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*REPORT TO THE
JOINT COMMITTEE ON PRINTING*

Pricing Of Publications
Sold To The Public B-114829

Government Printing Office

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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

B-114829

The Honorable Wayne L. Hays
Chairman, Joint Committee on Printing
Congress of the United States

Dear Mr. Chairman:

On February 13, 1974, you asked us to review the pricing policy for publications sold to the public by the Government Printing Office.

We discussed the results of our review with your staff and with the Public Printer and considered his comments in preparing our report.

Senator Lloyd Bentsen and Representatives Marvin L. Esch and Michael J. Harrington also asked us about the price increases, and, if you approve, we plan to send each of them a copy of this report.

We believe that this report could also be of interest to the Appropriations Committees. However, we do not plan to distribute the report further unless you agree or publicly announce its contents.

Sincerely yours,

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

Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office

GPO Government Printing Office

COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN
JOINT COMMITTEE ON PRINTING

PRICING OF PUBLICATIONS
SOLD TO THE PUBLIC
Government Printing Office
B-114829

D I G E S T

WHY THE REVIEW WAS MADE

In August 1973 the Government Printing Office (GPO) increased prices for its publications offered to the public. On February 13, 1974, the Chairman, Joint Committee on Printing, asked GAO to review GPO's pricing of publications to determine two things:

- Did the increases embrace the same financial philosophy which had prevailed in the past?
- Did the increases change the relationship between the pricing structure and the annual appropriation by the Congress? (See app. I.)

FINDINGS AND CONCLUSIONS

The short answer to both questions is "Yes."

The financial philosophy

Historically, GPO's financial philosophy has been that total revenues should exceed the total sales program costs. Although a different pricing formula was used in August 1973 to arrive at the revised selling prices, the formula was designed to recover the total sales program costs. Consequently, there has not been a major change in the financial philosophy of pricing publications for the sales program. (See p. 4.)

The law governing pricing publications for sale to the public, which has remained essentially unchanged since 1932, provides that the selling prices be based on the "cost as determined by the Public Printer plus 50 percent." (See p. 2.)

The Public Printers have defined "cost" as used in the law differently. Before the August 1973 increase in selling prices, "cost" was defined as including only certain program costs, such as printing and binding costs, postage, and GPO's administrative expenses allocated to the sales program. Other program costs, such as salaries, which were not specifically identified as costs used to determine selling prices, were financed by appropriations from the Congress. (See pp. 2 and 7.)

However, except in fiscal years 1972 and 1973, sales revenues exceeded the full program cost through the inclusion in the pricing formula of the 50-percent addition specified in the law. The surplus revenues were deposited in the Treasury as miscellaneous receipts. (See p. 7.)

During recent years, the total costs of distributing publications have increased much more than their printing and binding costs. From 1969 to 1973 total sales program distribution costs increased by about \$24 million while printing and binding costs increased by only \$2.4 million.

The largest increases in distribution costs were for postage and personnel compensation. In 1971 postage amounted to \$2.1 million; in 1972 and 1973 postage amounted to \$15 million and \$9.6 million, respectively. (See p. 3.)

In August 1973 the Public Printer announced a price increase because of the drastic increase in the sales program costs. At that time he said that the cost used in determining selling prices included the full cost of obtaining and distributing publications. A pricing formula was designed and used to recover the full cost to operate the sales program. The 50-percent factor was not added. (See p. 2.)

According to GPO officials the current pricing formula will permit the sales program to recover full costs in fiscal year 1976. This may not occur, however, if there is a large increase in costs or a decrease in the number of publications sold. (See p. 5.)

The Public Printer's interpretation of cost differs from past interpretations, but the Public Printer is complying with the law which allows him to determine cost. Also the Public Printer's interpretation of cost has received tacit congressional approval in that he has made his views known to the House and Senate Appropriations Committees through the annual hearings and has not met with opposition.

During the April 1974 hearings before the Legislative Branch Subcommittee of the Senate Committee on Appropriations, the Chairman instructed the Public Printer to add the 50-percent factor to the cost

because the law requires it. (See p. 12.)

The pricing structure and appropriations

In the past, sales revenues were used to finance costs identified as being used to determine selling prices, and appropriations were requested to finance other costs, such as salaries. The current pricing formula uses full costs in determining selling prices.

If the past relationship were to continue, all costs would be financed by revenues and appropriations would not be needed to finance these specific costs, provided an adequate working capital could be established. Under current procedures GPO requests appropriated funds for costs it now intends to recover through sales revenues. (See p. 8.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

In commenting on GAO's report, the Public Printer said he agreed that GPO had not changed its financial philosophy for pricing publications for sale. He also said that, although the mechanics of the pricing formula were changed in August 1973, the relationship between the pricing structure and the annual appropriation was not changed. (See app. III.)

GAO believes the relationship between the pricing structure and the annual appropriation has been changed. In the past GPO requested appropriations for sales program salaries and expenses which were not identified as included when determining selling prices. GPO did not request

appropriations for the identified costs but used sales revenues to finance such costs. (See pp. 7 and 8.)

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to consider the impact of increased costs of publications on the public. The major alternatives to the Committee are to:

- Continue with the current pricing policy of recovering the total sales program costs from revenues. This would mean that cost increases would be passed on to the public by increased selling prices of publications.
- Subsidize the cost of publications through appropriations, which would result in lower selling prices. This would require specific legislation stating to what extent the publications are to be subsidized. Also, if the selling prices are to be based on "cost as determined by the Public Printer," section 1708 of title 44 of the United States Code should be amended to more clearly define "cost." Such an amendment would insure a more

consistent application of "cost" by the Public Printer. (See p. 5.)

The Committee may also wish to consider whether it wants the Public Printer to continue using the current pricing formula. If so, the Committee may wish to consult with the Appropriations Committees on whether the Public Printer should continue to request appropriations for specific sales program costs. In the past only the costs not specifically identified as used to determine selling prices were financed by appropriations. Using the current pricing formula, which includes full costs, appropriations for the sales program would appear to be required only to provide working capital and to meet any costs which may not be fully recovered from sales revenues. (See p. 9.)

Further, the Committee may wish to consider whether the 50-percent factor should be added to the current definition of costs. If the Committee believes that the 50-percent factor no longer serves its intended purpose, clarifying legislation would be desirable; otherwise, under the current pricing formula, the Public Printer must greatly increase selling prices, if he is to recover total costs plus the 50-percent factor. (See p. 12.)

CHAPTER 1

INTRODUCTION

On February 13, 1974, the Chairman, Joint Committee on Printing, asked us to review the Government Printing Office's (GPO's) pricing of publications sold to the public. (See app. I.) We directed our review toward determining whether (1) the August 1973 price increases embraced the same financial philosophy which had prevailed in the past and (2) the relationship between the pricing structure and the annual appropriation by the Congress had changed.

SALES PROGRAM

The Superintendent of Documents, appointed by the Public Printer, directs GPO's Public Documents Department which sells Government publications to the general public. The publication sales program is carried out through mail orders and over-the-counter sales at GPO's distribution centers in Philadelphia, Pennsylvania, and Pueblo, Colorado, and at 26 bookstores throughout the United States.

About 25,000 publications are available from the Superintendent of Documents. In fiscal year 1973 GPO received about 4.8 million sales orders for about 78 million copies of publications. The sales program is financed by appropriated funds and by sales revenues.

SCOPE OF REVIEW

We made our review at GPO headquarters. We reviewed documents applicable to pricing publications and interviewed GPO officials. For data on operating costs and sales revenues we relied upon GPO's annual financial statements which GAO had audited.

CHAPTER 2

FINANCIAL PHILOSOPHY FOR SALES PROGRAM

The law governing pricing publications--section 1708, title 44, United States Code--provides that:

"The price at which additional copies of Government publications are offered for sale to the public by the Superintendent of Documents shall be based on the cost as determined by the Public Printer plus 50 percent."

Over the years, the Public Printers have defined "cost," as used in section 1708, differently, as shown below.

- Between 1932 and 1936 "cost" appears to have been the printing and binding cost. The 50-percent surcharge specified in the law was added to this cost to determine the selling price.
- In 1936 "cost" was the printing and binding cost plus 25 percent to cover any cost that would be incurred in reprinting a publication. The 50-percent markup was added to this total cost.
- In 1953 "cost" was the printing and binding cost plus 25 percent for postage, 25 percent for administrative expenses, and 25 percent for reprinting. The 50-percent surcharge required by law was added to this cost.¹
- In August 1973 "cost" was the full printing, binding, and distributing cost. The selling price is determined by multiplying the printing and binding cost by a sliding factor from 3 to 2.25.² Postage is added to this amount. The 50-percent surcharge specified in the law is not included in the selling price.

¹Accordingly, selling prices were the cost of printing and binding (P&B), multiplied by 2.625.

²The factor decreases as the printing and binding cost increases to lessen the relative amount of distribution cost borne by publications with high printing and binding costs. (See table on p. 13.)

Each of these interpretations resulted in price increases. Between 1953 and 1973 prices were increased twice, but the definition of "cost" did not change. In 1968 prices were increased when the 1953 standard printing and binding costs used in calculating the selling prices were updated. In November 1972 GPO made interim price increases while it made a pricing study which led to the August 1973 price increases.

The underlying reason for the price changes was GPO's desire that total revenues should exceed total sales program costs. In various congressional hearings for many years, GPO officials have said that this was the philosophy under which the sales program was operated. This philosophy, coupled with the drastic increases in the sales program cost without a large increase in sales volume, brought about the need to increase prices in 1968, 1972, and 1973. According to GPO records, sales volume increased by about 9 percent between 1969 and 1971 and has remained constant since 1971.

SALES PROGRAM COST

The total sales program cost in 1958 was about \$5 million. By 1969 the cost had increased to about \$14 million. Since that time, however, the cost has risen to over \$51 million. A comparison of costs of the sales program since fiscal year 1969 follows.

<u>Costs</u>	<u>Fiscal year</u>					
	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u> (note a)
	(thousands)					
Printing and binding	\$ 6,179	\$ 7,912	\$ 6,194	\$ 9,324	\$ 8,634	\$10,256
Distribution:						
Postage	1,348	1,403	2,065	15,057	9,600	10,560
Personnel compensation	3,536	4,544	5,943	6,479	8,949	13,007
Administrative expenses	1,374	1,705	1,841	2,960	4,631	4,978
Unsalable publications	458	1,222	2,282	524	2,077	2,051
Others (note b)	<u>1,286</u>	<u>1,437</u>	<u>2,849</u>	<u>2,600</u>	<u>6,744</u>	<u>10,376</u>
Total distribution costs	<u>8,002</u>	<u>10,311</u>	<u>14,980</u>	<u>27,620</u>	<u>32,001</u>	<u>40,972</u>
Total costs	<u>\$14,181</u>	<u>\$18,223</u>	<u>\$21,174</u>	<u>\$36,944</u>	<u>\$40,635</u>	<u>\$51,228</u>

^aEstimated.

^bIncludes all other sales program costs, such as personnel benefits, travel, rent, communications, and utilities.

As shown in the above table, the largest increases in distribution costs were for postage, personnel compensation, and "others."

The major increase in postage during fiscal year 1972 was the result of the Postal Reorganization Act of August 1970 (39 U.S.C. 101 et seq.). The act required GPO, along with other Government agencies, to pay the same postage charges as private, unsubsidized users. GPO had not been paying its full share of postage under the old system.

The growth in personnel compensation resulted primarily from general salary increases and additional employees.

The increase in "others" resulted from increases in retirement, life, and health insurance contributions; the opening of a distribution center and additional bookstores; the conversion of subscription lists to magnetic tape; and the implementing of system design and programing studies for inventory, order processing, and stock control.

NEED FOR PRICE INCREASES

Historically, GPO's financial philosophy has been that total sales revenues should exceed the total sales program operating costs. Sales revenues from 1958 to 1968 exceeded the operating costs. (See app. II.) In 1968, however, revenues and costs approached the break-even point. At that time the Public Printer recognized that the increased operating costs made price increases necessary if sales revenues were to continue to exceed the sales program operating costs. Price increases became effective on September 3, 1968.

In November 1972 the Public Printer again increased prices because the total sales program costs exceeded the sales revenues by about 65 percent in fiscal year 1972. These were interim prices. Since 1968 printing and binding costs had increased about 45 percent and postage had increased from about \$1 million to about \$15 million.

The interim prices provided additional sales revenues while GPO studied its pricing policy. GPO completed its study in June 1973 and in August 1973 increased prices on the basis of a pricing formula which identified cost elements different from the formula used since 1953. Under the 1953 pricing formula, printing and binding costs, other selected costs, and the 50-percent addition specified by law were specifically identified as used to determine selling prices. The formula did not specifically identified the

salaries and related costs of employees in the sales program. Although some costs were not identified as costs used to determine selling prices, sales revenues, except in fiscal years 1972 and 1973, exceeded the full program costs through the inclusion of the 50-percent factor in the pricing formula.

The current pricing formula is predicated on the philosophy of recovering the full costs to operate the sales program by basing selling prices on total costs rather than on certain costs plus the 50-percent factor specified by the law. According to GPO officials, this formula was designed to increase selling prices which were based on certain costs plus the 50-percent factor by an average 73 percent, thus allowing the sales program to reach a break-even point in fiscal year 1976.

During April 1974 hearings on the 1975 appropriations before the Legislative Branch Subcommittee of the Senate Committee on Appropriations, the Chairman instructed the Public Printer to add the 50-percent factor to costs so that the selling prices would include the 50-percent factor in the total amount recovered through the sale of documents. The Public Printer deferred making a decision to further increase selling prices to account for the 50-percent factor.

CONCLUSION

Over the years, the Public Printers have operated on the philosophy that sales revenues should exceed full costs. Although a different pricing formula was used in 1973 to arrive at the revised selling prices, the formula was designed to recover the full sales program costs. Consequently, there has not been a major change in the financial philosophy of pricing publications for the sales program.

AGENCY COMMENTS

The Public Printer agreed that, although the mechanics of the pricing formula were changed in August 1973, the financial philosophy for pricing publications for sale had not changed.

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Joint Committee on Printing may wish to consider the impact of increased costs of publications on the public. The major alternatives to the Committee are to:

- Continue with the current pricing policy of recovering the total sales program costs from revenues. This would mean that cost increases would be passed on to the public by increased selling prices of publications.

- Subsidize the cost of publications through appropriations, which would result in lower selling prices. This would require specific legislation stating to what extent the publications are to be subsidized. Also, if the selling prices are to be based on "cost as determined by the Public Printer," section 1708 of title 44 of the United States Code should be amended to more clearly define "cost." Such an amendment would insure a more consistent application of "cost" by the Public Printer.

CHAPTER 3

RELATIONSHIP OF PRICING

STRUCTURE AND APPROPRIATIONS

The current pricing of documents is designed to recover the full sales program costs. Although GPO's pricing philosophy is that sales revenue should exceed full costs, the Public Documents Department each year requests appropriated funds from the Congress to finance some of the sales program expenses. Consequently, sales program costs have been financed from both sales revenues and appropriated funds.

GPO has, in the past, used sales revenues to finance those costs specifically identified as used in determining selling prices. The identified costs included printing and binding, postage, and GPO's administrative expenses allocable to the sales program. Other sales program costs which were not specifically identified in the pricing formula were financed by appropriated funds. However, except in fiscal years 1972 and 1973, sales revenues exceeded total costs because of the 50-percent factor. The sales revenues remaining after paying the costs specifically identified as used in determining selling prices were deposited in the Treasury as miscellaneous receipts.

Title 44, section 1708 of the United States Code provides that:

"Surplus receipts from sales shall be deposited in the Treasury of the United States to the credit of miscellaneous receipts."

Even though sales revenues exceeded the total program costs from 1958 through 1971 (see app. II), appropriated funds were used to finance those program costs not identified when determining selling prices. During that period, surplus receipts available for deposit in the Treasury for each fiscal year exceeded the amount of appropriated funds for the year.

The pricing formula the Public Printer adopted in August 1973 differed from the previous formula in that the costs specifically identified as used in determining selling prices became the full cost, not just certain selected costs, of obtaining and distributing the publications. If, as in the past, sales revenues are used to finance the costs specifically identified in the pricing formula, then all

sales program costs would be financed by sales revenues. Appropriated funds would appear to be no longer required for specific costs, provided an adequate working capital could be established.

The appropriation request the Public Printer submitted to the Congress for fiscal year 1975 will, in essence, permit GPO to continue the practice of using sales revenue and appropriated funds to finance sales program costs. Accordingly, the request does not appear to be based on the change in relationship which took place with the adoption of the revised pricing formula in August 1973. The Public Printer has requested funds to finance costs which are to be recovered from sales revenues.

CONCLUSION

If the past relationship were to continue, all costs would be financed by revenues and appropriations would not be needed to finance specific costs, provided an adequate working capital could be established. Under current procedures, GPO requests appropriated funds for costs it now intends to recover through sales revenues. Therefore GPO is receiving both revenues and appropriations for the same costs.

AGENCY COMMENTS AND OUR EVALUATION

The Public Printer did not agree that the relationship between the pricing structure and the annual appropriation had changed. In commenting on our report (see app. III), he said that, although the mechanics of the pricing formula were changed in August 1973, the relationship between the pricing structure and the annual appropriation was not changed.

The relationship between the pricing structure and the annual appropriation has changed. In the past GPO did not request appropriations to finance the costs identified in the pricing formula but financed such costs from sales revenues. Appropriations were requested for the costs not identified and used in determining selling prices.

Under the current pricing formula, all costs, not just certain costs, are considered when pricing publications for sale. However, GPO is continuing to use appropriations to finance sales programs salaries and expenses which were not included in the old formula but which are included in the current formula. The practice of using appropriations to

finance costs identified in the pricing formula differs from past practices.

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to consider whether it wants the Public Printer to continue using the current pricing formula. If so, the Committee may wish to consult with the Appropriations Committees on whether the Public Printer should continue to request appropriations for specific sales program costs. In the past only the costs not specifically identified as used to determine selling prices were financed by appropriations. Using the current pricing formula, which includes full costs, appropriations for the sales program would appear to be required only to provide working capital and to meet any costs which may not be fully recovered from sales revenues.

CHAPTER 4

LEGISLATIVE HISTORY AND PRACTICES

IN DETERMINING SELLING PRICES

Before 1932 the law required that the selling price of Government publications be the printing and binding cost plus 10 percent. In 1932 the Superintendent of Documents testified that publications were so priced to insure that the purchasers valued the publications. He further said that the prices were not intended to recover the full costs of the publications.

On June 30, 1932, the law was changed to provide that the selling prices of publications be based on the "cost thereof as determined by the Public Printer plus 50 percent." This provision still governs the selling prices.

The 1932 provision evolved from a proposal the Public Printer originated. The Public Printer had proposed an amendment to base the selling prices of Government publications on the "cost thereof as determined by the Public Printer plus 50 per centum" to increase the amount of miscellaneous receipts deposited in the Treasury. In support of his proposal, he said that:

"Under the existing law, which requires that only 10 percent be added to the cost of printing and binding, the Superintendent of Documents has been able to turn into the Treasury for miscellaneous receipts an average of \$200,000 per year, and I feel certain that by the increase of this percentage over cost the amount returned to the Treasury could be more than doubled."

It seems clear from the above excerpts that "cost," as used by the Public Printer, was intended to mean the printing and binding cost.

When the amendment was introduced in the Senate, the Senate was told that the amendment provided merely that the percent added to the printing and binding cost would be increased from 10 to 50 percent.

The legislative history cited above, although admittedly sparse, appears to indicate that the 1932 amendment was intended to increase revenue by raising the percentage markup to 50 percent and that the "cost thereof" meant the printing and binding cost, or at most, the cost to the Superintendent of Documents of acquiring publications from the Public Printer for sale to the public.

Over the years, however, GPO has defined "cost," identified in the pricing formulas, to include more than printing and binding costs. Although the definition has been somewhat inconsistent, as is evidenced by the various interpretations of "cost," GPO has consistently held that the Public Printer is authorized to determine the elements of costs to be included in determining selling prices. These elements include, to a greater or lesser extent, handling and distribution costs and other administrative costs.

We calculated the selling prices for three publications to show the effect these different interpretations could have on selling prices. These computations are for illustration only and, except for 1973, do not represent actual selling prices. Our calculations depict three periods in which different interpretations of "cost" were used. We also included the current formula but added the 50-percent factor. We used the pricing formula in effect at the various times; however, to make our examples comparable, we used the January 1974 printing and binding costs.

<u>Period</u>	<u>Pricing formula</u>	<u>Publication prices</u>		
		<u>Presi- dential Tran- scripts</u>	<u>Water, Man and Nature (booklet)</u>	<u>Commerce Today (annual subscrip- tion)</u>
1932	Printing and binding plus 50 percent	\$ 6.15	\$0.30	\$12.10
1953	2.625 times printing and binding	10.75	.55	21.15
1973	3 to 2.25 times printing and binding plus postage (note a)	12.25	.85	42.40
	(Note b)	18.40	1.30	63.60
	(Note c)	17.75	.85	34.95

^aThe factor decreases from 3 to 2.25 as printing and binding costs increase. (See p. 13.)

^bImpact on prices if the Public Printer were to add 50 percent to the current formula.

^cImpact on prices if the Public Printer had increased the factor in the 1953 formula to recover only the costs identified in the past as being recovered from revenues plus 50 percent. Under this method, full sales program costs would not be recovered from sales revenues.

CONCLUSION

The Public Printer's interpretation of "cost" differs from past interpretations, but the Public Printer is complying with the law which allows him to determine cost. Also the Public Printer's interpretation of "cost" has received tacit congressional approval in that he has made his views known to the House and Senate Appropriations Committees through the annual hearings and has not met with opposition. During the April 1974 hearings before the Legislative Branch Subcommittee of the Senate Committee on Appropriations, the Chairman instructed the Public Printer to add the 50-percent factor to the cost because the law requires it.

MATTERS FOR CONSIDERATION BY THE COMMITTEE

The Committee may wish to consider whether the 50-percent factor should be added to the current definition of costs.

If the Committee believes that the 50-percent factor no longer serves its intended purpose, clarifying legislation would be desirable; otherwise, under the current pricing formula, the Public Printer must greatly increase selling prices, if he is to recover total costs plus the 50-percent factor.

CHAPTER 5
OBSERVATIONS ON PRICING FORMULA
AND ITS APPLICATION

During the fiscal year 1975 hearings before the Legislative Branch Subcommittee, Senate Appropriations Committee, the Public Printer said that he expected to increase prices effective January 1, 1975.

We made several observations during our review concerning the current method of allocating distribution costs, other than postage, to specific publications. The observations in this chapter should be considered by the Public Printer when making any future changes in pricing policies.

NEED FOR BETTER ALLOCATION SYSTEM

The pricing formula allocates all costs, other than printing and binding costs and postage, to each individual publication on the basis of the estimated printing and binding cost. Although such a method is easily applied, this method may not produce equitable pricing of individual publications. The following table shows the distribution expenses allocated to various publications by applying the sliding factor GPO uses.

Printing and binding cost	<u>Factor</u>	Selling price (<u>note a</u>)	Revenue available to meet distribution costs (<u>note a</u>)
\$ 1.00	2.95	\$ 2.95	\$ 1.95
7.50	2.625	19.70	12.20
10.00	2.5	25.00	15.00

^aDoes not include postage.

The selling prices are derived by multiplying the printing and binding costs by a sliding factor which decreases from 3 to 2.25 as printing and binding costs increase. Estimated postage is added to these amounts.¹

¹Estimated postage is added to all documents even though some are sold over the counter.

The sliding factor is designed to lessen the distribution costs borne by documents having high printing and binding costs.

We believe that using printing and binding costs as a basis for allocating distribution costs may not be the most appropriate method. Our opinion is based on the fact that, in many of the distribution functions, printing and binding costs have little impact on the distribution costs. For example, using multiple colors in a publication would increase printing and binding costs and, under the pricing formula, would increase the distribution costs allocated to the publications. The cost of distributing a multiple- or single-color publication, however, would be about the same.

Also, although the method of distribution obviously affects the distribution costs, the current pricing formula makes no distinction between the selling price of a publication sold to the public by mail and one sold over the counter at a GPO bookstore. In both cases, the distribution costs allocated to the publications are the same.

We believe that distribution costs should be so allocated that they approximate the actual distribution costs. Such a method could involve using different rates for different customers, products, or sales methods and could involve (1) establishing functional cost centers, such as warehousing, order processing, and advertising, (2) identifying fixed and variable costs, and (3) establishing bases to allocate expenses of the functional cost centers to specific publications.

Such a system not only would assist GPO in allocating costs to arrive at selling prices but also would give GPO management a valuable tool in analyzing and controlling distribution costs. The need for such a tool has become more apparent in recent years because of the large increase in distribution costs. Distribution costs, including postage, have increased from about \$8 million in 1969 to about \$32 million, or 79 percent of the total cost, in 1973.

We recognize that it may be too expensive to design, install, and maintain an optimum cost system. The Public Printer, in designing such a system, should carefully weigh the costs and benefits that could accrue so that the increase in costs justifies the benefits to be derived from the system.

MORE ANALYSIS NEEDED IN DETERMINING PRICE INCREASES

The price increase in August 1973 was based primarily on the relationship between total revenues and costs during fiscal year 1973. GPO calculated that an increase of about 73 percent in revenues would have been needed if revenues were to have equaled costs for fiscal year 1973. Using this percentage, GPO developed a pricing formula to increase selling prices, on the average, 73 percent.

In using this approach, GPO made assumptions which may not have been valid and did not consider other pertinent factors, such as inflation. For example, GPO assumed that (1) the price increases would have no major impact on the volume of sales and (2) an average price increase of 73 percent would increase revenues 73 percent. This latter assumption may not have been valid because it was dependent on the sales volumes of the various-priced publications remaining constant.

Another example which illustrates the need for better analysis before increasing prices is the basis for establishing a minimum selling price of 25 cents in July 1973. Before that time many pamphlets and other publications sold for less than 25 cents. According to GPO officials, they made no analysis to determine what the minimum price should be, because they believed that 25 cents was about the minimum cost of printing and distributing a document.

NEED FOR CONSISTENT APPLICATION OF PRICING FORMULA

In reviewing the application of the August 1973 pricing formula, we noted that GPO was not applying it consistently to all publications. For example, GPO determined the selling prices for dated periodicals by multiplying the printing and binding costs by 3 rather than by the sliding factor in the formula. Also, when the interim prices for periodicals were higher than the calculated formula prices, GPO retained the interim prices.¹

When multiplying the printing and binding costs by 3 instead of the sliding factor, the difference, in most

¹The interim prices were established in November 1972 to produce additional revenues while GPO studied its pricing policy.

cases, is not large. However, there is a big difference for the higher priced publications. For example, GPO used a factor of 3 instead of the sliding factor to determine the subscription price of \$155 a year for Index Medicus. Applying the sliding factor would have resulted in a selling price of \$135 a year.

We identified a number of publications with prices above the formula-calculated prices because GPO kept the interim prices. Although cost increases may resolve many of these differences, some, as shown by the following examples, may not be resolved in the immediate future by cost increases.

	<u>Interim price</u>	<u>Price formula</u>	<u>Percent over</u>
Periodicals:			
Average Monthly Weather Outlook	\$ 7.50	\$ 4.10	83
Department of Transporta- tion Telephone Directory	12.50	6.80	83
Foreign Service List	6.50	2.95	120
Outdoor Recreation Action	3.50	1.90	84
Books and pamphlets:			
Alfred H. Maurer 1868-1932	4.75	3.60	32
Structural Stratigraphic Framework	50.00	37.60	32
Severe Local Storm Warning Service	.50	.25	100

Although these publications are currently overpriced, many others, on the basis of GPO's pricing formula, are underpriced. For example, GPO is incurring large losses on the Congressional Record. GPO does not use the pricing formula to determine the Record's selling price.

According to 44 U.S.C. 906, the Public Printer may furnish the Record to subscribers at a price determined by the Public Printer on the basis of its printing and distribution cost. The current annual subscription price for the Congressional Record is \$45. The selling price, if the current formula were used, would be \$331, including

\$36 for estimated postage.¹ Considering that there were over 4,000 subscriptions for the Congressional Record as of April 1974, the loss the sales program bears for this document is significant.

CONCLUSION

Historically, the sales program distribution costs have been allocated to specific publications on the basis of printing and binding costs. Since printing and binding costs have little impact on distribution costs, this method of allocating distribution costs may not be the most appropriate method. However, whatever method is used should be consistently applied.

AGENCY COMMENTS AND OUR EVALUATION

The Public Printer said that GPO was reviewing the pricing formula and that GPO would consider our comments and observations in making any future refinements to the pricing formula.

We plan to evaluate any further changes to the pricing formula during our future reviews at GPO.

¹The postage cost was about \$265 a year until June 8, 1974, when Public Law 93-314 (88 Stat. 239) was enacted to permit mailing the Record at the second-class rate rather than at the first-class rate.

WAYNE L. HAYS, REPRESENTATIVE FROM OHIO, CHAIRMAN
 HOWARD W. CANNON, SENATOR FROM NEVADA, VICE CHAIRMAN
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ROSEMARY S. CRIBBEN, STAFF DIRECTOR
 DENVER DICKERSON, ASSISTANT STAFF DIRECTOR

Congress of the United States
Joint Committee on Printing

COMMITTEE ROOM
 5-151, U.S. CAPITOL
 PHONE: 225-3241

ADDRESS MAIL TO—
 CHAIRMAN
 JOINT COMMITTEE ON PRINTING
 % U.S. SENATE P.O.
 WASHINGTON, D.C. 20510

B-114829

February 13, 1974

Honorable Elmer B. Staats
 Comptroller General of the United States
 Washington, D.C. 20548

Dear Mr. Staats:

The Joint Committee on Printing currently is in receipt of mounting complaints and criticisms from the American Library community, including depository libraries, concerning the increased prices being charged by the Superintendent of Documents.

It should be noted that there have been erroneous reports that this committee directed the Government Printing Office to establish those higher rates.

The basic advice we have received from the Public Printer and the Superintendent of Documents, relative to the subject increases, is that they were necessary if the Documents Division is to maintain its traditional philosophy of being self-sustaining.

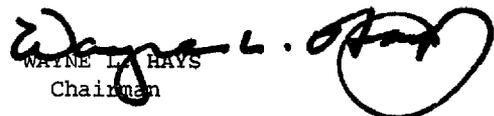
When measured against the extraordinary percentages which many of the new, higher prices reflect, the use of that traditional philosophy yardstick gives rise to many questions.

Consequently, as Chairman of the Joint Committee on Printing, it will be appreciated if you will have a comprehensive review made of all GPO Documents Division price increases, noting whether or not they involve the same fundamental financial philosophy which has prevailed in the past; and what relationship the current pricing structure has with the division's annual appropriations as contrasted with past relationships in that context.

Please include in the report of your findings resulting from that review whatever comments and recommendations you may wish to make. We will be pleased to have your report at your earliest convenience.

With best personal wishes, I am

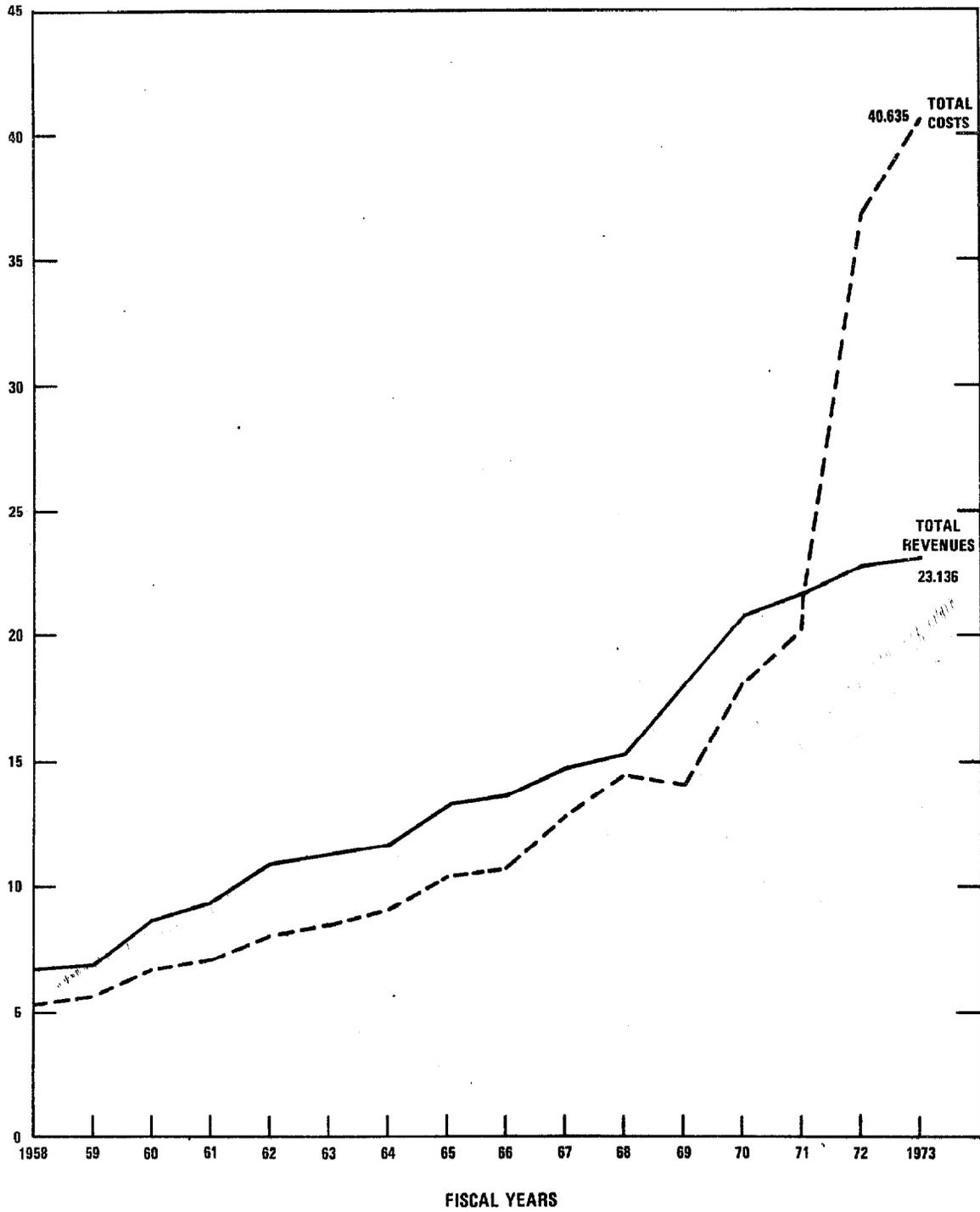
Very sincerely yours,


 WAYNE L. HAYS
 Chairman

APPENDIX II

**TOTAL COSTS AND REVENUES
FOR THE SALES PROGRAM,
FISCAL YEARS 1958 - 1973**

MILLIONS OF DOLLARS





OFFICE OF THE
PUBLIC PRINTER

UNITED STATES GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C. 20401

September 20, 1974

Mr. Werner Grosshans
Associate Director for Materials
Management Group
Logistics and Communications Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Grosshans:

Thank you for the opportunity to review your draft report on the pricing policy for publications sold by the Superintendent of Documents. I felt that our discussions were informative and useful.

As pointed out in the report, we have not changed our financial philosophy for pricing publications for sale. However, I believe the question concerning the relationship between the current pricing structure and the annual appropriations was not completely answered. Therefore, I am providing you with my views on this matter. The report deals primarily with the mechanics of our pricing formula and our financing of the sales program. In my opinion, the presentation leads the reader to the conclusion that the pricing formula and the annual appropriation are somehow tied together and that a change to the pricing formula affects the appropriation or vice versa.

While we changed the mechanics of our pricing formula in August 1973, we did not change the relationship between the pricing structure and the annual appropriation. Your report confirms the fact that historically, GPO has established selling prices that recovered the total cost of the sales program including appropriated as well as non-appropriated costs notwithstanding the fact that the titles given to the various elements in the pricing formula may not have spelled this out.

The increase in the sales prices of public documents is due to increased cost and not a change in policy or mechanics of pricing. For example, in 1972, our postage bill increased from just slightly over \$2 million to about \$15 million. Other examples of increased costs could also be cited. Our current pricing structure is designed to recover the costs of the sales program. With necessary adjustments to meet increased costs, the formula will allow us to become self-sustaining by the end of calendar year 1975.



APPENDIX III

We are currently reviewing our pricing formula and the comments and observations in your report will be considered in any future refinements that we may make to our pricing formula.

Sincerely,

A handwritten signature in cursive script that reads "T. F. McCormick". The signature is written in dark ink and is positioned above the typed name.

T. F. McCormick
Public Printer