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ADJUTANT GENERAL CENTER WASHINGTON DC POSTAL DIRECTORATE F/G 14/1  
EVALUATION OF POSTAGE METERS AND DECENTRALIZED ACCOUNTABILITY F--ETC(U)  
JUL 79 L J BEASLEY, R B SANDERS

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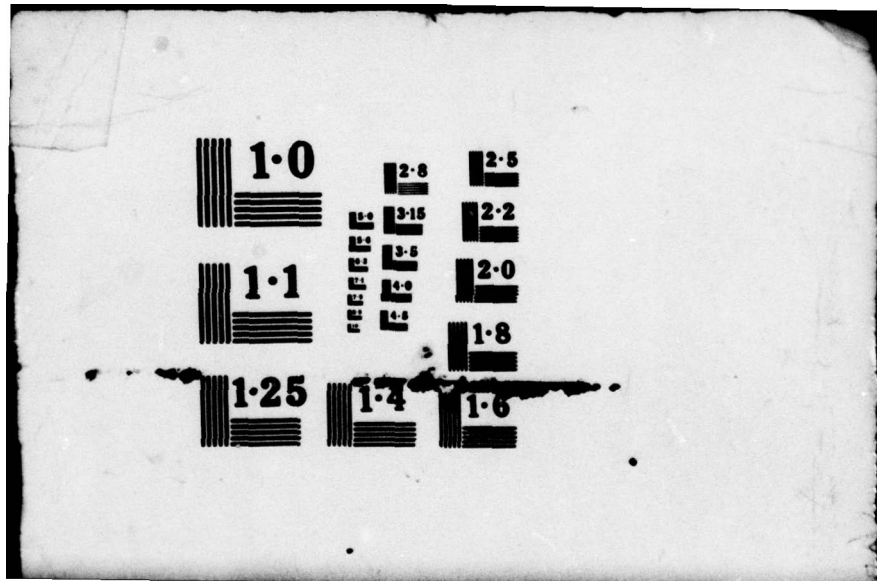
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REPORT NUMBER PL 79-01

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## EVALUATION OF POSTAGE METERS AND DECENTRALIZED ACCOUNTABILITY FOR OFFICIAL MAIL COSTS

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Final Report By:  
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Army Postal Directorate  
The Adjutant General Center  
July 1979

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REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER ①④ PL79-01	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) ⑥ Evaluation of Postage Meters and Decentralized Accountability for Official Mail Costs,		5. TYPE OF REPORT & PERIOD COVERED FINAL (5 Sep 78-30 Jun 79)
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(S) ⑩ LTC Louis J./Beasley, Jr. Mr. Richard B./Sanders Mrs. Minnie M./Caridakis		8. CONTRACT OR GRANT NUMBER(s)
9. PERFORMING ORGANIZATION NAME AND ADDRESS Postal Directorate (DAAG-MA) The Adjutant General Center Forrestal Building, Washington, DC 20314		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS ⑫ 57 p.
11. CONTROLLING OFFICE NAME AND ADDRESS Office of The Adjutant General, HQDA (DAAG-ZA) Rm 2E 536, The Pentagon Washington, DC 20310		12. REPORT DATE ⑪ 1 Jul 1979
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office) Same as Item 11		13. NUMBER OF PAGES 52
		15. SECURITY CLASS. (of this report) Unclassified
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report) Approved for public release; distribution unlimited.		
⑨ Final rept. 5 Sep 78 - 30 Jun 79		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report) Approved for public release; distribution unlimited.		
18. SUPPLEMENTARY NOTES None		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number) (U) SA-PPP; (U) Active Army; (U) Financial; (U) Management; (H) Cost; (U) Postage Meters; (U) Cost Effective		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) The Evaluation of Postage Meters and Decentralized Accountability for Official Mail Cost was conducted in three phases (5 Sep 78-30 Jun 79) at four activities: The Adjutant General Center (TAGCEN); USA Military Personnel Center (MILPERCEN); USA Reserve Components Personnel and Administration Center (RCPAC); and USA AG Publications Center, St. Louis (SLAGPC). The objective of the study was to determine the cost effectiveness of postage meters and decentralized accountability for official mail costs, and the desirability of discontinuing the current sampling based United States Postal Service (USPS) billing system.		

## 20. ABSTRACT(Continue)

Major impetuses for the study were: (1) Questionable validity of the USPS sampling system for billing purposes; (2) Requirement for more precise user information to support positive dynamic management; (3) Lack of funding and user incentive to select less costly mailing alternatives; and (4) DAIG inspection (Feb 78) conclusion that there is essentially no management of Army official mail costs at DA or user level. It was determined during the study that postage meters were cost effective. Projection of test site postage meter savings Army-wide for FY79 yields a gross savings estimate of \$6,556,918. Accordingly, it is recommended in the study that postage meters be introduced Army-wide on a phased basis (FY82-86).

## PREFACE

The Postal Directorate, The Adjutant General Center, Department of the Army, is responsible for this study.

The study team was composed of LTC Louis J. Beasley, Jr., Mr. Richard B. Sanders, Jr., and Mrs. Minnie M. Caridakis.

The study examines the manner in which the Army is billed by the United States Postal Service for the use of the indicia and compares the merits of a positive accountability versus a sampling based billing system. A conscientious effort has been made to avoid technical statistical discussions in the main body of the report. Much greater detail is provided in the annexes and the reference documents, which are listed in Annex G.

## EXECUTIVE SUMMARY

1. **Problem:** The Army disburses approximately \$50 million annually for the use of the indicia, based on bills which the United States Postal Service (USPS) develops through the sampling of Army mailings. These bills essentially have unknown validity and cannot be effectively audited. This general condition has been criticized by the Department of the Army Inspector General and the House Appropriations Committee (HAC). The HAC concluded, based on its Surveys and Investigations Staff investigation, that significant savings could be achieved by implementation of a system of positive accountability. The current sample based billing system has three major deficiencies:

a. The Army may be overpaying or underpaying the United States Postal Service (USPS) as much as \$3 million annually. Although there is no net loss to the US Government in any case, law mandating USPS ultimate financial sufficiency and sound management dictate that postal costs be accurately assigned.

b. Positive dynamic management is not possible because no information is recorded concerning the identity or location of the Army mailer.

c. There is no funding or user incentive to economize or select less costly mailing alternatives due to the absence of user accountability.

2. Background: Detailed background information is contained in the study directive (Annex A). The purpose, objectives, and methodology of the study are provided below.

a. Purpose. Determine desirability of Army-wide introduction of postage meters and decentralized accountability for postal costs.

b. Objectives.

(1) Determine if postage meters can be used effectively in the Army without causing delays in mail processing.

(2) Determine degree to which postage meters facilitate cost reduction at installation level.

(3) Determine if the incentive induced by decentralized accountability for postal costs results in cost reduction.

(4) Determine degree to which postage meters affect mailroom personnel requirements.

(5) Determine through cost and trend analysis the costs of a meter versus a USPS sample based mail billing system.

3. Methodology: The study was conducted in three phases:

a. Phase I: Pre-evaluation. During this phase the mail volumes and profiles of the participating activities were determined, and the representativeness of the test sites confirmed. Data thus obtained was accepted as describing the mail characteristics of the participating activities prior to the use of postage meters/decentralized accountability for postal costs.

b. Phase II: Postage Meter/Decentralized Accountability Evaluation. Postage meters were used in lieu of the indicia, and quantitative data, relative to mail classes and volumes, were accumulated.

c. Phase III: Analysis. Results obtained in phases I and II were analyzed and findings developed with respect to the achievement of the Study objectives.

4. Findings:

a. Postage meters can be used effectively in normal Army mailroom operations without causing mail processing delays.

b. Computerized postage is considered more cost effective and, therefore, preferable to postage meters for wholesale mailers such as publications centers. Due to greatly fluctuating workloads, large

volumes, and variety of mailings (dimensions), it is difficult to effectively match postage meter equipment and personnel requirements. To preclude undesirable mail processing delays, a computerized positive accountability system should, therefore, be developed for these mailers on a priority basis.

c. Mail costs which are based on postage meters are less than those derived from RPW costing methods. Test data yields estimated gross savings of \$1,603,435 for 1st quarter, FY 79, when test site postage meter savings are projected Army-wide. Estimated Army-wide gross savings of \$1,675,024 are similarly obtained for the second quarter, FY 79. Extension of this performance for the entire fiscal year yields estimated Army-wide annual saving of \$6,556,918. Detailed discussion is provided at Annex B.

d. Postage meters facilitate cost reductions by providing concise and accurate cost information, and user identification.

e. Incentive induced by decentralized accountability for postal costs should result in cost reduction.

f. Postage meters do not significantly increase normal Army mailroom personnel requirements; however, they do emphasize the necessity for literate and motivated employees, and greater productivity.

5. Recommendations.

a. That a plan be developed for the phased Army-wide use of postage meters, commencing FY 82. This plan should specifically address the following:

(1) Identification of Army large volume mailers and their selection for early receipt of postage meters.

(2) Development of equipment requirements and mailroom layout, subsequent to completion of paragraph 5a (1), above.

(3) Development of a postage meter management and management information system.

b. That a computerized positive accountability system be developed for wholesale mailers such as Publications Centers.

c. That net resource requirements be submitted for consideration and prioritization during development of the Program Objective Memorandum (POM) for FY 82-86.

d. That transition to positive accountability be accelerated in subsequent FY (FY 82-86) due to economical and operational disadvantages associated with a dual billing system.

EVALUATION OF POSTAGE METERS AND DECENTRALIZED ACCOUNTABILITY

FOR OFFICIAL MAIL COSTS

1. Problem. Disbursement of Army Funds (approximately \$50 million annually) for official mail reimbursement to USPS is based on bills which have questionable validity and cannot be effectively audited. Additionally, the current centralized budgeting and disbursement of postal funds may result in a disincentive for Army mailers to economize and select less costly commercial mailing means. This problem is discussed in detail in the study directive (Annex A) and summarized below:

a. Questionable Billing Validity: The USPS Revenue Pieces and Weight (RPW) sampling system is designed to provide USPS with a statistical estimate of total revenue at the 90 percent confidence level. Although the relative error of the RPW for billing purposes has never been determined, USPS surmises it to be somewhere between approximately 2.8% and 6.4% for Department of Defense (DOD) components. This equates to a possible error of plus or minus \$2.8 million in the FY 78 Army mail indicia bill of \$43.6 million. References 8 and 12, Annex G, contain detailed technical discussions of RPW sampling system validity.

b. Complicated Sampling process. The quarterly indicia bills which USPS prepares for the Army are generated by USPS sampling of Army mailings, as identified by activity code or sampling code 314, throughout the year at 580 destination post offices. USPS employees manually count Army

mailings by postal class, special service, weight increment, and other appropriate categories, and record the results on one of two sampling booklets. These booklets are then accumulated, edited, keytaped (USPS contractor), and processed. The potential for sampling and processing error such as digit transposition is significant. Documented and successfully challenged error of this type is nearly \$4 million. Detailed information is contained in the Army Postal Directorate, Billing Analyses, and Forecasting Procedure For Army Official Mail, July 1977.

c. Unusually Large Fluctuations in Volume Estimates. It is common in the RPW system to experience significant volume fluctuations for individual mail categories; however, USPS surmises that this condition is insignificant since the fluctuations are as likely to favor an agency as they are the USPS. The official USPS position is that the parties concerned have no choice but to accept these and other differences which are judgmentally questionable, but for which error cannot be conclusively established.

d. Sampling Error Sensitivity. The RPW relative error statistic satisfactorily addresses that error which is predictable and associated with recurring deficiencies or limitations of the system. The impact of administrative error which occurs during system execution is significant, however, it cannot be determined with any precision. Suffice it to state that two expansion factors are applied to each sample, regardless of its

accuracy. Depending on the post office of sampling, a single mailing can be expanded (or exploded) to represent many thousands of items on the Army bill.

e. Indicia User Anonymity. USPS samples Army mailings at destination, rather than post offices of origin. This effectively eliminates the possibility of identifying individual Army mailers (either persons or units), and mail abuses and initiating appropriate corrective action. Essentially the Army mailer is free from monitoring. Indicia items are readily available and can be mailed by placement in any authorized USPS facility or collection box.

## 2. Background.

a. Title 39, USC, requires United States Postal Service (USPS) to insure that Federal agencies using official mail services reimburse USPS an amount equal to that (called equivalent postage) which they would pay using postage meters or other prepayment methods. To this end, USPS is authorized to both establish the level of official mail services costs of the various agencies, and the manner in which these costs are determined.

b. This authority is absolute, and includes, with proper notification, requiring the use of postage meters, or other forms of positive accountability. USPS establishes Army mail costs (approx \$50

million annually) by random (probability) sampling of Army mailings, and statistically expanding the results to estimates of total volume, weight, and weight per piece. Details of the system are provided in the study directive (Annex A) and published in USPS Fiscal Handbook/Series F-37 (Revenue Cost Analysis System For Estimating Revenue, Pieces, and Weight of Domestic Mail, Short title: RPW).

c. Although this procedure offers the advantages of administrative simplicity, and complete acceptability to USPS, it has, since the inception of its use in first quarter FY73 (1 Jul 72), caused the problems which are discussed in earlier paragraphs and which this study's recommendations are intended to resolve. Information concerning earlier studies and examinations of this matter is contained in paragraph 3 of the Study Directive (Annex A). Additionally, the Army has been criticized by both the Department of the Army Inspector General (DAIG) and the House Appropriations Committee (HAC). DAIG concluded in its February 1978 inspection that there is essentially no management of Army postal resources. The HAC noted that significant savings could be achieved by implementing a positive accountability system and urged that this be done. Appropriate extracts of the HAC document, dated March 1979, are provided at Annex F.

3. Purpose: The purpose of this study was to determine if postage meters combined with user accountability for mail costs could contribute to the

solution of the stated problem, facilitate cost savings, and enhance overall Army mail management. Specific objectives are provided below.

4. Objectives.

- a. Determine compatibility of postage meters and Army mailing requirements.
- b. Determine degree to which postage meters facilitate cost reduction at installation level.
- c. Determine if the incentive induced by decentralized accountability for postal costs results in cost reduction.
- d. Determine degree to which postage meters affect mailroom personnel requirements.
- e. Determine the estimated costs of a meter versus a USPS sample based indicia billing system.

5. Methodology.

- a. GENERAL: In any study involving sampling, it is essential that the sample be representative and support valid generalities. For this

reason, considerable emphasis was given during study developmental stages and Phase I to the sample validity requirement, both with respect to the selection of the participating activities and the design of the study.

b. **METHODOLOGY:** The study was conducted in three phases at four activities: The Adjutant General Center (TAGCEN), the US Army Military Personnel Center (MILPERCEN), the US Army Reserve Components Personnel and Administration Center (RCPAC) and the US Army AG Publication Center, St. Louis. The applicable assumptions are contained in paragraph 6h of the study directive (Annex A).

(1) Phase I--Pre-Evaluation--(a) The purpose of this phase was to determine the mail volumes and profiles (mix of mail classes and services) of the participating activities under normal circumstances prior to the introduction of postage meters. This information was to serve two purposes: (1) Confirm that the mail volumes of the participating activities constituted a sufficiently large and representative sample. (2) Accumulate performance data against which performance, subsequent to the introduction of postage meters, could be compared. The objectives of Phase I were met in their entirety. Together, the participating activities composed a statistically significant and representative sample of approximately 3.2 percent and 3.8 percent respectively of total Army mail volume and cost. Additionally, their mail profile very clearly approximated that of the total Army.

(2) Phase II—Evaluation. Phase II encompassed a six month period and involved the active use of postage meters; accumulation of performance data, to include equipment performance and reliability characteristics; and the introduction and measurement of the effect of mail cost accountability. During the first three months the primary objectives were to use postage meters effectively without disrupting normal work operations. From the onset, however, mailroom personnel were encouraged to exploit the greater cost consciousness and authority which postage meters made possible. For the first time, mailroom personnel were able to tell a specific mailer that his or her actions had resulted or would result in a specific magnitude of cost. As shown on Annex B this proved to be a powerful tool which translated directly into savings. Cost during these first three months were \$400,674. Costs using RPW costing methods were \$458,649 or \$57,975 more. Additionally, the participating activities supplemented individual monitoring actions with a continuing publicity campaign. This included internal circulars and SOPs, posters, Daily Bulletins, and other means.

During the second three months of Phase II, the decentralized accountability for mail costs was considered. This was done through the establishment of mail targets, based on mailing volumes recorded during the preceding three months of the phase. The basic assumptions here were that the establishment of reasonable limits coupled with accountability will result in reduced costs. These premises were observed to be true for three of the participating activities. Mail volumes and costs did decline

13 percent and 11 percent, respectively, compared to the first three months of Phase II. Costs for the fourth activity, USA AG Publications Center, however, increased. This is attributable to the cyclical nature of the publications workload, wide dispersion of customer accounts, and frequent priority mail requirements.

(3) Phase III—Analysis—During this phase all data was reviewed and analyzed to determine if the study objectives had been met. This phase's analytical activities culminated in the development of the findings and recommendations which are published here.

#### 6. Findings.

a. Postage meters can be used in normal Army mailroom operations without causing significant mail delays or reorganization. Mailroom operations typically are characterized by successive and recurring periods of extreme activity and inactivity. This is so because mailroom workload fluctuates and is generated by operational elements and USPS mail pickup and delivery schedules (one to two times daily). Test experience indicates that the additional workload associated with mail metering can be fairly easily absorbed. More even workload distribution throughout the workday is an additional benefit.

b. Computerized postage is considered more cost effective and, therefore, preferable to postage meters for wholesale mailers such as

Publications Centers. Due to greatly fluctuating workloads, large volumes, and variety of mailings (dimensions), it is difficult to effectively match postage meter equipment and personnel requirements. To preclude undesirable mail processing delays, a computerized positive accountability system should, therefore, be developed for these mailers on a priority basis.

c. Postage meters aid in reducing costs. Total gross postage meter cost savings during the study were \$110,983. Extrapolation of this savings, by participating activities, representing 3.2 percent of total Army volume, yields an estimated annual gross savings of \$6,556,918 if applied to total Army official mail volume and cost. Savings estimates adjusted to account for equipment, supplies, and administrative costs are provided at Annex C.

d. Extensive reporting requirements and statistics maintenance causes bottlenecks and delays and should not be established. A major prerequisite for the successful use of meters and the avoidance of mailroom employee and organizational resistance is simplicity. The cost data, which is readily available from the Daily Record of Meter Register Readings (PS Form 3602-A), is sufficient for direct and effective management action. Annex E provides an easily administered general procedure for the decentralized accountability of official mail costs.

e. Decentralized accountability for mail costs should result in cost reduction.

7. Recommendations.

a. That a plan be developed for the phased Army-wide use of postage meters, commencing FY 82. This plan should specifically address the following:

(1) Identification of Army large volume mailers and their selection for early receipt of postage meters.

(2) Development of equipment requirements and mailroom layout, subsequent to completion of paragraph 7a(1), above.

(3) Development of a postage meter management and management information system.

b. That a computerized positive accountability system be developed for wholesale mailers such as Publications Centers.

c. That net resource requirements be submitted for consideration and prioritization during development of the Program Objective Memorandum (POM) for FY 82-86.

d. That transition to positive accountability be accelerated in subsequent FY (FY 82-86) due to economical and operational disadvantages associated with a dual billing system. Some administrative difficulties can be expected during the initial transition period. However, as experience is gained, meter introduction needs to be accelerated in order to maximize the savings associated with positive accountability. Additionally, RPW sampling system volume and cost estimates will not necessarily decrease proportionately as meters are introduced. The latter concerns system sensitivity and dictates that use of the RPW system to determine Army postal costs should be terminated entirely as soon as practicable.



**DEPARTMENT OF THE ARMY**  
**OFFICE OF THE ADJUTANT GENERAL AND THE ADJUTANT GENERAL CENTER**  
**WASHINGTON, D.C. 20314**

DAAG

21 JUL 1978

**SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs**

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Alexandria, VA 22332  
Commander, US Army Reserve Components Personnel and Administration Center,  
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Commander, US Army AG Publications Center, St. Louis, 1655 Woodson Road,  
St. Louis, MO 63114  
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1. **PURPOSE OF STUDY DIRECTIVE:** This directive provides for the evaluation of postage meters and decentralized accountability for official mail costs at MILPERCEN, TAGCEN, RCPAC, and USA AG Publications Center, St. Louis. Total mail volume of these activities represents approximately 4.8% of total Army volume.
2. **STUDY TITLE:** Evaluation of Postage Meters and Decentralized Accountability Study.
3. **BACKGROUND:**
  - a. USPS quarterly bills DOD components for indicia use through the use of its Revenue and Cost Analysis System for Estimating Revenue, Pieces, and Weight (RPW).
  - b. Procedure in effect since FY73 and provides for the sampling of DOD mailings throughout the year at 580 destination post offices. Data thus obtained is then statistically expanded (or exploded) to represent total volumes (pieces) and weights by DOD component, for a given USPS quarterly billing period.
  - c. The RPW system is designed to provide USPS with a statistical estimate of total revenue at the 90 percent confidence level. Relative error associated with the use of the RPW system for billing purposes, however, has never been determined with any degree of precision. USPS surmises the relative error for DOD components to be somewhere between approximately 2.8% and 6.4%. This equates to a possible error of plus or minus \$3.1 million in the FY77 Army mail indicia bill of \$48.8 million.

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Accountability for Official Mail Costs

d. There is no direct correlation between Army mail generated at post offices of origin and Army mail sampled at destination post offices, i.e., exclusion of an estimated 4.8% of total Army volume from the possibility of sampling will not result in a corresponding 4.8% reduction in Army volume developed by the USPS sampling system. Reduction in USPS sampling computed volumes may be less or greater than 4.8%.

e. Highly questionable bill accuracy coupled with RPW system informational limitations culminated in DOD's first requesting all components to plan to test the cost effectiveness of using meters in lieu of indicia (PBD 284, dated 14 Dec 73).

f. Almost concurrently, Assistant Secretary of Defense (Comptroller), requested Deputy Comptroller for Audit Operations, OASD, to initiate a review of the USPS RPW to evaluate its reliability for billing purposes. Results of this effort published in Comptroller Audit #501, 28 Jun 74, which concluded that although USPS sampling procedures were unreliable for billing purposes by DOD component, they might be within acceptable limits for total DOD mail costs. Audit also concluded that postage meters provide an incentive for cost reduction, but potential savings not considered easily measured since use of meters unrelated to the way DOD is billed by USPS.

g. DA in response to the PBD 284 directive (paragraph 3e, above) conducted an Indicia Verification and Decentralized Budget and Accountability Project (Project #MA-74-2), March 1974 - July 1975, to determine the feasibility of using postage meters in conjunction with decentralized budgeting as a means of reducing and effectively managing Army postal costs.

h. Project authors concluded that the selective placement of meters resulted in no overall savings; that there were no apparent cost savings to be realized from a decentralized budgetary system; and that readily available evidence supported the validity of the current USPS billing system.

i. Experience obtained, subsequent to publication of OSD 501 audit report and Project #MA-74-2, coupled with impact of two postal rate increases, representing a 48% increase in postage since 1975, strongly indicate that the conclusions resulting from these evaluations are no longer valid. A total of \$3.5 million in USPS bill audit and administrative errors have been identified and successfully challenged since 3QFY76.

j. This reassessment substantiated by DAIG in its February 1978 Finding #171, Mail Costs. DAIG severely criticized management of Army resources; concluded that essentially there is no resource management at DA or local level; and estimated a potential savings of \$7.5 million annually to be accrued from Army-wide introduction of postage meters.

ANNEX A

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SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

k. Accordingly, during a 28 Feb 78 conference between VCSA and TAG, it was determined that postage meters and decentralized budgeting again be evaluated.

4. STUDY SPONSOR: The Adjutant General.

5. STUDY AGENCY: Postal Directorate, The Adjutant General Center.

6. TERMS OF REFERENCE:

a. Problem. Disbursement of Army funds (approximately \$50 million annually) for official mail reimbursement to USPS based on bills of questionable validity. Centralized budgeting and disbursement of postal funds result in a disincentive for Army mailers to economize and select less costly commercial mailing means.

b. Purpose. Determine desirability of introducing postage meters and decentralized accountability for postal costs Army-wide.

c. Objective.

(1) Determine compatibility of postage meters and Army mailing requirements.

(2) Determine degree to which postage meters facilitate cost reduction at installation level.

(3) Determine if the incentive induced by decentralized accountability for postal costs results in cost reduction.

(4) Determine degree to which postage meters affect mailroom personnel requirements.

(5) Determine through cost and trend analysis the costs of a meter versus a USPS sample based mail billing system.

d. Scope. Evaluation is to be conducted for a minimum of 6 months concurrent with USPS FY79 fiscal quarters 1 and 2 (7 Oct 78 to 29 Dec 78 and 30 Dec 78 to 23 Mar 79). Pre-evaluation, Phase I, will be conducted from August - 6 October 1978.

e. Limitations: None.

f. Constraints: Analysis of evaluation to be completed by 1 Jul 79 to permit timely procurement action assuming Army-wide meter introduction is indicated.

g. Timeframe: 1 August 78 - 23 March 79.

ANNEX A

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SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

h. Assumptions:

(1) Estimated Army relative error of 6.4% which is assigned to USPS RPW is unacceptable. This equates to a possible \$3.1 million over/under-payment on Army FY77 indicia bill of \$48.8 million.

(2) The 4.8% estimate of the total mail volume of the participating activities is accurate. Distribution of mail volumes follows:

<u>Activity</u>	<u>Annual Estimated Volume</u>	<u>% Army Total</u>
MILPERCEN	1,900,000	1.2
TAGCEN	160,000	.1
RCPAC	2,900,000	1.8
St. Louis Pub Ctr (excluding resupply)	2,700,000	1.7
	<hr/>	<hr/>
TOTAL	<u>7,660,000</u>	<u>4.8</u>

(3) Mail profiles (class distribution) of participating activities will approximate the Army profile. Army profile for FY77 was as indicated below:

First Class	67.5%
Priority	2.4%
3rd Class	10.9%
3rd Class Bulk	13.7%
4th Class	1.4%
Spec 4th Class	2.1%
International	.2%
Control Circulation	1.8%

(4) Costs should be assigned to the activity responsible for generating such costs.

(5) Effective resource management dependent upon accurate information concerning validity of costs and identity of those contributing to the cost.

(6) There are sufficient available manhours to absorb increased workload associated with the study.

(7) Commanders and managers will in the long run effectively administer only those activities which relate to performance evaluation.

i. Essential Elements of Analysis (EEA):

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SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

(1) What mail volumes and weights and applicable costs by mail class, did participating activities generate before and subsequent to introduction of postage meters?

(2) What proportion of the change identified in 6i(1), above, can be attributed to the following?

(a) Precise identification of weights and mail zones, rather than average weights and arbitrary zone 5 used under RPW.

(b) Mailer incentive to economize.

(c) USPS sampling error.

(3) Is USPS RPW positively or negatively biased, i.e., does its use for billing purposes consistently result in overcharges or undercharges?

(4) Over what period can we expect postage meter acquisition costs and recurring rental and maintenance costs to be absorbed?

(5) Will decentralized accountability for postal costs require additional personnel resources?

(6) Will centralization of mailrooms result in mail delays, extensive reorganization requirements, and requirement for increased number of mail processing personnel?

j. Environmental/threat guidance. No environmental consequences are envisioned.

k. Estimates for cost savings. Savings to be accrued from implementation of decentralized accountability for postal costs and accompanying increased incentive at the local level to economize cannot be determined. However, based on USPS sampling relative error of 6.4% for DOD components, it is estimated that annual Army cost savings could be as high as \$3.7 million annually for FY79 and 80, less capital equipment and recurring rental and maintenance expenses. This estimate considered conservative in view of Air Force attribution of \$15 million savings in FY76 alone to postage meter and other positive accounting methods.

#### 7. RESPONSIBILITIES:

a. The Adjutant General will:

(1) Have overall approving authority for the study.

(2) Provide all funding associated with meter and associated equipment rental and maintenance.

DAAG

SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

(3) Develop and disseminate instructions relative to evaluation administration and meter security. Evaluation will be in three phases:

(a) Phase I: Pre-evaluation. During this phase determine mail volumes and profiles of participating activities through use of the USPS two-week sampling system that is used by most government agencies in determining their annual reimbursement to USPS. Data thus derived will represent mail characteristics of the participating activities prior to the use of postage meters/decentralized accountability for postal costs.

(b) Phase II: Postage Meter/Decentralized Accountability Evaluation. Accumulate quantitative data relative to mail classes used and associated volumes.

(c) Phase III: Analysis. Compare results obtained in phases I and II and publish findings with respect to achievement of Study objectives.

(4) Provide Study Advisor.

b. Commanders, MILPERCEN, RCPAC, USA AG Publication Center, St. Louis, and Director, Personnel and Administration Directorate, TAGCEN will:

(1) Conduct evaluation in accordance with detailed instruction to be provided by TAG.

(2) Provide study outputs to TAG for analysis and consideration in the form of reports as requested by TAG.

#### 8. LITERATURE SEARCH:

a. Organizations having responsibility/interest in study subject matter: TAGCEN, ADMINCEN, Comptroller of the Army, and Director, Operation Maintenance, Army, and DCSPER.

b. Post/Ongoing Related Studies.

(1) Army Postal Service - Organization Study, DAAG-MA, 30 Jun 75.

(2) Indicia Verification and Decentralized Budget and Accountability Report (Project Number MA-74-2), 30 Sep 75.

#### 9. REFERENCES:

a. Administrative and procedural.

(1) AR 5-5, The Army Study System.

ANNEX A

DAAG

SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

(2) AR 340-3, Official Mail.

b. Substantive.

(1) USPS Letter (Finance Group) 29 May 78, subject: Payment  
for Official Mail - Fiscal Year 1978 (REVISED).

(2) Handbook, DAAG-MAP, July 1977, subject: Billing, Analysis,  
and Forecasting Procedure for Army Official Mail.

10. ADMINISTRATION:

a. Support:

(1) TAG. All funds (TDY, salaries, etc.) incident to the activi-  
ties of TAGO/TAGCEN personnel in support of this study.

(2) Commanders, MILPERCEN, RCPAC, USA AG Publication Center, St.  
Louis. All funds (TDY, salaries, etc.) incident to activities of person-  
nel assigned to their respective commands.

(3) Contractual support (\$000).

	<u>EQUIP RENTAL &amp; MAINTENANCE</u>	<u>EQUIP PURCHASE</u>	<u>TRAINING</u>	<u>TOTAL</u>
FY78	6.0	25.5	5.5	37.0
FY79	<u>17.9</u>	<u>33.4</u>	---	<u>51.3</u>
GRAND TOTAL	<u>23.9</u>	<u>58.9</u>	<u>5.5</u>	<u>88.3</u>

(4) Study Costs.

(a) Personnel: 1 Study Officer (0-4) - 2 man-months; 1 Team  
Member (GS-12) - 2 man-months; and 1 Team Member (GS-11) - 1.5 man-months.

(b) TDY and Per Diem: \$1,800.

(c) Supplies: \$250.

(5) Milestone Schedule.

(a) Final report is to be presented no later than 30 Jun 79.

(b) Detailed milestone schedule provided as Inclosure 1.

c. Control procedures.

DAAG

SUBJECT: Study - Evaluation of Postage Meters and Decentralized  
Accountability for Official Mail Costs

(1) The Director, Postal Directorate (TAGCEN) will serve as Study  
Advisor/Manager.

(2) DD Form 1498 (Research and Technology Work Unit Summary) will  
be prepared by TAG.

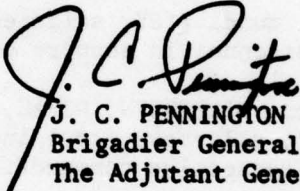
d. Study format or outline. N/A.

e. Action documents.

(1) Study Results.

(2) Plan for Army-wide Introduction of Postage Meters, FY80-84.

1 Incl  
as

  
J. C. PENNINGTON  
Brigadier General, USA  
The Adjutant General

## Explanation of Postage Meter vs RPW Sampling Costs Computations

I INTRODUCTION: There are two general methods for calculating postage reimbursement to USPS: direct accountability and sampling.

Direct accountability refers to the use of postage meters and numbered permit mailings. The costs which are computed in this manner are exact and based on documentation or meter reading information which is generated at the time of mailing.

Sampling, for the purposes of the test, refers to the USPS revenue, pieces and weight sampling method (RPW). Under this method samplers at 580 destination postal facilities randomly count Army mail and record mail type, classification, weight, and service. These counts are then costed through use of weighted averages and statistically expanded to derive the total Army mail volume and cost for a given quarter.

II METHODOLOGY: The achievement of the test cost comparison objectives was dependent upon establishing postal costs at the four test sites under two sets of circumstances: (1) Direct accountability; and (2) RPW sampling.

Direct accountability costs were readily available and were computed directly from the official USPS forms which all postage meter users must maintain.

Costs determined in this manner for the test sites totalled \$400,674 for the 1st quarter, FY79, and \$393,017 for the 2d quarter, FY79.

Estimated RPW sampling costs for the test sites was also readily available. Simply stated, the RPW weighted average costing method was applied to the volumes and weights which were recorded at the test sites. This yielded RPW estimated costs of \$458,649 for the 1st quarter, FY79 or \$57,975 more than was required with direct accountability. A similar computation for 2d quarter, FY79 yields \$446,025 under sampling or \$53,008 more than was required with postage meters.

These estimated savings were then applied to total Army mailings by setting up and solving the appropriate ratio and proportion equation. This produced estimated Army-wide gross savings of \$1,603,435 for 1st quarter FY79 and \$1,675,024 for 2d quarter FY79. The sum of the two estimated quarterly savings projected to an annual gross amount is \$6,556,918 ( $\$1,603,435 + \$1,675,024 = \$3,278,459 \times 2 = \$6,556,918$ ). Net savings are reflected on the chart at Annex C.

Summaries of test site mail volume and cost data for USPS 1st and 2d quarter, FY79, are provided as inclosures 1 and 2 to this Annex. An explanation of all computational procedures is provided as inclosure 3.

**DATA SUMMARY FOR ALL LOCATIONS PARTICIPATING IN POSTAGE METER EVALUATION**

Mail Classification	Postage Per Piece	Phase I 5 Sep 78 - 6 Oct 78		Phase II—Part 1 7 Oct 78 - 29 Dec 78		Phase II—Part 2 30 Dec 78 - 23 Mar 79	
		(Adjusted to 56 Work Days)		(56 Work Days)		(58 Work Days)	
		Volume	Postage	Volume	Postage	Volume	Postage
Single Post Cards	\$ .10	32,707	\$ 3,270.70	34,193	\$ 3,419.30	57,609	\$ 5,760.90
Double Post Cards	.20	3,309	661.80	3,739	747.80	50	10.00
First-class—1 oz or less	.15	589,335	88,400.25	609,572	91,435.80	517,678	77,651.70
First-class—Up to 2 oz	.28	90,551	25,354.28	72,617	20,332.76	77,741	21,767.48
First-class—Up to 3 oz	.41	26,790	10,983.90	47,325	19,403.25	27,062	11,095.42
First-class—Up to 4 oz	.54	40,580	21,913.20	14,674	7,923.96	11,177	6,035.58
First-class—Up to 5 oz	.67	14,265	9,557.55	18,689	12,521.63	6,469	4,334.23
First-class—Up to 6 oz	.80	10,362	8,289.60	5,360	4,288.00	4,233	3,386.40
First-class—Up to 7 oz	.93	5,927	5,512.11	3,688	3,429.84	3,562	3,312.66
First-class—Up to 8 oz	1.06	8,552	9,065.12	2,826	2,995.56	3,714	3,936.84
First-class—Up to 9 oz	1.19	3,670	4,367.30	2,120	2,522.80	2,804	3,336.76
First-class—Up to 10 oz	1.32	2,158	2,848.56	1,806	2,383.92	1,285	1,696.20
First-class—Up to 11 oz	1.45	1,748	2,534.60	1,031	1,494.95	1,136	1,647.20
First-class—Up to 12 oz	1.58	1,963	3,101.54	966	1,526.28	1,375	2,172.50
Priority	-	29,015	86,971.72	19,732	58,283.17	16,476	54,689.33
Third-class	-	487,235	176,649.79	337,306	134,255.32	859,373	333,208.59
Fourth-class	-	7,445	18,516.00	2,855	7,148.84	2,860	6,156.27
Special Fourth-class Books	-	38,392	56,470.28	34,469	54,271.21	36,345	48,162.11
International Mail	-	4,874	5,022.51	2,880	1,995.14	6,482	3,971.51
Above Pieces Registered	3.00	6,526	19,578.00	3,513	10,539.00	3,331	9,993.00
Above Pieces Certified	.80	44,032	35,225.60	55,522	44,417.60	42,895	34,316.00
Above Pieces Return Receipt	.45	2,179	980.55	2,269	1,021.05	2,070	931.50
Above Pieces Cert. of Mailing	.15	-	-	-	0	210	31.50
Reported on Mail Count Sheets		1,398,878	\$592,274.96	1,215,848	\$486,357.18	1,637,431	\$637,603.68
Reported as Non-metered				88,765	\$ 48,550.44	640,163	\$252,395.97
Reported as Metered				1,127,083	\$437,806.74	997,268	\$385,207.71
Postage Meter Readings					\$400,674.25		\$393,017.35
Variance					+\$37,132.49		-\$7,809.64
Percent Variance					+ 9.3%		- 2.0%
Mail Cost Per Work Day			\$ 10,629.91		\$ 8,021.87		\$ 11,127.82

TAGO

Mail Classification	Phase I 5 Sep 78 - 6 Oct 78 (Adjusted to 56 Work Days)		Phase II--Part 1 7 Oct 78 - 29 Dec 78 (56 Work Days)		Phase II--Part 2 30 Dec 78 - 23 Mar 79 (58 Work Days)	
	Volume	Postage Per Piece	Volume	Postage	Volume	Postage
Single Post Card	-	\$ .10	-	-	1	\$ .10
First-class--1 oz or less	103	.15	106	\$ 15.90	142	21.30
First-class--Up to 2 oz	14	.28	32	8.96	39	10.92
First-class--Up to 3 oz	-	.41	15	6.15	32	13.12
First-class--Up to 4 oz	26	.54	24	12.96	2	1.08
First-class--Up to 5 oz	79	.67	47	31.49	25	16.75
First-class--Up to 6 oz	-	.80	3	2.40	2	1.60
First-class--Up to 7 oz	-	.93	1	.93	2	1.86
First-class--> 11 to 12 oz	-	1.58	-	-	1	1.58
Priority	2	-	3	6.42	6	16.29
Third-class	-	-	-	-	1	.92
Fourth-class	-	-	1	1.72	4	6.18
Reported on Mail Count Sheets	224		232	\$ 86.93	257	\$91.70
Postage Meter Readings				\$105.23		\$97.60
Variance				-\$18.30		-\$5.90
Percent Variance				- 17.4%		- 6.0%
Mail Cost Per Work Day		\$ 1.60		\$ 1.88		\$ 1.68

Inclosure 1  
ANNEX B

TAGCEN

Mail Classification	Phase I 5 Sep 78--6 Oct 78 (Adjusted to 56 Work Days)		Phase II--Part I 7 Oct 78--29 Dec 78 (56 Work Days)		Phase II--Part 2 30 Dec 78--23 Mar 79 (58 Work Days)	
	Volume	Postage	Volume	Postage	Volume	Postage
Single Post Cards	439	\$ 43.90	268	\$ 26.80	459	\$ 45.90
Double Post Cards	19	3.80	6	1.20	3	.60
First-Class--1 oz or less	15,134	2,270.10	17,243	2,586.45	17,434	2,615.10
First-Class--Up to 2 ounces	19,763	5,533.64	4,130	1,156.40	4,280	1,198.40
First-Class--Up to 3 ounces	10,512	4,309.92	1,367	560.47	1,967	806.47
First-Class--Up to 4 ounces	22,687	12,250.98	1,255	677.70	933	503.82
First-Class--Up to 5 ounces	5,147	3,448.49	814	545.38	620	415.40
First-Class--Up to 6 ounces	614	491.20	344	275.20	326	260.80
First-Class--Up to 7 ounces	322	299.46	288	267.84	228	212.04
First-Class--Up to 8 ounces	399	422.94	159	168.54	222	235.32
First-Class--Up to 9 ounces	322	383.18	238	283.22	243	289.17
First-Class--Up to 10 ounces	266	351.12	175	231.00	146	192.72
First-Class--Up to 11 ounces	128	185.60	44	63.80	116	168.20
First-Class--Up to 12 ounces	217	342.86	168	265.44	149	235.42
Priority	1,869	4,891.11	3,576	7,671.02	1,485	4,089.22
Third-Class	7	7.05	1,233	624.28	1,022	445.94
Fourth-Class	65	217.56	379	719.37	540	1,203.45
Special Fourth-Class Book	30	77.65	202	491.90	335	904.31
International Mail	37	133.82	64	91.06	111	66.92
Above Pieces Registered	212	636.00	119	357.00	62	186.00
Above Pieces Certified	392	313.60	474	379.20	536	428.80
Above Pieces Return Receipt	551	247.95	516	232.20	548	246.60
Reported on Mail Count Sheets	77,977	\$36,861.93	31,953	\$17,675.47	30,619	\$14,750.60
Postage Meter Readings				\$19,120.47		\$16,341.09
Variance				-1,445.00		-1,590.49
Percent Variance				-		- 9.7%
Mail Cost Per Work Day		\$658.25		\$341.44		\$281.74
Inclosure 1, ANNEX B						

MILPERCEN

Mail Classification	Phase I 5 Sep - 6 Oct 78 (Adjusted to 56 Work Days)		Phase II - Part 1 7 Oct - 29 Dec 78 (56 Work Days)		Phase II - Part 2 30 Dec 78 - 23 Mar 79 (58 Work Days)	
	Volume	Postage Per Piece	Volume	Postage	Volume	Postage
Single Post Cards	10,757	\$ .10	13,357	\$ 1,335.70	12,650	\$ 1,265.00
Double Post Cards	1,517	.20	2	.40	11	2.20
First-Class--1oz. or less	46,856	.15	55,364	8,304.60	53,009	7,951.35
"--Up to 2 oz.	22,195	.28	16,100	4,508.00	12,595	3,526.60
"--Up to 3 oz.	5,684	.41	4,370	1,791.70	5,432	2,227.12
"--Up to 4 oz.	2,231	.54	3,665	1,979.10	2,456	1,326.24
"--Up to 5 oz.	2,394	.67	1,329	890.43	1,657	1,110.19
"--Up to 6 oz.	4,601	.80	1,668	1,334.40	1,491	1,192.80
"--Up to 7 oz.	866	.93	1,068	993.24	1,071	996.03
"--Up to 8 oz.	1,146	1.06	1,264	1,339.84	2,208	2,340.48
"--Up to 9 oz.	1,010	1.19	851	1,012.69	1,310	1,558.90
"--Up to 10 oz.	476	1.32	501	661.32	625	825.00
"--Up to 11 oz.	497	1.45	405	587.25	467	677.15
"--Up to 12 oz.	579	1.58	212	334.96	285	450.30
Priority	9,875	---	5,413	12,388.51	6,493	14,732.97
Third-Class	483	---	3	1.20	---	---
Fourth-Class	789	---	784	2,215.14	643	1,709.65
Sp. Fourth - Class Book	---	---	---	---	47	79.41
International Mail	2	---	4	1.55	3	18.56
Above Pieces Registered	24	3.00	65	195.00	84	252.00
Above Pieces Certified	142	.80	208	166.40	319	255.20
Above Pieces Return Receipt	123	.45	203	91.35	322	144.90
Above Pieces Cert. of Mailing	---	.15	---	---	210	31.50
Reported on Mail Count Sheets	111,958	---	106,360	\$40,132.78	102,453	\$42,679.55
Postage Meter Readings				\$45,305.79		\$46,481.08
Variance				-\$ 5,173.01		-\$ 3,807.53
% Variance				-11.4%		-8.2%
Mail Cost Per Work Day				\$ 979.58		\$ 801.40
Inclosure 1, ANNEX B						

RCPAC

Mail Classification	Phase I 5 Sep 78--6 Oct 78 (Adjusted to 56 Work Days)		Phase II--Part I 7 Oct 78--29 Dec 78 (56 Work Days)		Phase II--Part 2 30 Dec 78--23 Mar 79 (58 Work Days)	
	Postage Per Piece	Volume	Postage	Volume	Postage	Volume
Single Post Cards	\$ .10	21,511	\$ 2,151.10	20,462	\$ 2,046.20	44,323
Double Post Cards	.20	1,773	354.60	3,727	745.40	10
First-Class--1 oz or less	.15	517,874	77,681.10	519,466	77,919.90	425,592
First-Class--Up to 2 ounces	.28	45,117	12,632.76	50,134	14,037.52	60,241
First-Class--Up to 3 ounces	.41	8,188	3,357.08	39,154	16,053.14	18,936
First-Class--Up to 4 ounces	.54	9,709	5,242.86	8,362	4,515.48	6,850
First-Class--Up to 5 ounces	.67	4,111	2,754.37	15,416	10,328.72	3,369
First-Class--Up to 6 ounces	.80	4,109	3,287.20	2,516	2,012.80	1,950
First-Class--Up to 7 ounces	.93	2,186	2,032.98	1,674	1,556.82	1,554
First-Class--Up to 8 ounces	1.06	2,016	2,136.96	1,087	1,152.22	1,029
First-Class--Up to 9 ounces	1.19	1,668	1,984.92	785	934.15	857
First-Class--Up to 10 ounces	1.32	812	1,071.84	456	601.92	377
First-Class--Up to 11 ounces	1.45	481	697.45	390	565.50	419
First-Class--Up to 12 ounces	1.58	495	782.10	393	620.94	542
Priority	--	7,756	22,027.04	8,052	23,158.06	5,824
Third-Class	--	15,517	3,717.96	11,378	2,358.28	6,427
Fourth-Class	--	485	1,106.56	326	830.93	24
International Mail	--	4,835	4,884.58	2,789	1,829.76	6,365
Above Pieces Registered	3.00	436	1,308.00	547	1,641.00	158
Above Pieces Certified	.80	43,498	34,798.40	54,840	43,872.00	42,040
Above Pieces Return Receipt	.45	1,505	677.25	1,550	697.50	1,200
Reported on Mail Count Sheets		648,643	\$184,687.11	686,567	\$207,478.24	584,689
Postage Meter Readings					\$204,535.36	
Variance					+ 2,942.88	
Percent Variance					+ 1.4%	
Mail Cost Per Work Day			\$3,297.98		\$3,652.42	
Inclosure 1						\$3,036.40
ANNEX B						

ST. LOUIS AG PUBLICATIONS CENTER

Mail Classification	Phase I 5 Sep 78--6 Oct 78 (Adjusted to 56 Work Days)		Phase II--Part 1 7 Oct 78--29 Dec 78 (56 Work Days)		Phase II--Part 2 30 Dec 78--23 Mar 79 (58 Work Days)	
	Postage Per Piece	Volume	Postage	Volume	Postage	Volume
Single Post Cards	\$ .10	-0-	\$ -0-	106	\$ 10.60	176
Double Post Cards	.20	-0-	-0-	4	.80	26
First-Class--1 oz or less	.15	9,368	1,405.20	17,393	2,608.95	21,501
First-Class--Up to 2 ounces	.28	3,432	960.96	2,221	621.88	586
First-Class--Up to 3 ounces	.41	2,406	986.46	2,419	991.79	695
First-Class--Up to 4 ounces	.54	5,927	3,200.58	1,368	738.72	936
First-Class--Up to 5 ounces	.67	2,534	1,697.78	1,083	725.61	798
First-Class--Up to 6 ounces	.80	1,038	830.40	829	663.20	464
First-Class--Up to 7 ounces	.93	2,553	2,374.29	657	611.01	707
First-Class--Up to 8 ounces	1.06	4,991	5,290.46	316	334.96	255
First-Class--Up to 9 ounces	1.19	670	797.30	246	292.74	394
First-Class--Up to 10 ounces	1.32	604	797.28	674	889.68	137
First-Class--Up to 11 ounces	1.45	642	930.90	192	278.40	134
First-Class--Up to 12 ounces	1.58	672	1,061.76	193	304.94	398
Priority	--	9,513	37,046.80	2,688	15,059.16	2,668
Third-Class	--	471,228	172,720.33	324,692	131,271.56	851,923
Fourth-Class	--	6,106	14,716.26	1,365	3,381.68	1,649
Special Fourth-Class Book	--	38,362	56,392.63	34,267	53,779.31	35,963
International Mail	--	-0-	-0-	23	72.77	3
Above Pieces Registered	3.00	5,854	17,562.00	2,782	8,346.00	3,027
Reported on Mail Count Sheets		560,046	\$318,771.39	390,736	\$220,983.76	919,413
Reported as Nonmetered				88,765	\$ 48,550.44	640,163
Reported as metered				301,971	\$172,433.32	279,250
Postage Meter Readings					\$131,607.40	\$153,986.40
Variance					+\$40,825.92	+ \$8,544.16
Percent Variance					+ 31.0%	+ 5.5%
Mail Cost Per Work Day			\$5,692.35		\$3,217.10	\$7,006.59
Inclosure 1, ANNEX B						

**Test Site Cost Comparison  
Metering Versus Sampling  
1st Postal Quarter FY 1979 (7 Oct 78-29 Dec 78)**

	Volume	Wt/Pc	Metered Based on Count Sheets	Adjusted to Meter Readings	Adjusted Volume	Avg Metered Postage/Pc	Sampled Postage/Pc If Sampled	Postage Savings (Cost)
Summary	34,193		\$ 3,419	\$ 3,129	31,293	\$ .1000	\$ .1000	
Post Cards - Single	3,739		748	685	3,422	.2000	.2000	
Post Cards - Double	780,605	1.22 oz	170,212	155,776	714,569	.2179	.2800	\$44,303
Priority *	19,663	3.92 lb	58,072	53,149	17,996	2.9533	3.0300	1,379
Third - Class	256,222	3.53 oz	100,955	92,392	236,357	.3908	.4000	2,151
Fourth - Class **	2,473	7.85 lb	4,522	4,135	2,262	1.8285	2.5500	1,633
Sp 4C Book	25,222	7.99 lb	41,906	38,352	23,084	1.6614	2.0400	8,739
Int Mail	2,890		1,995	1,826	2,636	.6927	.6054	(230)
Registered	3,513		10,539	9,645	3,215	3.0000	3.0000	
Certified	55,522		44,418	40,650	50,813	.8000	.8000	
Return Receipt	2,269		1,021	935	2,077	.4500	.4500	
<b>Total</b>	<b>1,126,997</b>		<b>\$437,807</b>	<b>\$400,674</b>	<b>1,031,619</b>		<b>\$458,649</b>	<b>\$57,975</b>

\* AVG. Zone - 4.55  
\*\* AVG. Zone - 4.40

Inclosure 2  
ANNEX B

**Test Site Savings Projected Army-Wide  
1st Postal Quarter FY 1979 (7 Oct 78-29 Dec 78)**

Mail Classification	1 Postage At Test Sites If Mail Had Been Sampled	2 Postage Generated By RPM Sampling from other CONUS Installations	3 Total (1 + 2)	4 Expansion Factors (3 ÷ 1)	5 Metered Postage at Test Sites	6 Projected Metered Postage in Lieu of RPM Sampling (4 X 5)	7 Projected Savings by Metering (3 - 6)
First-class Cards	\$ 3,814	\$ 25,191	\$ 29,005	7.60	\$ 3,814	\$ 29,005	--
First-class Letters	200,079	4,721,285	4,921,364	24.60	155,776	3,831,638	\$1,089,726
Priority	54,528	1,732,790	1,787,318	32.78	53,149	1,742,117	45,201
Third-class	94,543	592,042	686,585	7.26	92,392	670,964	15,621
Fourth-class	5,768	1,021,613	1,027,381	178.12	4,136	736,693	290,688
Sp Fourth-class Book	47,091	844,454	891,545	18.93	38,352	726,095	165,450
International Mail	1,596	20,963	22,559	14.13	1,826	25,810	(3,251)
Registered	9,645	131,997	141,642	14.69	9,645	141,642	--
Certified	40,650	105,498	146,148	3.60	40,650	146,148	--
Return Receipt	935	36,358	37,293	39.89	935	37,293	--
Other Special Services	--	23,289	23,289	--	--	23,289	--
<b>Total</b>	<b>\$458,649</b>	<b>\$9,255,480</b>	<b>\$9,714,129</b>		<b>\$400,675</b>	<b>\$9,110,694</b>	<b>\$1,603,435</b>

4.1% of Total  
16.5% reduction

Inclosure 2  
ANNEX B

Test Site Cost Comparisons  
Metering Versus Sampling  
2nd Postal Quarter FY 1979 (30 Dec 78 - 23 Mar 79)

	Volume	Wt./Pc	Metered Based on Count Sheets	Adjusted to Meter Readings	Adjusted Volume	Avg Metered Postage/Pc	Sampled Postage/Pc	Postage If Sampled	Savings (Cost)
Summary	57,609		\$ 5,761	\$ 5,878	58,777	\$ .1000	\$ .1000	\$ 5,878	
Post Cards - Single	50		10	10	51	.2000	.2000	10	
Post Cards - Double	658,166	1.21 oz	140,362	143,208	671,708	-2132	.2800	188,078	\$44,870
First - Class	16,476	6.26 lb	54,689	55,797	16,810	3.3193	4.1800	70,266	14,469
Priority *	232,798	3.89 oz	99,446	101,463	237,562	.4271	.4000	95,025	(6,438)
Third - Class	2,691	6.21 lb	5,852	5,972	2,746	2.1748	2.4100	6,618	646
Fourth - Class **	22,996	3.91 lb	29,843	30,448	23,463	1.2977	1.2500	29,329	(1,119)
Sp 4C Book	6,482		3,972	4,050	6,611	.6126	.7004	4,630	580
Int Mail	3,331		9,993	10,197	3,399	3.0000	3.0000	10,197	
Registered	42,895		34,316	35,012	43,765	.8000	.8000	35,012	
Certified	2,070		932	950	2,112	.4500	.4500	950	
Return Receipt	210		31	32	214	.1500	.1500	32	
Cert of Mailing	997,268		31	32	214			32	
Total			\$385,208	\$ 393,017	1,017,728			\$446,025	\$53,008

\* Avg. Zone - 4.59  
\*\* Avg. Zone - 4.45

Inclosure 2  
ANNEX B

Test Site Savings Projected Army-Wide  
2nd Postal Quarter FY 1979 (30 Dec 78-23 Mar 79)

Mail Classification	1 Postage At Test Sites If Mail Had Been Sampled	2 Postage Generated By RPW Sampling from other COMUS Installations	3 Total (1 + 2)	4 Expansion Factors (3 - 1)	5 Metered Postage at Test Sites	6 Projected Metered Postage in Lieu of RPW Sampling (4 X 5)	7 Projected Savings by Metering (3 - 6)
First-class Cards	\$ 5,888	\$ 43,890	\$ 49,778	8.45	\$ 5,888	\$ 49,778	--
First-class Letters	188,078	5,195,228	5,383,306	28.62	143,208	4,099,004	\$1,284,302
Priority	70,266	1,935,575	2,005,841	28.55	55,797	1,592,803	413,038
Third-class	95,025	1,136,829	1,231,854	12.96	101,463	1,315,313	(83,459)
Fourth-class	6,618	1,033,577	1,040,195	157.18	5,972	938,659	101,536
Sp Fourth-class Book	29,329	1,112,156	1,141,485	38.92	30,448	1,185,036	(43,551)
International Mail	4,630	20,579	25,209	5.44	4,050	22,051	3,158
Registered	10,197	117,957	128,154	12.57	10,197	128,154	--
Certified	35,012	88,025	123,037	3.51	35,012	123,037	--
Return Receipt	950	30,823	31,773	33.45	950	31,773	--
Certificate of Mailing	32	--	32	1.00	32	32	--
Other Special Services	--	39,508	39,508	--	--	39,508	--
Total	\$446,025	\$10,754,147	\$11,200,172		\$393,017	\$9,525,148	\$1,675,024

3.5% of Total 15% reduction

Inclosure 2  
ANNEX B

### Computational Procedures

Step 1: Using mail count reports, summarize mail volume (pieces) by postal class, special service, weight increment, and total the amount of metered postage reflected thereon. Information concerning class, service, and weight is available only from these reports.

Step 2: Compute the total postage affixed to mailings during the test. This is obtained from PS Forms 3602-A (Daily Records of Meter Register Readings) and 3603 (Receipts for Postage Meter Settings).

Step 3: Compare the independent postage totals which were developed in Step 1 from mail count reports, and in Step 2 from the USPS postage meter reports. This procedure provides a measure of test site reporting accuracy and yielded variances of +9% and -2%, for USPS fiscal quarters 1 and 2, FY79. Plus or minus variance indicates that either more or less postage reported as recorded than actually recorded on meters. Metering data as reflected on PS Forms 3602-A and 3603 provide irrefutable mailing cost data.

Step 4: Compensate for reporting variances (Step 3) by proportionately adjusting the postal class, service, and weight increment volumes which were developed in Step 1. This is necessary if mail volumes are to relate directly to the official mail costs, i.e., those derived from postage meter reports.

Step 5: Apply RPW costing procedures to the adjusted mail volumes, to determine what cost would have been if test sites had been subjected to RPW sampling.

Step 6: Compare the test site mail costs which were developed in Step 2, postage meter costs, and Step 5, RPW sample costs. This shows which system yields the lower costs. In the postage meter test it was determined that postage meter provided estimated savings of \$57,975 and \$53,008 respectively, 1st and 2d quarter FY79.

Step 7: Relate test site postage meter savings to total Army mailings for a given quarter through following ratio and proportion computation for each class of mail:

A = Test site "RPW costed" postage

B = Army (CONUS) RPW indicia cost: less test sites

C = Test site metered postage

D = Expansion Factor shows relationship between test sites and remainder of Army

E = Estimate of metered postage if postage meters used Army-wide

Inclosure 3

ANNEX B

Therefore:

$$(1) \frac{A + B}{A} = D$$

A

$$(2) D \text{ times } C = E$$

$$(3) A + B - E = \text{Gross savings attributable to use of postage meters.}$$

The following example uses First-class Letters data for 1st quarter FY79 to explain the computations:

A = \$200,079 (test site "RPW costed" postage)

B = \$4,721,285 (Army CONUS RPW indicia cost: less test sites)

$$\frac{A(\$200,079) + B(\$4,721,285)}{A(\$200,079)} = D \text{ or } 24.5971$$

$$\therefore$$

D = 24.5971 (Expansion factor showing relationship between test sites and remainder of Army)

C = \$155,776 (test site metered postage)

$$\therefore D(24.5971) \times C(\$155,776) = E \text{ or } \$3,831,638$$

(estimated of metered postage if postage meters used Army-wide)

Inclosure 3

ANNEX B

∴  $A(\$200,079) + B(\$4,721.285) - E(\$3,831,638)$

= \$1,089,726 (Gross savings attributable to use of postage meters)

**Inclosure 3**  
**ANNEX B**

ARMY PHASED INTRODUCTION OF POSTAGE METERS  
RETURN ON INVESTMENT  
(SHOWN IN M\$)

ELEMENT OF EXPENSE	FISCAL YEAR					TOTAL
	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	
Equipment Purchase	\$2.0	\$2.0	\$2.0	\$1.8	-	\$ 7.8
Maintenance/Meter Rental	.3	.6	.9	1.1	1.1	4.0
Supplies	.2	.4	.6	.8	.8	2.8
Administrative	<u>.1</u>	<u>.2</u>	<u>.3</u>	<u>.4</u>	<u>.4</u>	<u>1.4</u>
Total Costs	\$2.6	\$3.2	\$3.8	\$4.1	\$2.3	\$16.0
*Projected Savings	<u>1.3</u>	<u>2.6</u>	<u>3.9</u>	<u>5.2</u>	<u>6.6</u>	<u>\$19.6</u>
Net Savings (Costs)	(\$1.3)	(\$ .6)	\$ .1	\$1.1	\$4.3	\$ 3.6
Accum. Savings (Costs)	(\$1.3)	(\$1.9)	(\$1.8)	(\$ .7)	\$3.6	-
Return on Investment						4.5 years after phased introduction begins.

\*Savings will be relatively small at the beginning of the phased postage meter introduction because only a few meters will initially be in place. Total number of meters and corresponding annual savings will increase each year during the 5-year period (FY 82-86) to an estimated \$6.6 million annual savings once meters are fully introduced.

Postage Meter Equipment Malfunction Summary  
(7 Oct 78 -- 23 Mar 79)

<u>Location</u>	<u>Metering Stations In Place</u>	<u>Metering Hours Available</u>	<u>Metering Hours Reported as Non-Operative</u>	<u>Percent of Total</u>
TAGO	1	912	--	--
TAGCEN	1	912	16	2%
RCPAC	7	6,384	48	1%
SLAGPC	5	4,560	168	4%
MILPERCEN	<u>2</u>	<u>1,824</u>	<u>43</u>	<u>2%</u>
<b>TOTAL</b>	<b>16</b>	<b>14,592</b>	<b>275</b>	<b>2%</b>

## Decentralized Accountability

With the introduction of positive official mail accountability (i.e. postage meters) throughout the Army, an official mail budget for each major activity or installation can be established and continually refined through analyses of Postal Service Forms 3602-A, Daily Records of Meter Register Readings.

Each budget for a major activity or installation can then be compared (monthly and fiscal year to-date) to actual postage used with the requirement that large variances be explained. Exhibit 1 is a sample report with fictitious numbers showing some of the activities that comprise the major command TRADOC. This report would be prepared monthly from input by the Official Mail Control Officer at each activity. This formula would be applied to each activity:

$$\text{Actual Postage} \div \text{Budget} \times 100 = \text{Realization \%}$$

The base realization % is 100 and occurs when budget and actual are equal. Any amount over 100% is over the budget. An amount under 100% reflects under the budget. Comparison of budget and actual official mail amounts would also be shown on the report fiscal year to-date (FYTD). The FYTD realization % is the true measure of how well an activity is controlling and minimizing official mail costs.

A DA Recapitulation for all major commands (Exhibit 2) would also be prepared as a summary of the MACOM Reports.

These Official Mail Analysis Reports (Exhibits 1 and 2) become the basis for decentralized accountability. The reports can be developed as postage meters are installed at any of the activities of a MACOM. However, decentralizing funds should not be considered until the phased introduction of postage meters is complete.

Thus, Commanders and Official Mail Control Officers have the tool to influence and reduce mail costs, uncover uneconomical mail practices, and where feasible, select less costly commercial mailing means.

TRADOC

Official Mail Cost Analysis

Fiscal Year 19XX

(\$000)

Major Activity	Month:			FY To-Date		
	Budget	Actual	Realization %	Budget	Actual	Realization %
Ft. Belvoir, VA	\$ 53	\$ 49	92	\$ 159	\$ 165	104
Ft. Benning, GA	48	52	108	144	142	99
Ft. Bliss, TX	51	54	106	153	150	98
Ft. Dix, NJ	34	32	94	102	108	106
Ft. Eustis, VA	38	39	103	114	110	96
Ft. Gordon, GA	61	55	90	183	195	107
Ft. Jackson, SC	43	47	109	129	129	100
Ft. Knox, KY	56	53	95	168	163	97
Ft. Rucker, AL	29	35	121	87	89	102
Ft. Sill, OK	32	31	97	96	100	104
Ft. L. Wood, MO	27	27	100	81	93	115
<b>Total</b>	<b>\$725</b>	<b>\$718</b>	<b>99</b>	<b>\$2,175</b>	<b>\$2,393</b>	<b>110</b>

Exhibit 1

ANNEX E

Department of the Army  
Official Mail Cost Analysis

Fiscal Year 19XX

(\$000)

<u>Major Command</u>	<u>Month:</u>			<u>FY To-Date</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Realization %</u>	<u>Budget</u>	<u>Actual</u>	<u>Realization %</u>
HQDA	\$ 250	\$ 295	118	\$ 750	\$ 895	106
TRADOC	725	718	99	2,175	2,393	110
FORSCOM	675	727	108	2,025	2,329	115
DARCOM	930	983	106	2,790	2,874	103
INSCOM	15	17	113	45	45	100
USACC	25	23	92	75	74	98
MTMC	30	40	133	90	105	117
MDW	35	35	100	105	107	102
HSC	40	39	98	120	116	97
USACIDC	15	18	120	45	51	114
USAREC	55	63	115	165	173	105
MILPERCEN	20	22	110	60	67	112
USAWC	10	9	90	30	29	98
USAFHC	75	83	111	225	232	103
<b>Total</b>	<b>\$2,900</b>	<b>\$3,072</b>	<b>106</b>	<b>\$8,700</b>	<b>\$9,390</b>	<b>108</b>

Exhibit 2

ANNEX E

HOUSE APPROPRIATIONS COMMITTEE  
SURVEYS AND INVESTIGATIONS STAFF  
EXTRACTS

"...The Investigation Staff believes that the trend toward positive accountability similar to that taken by the Air Force is in the proper direction and recommends that the Army, the Navy, and the Marine Corps proceed in the same direction as soon as practical. The major benefits from such a program are, first, the sampling error rate can be kept at a minimum, and, second, the availability of real-time data more readily supports the planning process to manage the MPS program. These benefits more than offset the initial and recurring maintenance costs for the system."

(Page VIII, Summary and Operations)

"...Reports of previous hearings and studies on the methods used by the USPS for indicia billing have been open to criticism. The major reasons cited include:

- (a) Wide variation and increase in DOD's indicia mail costs in previous fiscal years.
- (b) Military departments are not satisfied with the length of time it takes to receive the bills subsequent to the close of a quarter.
- (c) Sample data collected at receiving post offices does not accurately reflect actual mailings.
- (d) Reduced sample size resulting from combined use of accountable methods further reduces sample accuracy.
- (e) Analysis of billing data does not disclose cost trends at mailing activities.
- (f) Indicia billings are not a timely reflection on actual costs needed for updating budget estimates."

(Page 58, Preparation of MPS Indicia Mail Costs)

ANNEX F

provide an incentive for cost reduction; however, potential savings were not considered easily measured since use of meters was unrelated to the way DOD is billed by the USPS. During this period the military departments initiated tests to determine the feasibility of using postage meters and concluded that use of postage meters would result in no overall savings and that readily available evidence supported the validity of the current USPS billing system. However, the Air Force found the RFW sampling procedures not to be reliable and adopted the postage meter system."

(Pages 59 and 60, Reliability of Current Procedures)

"...Past analyses conducted by the Army and Air Force of their quarterly indicia bills have uncovered substantial errors in the USPS samples. Based on this possibility, the Navy may be paying unwarranted amounts for postal service by not performing a similar analysis...During FY 1976, the (Army) Postal Directorate constructed a data base of all available Army indicia billings beginning with FY 1973. Historical trends were then established for each of the 22 classes of mail identified in the USPS indicia bill. This trend data was used to evaluate USPS quarterly bills during the execution phase of the FY 1976 and FY 1977 budgets. It was then used to forecast Army indicia requirements for the FY 1978 budget and will be used to forecast the indicia requirements for subsequent fiscal years. An Army official indicated the RFW sampling system was acceptable since the Army has a thorough understanding of its operation. As evidence of its management control over the USPS's sampling system, it was pointed out that, since FY 1973, the Army's indicia mail expenditures have stabilized, and, in fact, decreased.

The Army provided several examples of management control where it felt it had been unjustifiably overcharged by the USPS. These discrepancies were detected by contrasting the actual bill with forecasted volume and cost information. In each of the cases examined, the discrepancy was reconciled and the Army given credit accordingly. The table below shows a representation of the range in discrepancies detected and credits reimbursed the Army:

ANNEX F

"The USPS bills DOD components quarterly for indicia use through its Revenue and Cost Analysis System for estimating revenue, pieces, and weight (RFW). These procedures have been in effect since FY 1973 and provide for sampling of DOD mailings throughout the year at 573 destination post offices. Data obtained is then statistically expanded by the USPS to represent total volume (pieces) and weight by DOD components for a given USPS quarterly billing period. On January 31, 1972, DOD advised the USPS that the results of meetings with DOD components determined the RFW sampling system should be placed into effect. On March 6, 1972, USPS advised DOD that the RFW sampling system would commence with the beginning of FY 1973, and USPS would submit a quarterly bill to the DOD based on the sample results priced out at prevailing rates. The USPS advised the DOD at that time that the sampling system was viewed as an interim program and thereby reserved the right to discontinue this system in favor of a postage meter program, after due consultation and prior notification."

(Page 59, Current Procedures)

"The relative error associated with the RFW sampling system for billing purposes has never been determined with any degree of precision. The reliability of this system was first evaluated by GAO in February 1973. GAO found, at that time, USPS's sampling system was statistically acceptable, but the procedures for collecting data were not always properly followed, in which case erroneous data could enter the system... The USPS believes the relative error for DOD components to be somewhere between 2.8 and 6.4 percent. However, DOD believes otherwise...The Assistant Secretary of Defense (Comptroller) requested the Deputy Comptroller for Audit Operations, OASD, to initiate a review of the USPS RFW sampling system to evaluate its reliability for billing purposes. Results of this effort were published on June 28, 1974, and concluded that although USPS sampling procedures were unreliable for billing purposes by DOD components, they might be within acceptable limits for total DOD mail costs. The audit further concluded that postage meters

ANNEX F

INDICIA CREDITS DUE U.S. ARMY

<u>Fiscal Year</u>	<u>Difference Detected</u>
Third quarter 1976	\$2,976,580
Fourth quarter 1977	187,259
Second quarter 1978	4,039

However, this same official stated it was the Army's position to move towards a system of positive accounting, using meters during the 1980-1985 time frame. The rationale provided to support this position is twofold:

(a) Nowhere in Government does one incur such costs without implementing a positive system of accounting, identifying where and how the funds are being expended.

(b) In every quarter since FY 1976, the indicia mail bill has been contested by the Army. While there has never been a problem to date in rectifying these contentions, it is expected they will be greatly reduced by a system of positive accounting."

"...The (Air Force) budget is primarily based on historical data, most of which is derived from postage meters. A program to establish accountability for official mail was undertaken when the annual payments to the USPS increased from \$12.7 million for FY 1972 to \$28.7 million for FY 1973. The increase came at the same time Congress reduced subsidies and converted the USPS to an independent organization. Final steps by the Air Force to achieve full accountability are being taken this year. Nearly 80 percent of all Air Force mail costs are determined under methods of direct accountability. The Air Force accounts for mail by using a combination of postage meters, permit mail, self-sampling, and small parcel carriers..."

"Air Force postage costs for FY 1977 were \$29.8 million--up only \$1.1 million over FY 1973, or approximately 4 percent. During that same period, postal rate increases have averaged over 64 percent, and U.S. Government postal costs rose 63 percent--from \$374 to \$611 million. According to an Air Force official if they had followed the same trend, its indicia costs would have been over \$46 million in FY 1977--a \$17 million cost avoidance in that year alone. The Investigative Staff believes that if similar extrapolations were applied to the indicia bills of the other services for FY 1977, comparable cost savings could

have been achieved. While these cost savings can be considered intangible, nevertheless they are an indication of what good management through positive accounting could achieve.

Air Force officials advised that cost data available from their accountability program has led them to challenge several USPS billings. For example, starting in FY 1976, the Air Force has thus far disputed \$5.8 million in apparent overcharges. It was learned that the Air Force has been unsuccessful in obtaining the requested backup sampling data from the USPS in order to resolve these bills..."

"...With regard to indicia billing, the Investigative Staff believes that the trend toward positive accountability similar to that taken by the Air Force is in the proper direction and recommends that the Army and the Navy proceed in the same direction as soon as practical. The major benefits from such a program are, first, the error rate can be kept at a minimum, and, second, the availability of real-time data more readily supports the planning process to manage the MPS program. These benefits more than offset the initial and recurring annual maintenance costs for the system."

(Pages 60-65, Indicia Mail Procedures)

Source: HAC S&I Report, dated March 1979.

Subject: Report to the Committee on Appropriations, U.S. House of Representatives, on the Operation and Management of the Military Postal System.

### References

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12. Letter, USPS, 6 August 1974 subject: Estimate of Relative Error of DOD Mail Volume.
13. Letter, USPS, 20 May 1974, subject: Payment for Penalty Mail.
14. Letter, USPS, 17 May 1974, subject: Penalty Mail.
15. Letter, USPS, 5 May 1978, subject: Department of the Army Official Mail Bill—Fourth Quarter, FY77.

ANNEX G

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**ANNEX H**