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REPORT TO THE CONGRESS

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**Need To Recover The Costs Of
Processing Business Reply Mail**

B-714874

United States Postal Service

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

OCT. 28, 1971



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

B-114874

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

This is our report on the need for the United States Postal Service to recover the costs of processing business reply mail.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Postal Reorganization Act of August 12, 1970 (39 U.S.C. 2008).

Copies of this report are being sent to the Director, Office of Management and Budget; the Postmaster General; and each member of the Postal Rate Commission and the Board of Governors of the United States Postal Service.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

D I G E S T

WHY THE REVIEW WAS MADE

Although the Congress intended that fees charged for business reply mail service be adequate for recovering the cost of providing this service, the fees have not been changed since they were established by law in 1958.

Because of these circumstances, the General Accounting Office (GAO) wanted to know whether the fees were adequate for recovering the costs incurred in handling business reply mail.

FINDINGS AND CONCLUSIONS

The United States Postal Service is not recovering the costs of providing business reply mail service.

GAO's review, conducted at 13 postal facilities located in seven cities, showed that the average direct labor cost for each piece of business reply mail exceeded the average fee by about 0.9 cent. In fiscal year 1970 the Postal Service processed about 733 million pieces of business reply mail. (See pp. 4 and 5.)

The Postal Service has not made a study of the cost of providing business reply mail service since the fees were established in 1958. The average annual salary of a postal employee increased from \$4,402 in fiscal year 1957 to \$8,224 in fiscal year 1970, an increase of about 87 percent. A postal official advised us that generally a cost study would be made only when needed to rebut a challenge from business mailers. (See p. 6.)

RECOMMENDATIONS OR SUGGESTIONS

The Postal Service should determine the nationwide cost of providing business reply mail service and should propose to the Postal Rate Commission appropriate adjustments to the fees so that the fees will be adequate for recovering the costs of providing the service. (See p. 9.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postmaster General stated that the relationship between costs for a postal service and rates for that service was a matter for review by the Postal Rate Commission. He said that an intervener in a proceeding before the Commission was contending that the current fees for business reply mail should be reduced and that therefore the issue of the proper fees for business reply mail was involved in the proceeding before the Commission. (See p. 9.)

Because the Postal Service has not compiled information on the nationwide costs of providing the business reply mail service, GAO believes that an informed decision cannot be made as to the fees that are required to recover the cost of providing the service. (See p. 9.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is to apprise the Congress of the need for the Postal Service to determine the cost of providing business reply mail service and to propose appropriate fee adjustments to the Postal Rate Commission.

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CHAPTER 1

INTRODUCTION

The postage on most types of mail must be prepaid by the sender at the time of mailing. Business reply mail, however, may be mailed without prepayment of any postage by the sender. The Postal Service collects the postage and fees on such mail from the addressee prior to its delivery. The purpose of business reply mail is to enable businessmen to obtain replies to advertising from prospective customers without requiring the customers to pay the return postage. The postage for business reply mail consists of either first-class or airmail postage plus a fee of 2 cents for each piece of mail weighing 2 ounces or less or 5 cents for each piece of mail weighing over 2 ounces.

The Postal Reorganization Act, approved August 12, 1970 (84 Stat. 719; 39 U.S.C. 101), which became fully effective July 1, 1971, abolished the Post Office Department and created the United States 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 proposed by the Postal Service. The Commission may not recommend a decision until all interested parties are granted an opportunity to participate in the rate hearings.

Upon receipt of the Commission's decision, the Board of Governors of the Postal Service may approve, allow under protest, reject, or modify the recommended decision. When a recommended decision is allowed under protest, the Board puts it into effect and seeks judicial review of the decision under section 3628 of the Postal Reorganization Act or returns the recommended decision to the Commission for reconsideration and a further recommended decision.

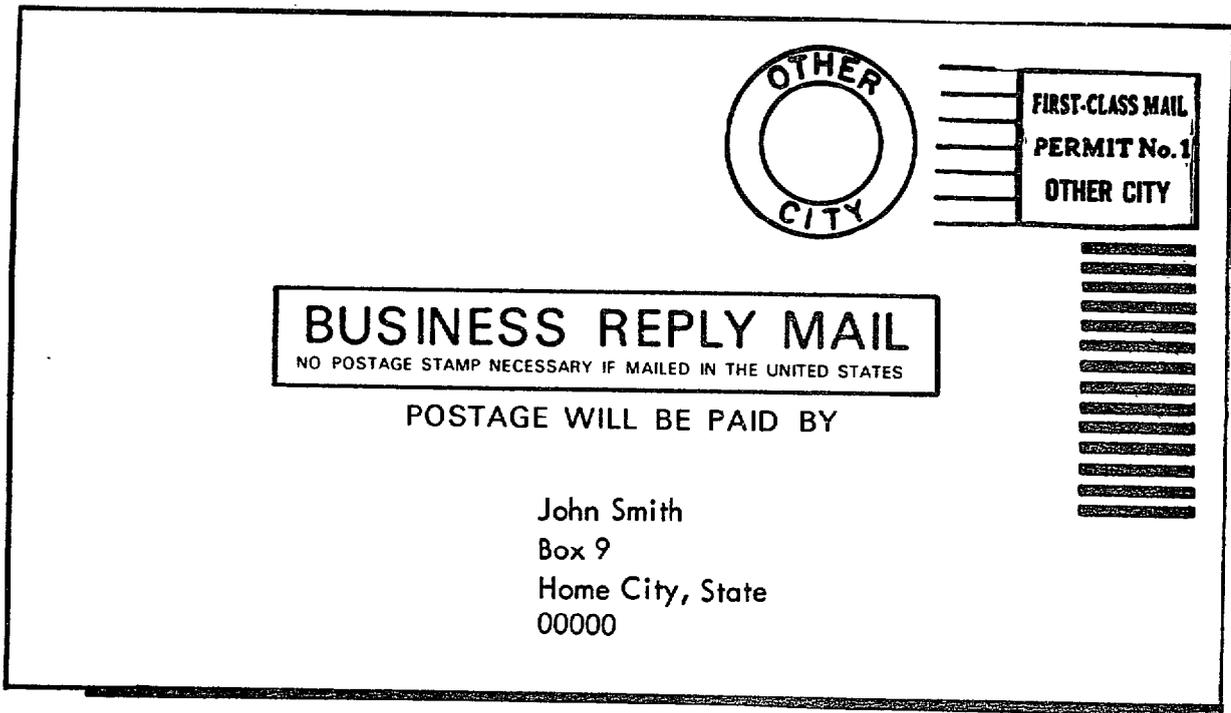
The act requires the Postal Service to become self-sustaining. Postal rates and fees are required to be set so that all postal revenues (including appropriations that the Congress may make for the Postal Service) equal expenses, as nearly as practicable. The act prescribes criteria for establishing rates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

The volume of business reply mail processed by the Postal Service and related revenues for the past 5 years are as follows.

Fiscal year	2 ounces and under		Over 2 ounces		Total	
	Pieces	Revenue	Pieces	Revenue	Pieces	Revenue
(000 omitted)						
1966	510,586	\$10,212	23,435	\$1,172	534,021	\$11,383
1967	697,618	13,952	23,078	1,154	720,696	15,106
1968	645,179	12,904	23,815	1,191	668,994	14,094
1969	651,235	13,025	23,161	1,158	674,396	14,183
1970	707,253	14,145	26,103	1,305	733,356	15,450

The Postal Service has not developed data showing the cost of providing this service.

Permits to distribute business reply mail are granted without charge to any individual, business, or organization upon receipt of an application by the local post office. The Postal Service has no minimum mail-volume requirements which must be met to obtain or retain a business reply permit. The distributor of the business reply mail must guarantee payment of postage and fees for all such mail returned. A sample of business reply mail is shown below.



CHAPTER 2

NEED TO RECOVER COSTS OF PROCESSING

BUSINESS REPLY MAIL

The fees established by the Congress in 1958 were intended to recover the costs of providing business reply mail service. This service consists of accepting mail without prepayment of postage; detecting and separating business reply mail from other mail; determining, and establishing accounting controls over, the postage and fees due; and collecting the amounts due.

Our review indicated that, because personnel costs had increased significantly from the time that the fees were established and because there had been no corresponding increases in the fees, the Postal Service was not recovering the cost of providing the business reply mail service.

During test periods in fiscal years 1969 and 1970 (see scope of review, p. 11), we reviewed the processing of 160,483 pieces of business reply mail at 13 postal facilities located in seven cities. At these facilities the fees collected averaged about 2.1 cents a piece, or about 0.9 cent a piece less than our estimate of direct labor cost of about 3 cents a piece to provide the service. According to Postal Service data, the average fee collected nationwide was about 2.1 cents a piece during fiscal years 1969 and 1970.

We believe that the Postal Service should determine the costs of providing business reply mail service and should propose to the Postal Rate Commission appropriate fee changes so that the fees will be adequate for recovering the costs incurred in providing the service.

EXISTING 2-CENT AND 5-CENT FEES WERE INTENDED TO RECOVER COSTS

The act of July 25, 1958 (72 Stat. 420) established fees for business reply mail of 2 cents for each piece weighing 2 ounces or less and 5 cents for each piece weighing over 2 ounces.

During a hearing on January 28, 1958, before the Committee on Post Office and Civil Service, House of Representatives, in connection with the enactment of the act of July 25, 1958, a postal official stated that, based on fiscal year 1957 cost data, the estimated cost of determining and collecting postage

due on each piece of business reply mail weighing less than 1 ounce was 2 cents and the cost for each piece of such mail weighing more than 1 ounce was 5.18 cents.

The postal official attributed the reason for the difference in costs to the time involved in processing mail of differing weights. He said that pieces of business reply mail weighing under 1 ounce each generally consisted of cards or letters which could be counted very quickly and need not be weighed, whereas pieces of business reply mail weighing more than 1 ounce each required more time for weighing and computing the postage due.

On July 25, 1958, the Congress enacted Public Law 85-560 (72 Stat. 420) which allowed transmission of certain items, other than business reply cards and letters, under business reply labels. A business reply label is an address label bearing the same indicia as that prescribed for business reply cards or business reply envelopes. (See sample on p. 4.) The business reply label is affixed to the item being mailed as business reply mail, and the addressee to whom the mail is delivered must pay the appropriate first-class or airmail postage for the item plus the 2-cent or 5-cent fee.

The intent of the Congress in establishing the fees of 2 cents and 5 cents in 1958 was that the fees would result in recovering the cost of processing business reply mail. In its report dated February 10, 1958, on the act of July 25, 1958 (H. Rept. 1338, 85th Cong., 2d sess.), the House Committee on Post Office and Civil Service stated that:

"These additional charges shall equal, as nearly as practicable, the approximate administrative and operating costs incurred by the Post Office Department in connection with the collection of postage and other lawful charges on such matter. [Business reply mail]"

From the time that the 2-cent and 5-cent fees were established in 1958, the average annual salary of a postal employee increased from \$4,402 in fiscal year 1957 to \$8,224 in fiscal year 1970, an increase of about 87 percent. The Postal Service, however, has not made a study to determine the cost of providing this service since the fees were established in 1958, nor has it taken action to have the fees increased. A postal official advised us that generally a study would be made by the Postal Service only when needed to rebut a challenge from business mailers.

COST OF BUSINESS REPLY MAIL

During fiscal year 1970 the Postal Service processed about 733 million pieces of business reply mail and collected fees of about \$15.5 million--an average of about 2.1 cents a piece. The Postal Service does not maintain records of the costs involved in processing business reply mail.

Our review of business reply mail at 13 postal facilities in seven cities during test periods in fiscal years 1969 and 1970 showed that fees averaged about 2.1 cents a piece, or about 0.9 cent a piece less than our estimate of the direct labor cost of about 3 cents a piece to provide the service, as shown below.

<u>Weight</u>	<u>Pieces</u>	<u>Revenue collected</u>	<u>GAO estimated direct labor cost</u>		<u>Excess cost(-) or revenue</u>	<u>Excess cost(-) or revenue for each piece (cent)</u>
			<u>Amount</u>	<u>Each piece (cents)</u>		
2 ounces or less	154,282	\$3,085.64	\$4,518.25	2.9	-\$1,432.61	-0.9
Over 2 ounces	<u>6,201</u>	<u>310.05</u>	<u>252.17</u>	4.1	<u>57.88</u>	0.9
Total	<u>160,483</u>	<u>\$3,395.69</u>	<u>\$4,770.42</u>	3.0	<u>-\$1,374.73</u>	-0.9

Our estimate of the average cost of processing each piece of business reply mail at the 13 facilities was computed by applying the average hourly productive pay costs for postal clerks and carriers to the hours these employees spent working on business reply mail and dividing the resulting cost by the number of pieces of business reply mail handled. Information was not readily available that would permit us to reasonably estimate the indirect labor and overhead costs attributable to business reply mail.

The hours postal clerks and carriers spent in processing business reply mail were for performing the following duties.

- Sorting business reply mail and routing it through the postage-due section of the post office, the section that establishes accountability to ensure collection of amounts due the Postal Service.
- Counting the pieces of business reply mail, preparing billing forms for amounts due, and affixing meter strips or postage-due stamps for the amount of postage and fees due.
- Collecting postage and fees from addressees.
- Returning collections to the postage-due section.

--Maintaining accounting records in the postage-due section to account for funds received and business reply mail delivered.

Direct labor cost of handling business reply mail may vary, depending upon the manner in which the mail is delivered and the postage and fees are collected. Business reply mail received at the postage-due section is sorted by mail addressed to business reply permit holders that maintain deposits with the post office for payment of postage and fees due (account mail) and mail addressed to patrons that pay postage and fees due each time business reply mail is received (non-account mail).

Business reply mail is delivered by a carrier or through a box delivery section of the post office. For nonaccount mail the carrier or the postal clerk servicing the box section collects the amount due before delivering the mail. Permit holders have an option of selecting the account or nonaccount manner of paying postage and fees due.

At seven facilities located in three cities, we conducted tests to determine the direct labor costs for handling account, box nonaccount, and carrier nonaccount mail. The results of our tests are shown below.

Type of business <u>reply mail</u>	Number of pieces	Estimated direct labor cost for each <u>piece (cents)</u>
Account	89,120	1.8
Box nonaccount	2,251	3.3
Carrier nonaccount	<u>11,563</u>	10.9
Total	<u>102,934</u>	2.8

CHAPTER 3

AGENCY COMMENTS

AND GAO EVALUATION AND RECOMMENDATIONS

On February 25, 1971, we brought our findings to the attention of the Postmaster General and suggested that the Postal Service determine the amount of unrecovered costs on business reply mail service and initiate appropriate fee changes so that business reply mail fees would recover the related costs incurred by the Postal Service.

The Postmaster General, in a letter to us dated March 29, 1971 (see app. I), stated that the relationship between costs for a postal service and rates for that service was a matter for review by the Postal Rate Commission. We noted that, in accordance with the provisions of the Postal Reorganization Act, the Postal Service made various proposals to the Commission on February 1, 1971, for adjustments in postal rates and fees. These proposals, however, did not include any proposal to adjust the fees for business reply mail service.

The Postmaster General stated that an intervener (a third party who became a party to a proceeding to protect his interests therein) in a proceeding then before the Commission concerning the Postal Service's request for a recommended decision on changes in postal rates and fees was contending that the then-current fees for business reply mail were too high and should be reduced and that therefore the issue of the proper fee for business reply mail was involved in the proceeding before the Commission.

We reviewed copies of the statements filed before the Commission by the intervener that used business reply mail extensively and that was contending that fees paid for business reply mail were too high and should be reduced.

The Postal Service has not made any study of the cost of the business reply mail service, and the Commission has not requested any cost information. In the absence of information on the nationwide cost of handling business reply mail, we believe that an informed decision cannot be made as to the fees that are required to recover the costs of providing the service.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Postmaster General determine the nationwide cost of providing business reply mail service and

propose to the Postal Rate Commission appropriate adjustments to the fees so that the fees will be adequate for recovering the costs of providing the service.

CHAPTER 4

SCOPE OF REVIEW

We reviewed the procedures and practices for handling business reply mail at the following 13 postal facilities in four postal regions.

<u>Post office and branch or station</u>	<u>Dates of test</u>
Hartford, Connecticut:	
Main office	June 10, 11, and 12, 1969
Wethersfield branch	July 1, 2, and 3, 1969
Denver, Colorado:	
Main office	October 25 and November 2 to 8, 1968
Alcott station	December 3 and 6, 1968
Capitol Hill station	December 3, 4, and 5, 1968
Englewood, Colorado:	
Main office	January 29 and 30, 1969
Golden, Colorado:	
Main office	January 6, 7, and 8, 1969
Phoenix, Arizona:	
Main office	January 15 and 16, 1969
Minneapolis, Minnesota:	
Main office	May 13, 14, 20, and 21, 1969
Bloomington branch	June 10, 11, and 12, 1969
Minnehaha station	June 3, 4, and 5, 1969
Seattle, Washington:	
Main office	July 1, 2, and 3, 1969
Ballard station	June 16, 17, and 18, 1969

We observed the processing of business reply mail at the delivery offices, determined the related costs and revenues, and interviewed employees and supervisors at these locations. We also held discussions with regional officials and with officials at Postal Service headquarters in Washington, D.C. We reviewed pertinent legislation; the legislative history of business reply mail; Postal Service regulations; and other records at the local, regional, and national levels.

APPENDIXES



The Postmaster General
Washington, D.C. 20260
March 29, 1971

Dear Mr. Neuwirth:

Your letter of February 25 alleges that we are not recovering costs from users for providing business reply mail services.

While we appreciate the opportunity to review your studies of postal operations, the relationship between costs for a postal service and rates for that service is now a matter for review by the Postal Rate Commission in appropriate cases. In fact, an intervener in the proceeding now pending before the Commission as the result of our request for a recommended decision on changes in postal rates and fees is contending that our present surcharge for business reply mail is too high, and should be reduced. Thus, the issue of the proper price for reply mail is involved in the present proceeding before the Commission.

We are mindful of the need, on a continuing basis, to establish and maintain a proper relationship between service costs and prices, consistent with the criteria and policy constraints of the Postal Reorganization Act.

Sincerely,

Winton M. Blount

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

PRINCIPAL MANAGEMENT OFFICIALS OF
THE POSTAL SERVICE
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<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:		
Merrill A. Hayden	Sept. 1971	Present
Vacant	Jan. 1971	Sept. 1971
E. 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
Haran W. Brawley	Jan. 1961	July 1962
John M. McKibbin	Oct. 1959	Jan. 1961
Edson O. Sessions	Sept. 1957	Oct. 1959
ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE AND ADMINISTRATION (note a):		
James W. Hargrove	Feb. 1969	Present
Ralph W. Nicholson	Mar. 1961	Feb. 1969
Vacant	Jan. 1961	Mar. 1961
Hyde Gillette	Feb. 1957	Jan. 1961

^aBureau of Finance prior to April 26, 1964. Effective July 1, 1971, the responsibilities of the Bureau of Finance and Administration were transferred to the Senior Assistant Postmaster General, Support.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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