>
Total	<u><u>\$339, 484, 000</u></u>

Fiscal year 1972

Beginning capital commitment balance	\$339,484,000
Add: actual capital commitments per program budget	725,247,000
Less: actual capital expenditures per program budget	(360,709,000)
Add: FY 72 adjustments per program budget	<u>10,515,000</u>
Reconciled balance June 30, 1972	<u>a</u> <u>\$714,537,000</u>
Ending capital commitment balance per annual report	<u>\$715,000,000</u>

a/The commitment balance consists of:

Equipment	\$279,477,000
Postal buildings	319,553,000
Building improvements	<u>115,507,000</u>

Total	<u>\$714,537,000</u>
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Fiscal year 1973

Beginning capital commitment balance	\$714,537,000
Less: prior year adjustments	(3,003,000)
Add: capital commitments during fiscal year 1973	805,899,000
Less: capital outlays during fiscal year 1973	(403,679,000)
Add: FY 1973 adjustments	<u>22,510,000</u>
Reconciled balance June 30, 1973	<u>b and c</u> <u>\$1,136,264,000</u>

b/The commitment balance consists of:

Equipment	\$460,070,000
Postal buildings	539,216,000
Building improvements	<u>136,977,000</u>

Total	<u>c</u> <u>\$1,136,263,000</u>
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Ending capital commitment balance per annual report	<u>d</u> <u>\$1,008,514,000</u>
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c/The difference of \$1,000 in the ending balance is due to rounding.

d/The reconciled balance of capital commitments and the balance reported by the Accounting Division is \$1,136,263,000. The annual report footnote shows \$1,008,514,000 as the capital commitment balance. The difference in the reconciled balance and the balance shown in the annual report is \$127,749,000. The footnote in the annual report includes only real property commitments (postal buildings, building improvements, and fixed mechanization) while the reconciled balance includes personal and real property commitments.

FINANCING OF  
CAPITAL COMMITMENTS

	<u>Fiscal year 1972</u>	<u>Fiscal year 1973</u>	<u>Total 1972 and 1973</u>
Actual capital commitments	<u>\$725,247,000</u>	<sup>a</sup> <u>\$805,899,000</u>	<u>\$1,531,146,000</u>
Method of financing:			
Capital carryover	\$462,677,000	\$ -	b/\$ 462,677,000
Sale of bonds	250,000,000	-	250,000,000
Borrowing authority committed	12,570,000	718,539,000	c/731,109,000
Revenues and reimbursements	<u>-</u>	<u>84,357,000</u>	<u>84,357,000</u>
Total	<u>\$725,247,000</u>	<u>a/\$802,896,000</u>	<u>\$1,528,143,000</u>

a/The actual capital commitments for fiscal year 1973 amounted to \$805,899,000. There was a prior year adjustment of \$3,003,000 to capital commitments. The Service deducted the prior year adjustment from the fiscal year 1973 capital commitments and reported capital commitments for fiscal year 1973 as \$802,896,000. This net figure, shown in the fiscal year 1975 budget, is the amount that needed to be financed in fiscal year 1973.

b/This amount represents prior year appropriations for capital assets.

c/The Service is authorized to borrow money and to issue and sell obligations necessary to carry out the purposes of the Postal Reorganization Act.



CAPITAL COMMITMENT PROJECTIONS (FY 1975-79)

We were provided with the following capital investment projections for fiscal years 1975-79.

	<u>Preliminary Capital Commitment Projection</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u> (millions)	<u>1978</u>	<u>1979</u>
Facilities	\$ 857	\$1,077	\$ 931	\$ 859	\$ 668
Mail processing equipment	192	188	184	169	114
Vehicles	69	39	79	83	91
Customer services equipment	21	21	16	15	15
Postal support equipment	39	38	44	48	35
Debt service	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total	<u>\$1,181</u>	<u>\$1,366</u>	<u>\$1,257</u>	<u>\$1,177</u>	<u>\$ 926</u>

These projections are subject to revision in the future as review and coordination of plans, programs, and objectives dictate.