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Briefing Report to the Chairman, Subcommittee on Federal Services, Post Office and Civil Service, Committee on Governmental Affairs, U.S. Senate

May 1991

POSTAL SERVICE

Annual Distribution of 1990 Marketing Costs

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May 8, 1991

The Honorable David Pryor
Chairman, Subcommittee on
Federal Services, Post Office,
and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This briefing report responds to your request that we examine end-of-fiscal year 1990 spending practices of the United States Postal Service's Marketing and Customer Service Group. You were concerned whether spending patterns of the Group might be similar to past disclosures at other federal agencies where obligations were made in the final days of the fiscal year to avoid a loss of budget authority and reduce the likelihood of cuts in future appropriations.

On January 10, 1991, we briefed the Subcommittee on the results of our review. The Subcommittee asked that we convey the contents of the briefing to them in written form and include supplementary information related to the National Postal Forum, retail sale of postal-related merchandise, and the cost of a nationwide mailing.

BACKGROUND

Marketing activities in the Postal Service are the responsibility of the Marketing and Customer Service Group (known as the Marketing and Communications Group until May 16, 1990). The main components of the Group are the Marketing Department, which handles advertising, product marketing, and market research; and the Philatelic and Retail Services Department, which procures and distributes postage stamps and related products. The Group spent $209.1 million in postal fiscal year 1990. A postal fiscal year consists of 13 4-week accounting periods roughly coinciding with the federal government's fiscal year. Postal fiscal year 1990 began September 23, 1989, and ended September 21, 1990.

Our analysis did not include either the costs of the Communications Department, which was transferred out of the Group in May 1990, or the costs of the Office of Classification and Rates Administration, which was transferred into the Group in August 1990.

RESULTS IN BRIEF

Eighteen percent of the Group's 1990 expenditures occurred in the last accounting period of the year and 26 percent occurred in the last two periods. If expenditures had been evenly distributed, these periods would have accounted for about 8 percent and 16 percent of annual expenditures respectively. This pattern occurred in the major expense categories of the Group, except personnel costs, which remained relatively constant throughout the year. Personnel accounted for 9 percent of the Group's expenditures.

For goods and services, comprising about 87 percent of the Group's budget, expenditures were heaviest in the last one or two accounting periods. Twenty-six percent of the annual expenditures for sale items (mostly stamps) occurred in the last two accounting periods. Twenty-eight percent of travel, 24 percent of supplies, 25 percent of services (mostly advertising), and 32 percent of printing expenditures occurred in the last accounting period.

Postal officials said that of the year-end increases in these five categories, only the increase in advertising was because of an unplanned, end-of-year decision. The other increases either fit an annual expected pattern, as in the case of stamp manufacturing costs, or were related to items or activities that had been ordered or initiated earlier in the year. These matters are further detailed in appendix I. Appendix II is a breakdown of actual and budgeted expenses by office in the Group, as the Subcommittee requested, together with an explanation of the role of each office. Appendix III contains supplemental information that you requested about the cost of the National Postal Forum, costs and revenues from retail sales of postal related products, and the cost of a nationwide mailing in 1990.

APPROACH

Our objective was to examine the spending patterns of the Marketing and Customer Service Group. Using Postal Service financial reports, we identified fiscal year 1990 costs attributed to the Marketing and Customer Service Group. We obtained breakdowns of those amounts by type of expense, by offices within the Group, and by the accounting period during the year in which the costs were recorded.

We interviewed officials of the Marketing and Customer Service Group to determine the functions of each of the

offices in the Group; the general purpose and nature of their expenses; and, where indicated, the reasons why expenses increased at the end of the year. We also interviewed these officials and obtained data from them with respect to the supplementary questions raised by the Subcommittee. We also interviewed officials from the Office of the Controller regarding various accounting procedures. Our work was done at the Headquarters of the Postal Service from October 1990 to March 1991. We relied on the amounts from the financial reports and related oral explanations from responsible postal officials; however, we did not independently verify their accuracy.

Officials of the Marketing and Customer Service Group and the Office of the Controller reviewed a draft of this report and agreed that the information presented was accurate. They emphasized that the Postal Service's accounting procedures, in contrast to those of other agencies, make it difficult to engage in last-minute spending to use up funds. They pointed out that in other agencies appropriated funds are obligated when goods and services are ordered, which can be done on short notice at the end of a budget year. In the Postal Service, budgeted funds are not expensed until goods and services are received. Thus, year-end commitments by the Postal Service must be funded from the following year's budget.

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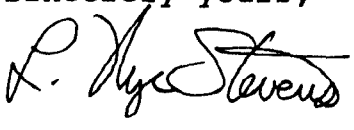
Copies of this report are being sent to the Postmaster General and to other interested parties upon request.

The major contributors to this report were Leonard Hoglan, Assignment Manager, and Thomas Conahan, Evaluator-in-charge. If you have any questions, please call me on (202) 275-8676.

Sincerely yours,



L. Nye Stevens
Director, Government Business
Operations Issues

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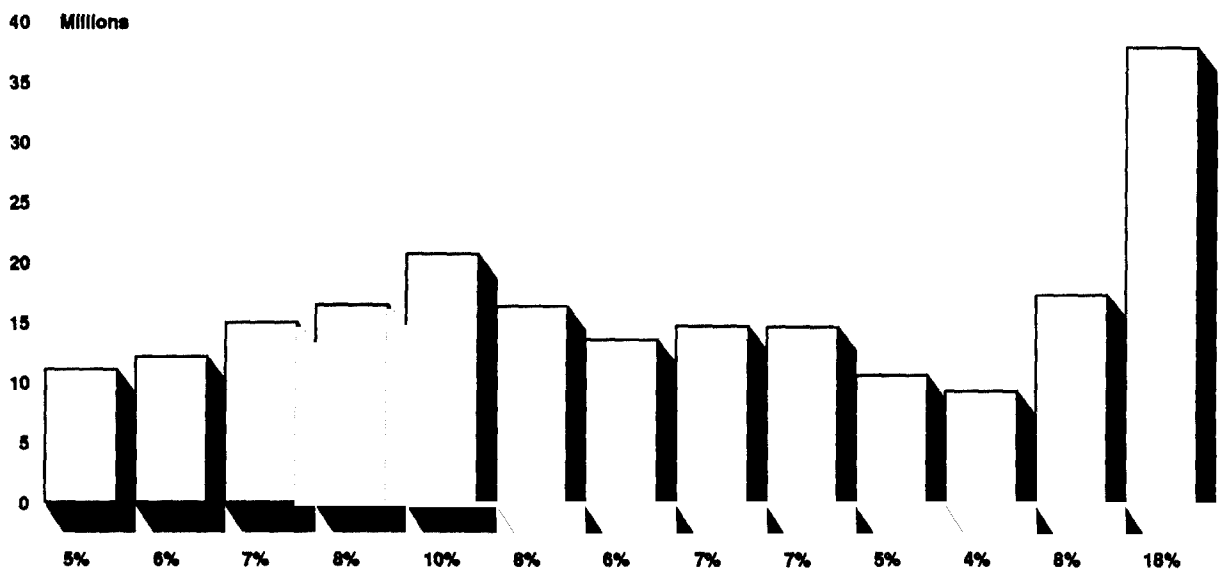
MARKETING AND CUSTOMER SERVICE GROUP EXPENSES BY ACCOUNTING PERIOD

Eighteen percent of Marketing and Customer Service Group spending occurred in accounting period 13, as illustrated in figure I.1. Figure I.2 shows that personnel costs were relatively constant throughout fiscal year 1990. Other costs accounted for the concentration of costs at the end of the year, as shown in the remainder of this appendix.

Figure I.1: Marketing and Customer Service Group Total Expenses by Accounting Period - Fiscal Year 1990



Note: Percentage of total expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

Figure I.2: Personnel Costs by Accounting Period - Fiscal Year 1990

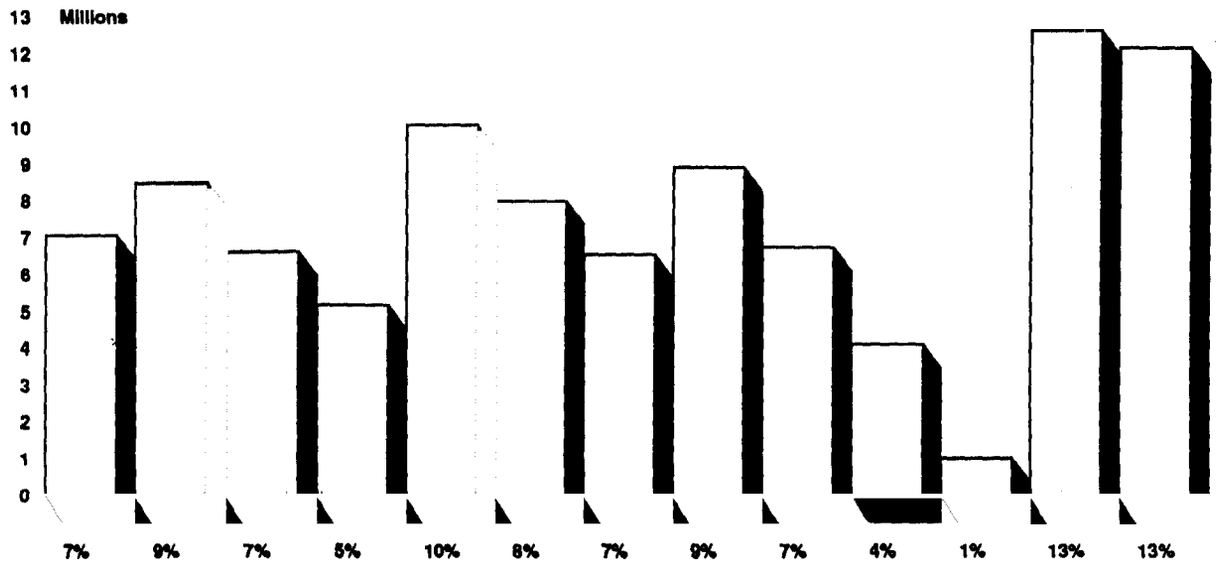
Note: Percentage of total personnel costs by accounting period.

Source: Marketing and Customer Service Group Budget Report.

SALE ITEMS

Almost all of the expenses under this line item during accounting periods 12 and 13 were for stamp manufacturing. Postal officials said that stamp costs are normally highest at the end of the fiscal year because that is when stocks of the Christmas stamp are received. We noted that a similar pattern occurred in 1989. End-of-year costs in 1990 also increased because of the nondenominated stamp that was ordered to make up the difference between the old and new rates at the time of the anticipated February 1991 rate increase.

Figure I.3: Sale Items Expenses by Accounting Period - Fiscal Year 1990



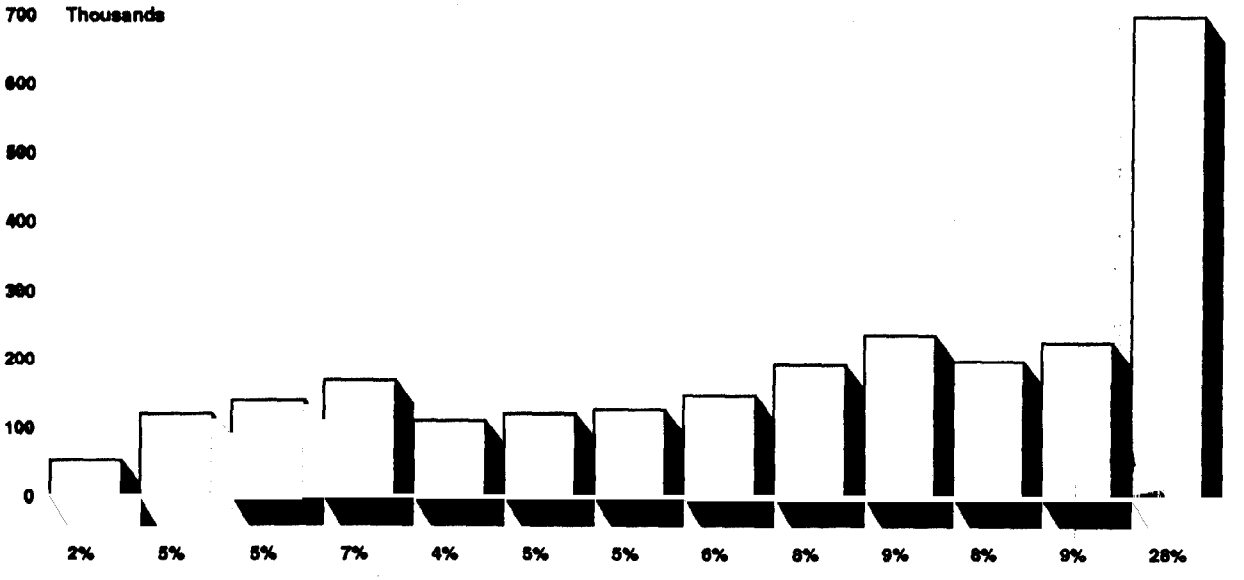
Note: Percentage of total sale items expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

TRAVEL

Most of the travel expense in accounting period 13 was from three automation conferences held by the Postal Service for selected employees. The conferences were in July and August in Chicago, San Francisco, and Atlanta for the purpose of training postal employees in automation requirements. The travel vouchers from the conferences were processed in September.

Figure I.4: Travel Expenses by Accounting Period - Fiscal Year 1990



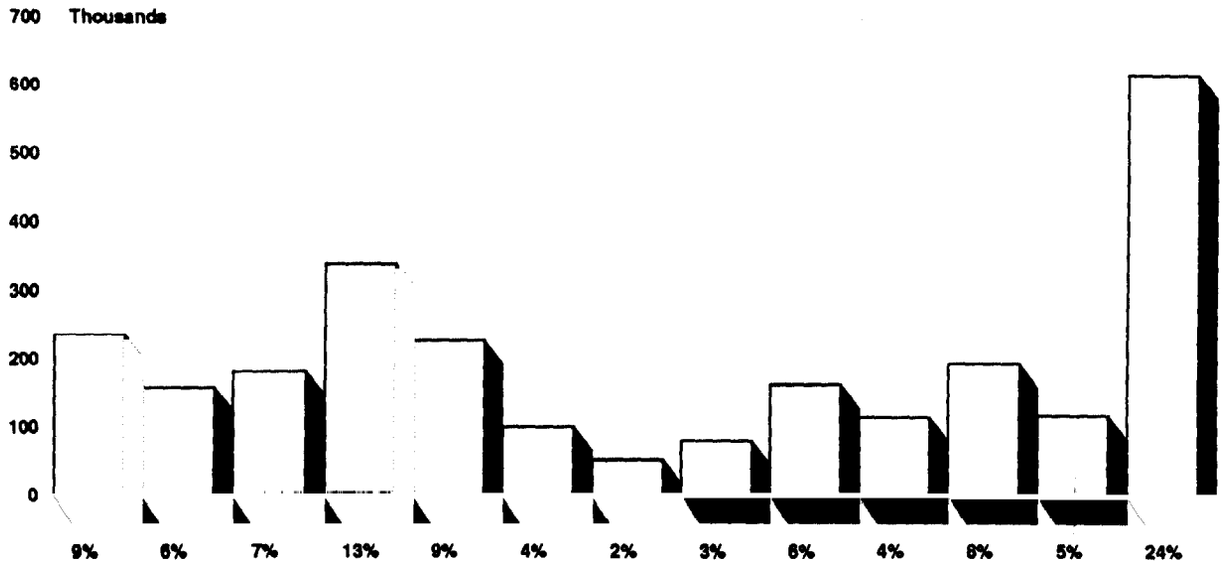
Note: Percentage of total travel expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

SUPPLIES

Approximately half of accounting period 13 expense was for the purchase of clear acrylic poster stands for use in post office lobbies. These reusable stands were ordered in an effort to standardize the appearance of post office lobbies. According to the responsible official, the stands were ordered in period 8 but were not received and paid for until period 13.

Figure I.5: Supplies Expenses by Accounting Period - Fiscal Year 1990



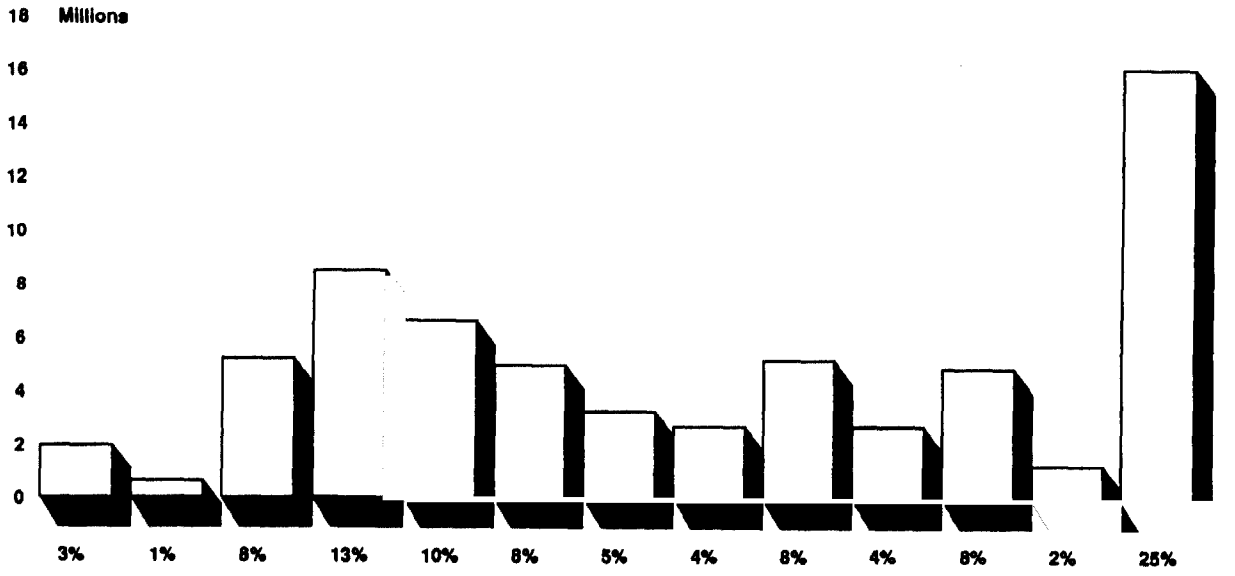
Note: Percentage of total supplies expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

SERVICES

Forty-two million dollars in this line item was for advertising, which accounted for the heavy spending in period 13. At the end of fiscal year 1990, two of the Postal Service's competitors in the overnight delivery business raised their rates. This was unanticipated by the Postal Service. In order to capitalize on this unexpected advantage, the Marketing and Customer Service Group's Office of Advertising and Promotion launched a major promotional campaign publicizing its Express Mail Service. This campaign accounted for almost half of the period 13 services expense.

Figure I.6: Services Expenses by Accounting Period - Fiscal Year 1990



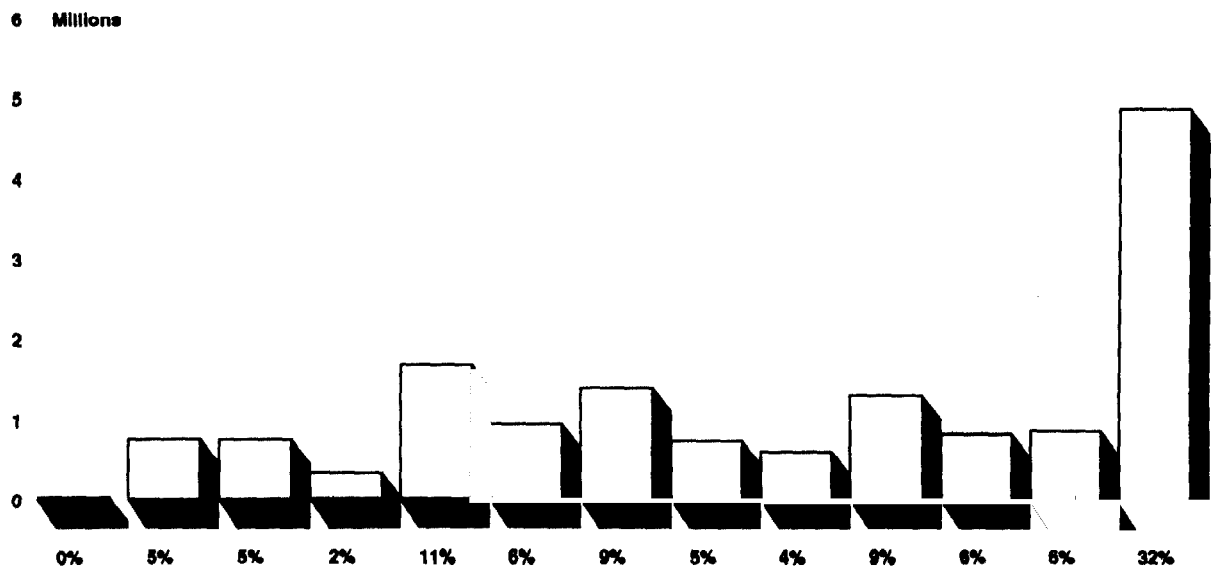
Note: Percentage of total services expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

PRINTING

About half of the period 13 expense was the cost of printing a nationwide mailing that the Postal Service sent out in late 1990 to provide customers with instructions on how to properly address their mail in order to make automated sorting easier. The Group's budget plan for the year provided for this expense in period 13.

Figure I.7: Printing Expenses by Accounting Period - Fiscal Year 1990



Note: Percentage of total printing expenses by accounting period.

Source: Marketing and Customer Service Group Budget Report.

MARKETING AND CUSTOMER SERVICE GROUP PLANNED AND ACTUAL EXPENSES FISCAL YEAR 1990

Table II.1 shows Marketing and Customer Service Group total expenditures under the major expense categories of the group.

Table II.1: Marketing and Customer Service Group Actual Expenses - Fiscal Year 1990 (Dollars in Thousands)

Expense	Total
Sale items	$ 97,184
Services	63,960
Salaries & benefits	18,851
Printing	15,030
Supplies	2,551
Travel	2,499
ADP service & maintenance	2,001
Supplies - inventory	1,686
Depreciation	1,316
Rent	1,257
Projects expensed	620
Miscellaneous	564
Training	350
Furniture & equipment	246
Fuel & utilities	188
Merit cash bonuses	184
Equipment, rent, & repair	158
Relocation costs	146
Communications	100
Contract cleaning	84
Employee awards	70
Workers compensation	63
Carfare	12
Medical	4
Total	$209,124

Table II.2 shows actual costs for the offices in the Marketing and Customer Service Group and compares those amounts with their planned budgets for the year.

Table II.2: Marketing and Customer Service Group Comparison of Fiscal Year 1990 Planned and Actual Expenses by Unit (Dollars in Thousands)

Unit	Planned	Actual
Senior Assistant Postmaster General's Office	$ 705	$ 687
Marketing Department		
Assistant Postmaster General's Office	463	266
Office of Advertising & Promotion	47,957	46,913
Field Merchandising and Promotions Division	278	1,262
Office of Product Marketing	168	192
Packaged Mail Division	6,756	6,618
Commercial Products Sales Division	1,730	1,953
Office of Account Services	178	299
National Accounts Division	1,683	1,816
International Marketing Division	1,129	977
Office of Automation Programs	1,399	1,020
Automation Programs	2,117	2,225
Office of Market Research & Systems Management	166	179
Market Research Division	4,453	3,960
Systems Management Branch	1,506	1,494
Philatelic & Retail Services Department		
Assistant Postmaster General's Office	315	352
Office of Stamp & Philatelic Marketing	171	148
Stamp Manufacturing Division	98,658	104,318
Philatelic Marketing Division	11,683	12,223
Philatelic Sales Division	15,610	15,197
Stamped Envelope Unit	480	450
Office of Retail	6,872	6,575
Total	$204,477	$209,124

FUNCTIONS OF MARKETING AND CUSTOMER SERVICE GROUP UNITS

Senior Assistant Postmaster General's Office

Provides management and support resources for the Marketing and Customer Service Group. The Office includes the Office of the Senior Assistant Postmaster General and the Resources Management Group, which provides budget, data processing, and personnel coordination at the Group level.

Office of Advertising and Promotion

Primarily handles the Service's media advertising, which comprises about 70 percent of the advertising and promotion budget. Also insures that Postal transportation equipment has a standardized appearance in order to promote the visual identity of the Service.

Field Merchandising and Promotions Division

Provides various forums for the Service to communicate with mailers, including customer councils and committees. Also oversees the Service's involvement with the National Postal Forum.

Office of Product Marketing

Oversees the Packaged Mail Division and the Commercial Products Sales Division. Expenses primarily include the salary and benefits of the director and the administrative secretary of the Office of Product Marketing. Nonpersonnel expenses include travel for the director; training for the administrative secretary; and printing, supplies, and services expenses.

Packaged Mail Division

Markets and promotes expedited mail services, such as Express Mail and Priority Mail. Prints promotional brochures and shipping materials to facilitate customers use of the services.

Commercial Products Sales Division

Provides guidance, support, and strategic direction to the Service's field marketing/sales force for the sales management of revenue producing commercial accounts. The Division does this through training, publications, and technical expertise.

Office of Account Services

Oversees the National Accounts Division and the International Marketing Division. Expenses primarily include the salary and benefits of the director and the administrative secretary of the Office of Account Services. Nonpersonnel expenses include travel for the director, training for the administrative secretary, and other miscellaneous expenses.

National Accounts Division

Maintains national accounts with major mailers around the country. Provides guidance and direction to account managers, who in turn work with major mailers in order to assure major mailer satisfaction.

International Marketing Division

Markets, promotes, and tracks service levels for international mail services, such as international Express and Priority Mail.

Office of Automation Programs

Promotes the Service's automation goals through marketing and education of mailers by developing and printing literature and discussing mailers' proper preparation of mail for automation.

Office of Market Research and Systems Management

Oversees the Market Research Division and the Systems Management Branch. Expenses primarily include the salary and benefits of the director and the administrative secretaries of the Office of Market Research and Systems Management.

Market Research Division

Administers the awarding of contracts for market research done at the request of other units within the Marketing Department.

Systems Management Branch

Develops, implements, and maintains marketing information and administrative support systems. These systems include budget, personnel, and program management systems.

Office of Stamp and Philatelic Marketing

Oversees the operations of the divisions listed below. Expenses primarily include the salary and benefits of the director and the administrative secretary of the Office of Stamp and Philatelic Marketing.

Stamp Manufacturing Division

Directs the development and manufacture of stamps, stamped envelopes, and post cards and the distribution of these items to post offices and vending machines for sale.

Philatelic Marketing Division

Promotes stamp collecting through a variety of marketing efforts designed to encourage and facilitate the hobby, develops philatelic product designs, and administers opening day ceremonies. Awards contracts for market research done at the request of other units within the Philatelic and Retail Services Department.

Philatelic Sales Division

Processes and fills orders for philatelic products for stamp collectors and dealers from subscription services and catalog sales. Also coordinates the Citizen's Stamp Advisory Committee, which screens requests for new stamp designs from the public. Oversees the supplying of stamps and other philatelic stock to Post Offices.

Stamped Envelope Unit

Responsible for the manufacture and sale of stamped envelopes.

Office of Retail

Oversees the retail aspect of post office operations. Manages the channels through which the Postal Service sells retail goods and generally works to enhance customer service. This work includes tracking vendor equipment in post office lobbies and overseeing federal government business, such as Selective Service registration, that is carried out in post offices.

OTHER ISSUES OF INTEREST

NATIONAL POSTAL FORUM COST

The National Postal Forum is a nonprofit organization that sponsors annual conventions for postal officials, suppliers, and customers. While the Forum is a different entity from the Postal Service itself, Postal Service personnel almost completely plan, organize, and manage the event. The management and administrative services provided by the Postal Service are authorized by the Postal Reorganization Act of 1970.[1]

In 1986, the Postal Service began tracking its National Postal Forum expenses in an account specifically designed to identify and account for expenses associated with the Forum. This account includes--but is not limited to--lodging, transportation, meals, fees, convention space, supplies, and services. However, the account does not include any personnel costs associated with the Forum. Because the Postal Service began the account in 1986, the data is incomplete for that year. Table III.1 lists the total expenses recorded in the account from fiscal years 1987 through 1990.

Table III.1: Nonpersonnel Expenses Associated With the National Postal Forum - Fiscal Years 1987 to 1990

Year	Amount
1987	$351,537
1988	341,152
1989	642,508
1990	548,745

We asked Postal officials to estimate personnel costs associated with the Forum in 1990. The Service responded that the information was not readily available but reported that 1,026 postal employees registered to attend the two Forums held in 1990, with 372 attending the Forum held in Anaheim, California, and 654 attending the Forum in Washington, D.C. Seventy-four postal employees served as presenters in Anaheim, and 77 employees presented in Washington. A staff of seven postal employees spent approximately 60 percent of their time working on the Forum in 1990. In addition, 65 postal employees spent varying amounts of time, estimated to range from 1 day to several months, working on the Forum in 1990.

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[1]See our report, National Postal Forum: Nonprofit Sponsor of Postal Service Meetings With Suppliers and Customers (GAO/GGD-87-113, Sept. 9, 1987).

POSTAL RELATED MERCHANDISE

The Postal Service has become increasingly active in the sale of postal related merchandise, such as T-shirts, sweatshirts, baseball caps, pins, and tie clasps bearing an official postage stamp image. These products are purchased and sold by post offices. There is no central headquarters unit directing these efforts, although the cost of the merchandise and revenues are recorded in central accounts. In fiscal year 1990, these costs were $12.4 million and revenue was $15.3 million.

The Service also collects royalties from manufacturers who have been licensed to place stamp designs on merchandise sold at nonpostal outlets. Marketing officials said that the royalty is usually between 5 and 9 percent of the manufacturer's sales from such products and amounted to about $69,000 in fiscal year 1990.

Because sales of postal related merchandise are expected to grow, the Postal Service is looking into ways to refine and centralize the accounting for and licensing of these items.

POSTAGE FOR NATIONWIDE MAILING

As discussed on page 12, half of the printing expense in period 13 was for a mailing that was sent out in late 1990 that provided residential mailing customers with instructions on how to properly address a letter to meet the needs of the automation program. The Postal Service does not record or charge itself for the cost of its own mailings; however, it is possible to estimate the cost on the basis of the rates in effect at the time. The mailing went to approximately 117 million addresses. Because the mailing was sent to every residential address and required minimal sorting, it would qualify for the lowest possible Third-Class postage which at the time was $.101 per piece. One hundred and seventeen million pieces at $.101 each results in a total estimated cost of $11.8 million for the mailing.

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