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AUTOBIOGRAPHICAL SKETCH

My name is Leslie M. Schenk. I am a Senior Economist with Christensen Associates, which is an economic research and consulting firm located in Madison, Wisconsin. I have been employed at Christensen Associates since June, 1995. During my tenure at Christensen Associates, I have worked on many research projects for the U.S. Postal Service.

In 1982 I received a B. A. from SUNY College at Buffalo, with a major in economics and a minor in mathematics. I received an M.A. in economics, and an M.A. in mathematics (with a concentration in statistics) from Indiana University in 1984 and 1986, respectively. In 1995 I received a Ph.D. in economics from Michigan State University.

From 1985 to 1986 I was a research assistant on the economic forecasting modeling project at the Indiana University Business School. There I was responsible for quarterly economic forecasts for industry clients. From 1986 to 1989 I was a demand analyst for Indiana Bell Telephone Company. Among my duties there, I helped prepare analyses for rate case filings before the Public Service Commission of Indiana. I also provided in-house statistical consultation. From 1993 to 1995 I worked as a research assistant at the Institute for Public Policy and Social Research at Michigan State University. My research there was on nonprofit organizations. From 1983 to 1993, I taught numerous economics, business statistics, and mathematics courses.

In this proceeding, R97-1, I gave direct testimony on the cost of counting, rating and billing Business Reply Mail. I also presented testimony

- 1 on the costs of nonletter-size Business Reply Mail in Docket No. MC97-1.
- 2 My research for the Postal Service has also included a number of in-field
- 3 surveys to support Dockets No. MC95-1 and MC96-2.

1 I. Purpose of Testimony

2 The purpose of this testimony is to demonstrate that the hypothesis
3 put forth by witness Haldi (ANM-T-1) in section V. of ANM-T-1,
4 "Misreporting By The IOCS of Standard Mail (A) Entered by Nonprofit
5 Mailers," is without foundation. In that section, Dr. Haldi hypothesizes that
6 the unit cost attributable to nonprofit Standard (A) mail is inflated, due to a
7 failure to calibrate or synchronize nonprofit cost and volume data. Dr. Haldi
8 has, however, failed to prove that there is a significant discrepancy between
9 cost and volume data for nonprofit Standard (A) mail.

10 In calculating the level of "miscalibration," Dr. Haldi relies exclusively
11 on the results of a survey of nonprofit mailers conducted by the Alliance of
12 Nonprofit Mailers (ANM) to make inferences about the universe of nonprofit
13 mailers. Witness Haldi does not, however, provide evidence that the survey
14 respondents are representative of the population of nonprofit mailers. While
15 some of the ANM survey results do show that there are a limited number of
16 instances when mail endorsed as nonprofit paid regular rates, these results
17 cannot be used to make inferences on the population of nonprofit
18 transactions because the survey results have not been shown to be
19 representative of the population. In fact, these results are subject to bias
20 from several sources.

21 In addition, the survey responses do not indicate how the mailings
22 reported by respondents were entered into the Postal Service volume
23 systems, and hence cannot be used in any way to infer that volumes and
24 costs for nonprofit Standard (A) mail are not consistent. As such, one
25 cannot use the estimates developed by Dr. Haldi in his testimony to conclude

1 that "the results of the extensive modeling efforts relied upon by the
 2 Commission and the Postal Service for rate making (has) become unreliable"
 3 (Tr. 22/11811).

4 In fact, I will show that the magnitude of the impact of
 5 inconsistencies between nonprofit Standard (A) volumes and costs is
 6 minimal. As discusses in detail in Section III, there are three ways in which
 7 disqualified nonprofit mail sent at regular Standard (A) rates may have
 8 nonprofit endorsements. These three sources, and the levels of volume
 9 represented by these sources in FY96, are shown in the table below.

Source	Volume
Disqualification after acceptance (recorded in AIC 119)	Negligible impact on volumes
Reversals	6,129,920
Disqualification at acceptance	30,322,965
Total regular Standard (A) volume with nonprofit indicia	36,452,885
PFY96 Regular Standard (A) volume	59,339 million
Percentage of regular rate volumes with nonprofit indicia	0.061%

10 But, there are also circumstances under which mail sent at nonprofit
 11 rates are endorsed are regular rate Standard (A). In PFY96, reversals in the
 12 PERMIT system from regular rate to nonprofit amounted to 12.9 million
 13 pieces. Given this data and the data in the table above, we can calculate the
 14 net amount of IOCS costs that should be in regular Standard (A), but are in
 15 nonprofit Standard (A). These calculations, discussed in Section III, are
 16 summarized below.

	IOCS Costs, FY96 (\$billion)	IOCS Costs, Adjusted to reflect endorsements (\$billion)	Cost Shift (\$billion)
Regular Std. (A)	\$1.024	\$1.0246	\$0.0006
Nonprofit Std. (A)	\$0.228	\$0.2282	\$0.0002
Net IOCS Cost Shift from Nonprofit to Regular Std. (A)			\$0.0004
Percent of Nonprofit IOCS Costs			0.18%

1 The net effect is that \$0.4 million in IOCS costs should be in regular
2 rate, but are in nonprofit. This represents only 0.18 percent of nonprofit
3 Standard (A) IOCS costs, which were \$0.228 million for FY96. This
4 contrasts with Dr. Haldi's estimate that 7.85 percent of mail processing
5 costs have been incorrectly attributed to nonprofit mail. Therefore contrary
6 to what is suggested by Dr. Haldi, no adjustments to nonprofit or regular
7 Standard (A) costs are needed.

8 According to the official rules of mail preparation of the USPS, as
9 described in the Domestic Mail Manual, mail must be endorsed to reflect
10 appropriately the rates being paid. When a nonprofit mailer has not followed
11 the regulations established for content of nonprofit mailings, they must pay
12 regular bulk rates (Standard (A) or First-Class). All bulk Standard (A) mail
13 claimed at regular rates must be endorsed as such, i.e., marked "Bulk Rate".¹
14 The fact that the mailer is not always forced to re-endorse the mail in this
15 circumstance is an accommodation that has been extended to mailers by the

¹ Or the abbreviation "Blk. Rt.," according to the Domestic Mail Manual, Issue 49 (09-01-95), Section M302.

1 USPS to facilitate timely service to these customers. When a mailing is
2 disqualified for nonprofit rates after the mail has entered the mailstream or
3 after it has been delivered, re-endorsing all mail pieces in the disqualified
4 transactions is not feasible, nor is it feasible to identify and change the IOCS
5 tallies that reflect this mail, if any.

6 The USPS does not dispute the fact that, in some circumstances,
7 nonprofit mailers will pay regular Standard (A) rates for a mail piece with
8 nonprofit indicia on it, and that, if sampled, the piece would be recorded as a
9 nonprofit mail tally in IOCS. However, as will be demonstrated below, these
10 instances are infrequent. In addition, as will be demonstrated here,
11 disqualified nonprofit mailings frequently remain recorded in the volume
12 systems as nonprofit Standard (A). In these cases, volumes are consistent
13 with costs.

14 In the next section, an analysis of the sample methodology used in
15 the ANM survey will demonstrate the degree to which it does not comply
16 with standard statistical methodology, and the sources of bias that lead me
17 to question how representative the ANM survey respondents are of the
18 universe of nonprofit mailers. In Section III, I discuss the extent to which
19 volumes and IOCS tallies are not consistent when a nonprofit mailing is ruled
20 ineligible for nonprofit rates, and I show this amount to be minimal. A
21 summary of the findings and recommendations is found in Section IV.

22 II. Analysis of The Methodology Used in the ANM Survey

23 The ANM survey results are, at best, biased anecdotal instances of
24 mailings paying regular rates but sent with nonprofit indicia in FY96. The

1 results of the survey do not represent the population of nonprofit mailers
2 because standard survey procedures for statistical sampling were not
3 followed. As even witness Haldi admits, "For a fully representative survey,
4 one would need a random sample of the entire universe of mailers that
5 entered mail at nonprofit rates in FY1996" (Tr. 30/16410). Because the
6 ANM survey results were not generated from a random sample of nonprofit
7 mailers, nor developed from a survey designed using supportable statistical
8 methodology, no inference from the survey results can be used to develop
9 inferences on the population of nonprofit mail as a whole.

10 In addition, the ANM survey responses do not indicate how the
11 volumes for these mailings were recorded in Postal Service databases.
12 Therefore, the ANM survey responses cannot be relied upon to give
13 estimates of the degree to which the volume and cost data systems for the
14 universe of nonprofit mailers are not consistent.

15 A. Appropriate Statistical Survey Methodology Was Not Used in ANM's
16 Survey

17 In this section, it will be shown that the ANM survey was not
18 conducted using standard statistical survey methodology. The sample was
19 not a random sample of nonprofit mailers, since only ANM members (or
20 members of affiliate organizations) were sampled. It will be shown that
21 biased estimates result because inflammatory wording was used on the
22 survey form, and no attempt was made to control for non-response bias.
23 The survey results were used to infer behavior of the universe of nonprofit

1 mailers in subsequent analysis by witness Haldi, without any analysis of the
2 representativeness of the ANM survey responses.

3 The ANM surveys were originally sent out only to ANM member
4 organizations (USPS/ANM-T1-42). Nowhere is it shown that ANM members
5 are representative of the population of nonprofit mailers as a whole (e.g., do
6 most small local churches belong to ANM). If one were trying to estimate
7 the median income in the U.S., a sample consisting of only residents of
8 Beverly Hills, CA would not be a representative sample, and the estimate of
9 median income from that sample would be biased.

10 For sample instrument design, the proper technique is to draft the
11 survey form so as not to divulge the purpose behind the survey, in an effort
12 to elicit unbiased and representative responses. The wording of the ANM
13 survey is such that a biased response is more likely. The first paragraph of
14 the memo to ANM members that constitutes the survey includes the
15 following: "the ongoing postal rate case litigation before the Postal Rate
16 Commission threatens to hit nonprofit Standard A mailers with substantial
17 increases...could be as high as 15-18%" (Tr. 22/11833). In the second
18 paragraph, it reads "In order to best protect your interests and the interests
19 of your colleagues in this critical coalition..." A member of ANM receiving
20 this survey, and not having had any mailings that were disqualified for
21 nonprofit rates, would, quite logically, be likely to perceive that it is not in
22 the best interests of ANM for them to report "negative" results, and so
23 would be disinclined even to respond to the survey.

24 Mail surveys often suffer from the problem of non-response or self-
25 selection bias. Typically when conducting a survey by mail, or, as in this

1 case, by facsimile, multiple attempts must be made to get a response rate
2 that is high enough to provide statistically significant results, and to reduce
3 self-selection bias. ANM made no attempt to follow-up on non-respondents
4 (Tr. 30/16410). The response rate (for the revised survey responses, dated
5 February 2, 1998) was, at most, only 15 percent of all surveyed (the total
6 number of nonprofit organizations surveyed is unknown, but considered by
7 Dr. Haldi to be higher than the 700 who originally received surveys from
8 ANM (Tr. 22/11,869)). A 15 percent response rate is considerably lower
9 than what is generally considered necessary to produce statistically valid
10 estimates.

11 Mail surveys typically produce biased results, unless certain measures
12 are taken (such as following up on non-respondents) to ensure non-biased
13 responses. ANM does not report any analysis done that demonstrates that
14 the respondent group for its survey was representative of the universe of
15 nonprofit mailers. Dr. Haldi relies on these (untested) results to make
16 inferences on the universe of nonprofit mailers.

17 Dr. Haldi claims that, since responses came from all major geographic
18 areas (a term that is undefined in his testimony), the survey results show
19 that "the phenomenon of using nonprofit evidencing on Standard Mail (A) is
20 indeed widespread" (Tr. 22/11812). There is a fallacy in Dr. Haldi's
21 argument, since geographic dispersion of a phenomenon does not imply
22 magnitude of that phenomenon. Airline crashes occur all over the world, yet
23 one cannot use that fact to imply that the chances of an airplane crash are
24 so great that one should avoid air travel.

1 While nonprofit organizations in the U.S. may be geographically
2 dispersed, originating nonprofit Standard (A) mail is concentrated in the
3 Midwest and East, since many nonprofit organizations use mailing houses
4 and large printing firms in these areas to prepare their mailings. Also, there
5 is no *a priori* reason to believe that acceptance and accounting practices vary
6 across facilities in the Postal Service, since both practices are governed by
7 national rules. Therefore, Dr. Haldi's claim that the geographically
8 representative ANM survey responses indicate that the phenomenon in
9 question is "widespread" is unjustified.

10 Other criteria that should have been used in this case would include
11 whether average transaction size, and type of mailing (e.g., indicia used) are
12 similar between survey respondents and the universe of nonprofit mailers.

13 Given the data available from the ANM Survey responses, it is
14 impossible to tell whether the respondents are representative of the
15 population of nonprofit mailers. The survey responses provided in ANM-LR-
16 1 do indicate that at least one-third of survey responses were received from
17 members of the American Association of Museums; it is highly unlikely that
18 one-third of all nonprofit Standard (A) volumes are associated with this
19 group.

20 B. Analysis of ANM Survey Responses

21 In developing his estimate that 7.85 percent of all mail processing
22 tallies are incorrectly attributed to nonprofit Standard (A) mail, Dr. Haldi uses
23 the "conservative" estimate that at least two-thirds of mail owned by
24 nonprofit mailers paying commercial rates had nonprofit evidencing of

1 postage paid. This two-thirds estimate was based on the ANM survey
2 results.

3 Not only was this two-thirds estimate developed from a non-
4 representative sample, as described above, but some of the ANM survey
5 responses were simply misinterpreted or recorded incorrectly. In addition,
6 over one-third of all responses were provided on a different survey form than
7 the one described by Dr. Haldi and attached to his testimony (compare Tr.
8 22/11833-34 to ANM-LR-1, Forms 29 and 69-108).

9 I have performed an analysis of the survey responses provided by
10 ANM in their library reference (ANM-LR-1); this analysis is described in
11 Appendix A, and summarized in the table below. As shown in this table,
12 there were 71 surveys where either a different survey form was used, or
13 mistakes had been made in reporting the results in Exhibit ANM-T1-1.

Survey Problem	Number of Survey Responses
Used the second (less detailed) survey form	45
Survey responses not recorded correctly	26
Two responses reported on one form	22
Total	93

14 Of the 108 "responses" received by ANM, 45 are on a second (less
15 detailed) survey form. This second survey form did not explicitly ask for
16 information on how the disqualified nonprofit mail paying regular rates was
17 endorsed. Given that the questions on the second survey form are worded
18 much differently than the first, this second form really constitutes a much
19 different survey instrument, and so the results from the two surveys should
20 not be combined into one estimate.

1 For 26 of the survey responses, the data recorded in Exhibit ANM-T1-
2 1 did not match the answers provided on the survey forms (provided in
3 ANM-LR-1). Most of these 26 survey responses indicated that the mail sent
4 regular rates was entered "with a nonprofit permit" (question 2b), but also
5 indicated that the indicia used on the mailpiece was for regular rate (question
6 2c). But this clearly indicates that, for these respondents, their mail was
7 endorsed at the rate that the mail was sent. For these 26 responses, the
8 results reported in Exhibit ANM-T1-1 (upon which Haldi bases his analysis)
9 erroneously show there to be the potential² for a discrepancy between the
10 volume and cost systems, where clearly no discrepancy exists.

11 Twenty-two of the 108 "responses" are marked with two numbers on
12 a single response form. Nothing in ANM-LR-1 indicates any reason for this;
13 the double numbering does not appear to correspond to mailers who mailed
14 at both commercial and nonprofit rates. Given that ANM-LR-1 was not filed
15 until February 26, 1998, there has not been sufficient time to explore this
16 issue further.

17 Exhibit 1 in Appendix A shows the original results of the ANM survey,
18 as provided in Exhibit ANM-T1-1, as well as the errors found, based on my
19 analysis of the original survey responses.

² Given that the ANM Survey does not obtain information on how volumes for these mailings were recorded in Postal Service data systems, the ANM Survey results cannot be used to determine whether the costs and volumes for these mailings are inconsistent.

1 III. The Limited Extent To Which Nonprofit Volumes and Costs Are Not
2 Consistent

3 The ANM survey responses that are the basis for Dr. Haldi's estimate
4 of the percent of mail processing tallies that are incorrectly attributed to
5 nonprofit Standard (A) mail do not provide information on how the
6 disqualified mailings reported were entered into the Postal Service volume
7 systems. Therefore, the degree to which the volumes and costs for
8 nonprofit mail are not consistent cannot be determined from the ANM survey
9 responses.

10 In this section, I will demonstrate that the degree to which nonprofit
11 IOCS costs are overstated because volumes and costs are inconsistent is
12 less than two-tenths of one percent. Therefore, the degree to which volume
13 and costs are inconsistent is much less consequential to the development of
14 nonprofit costs than Dr. Haldi's testimony would have the Commission
15 believe.

16 A. Disqualification After Acceptance

17 Nonprofit mailings can be disqualified for nonprofit rates after
18 acceptance, and even after delivery, if a determination is made that the
19 mailing contents did not follow the official guidelines for nonprofit mailings.
20 These determinations are made generally by postal employees or Postal
21 Inspection Service personnel, although problems can also be brought to the
22 attention of the Postal Service by mail recipients. These instances are
23 infrequent in occurrence, and do not result in a discrepancy between the

1 volume and costing data, given the official accounting practices of the Postal
2 Service (see pages 7-8 above).

3 As the Postal Service provided in its response³ to ANM/USPS-28,
4 when a revenue deficiency is identified⁴, the official USPS accounting
5 procedure is for the revenue deficient amount to be recorded in revenue
6 account 41511, Revenue Postage Other (AIC 119, "Revenue Deficiency
7 Found"), with an offset to an Accounts Receivable, general ledger account
8 13412 (AIC 814, "Suspense"). The recording of the account receivable in
9 AIC 814 is made at the same time the revenue deficiency is booked into AIC
10 119, since the USPS follows a standard double entry accounting system.
11 When payment is received for the revenue deficiency, it is debited to general
12 ledger account 11211 (AIC 802 "Cash Received"), with a corresponding
13 credit made to accounts receivable account 13412, AIC 814.

14 Any revenue deficiencies recorded in AIC 119 and payments
15 subsequently debited to AIC 802 are not also recorded into a PERMIT system
16 revenue account, since that would result in double recording of revenue.
17 There is no shifting of volumes between nonprofit and regular rate categories
18 when the revenue deficiency is recorded in AIC 119, since the original entry
19 in the PERMIT system is not changed. The disqualified nonprofit mail
20 volumes remain in the Postal Service volume and revenue systems as
21 originally recorded in the PERMIT system (i.e., as nonprofit Standard (A)),

³ This interrogatory response is included as Appendix C to my testimony. Initially provided as an institutional Postal Service response to a discovery request, it was prepared by me, and I am prepared to respond to questions regarding it. I hereby adopt it as part of my testimony.

1 which is how the pieces for that mailing are endorsed. The adjustments
2 made in AIC 119 are reflected in overall RPW revenue control for stamped
3 and metered mail.

4 AIC 119 includes all revenue deficiencies, not just those associated
5 with nonprofit disqualifications. Revenue deficiencies associated with
6 transactions where nonprofit Standard (A) mail was ruled ineligible for
7 nonprofit rates cannot be isolated without extensive examination at each
8 postal site reporting individual transactions in AIC 119. As reported in
9 Appendix C, the overall level of revenue in AIC 119 in FY96 was \$12.8
10 million, which is 0.04 percent of total stamped and metered revenue in
11 FY96. This shows that the impact of disqualified nonprofit mailings
12 accounted for through AIC 119 on nonprofit and regular Standard (A)
13 revenues through the BRAF adjustment is negligible.

14 Accounting for revenue deficiencies due to disqualified nonprofit
15 mailings through AIC 119 (and its associated accounts) does not cause any
16 change in permit imprint volumes. Permit imprint volumes account for 82
17 percent of all nonprofit Standard (A) volumes.

18 Dr. Haldi cites 79 Revenue Investigations against nonprofit
19 organizations, but the cases he cites were those reported to the Postal
20 Service by the Inspection Service in FY97, not necessarily for mailings
21 originally sent in FY96. But regardless, disqualifications as a result of
22 Revenue Investigations will not result in changes made to nonprofit Standard

⁴ As would occur in the case when a mailer sends a mailing at nonprofit rates, and it is subsequently assessed regular rates.

1 (A) volumes, since the revenue deficiencies will be accounted for in AIC
2 119.

3 On rare occasions, another procedure is used for accounting for
4 disqualified nonprofit transactions. In some cases, when a nonprofit mailing
5 is ruled ineligible soon after the transaction has already been recorded in the
6 PERMIT system (as nonprofit mail, using Form 3602-N), the original entry
7 will be netted out, and the same volumes (but new, higher revenues) will be
8 recorded in PERMIT under a Form 3602-R (i.e., as regular Standard (A) rate
9 mail). This procedure is sometimes known as a "reversal."

10 Reversals can be done for many reasons, in addition to accounting for
11 disqualified nonprofit Standard (A) transactions. This procedure was
12 developed, and is most commonly performed, to correct data entry errors in
13 the PERMIT system. Reversals are also done when a customer has paid for
14 a nonprofit transaction out of their regular rate trust account because their
15 nonprofit trust account had insufficient funds, and then later deposits
16 sufficient funds in the nonprofit account to cover the transaction.

17 The overall impact of reversals in the PERMIT system is minimal:
18 using FY96 PERMIT system transaction-level data (as reported in
19 ANM/USPS-28, see Appendix C), an estimated 6.1 million pieces were
20 moved from nonprofit to regular rate⁵. This represents only 0.05 percent of
21 all nonprofit Standard (A) volumes (12,439.6 million pieces in FY96). Given
22 that the most common (and intended) use of the reversal procedure is to
23 correct for data entry errors, the estimate of the percentage of nonprofit

⁵ A source code listing for the analysis of reversals is provided in Appendix D.

1 volumes that are switched to regular rate in PERMIT is considerably less than
2 this 0.05 percent.

3 This section demonstrates that the total level of changes in volumes
4 due to nonprofit transactions ruled ineligible for nonprofit rates after
5 acceptance is negligible. The following section will discuss how these
6 changes may come about.

7 **B. Disqualification During Acceptance**

8 Nonprofit mailings can be disqualified for nonprofit rates during mail
9 acceptance procedures, if a determination is made that the contents of the
10 mailings do not follow accepted guidelines for nonprofit mailings.

11 The only available means to determine the degree to which nonprofit
12 mailings disqualified during acceptance are mailed at regular rates with
13 nonprofit indicia are "disqualification logs," which may be maintained by
14 acceptance units. This information, usually recorded on Form 8075, is not
15 available in a central database. Only hardcopy forms are kept, and are not
16 always available for years previous to the most recently completed fiscal
17 year, as many sites discard the logs after one year.

18 In order to get some measure of the degree to which nonprofit
19 transactions disqualified during acceptance pay regular rates but get sent
20 with nonprofit indicia, Christensen Associates (LRCA) undertook a survey of
21 30 acceptance sites, selected from the universe of sites with bulk permit
22 imprint nonprofit Standard (A) revenues for FY96, as reported in the FY96
23 Trial Balance. This survey is described in detail in Appendix B.

1 As demonstrated by the results of the LRCA survey, reported in
2 Appendix B, nonprofit mailings were infrequently disqualified for content
3 reasons and mailed at regular rates, even in FY96 (in early FY96 the Postal
4 Service issued Publication 417, which explained the restrictions on content
5 of nonprofit mailings). By the second quarter of FY96, the sample sites
6 contacted reported that their nonprofit mailers or mailing agents had become
7 sufficiently familiar with the new rules, so that compliance increased
8 dramatically⁶. In fact, most sites reported that Q2-Q4 FY96 were no
9 different, in terms of the number and volumes of disqualifications, than FY97
10 or FY98 to date.

11 When a nonprofit mailing (endorsed nonprofit) is disqualified during
12 acceptance, and is mailed at regular rates, it is recorded using Form 3602-R.
13 Therefore, for permit imprint mail, there would be a resulting discrepancy in
14 these infrequent cases between volumes and costs. For stamped and
15 metered mail, volumes were taken from the domestic probability sample in
16 FY96. Since both volumes and costs for this mail were based on sample
17 data, there would be no discrepancy between volumes and costs for FY96.

18 From LRCA survey results, I estimate that the volume of mail bearing
19 nonprofit indicia that was disqualified for nonprofit rates during acceptance
20 and paid regular rates is only 0.4 percent of all nonprofit volume, as
21 discussed in Appendix B.

⁶ Even during the first quarter of FY96, when more disqualifications were recorded, sites reported that they did not force mailers to change indicia on disqualified mailings as an accommodation to help mailers adjust to the new rules.

1 C. Entry At Commercial Rates

2 There is only one circumstance under which mail endorsed as
3 nonprofit is allowed to be entered by the mailer at regular rates (i.e., when
4 not allowed just as an accommodation to the mailer). This is the case where
5 the mail is sent pending approval or reapproval for nonprofit rates. In these
6 circumstances, once nonprofit rates are approved, a reversal is usually
7 recorded in the PERMIT system, and so the volumes and costs are both
8 recorded as nonprofit, and no inconsistency exists. In this case, the original
9 mail is sent with regular rate indicia, so costs would be underestimated for
10 nonprofit Standard (A), since volumes are credited to nonprofit mail while the
11 costs are credited to regular Standard (A) mail. In FY96, as reported in
12 Appendix C, the transaction-level data shows that an estimated 12.9 million
13 pieces were moved from regular rate to nonprofit, which represents 0.1
14 percent⁷ of all nonprofit Standard (A) volume.

15 There are also cases where reversals from regular rate to nonprofit are
16 done. When a mailing is disqualified for nonprofit rates during acceptance
17 (and is therefore entered into PERMIT using Form 3602-R) and later is ruled
18 eligible for nonprofit rates on appeal, sites have used the option of
19 accounting for this change through a reversal, where the original Form 3602-
20 R is netted out, and a new Form 3602-N is recorded. In this case, there is
21 no inconsistency between volumes and costs, since both are recorded as

⁷ In fact, more than twice as many pieces were reversed from regular Standard (A) rates to nonprofit rates in FY96 (12,934,452 pieces), than were reversed from nonprofit Standard (A) rates to regular rates (6,129,920).

1 nonprofit.

2 D. Effect of Disqualified Nonprofit Mail on IOCS Costs

3 As discussed above, there are three ways in which disqualified
 4 nonprofit mail sent at regular Standard (A) rates may have nonprofit
 5 endorsements. These three sources, and the levels of volume represented
 6 by these sources in FY96, are shown in the table below.

Source	Volume
Disqualification after acceptance (recorded in AIC 119)	Negligible impact on volumes
Reversals	6,129,920
Disqualification at acceptance	30,322,956
Total regular Standard (A) volume with nonprofit indicia	36,452,876
PFFY96 Regular Standard (A) volume	59,339 million
Percentage of regular rate volumes with nonprofit indicia	0.061 %

7 Therefore, the IOCS costs that should be in regular rate Standard (A),
 8 but are in nonprofit (because the mail was endorsed nonprofit) are:

$$\frac{IOCS \text{ reg. Std. (A) (FY96)}}{[1 - \% \text{ reg. Std. (A) with NP indicia}]} - IOCS \text{ reg. Std. (A) (FY96)} =$$

$$\left[\frac{1.024}{1 - 0.0006} \right] - 1.024 = 1.0246 - 1.024$$

\$0.0006B

9 The \$1.026 billion represents the amount of IOCS regular Standard
 10 (A) costs in FY96, if the pieces with nonprofit indicia but paying regular rates

1 had been identified as regular bulk rate pieces in IOCS tallies (assuming all
2 such pieces would have been sampled in IOCS).

3 But, as discussed above, there are also circumstances under which
4 mail sent at nonprofit rates are endorsed as regular rate Standard (A). In
5 FY96, reversals in the PERMIT system from regular rate to nonprofit
6 amounted to 12.9 million pieces, which is 0.1 percent of PFY nonprofit
7 Standard (A) volume. Given this, the IOCS costs that should be in nonprofit
8 Standard (A), but are in regular rate (because the mail was endorsed regular
9 rate) are:

$$\frac{IOCS \text{ Nonprofit Std.}(A)(FY96)}{[1 - \%NP \text{ with reg. rate indicia}]} - IOCS \text{ Nonprofit Std.}(A)(FY96) =$$

$$\left[\frac{0.228}{1 - 0.001} \right] - 0.228 = 0.2282 - 0.228$$

$$\$0.0002B$$

10 The \$0.2282 billion represents the amount of IOCS nonprofit
11 Standard (A) costs in FY96, if the pieces with regular bulk rate indicia but
12 paying nonprofit rates had been identified as nonprofit pieces in IOCS tallies
13 (assuming all such pieces would have been sampled in IOCS).

14 The net effect is that \$0.4 million in IOCS costs should be in regular
15 rate, but are in nonprofit. This represents only 0.18 percent of nonprofit
16 Standard (A) IOCS costs, which were \$0.228 billion for FY96. This contrasts
17 with Dr. Haldi's estimate that 7.85 percent of mail processing costs have
18 been incorrectly attributed to nonprofit mail. Therefore contrary to what is

1 to what is suggested by Dr. Haldi, no adjustments to nonprofit or regular
2 Standard (A) costs are needed.

3 IV. Summary

4 Dr. Haldi estimates that 7.85 percent of all bulk rate mail volume
5 paying regular Standard (A) rates was endorsed as nonprofit. This estimate
6 is based on misreported survey responses, and is subject to multiple sources
7 of bias. Evidence from transaction-level PERMIT data, Postal Service
8 accounting data, and acceptance logs at representative acceptance sites,
9 show that the net effect of disqualified nonprofit mailings is that \$0.4 million
10 in IOCS costs should be in regular rate, but are in nonprofit Standard (A).
11 This represents only 0.18 percent of nonprofit Standard (A) IOCS costs. Dr.
12 Haldi's 7.85 percent estimate is a gross exaggeration of the extent to which
13 nonprofit volumes and costs may not be consistent. Because the degree to
14 which nonprofit mail processing tallies are inconsistent with nonprofit
15 volumes is much less significant than surmised by Dr. Haldi, his suggested
16 adjustment to nonprofit costs is not warranted.

APPENDIX A – ANALYSIS OF ANM SURVEY RESPONSES

The survey responses filed by ANM in ANM-LR-1 clearly show that there were a number of instances where responses were summarized incorrectly. In addition, a different survey form was used for over one-third of the respondents. Also, there were apparently a number of cases where two responses were recorded on the same form. Below, we discuss our analysis of the ANM survey findings.

A number of responses where the mailer indicated using a nonprofit permit for mail entered at the Standard (A) regular rates (question 2b., on the ANM form) were reported in Exhibit ANM-T1-1 (revised 2-9-98) as being pieces entered with nonprofit Standard (A) indicia. However, question 2c addresses the issue of how a piece was endorsed (what postal indicia was used), not question 2b. Mailers can use a nonprofit permit (i.e., a nonprofit trust account) to pay for a regular rate mailing (which would get entered into the PERMIT system as regular rate), while having the piece (correctly) endorsed regular Standard (A) bulk rate.

For a number of responses, the answers given were unclear. For example, a number of mailers reporting that there were mailings entered at nonprofit rates that were later determined not to qualify for nonprofit rates (question 5 on the ANM form), also indicated that assessments were still under appeal. Without contacting survey respondents to clarify responses, it is impossible to tell if volumes reported in question 8 for these respondents included volumes still under appeal.

For survey responses 29, and 69-108, a different survey form was used than for the other responses. On the second survey form (those

1 apparently sent from the American Association of Museums (AAM) to their
2 member organizations), no direct questions were asked concerning the
3 endorsement of the mail under investigation. Questions 3 and 4 from that
4 form are (emphasis from original):

5 3) During 1996, how many mailings and at what volume did you
6 choose to send at the COMMERCIAL Standard A (bulk) rate (i.e.,
7 not the nonprofit rate)?

8 4) During 1996, how many mailings and at what volume did you
9 attempt to mail at the nonprofit bulk rate, but were forced by the
10 USPS to send at the COMMERCIAL Standard A (bulk) rate (i.e.,
11 not the nonprofit rate)?

12 These questions asked respondents to provide the number of mailings and
13 number of pieces that applied. Nowhere in these questions are respondents
14 asked to report what endorsements or indicia were on the mailings in
15 question. It is not clear from the wording in question 4 whether the mailings
16 reported were disqualified during acceptance or after acceptance. This
17 distinction is important, because mailings disqualified during acceptance are
18 accounted for differently than mailings disqualified after acceptance, and
19 hence volumes will be recorded differently. Given how differently the
20 questions are worded on each version of the survey, it would not be logical
21 to combine the results from these essentially different surveys.

22 Exhibit USPS-RT2²-1 gives the corrected survey responses. In
23 column 3, the reason for the correction (if any) is noted. Of the 108
24 "responses" received, 45 are on the less detailed (AAM) survey form, and 26
25 have entry errors.

1 Twenty-two of the 108 “responses” are marked with two numbers on
2 a single response form. Nothing in ANM-LR-1 indicates any reason for this;
3 the double numbering does not appear to correspond to mailers who mailed
4 at both commercial and nonprofit rates.

Exhibit USPS-RT2-1: Analysis of ANM Survey Responses

(Shading indicates revised responses or responses that could not be determined, given the information available)

Permit Mailer used	How Shown	Correction or problem	RR Standard(A) Postage Paid Originally (on disqualified NP mail) Pieces		NP Std(A) Postage Originally Paid Pieces on which RR Std(A) rates were later assessed	
			Entered with RR Std (A) Indicia	Entered with NP Std (A) Indicia		
1 NP	Indicia	?: Question 9 > Question 8				15,000
2 REGULAR	Indicia		50,000			
3 NP	Indicia		22,291			
4 NP	Indicia/Meter					
5 NP	Indicia/Meter					
6 NP	Indicia	?: 1 million include appeals?				1,000,000
7 NP	Indicia	Response recorded wrong		5,300,000		
8 NP	Meter	A	15,000			
9 NP	Indicia/Meter	A	45,641			6,050
10 NP	Meter	A	2,726			
11 NP	Indicia/Meter	A	25,000			
12 NP	Indicia/Meter	A (for some or all of 1,200 ?)	?	?		
13 NP	Indicia	?: 500 include appeals pending?				500
14 NP	Indicia/Meter	C		?	?	
15 NP	Indicia	Both np and reg indicia used	?	?		
16 REGULAR	Indicia	Both np and reg indicia used	?	?		
17 REGULAR	Indicia		30,000			
18 REGULAR	Indicia	Combined with #19	2,100			
19 NP	Indicia	Combined with #18				560
20 REGULAR	Indicia	Both np and reg indicia used	?	?		
21 NP	Indicia					400,000
22 NP	Indicia/Meter	A	102,170			
23 NP	Indicia	Both np and reg indicia used Different form (NFN), didn't ask about indicia, but implied reg. indicia	?	?		5,000
24 NP	Indicia		15,000			
25 REGULAR	Indicia		15,000			
26 NP	Indicia	No volumes reported as disqualified (still on appeal)			?	
27 NP	Indicia	7,800 originally reported is for FY97			0	
28 NP	Indicia	B				
29 NA	NA	B				
30 NP	Meter	A	100,000			
31 NP	Indicia/Meter					
32 NP	Indicia	B				
33 NP	Indicia	B				
34 NP	Indicia	B				
35 NP	Indicia	Appeal pending?				65,000
36 NP	Indicia					
37 NP	Indicia	D	?	?		
38 NP	Indicia			23,578		
39 REGULAR	Meter		26,000			
40 REGULAR	Indicia/Meter		40,000			
41 REGULAR	Indicia/Meter		30,000			
42 NP	Indicia	B				620
43 NP	Indicia	Response on endorsement is vague	?	?		
44 NP	Indicia			2,900		
45 REGULAR	Indicia/Meter		20,000			
46 NP	Indicia	No volume given for Q8 Both np and reg indicia used; response recorded wrong			?	
47 NP	Indicia			10,000		0
48 NP	Indicia					200,000
49 NP	Indicia			35,000		
50 NP	Indicia	Response recorded incorrectly		70,000		0
51 NP	Indicia	Both np and reg indicia used	?	?		
52 REGULAR	Indicia	D	10,000			
53 NP	Indicia					2,000
54 REGULAR	Meter		3,000			
55 NP	Indicia			500,000		
56 NP	Indicia					2,200

				RR Standard(A) Postage		NP Std(A) Postage	
				Paid Originally		Originally Paid	
				(on disqualified NP mail)			
				Pieces	Pieces		
Permit	Entered with	Entered with	Pieces on which				
Mailer used	RR Std (A)	NP Std (A)	RR Std(A) rates				
How Shown	Indicia	Indicia	were later assessed				
Correction or problem							
57 NP Indicia	B						
58 REGULAR Indicia	Combined with #59; B						
59 NP Indicia	Combined with #58; B						
60 NP Indicia	Response recorded incorrectly				500		0
61 NP Indicia							30,000
62 REGULAR Indicia	147,616						
63 NP Indicia		200,000					
64 REGULAR Meter	D			2			
65 NP Indicia							600
66 NP Meter		10,000					
67 NP Indicia							15,000
68 NP Indicia	B						
69 NA NA	B						
70 NA NA	B						
71 NA NA	B						
72 NA NA	B						
73 NA NA	B						
74 NA NA	B						
75 NA NA	B						
76 NA NA	B						
77 NA NA	B						
78 NA NA	B						
79 NA NA	B						
80 NA NA	B						
81 NA NA	B						
82 NA NA	B						
83 NA NA	B						
84 NA NA	B						
85 NA NA	B						
86 NA NA	B						
87 NA NA	B						
88 NA NA	B						
89 NA NA	Combined with #90; B						
90 NA NA	Combined with #89; B						
91 NA NA	B						
92 NA NA	Combined with #93; B						
93 NA NA	Combined with #92; B						
94 NA NA	Combined with #95; B						
95 NA NA	Combined with #94; B						
96 NA NA	B						
97 NA NA	Combined with #98; B						
98 NA NA	Combined with #97; B						
99 NA NA	Combined with #100; B						
100 NA NA	Combined with #99; B						
101 NA NA	B						
102 NA NA	B						
103 NA NA	B						
104 NA NA	B						
105 NA NA	B						
106 NA NA	B						
107 NA NA	Combined with #108; B						
108 NA NA	Combined with #107; B						

Legend:

- A Indicia was regular Standard (A), not nonprofit
- B AAM survey
- C Responses blotted out

APPENDIX B – LRCA SURVEY DESCRIPTION AND RESULTS

The only information available to determine the degree to which nonprofit mailings disqualified during acceptance are mailed with nonprofit indicia, but pay regular rates, are “disqualification logs” maintained by acceptance units. This information, usually recorded on Form 8075, is not available in a central database. Only hardcopy forms are used, and are not always available for years previous to the most recently completed fiscal year, since many sites discard the logs after one year. In order to determine the degree to which nonprofit transactions disqualified during acceptance pay regular rates but have nonprofit indicia, LRCA undertook a survey of postal sites accepting bulk nonprofit Standard (A) mail.

A. Survey Methodology

The universe of all postal sites accepting bulk nonprofit Standard (A) mail, as determined by those facilities with positive bulk permit imprint nonprofit Standard (A) mail in FY96, was divided into two strata.

From the strata with the top 20 sites (the 20 sites with the highest bulk permit imprint nonprofit Standard (A) revenue in FY96), we selected all 20 sites with certainty. We selected all sites in this strata to survey, because, *a priori*, we expected that there will be more variance in experiences for the larger sites, since they will have a more variable mailer population (in terms of mailing sizes) than sites with less nonprofit revenue. That is, these sites will have very large mailers, as well as small mailers. Fourteen of the twenty sites in this strata responded to our survey by March

1 6, 1998. Ten of these sites were able to provide information on acceptance
2 activity.

3 From the second strata, containing all other sites, we selected 10
4 sites to sample, where the sites were selected with probability proportional
5 to size (revenue). All but one of the sites in this second strata were able to
6 provide us information on disqualified nonprofit Standard (A) mailings in
7 FY96. At this tenth site, all personnel now working in the acceptance unit
8 had been there less than six months, and the FY96 logs had not been
9 retained.

10 A source code listing for the sample selection process is provided in
11 Appendix D.

12 A letter explaining the survey, and a list of survey questions, was
13 faxed to each sample site's Manager of Business Mail Entry (these
14 documents are reproduced below). The BME Manager was instructed to
15 select someone in their facility knowledgeable about acceptance and
16 accounting procedures for nonprofit transactions in FY96. Personnel from
17 LRCA called the designated contact at each site, and conducted a telephone
18 interview, with the questions previously faxed to the site as a guideline for
19 the discussion. This survey was conducted February 25, 1998 – March 13,
20 1998.

21 The acceptance logs for FY96 were not available at all sample sites.
22 In these cases, survey respondents were asked to provide information on
23 disqualified nonprofit mailings for the most recently completed accounting
24 period (AP5), and for FY97 (if those logs were still available). The
25 respondents were then asked to characterize FY96 activity in comparison to

1 these other two periods. Since there was a change in content rules for
2 nonprofit mailings that was first enforced in FY96, this period of time was
3 memorable for the personnel we surveyed, and so they were able to provide
4 information on acceptance activity for FY96.

5 No standard errors or confidence limits are provided for the estimates
6 presented here, as time constraints prevented bootstrapping of standard
7 errors before filing of testimony. However, it should be noted that the
8 survey sites are representative of the universe of sites accepting nonprofit
9 bulk permit imprint Standard (A) mail, given the sample design and high
10 response rate. Respondent sites reported very similar experiences with
11 acceptance of nonprofit mailings, lending credence to the conclusion that the
12 results reported here represent the typical experience of acceptance units
13 concerning nonprofit mailings.

14 15 B. Survey Results

16 The most common comment of respondents concerning nonprofit
17 mailings in FY96 was that there were more disqualifications for content
18 violations in the first quarter of FY96, and then the disqualification rate
19 tapered off significantly for the rest of FY96. Postal personnel credit a good
20 working relationship with local mailers as the key to making the transition to
21 the new rules as smooth as possible. Mailing agents (printers, mailing
22 houses, and mail consolidators) were especially diligent about adapting to the
23 new rules quickly, so that they could provide good service to their own
24 customers. Mailing agents, who generally handle higher volume transactions
25 than individual mailers, also tended to return disqualified mail to the mail

1 owner, rather than send it through at regular rates. But even many smaller
2 nonprofit mailers (e.g., local churches or scout groups) chose to rework their
3 disqualified mailings, rather than pay the (higher) regular rates, since many of
4 them can use volunteers to prepare mailings.

5 To determine how much nonprofit mail disqualified during acceptance
6 paid regular rates but was endorsed nonprofit, I used the results of our
7 survey of acceptance sites. Sites reported the volumes associated with
8 disqualified mailings for FY96. One site reported revenue deficiencies for the
9 disqualified mailings; the percentage of revenue deficiency to total nonprofit
10 revenue in FY96 for this site was applied to the total nonprofit volume for
11 this site, to calculate the volume of nonprofit mail disqualified in FY96.

12 These volumes were rolled up in each strata to obtain an estimate of the
13 volume of disqualified mail paying regular rates but with nonprofit indicia for
14 the each strata. The volumes in each strata were then summed together to
15 get the total volume of disqualified mail paying regular rates but with
16 nonprofit indicia for the universe. As Exhibit USPS-RT22-2 shows, the
17 volume of disqualified mail paying regular rates but with nonprofit indicia
18 was 30.9 million pieces, which is only 0.25 percent of all nonprofit Standard
19 (A) volume in FY96. This indicates that, even in a period when witness
20 Haldi claims there was increased enforcement of content rules for nonprofit
21 mail, the incidence of inconsistency between volume and cost as a result of
22 nonprofit mailings disqualified during acceptance is negligible.

Exhibit USPS-RT22-2: LRCA Survey Results

	Ranking	Finno	Site	Response	Complete	Nonprofit Revenue	Nonprofit Pieces	% of NP disqualified	Total NP volume	Volume disqualified, paid reg. Std. (A)
Strata 1	1			x	x	31,551,533	280,904,760	0.10%	280,904,760	292,500
	2			x	x	19,147,423	172,972,413	0.00%	172,972,413	0
	3			x		25,563,520	244,696,745		0	
	4			x	x	17,214,140	171,112,655	0.00%	171,112,655	0
	5			x	x	18,119,356	165,595,497	1.95%	165,595,497	3,234,000
	6			x	x	16,315,849	157,808,395	0.02%	157,808,395	37,500
	7			x		13,675,670	116,906,776		0	
	8					15,285,455	129,600,911		0	
	9			x	x	15,151,482	136,615,234	1.81%	136,615,234	2,476,350
	10			x	x	13,847,738	166,005,651	0.00%	166,005,651	4,077
	11			x		13,384,642	127,991,267		0	
	12			x	x	14,636,546	130,702,743	0.41%	130,702,743	534,375
	13					20,677,044	219,267,261		0	
	14					13,127,299	130,397,698		0	
	15					13,926,926	127,674,427		0	
	16			x	x	10,940,879	123,434,082	0.16%	123,434,082	195,000
	17			x	x	11,528,576	124,237,846	0.01%	124,237,846	6,500
	18			x		10,677,977	111,606,349		0	
	19					12,244,621	115,054,496		0	
	20					12,832,677	104,490,396		0	
Strata 2	41			x	x	5,548,452	47,408,699	0.76%	47,408,699	360,000
	52			x	x	4,700,926	41,682,702	0.06%	41,682,702	25,010
	54			x	x	9,551,672	87,304,171	0.06%	87,304,171	50,000
	58			x	x	4,800,761	49,040,235	0.02%	49,040,235	9,000
	244			x	x	810,527	6,913,916		6,913,916	
	249			x	x	693,735	6,638,972		6,638,972	
	462			x	x	193,817	1,152,840		1,152,840	0
	709			x		171,026	1,297,151		0	
	4220			x	x	12,042	-		0	0 non-PERMIT
	10162			x	x	1,715	-	0.00%	0	0 non-PERMIT

Total response Strata 1	0.42%	1,629,389,276	6,780,302 [1]
Total response Strata 2	0.18%	240,141,535	444,010 [2]
Total revenue sites Strata 1 Respondents		168,453,521	
Total revenue sites Strata 2 Respondents		26,313,646	
Total PFY 96 revenue all strata 1		346,320,269 [3]	
Total PFY 96 revenue all strata 2		1,005,082,504 [4]	
Inflation Factor strata 1		2.06 [5]	= [3] / [1]
Inflation factor strata 2		38.20 [6]	= [4] / [2]
Inflated Disqualified strata 1		13,939,489 [7]	= [1] * [5]
Inflated Disqualified strata 2		16,959,669 [8]	= [2] * [6]
Total GFY 96 STD(A) Nonprofit Revenue		1,326,212,251 [9]	
GFY 96 Control		0.98 [10]	= [9] / ([3] + [4])
Total Estimated volume disqualified at acceptance		30,322,965 [11]	= [10] * ([7] + [8])
GFY 96 STD(A) Nonprofit Volume		12,212,159,128 [12]	
Percent of Nonprofit Volume that is disqualified at acceptance and pays regular rate (endorsed nonprofit)	0.25% [13]		= [11] / [12]

APPENDIX C: RESPONSE OF THE USPS TO INTERROGATORY OF THE ALLIANCE OF NONPROFIT MAILERS (ANM/USPS-28)

ANM/USPS-28. Assume that several mailings bearing Nonprofit Standard Mail (A) (or nonprofit third-class) indicia later gave rise to payment of back postage on grounds that each affected mailing was ineligible for nonprofit rates.

- a. When a check is received for payment of the back postage, would the payment be credited to a Standard Mail (A) (commercial) revenue account, or to a Nonprofit Standard Mail (A) revenue account? Please identify the account to which the payment would be credited, and explain why the Postal Service accounts for such payments in this way.
- b. Assume that the checks for payment of back postage were all received within the same time frame, but in different cities. Would the payment always be credited in the same manner as described in response to preceding part (a), or is it possible that in one city it would be credited one way, but in another city it would be credited differently? Please explain.
- c. If your response to preceding part (b) is that such payments are systematically credited in the same way, please:
 - i. identify the accounting regulation, rule, standard, guideline, instruction, or procedure that specifies the account to which the receipt of payment of back postage (under the circumstances specified here) should be credited, and
 - ii. produce a copy of the accounting regulation, rule, standard, guideline, instruction, or procedure.
- d. When the payment is credited to a revenue account in the manner described in response to preceding part (a), is a new or revised form 3602 filled out? If not, what record(s) is (are) filled out in conjunction with receipt of payment? Please identify the regulation, rule, standard, guideline, instruction, or procedure that specifies when a new or revised form 3602 is to be filled out, and produce a copy of the regulation, rule, standard, guideline, instruction, or procedure.
- e. Assume that the check for payment of back postage is received and credited to a revenue account (as described in your response to part (a)) in an office that is part of the PERMIT system. Please describe how the PERMIT system would pick up and reflect these additional revenues in the RPW system. For example, would the PERMIT system pick up revenues without any corresponding mail volumes? If not, how is the situation handled? Please identify the regulation, rule, standard, guideline, instruction, or procedure that specifies how the PERMIT system would pick up and reflect these additional revenues, and produce a copy of the regulation, rule, standard, guideline, instruction, or procedure.

- f. If a revised form 3602 is filled out, does it have the effect of removing the volume for which the payment of back postage is made from the nonprofit category and transferring it to the commercial rate category?
- g. Assume that a nonprofit organization has made a payment for back postage within the same year when the mail was entered and the "case" has been closed. How are the revenues and volumes for the affected mail finally recorded in the revenue accounts and the RPW system? Please identify the regulation, rule, standard, guideline, instruction, or procedure that specifies how the revenues and volumes for mail affected in this manner should be recorded and produce a copy of the regulation, rule, standard, guideline, instruction, or procedure.

RESPONSES:

- (a) No. According to official USPS accounting procedures, when the revenue deficiency is identified, revenue is recorded in revenue account 41511, revenue postage other (AIC 119, "Revenue Deficiency Found"), with an offset to an accounts receivable, general ledger account 13412 (AIC 814, "Suspense"). The recording of the account receivable in AIC 814 is made at the same time the revenue deficiency is booked into AIC 119. Entries are made in AIC 119 and 814 simultaneously, as part of the double entry accounting system used by the USPS.

When a check is received for postage due to revenue deficiencies, it is debited to general ledger account 11211, AIC 802 (cash received). A corresponding credit is made to the accounts receivable account 13412, AIC 814 (suspense account).

Revenues in general ledger account 41511 are used in developing revenue and volume estimates in RPW through the revenue control. This revenue account is not class specific, and so revenues in account 41511 would not be credited to either nonprofit or regular Standard (A) categories. Account 41511 goes into the overall revenue control, and so minimally affects all revenue-controlled rate categories. The overall level of revenue in AIC 119 is so small (only \$12.8 million in FY96), it impacts revenues for revenue-controlled rate categories only 0.04 percent. The revenues and volumes from the original nonprofit entry will remain as nonprofit.

- (b) Yes.

- (c) Attached is the Management Instruction titled "Collecting Revenue Deficiencies." Also attached are the pages of the F-1 Handbook ("Post Office Accounting Procedures") concerning suspense accounts.
- (d) In the case that the postage due is recorded in AIC 119 (as described in (a.)), a revised Form 3602 is not needed, although one may be filled out as a worksheet to calculate the postage due. A Form 3544 (Cash Receipt) will be filled out and provided to the mailer.
- (e) Any nonprofit-related revenue deficiencies recorded in AIC 119 (general ledger account 41511) and payments subsequently debited to AIC 802 (general ledger account 11211) will not be entered into the PERMIT system in a revenue account, since that would result in double recording of revenue. The PERMIT system revenues and volumes will remain as originally entered: there will be no shifting of volumes between nonprofit and regular rate categories. The adjustments made through AIC 119 are reflected in overall RPW revenue control for stamped and metered mail. The overall level of revenue in AIC 119 in FY96 was only \$12.8 million, but AIC 119 includes all revenue deficiencies, not just those associated with nonprofit ineligibility. We cannot isolate revenue deficiency transactions due to ineligibility for nonprofit Standard (A) rates within the time available. At most, payments for postage due on ineligible nonprofit

transactions impact stamped and metered mail revenues by 0.04 percent (conservatively assuming all revenues in AIC 119 are due to nonprofit-related deficiencies).

- (f) No. When revenue deficiencies are recorded in AIC 119 (as in (a.)), a revised Form 3602 would not be filled out, except as a worksheet to calculate the postage due that is charged to the revenue deficiency account (as discussed in (d.)). No volume changes would be recorded in PERMIT as a result.

Revised Form 3602s are occasionally entered into the PERMIT system. These are entered to correct errors in the original entries, and are rarely used for revenue deficiencies. Official USPS accounting procedures require treatment of revenue deficiencies as described in (a). In infrequent cases where an error is caught in the original Form 3602 (locally, and shortly after mailing) or when a regular rate mailing is sent pending approval for nonprofit status, a revised Form 3602 is filled out and the data subsequently entered into the PERMIT system. As a result, permit imprint volumes would be moved from nonprofit to regular rate (or from regular rate to nonprofit, in the case where the mailer later is approved for nonprofit status).

Using FY96 PERMIT system transaction-level data, an estimated 6.1 million pieces were moved from nonprofit to regular rate. This represents only 0.05 percent of all nonprofit volumes. The transaction-level data for FY96 also show that an estimated 12.9 million pieces were moved from regular rate to nonprofit, which represents 0.02 percent of all regular rate volume.

- (g) See (e.) above.

Management Instruction



This Collecting Revenue Deficiencies	Date Issued 6-16-89	Filing Number DM-140-89-2
	Effective Date Immediately	Obsoletes MI DM-140-85-2 (7-26-85)
	Originating Organization & OCC Code Rates and Classification Dept. RC210	
	Signature & Title Frank R. Haselton Assistant Postmaster General, R&CD	

I. Purpose

To establish procedures for the uniform and expeditious handling of revenue deficiencies.

II. Procedures

A. Documenting the Deficiency

The postal inspector or other postal employee who discovers a revenue deficiency must document the amount and the circumstances involved in a memorandum to the postmaster. The amount of the deficiency cited in the letter will be posted immediately to AIC 119, Revenue Deficiency Found. This AIC is a receipt entry only and cannot be used on the disbursement side of the accountbook. The general ledger account number is 41511.

B. Collection by Postmaster

1. Postmasters must take immediate action to collect amounts due. The postmaster must send a letter to the customer indicating the amount and basis of the deficiency and requiring payment 30 days from the customer's receipt of the letter. The letter must instruct the customer that a statement of intention to pay or a formal appeal contesting the deficiency must be made within 15 days of receipt of the letter.

2. The letter must also advise the customer that, in the event an appeal is not filed within 15 days, the letter will constitute the final Postal Service decision on the existence and amount of the deficiency. The letter must be delivered to the customer via certified mail, return receipt requested. If such delivery cannot be made within 30 days (if, for example, the customer refuses to sign for certified mail), a duplicate letter must be delivered as First-Class Mail. The postmaster must make a

written record of the date of delivery and the previous attempts to deliver it.

3. If no appeal is filed and the deficiency is not collected within 45 days of delivery of the letter, the postmaster must refer the case to the Field Division Controller. Copies of all letters to the customer must be sent to the General Manager, Rates and Classification Center (RCC). A second copy is sent to the Inspection Service if the revenue deficiency was discovered by a postal inspector.

4. If the revenue deficiency is paid or partial payments (see E) are received after the Field Division Controller has been notified that a revenue deficiency exists, the postmaster must promptly advise the Controller.

C. Appeal Process

1. An appeal of a deficiency notice must be in writing and addressed to the postmaster. Postmasters must forward all appeals immediately to the General Manager, Rates and Classification Center (RCC), who will make the final Postal Service decision concerning the amount of the deficiency and advise the customer and the postmaster of the decision in writing. This notification should occur within 30 days after the receipt of any additional information or assistance requested by the General Manager. The postmaster will not initiate collection action before the RCC decision on the appeal.

2. Based upon the facts and regulations involved, the General Manager's decision will specify whether a deficiency should be assessed and, if so, its amount. A complete statement supporting the decision must be included.

Distribution Standard Distribution plus Headquarters, Headquarters Administrative Support Facilities, including Rates and Classification Centers, Regions, Management Sectional Centers, and Bulk Mail Centers	Special Instructions Organizations listed under Distribution may order additional copies from material distribution centers. Use Form 7380, MDC Supply Requisition, and specify the filing number. You may redistribute this document by photocopying it, but do not paraphrase or otherwise revise it.
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D. Customer Responsibility to Respond

Customers must fully respond to all Postal Service correspondence concerning revenue deficiency matters within 15 days. Failure to respond within that time will be assumed as customer agreement that the assessed deficiency is correct and that the amount is due.

E. Payment of Deficiencies

1. The full amount due should be paid in a lump sum. When warranted, the deficiency may be settled through equal monthly payments for up to 3 years with interest computed each month on the unpaid balance. The interest rates to be applied (as set by the Secretary of the Treasury) will be published in the *Postal Bulletin* before each new calendar year.

2. An agreement to pay a deficiency by installments must be in writing and should include a provision for the acceleration of the balance due upon default in the payment of any installment. (Advice should be sought from the Field Division Controller before entering into such agreements.)

F. Uncollected Deficiencies

1. Postmasters must forward uncollected deficiency cases to the Field Division Controller as soon as the customer's response period has ended, or when the customer refuses to pay the amount due.

2. The Field Division Controller, with advice from the Regional Counsel, if necessary, will promptly attempt to collect outstanding amounts. If such efforts are unsuccessful, the Field Division Controller will refer the matter to the Regional Counsel for legal action.

3. If customers, in discussions with Field Division Controllers, offer to pay a partial amount in lieu of the full amount (or seek total relief), the Controller has authority to deny the request. If the Controller believes that a partial payment should be accepted, the Controller must document this recom-

mendation to the Regional Director, Finance. The Regional Director will decide whether to accept a settlement offer or to accept a request for total relief.

a. The customer must provide detailed financial records sufficient for the Regional Director, Finance, to make such determination. If the basis for the requested relief is financial hardship, Postal employees will not initiate an offer to settle disputed deficiency cases for less than the full amount.

b. In making a decision, the Regional Director, Finance, may consider whether the underpayment (1) was made because of incorrect instructions given in writing by a postmaster or mail classification manager or (2) existed before a previous Postal Service review or audit of related mailer records, but was not identified at that time.

c. If the Regional Director, Finance, decides to accept a settlement offer, the Field Division Controller will establish a payment schedule and interest charges for the deficiency and will advise the customer, the postmaster, and the General Manager, RCC, of the amount due. The Field Division Controller will also advise these officials if the Regional Director, Finance, grants total relief for a postage deficiency.

4. In handling deficiency cases, Finance personnel are not to revise the established amount of the deficiency which was determined in the final Postal Service decision.

5. For uncollected deficiencies, the Regional Director, Finance, will either (a) hold the postmaster responsible for the deficiency in whole or in part or (b) relieve the postmaster of accountability for the deficiency.

6. The Postal Data Center must be informed of the necessary accounting adjustments.

52 Suspense Items

Suspense items are defined as stamp credits, money orders, banking shortages, travel and salary advances, external and internal audit discrepancies, revenue deficiencies, Form 1412 differences, and miscellaneous cash items. Units must report the totals in AIC 814 at the accountbook level. Records for suspense are maintained at the accountbook unit.

This section describes how to report the different types of suspense, when to use suspense for adjustment purposes, and what forms to use when reporting activity and maintaining control.

521 Maintaining Suspense at the Form 1412 Level

521.1 Non IRT Offices

- 1> Use AIC 814 to report suspense entries in the disbursement side of the daily Form 1412 and the accountbook.
- 2> To clear suspense, report AIC 814 in the receipt side of the daily Form 1412, but make a reduction only to AIC 814 in the analysis section of the accountbook.

521.2 IRT Offices

- 1> Use AICs 754–770, except for AIC 762, to report suspense items on the Form 1412. AIC 814 is a roll-up of all sub-AICs for the accountbook entry.
- 2> Use AICs 354–370 to clear suspense items of Form 1412.

Example: Enter a salary advance for \$100.00 as AIC 754 on the Form 1412 or the IRT. When you collect the salary advance, clear the suspense item by using AIC 354 on the Form 1412.

522 Controlling Suspense at the Accountbook Level

- >> Use AIC 814, the controlled account for suspense in the accountbook and statement of account (SOA) to report suspense balance.

AICs 754–770 increase AIC 814 at the accountbook level. AICs 354–370 decrease AIC 814 at the accountbook level.

523 Controlling Suspense Items Internally

523.1 For Non-SFAP Units:

- 1> Maintain a master suspense on Form 25.
- 2> Record increases and decreases on the form to calculate the ending balance.
- 3> Compare and verify the balance to AIC 814 in the accountbook daily.

The accountbook unit uses Form 1556, *Suspense Items Support Information* (exhibit 523.1), to identify each suspense item in sufficient detail to provide an audit trail for reporting purposes. The total of all individual Forms 25 by type must equal the Form 1556 master record and AIC 814.

523.2 For SFAP Units

The district accounting office (DAO) maintains the individual records for each suspense entry for offices reporting under SFAP procedures.

- >> Use the trust and suspense system (TASS) worksheet to make entries or to clear suspense items at the local Form 1412 level. Sufficient information must be noted to identify the individual or the exact reason for the suspense entry.

524 Maintaining Form 1556

524.1 For Non-SFAP Units

- 1> Maintain a Form 1556 to list each individual suspense item outstanding on the last business day of a postal quarter (PQ).
- 2> In chronological order, fill in the original date entered to suspense, a brief description, action taken to clear, and amount.
- 3> Submit the original as support for the entry to AIC 814 on the statement of account at the end of the PQ to the DAO. Retain the duplicate as support for the office copy of the SOA.

524.2 For SFAP Units

The DAO maintains the Form 1556 for all SFAP units. Within the SFAS, all suspense items are identified by unit number, AIC, description, and amount in the TASS module.

The SFAS generates a Form 1556 with all information required in date order by AIC.

525 Clearing Suspense Items

- >> Use the guidelines below for clearing suspense items whenever possible.

Note: Suspense items cannot be cleared expeditiously in every case. However, you must not ignore any item.

Type of Items	Item	Time Limit or Other Instructions/Requirement
Advances	Salary	Must be collected no later than receipt of check containing the adjustment.
	Travel	Must be collected no later than receipt of the reimbursement check.
Shortages	Stamp credit	Collect upon resolution.
	Banking	Must be cleared when the unit collects from the responsible employee, clears the amount due for a nonsufficient funds (NSF) check, sends the NSF check to CSC for collection, or provides support that the item is uncollectible (claim for loss).
Audit differences	External	The ASC issues statement of differences for these discrepancies. They should not be carried in suspense beyond 30 days unless the DAO directs it.
	Internal	These discrepancies (not to be confused with revenue deficiencies) are those discovered at the post office, usually by an inspector. They are limited to 30 days unless otherwise directed by the DAO.
Revenue deficiencies	Revenue deficiencies	Management Instruction DM-140-89-2, Revenue Deficiency, governs the length of time you may carry deficiencies.
Form 1412 differences	Item reported on Form 1908	Clear by entry to a subsequent Form 1412 by the responsible employee.
Miscellaneous	Suspense items classified as such	Should be held for no longer than 30 days before requesting assistance from the district.

526 Applying Tolerances

526.1 Banking

Shortages

- >> District accounting offices may clear banking shortages of \$5 with an offset to AIC 406, Unidentified Difference Short, when responsibility for the shortage cannot be determined.

Trust, Suspense, and Audit Differences

531.1

Overages

- >> District accounting offices may clear banking overages of \$5 or less and offset to AIC 306, Unidentified Difference Over, when responsibility for the overage cannot be determined.

526.2 Miscellaneous

- >> District accounting offices may clear Form 1412 shortages of \$5 and less with an offset to AIC 406, Unidentified Difference Short, when responsibility for the shortage cannot be determined.

527 Monitoring Suspense**527.1 District Accounting Office**

The district accounting office is responsible for monitoring all Forms 1556 from all statement of account offices within the district.

- 1> Compare the total on Form 1556 with the total in AIC 814 on the statement of account.
- 2> Review the Forms 1556 and resolve outstanding items with the individual office.
- 3> Submit semi-annual district summary suspense report to the area finance office.

527.2 Area Finance Office

- 1> Consolidate the district summary suspense reports.
- 2> Submit summary of suspense data to post office accounting, Headquarters.

53 Statement of Difference

The statement of account is audited by the Minneapolis Accounting Service Center (MNASC). When information from the SOA is matched against information obtained from internal and/or external sources, differences may arise. The various internal and external sources include stamp stock shipments, banking, debit or credit cards, money order differences, and centralized trust activity. If not already discovered by the post office, resolution will be initiated by the MNASC.

531 Responsibilities**531.1 Minneapolis Accounting Service Center**

The MNASC is responsible for auditing the statements of account and issuing statements of differences for discrepancies.

715.5

Post Office Accounting Procedures

disks used for operation needs, such as weighing, rate information, and customer information, to ensure that there is no financial activity.

- 2> Rolls of blank PVI labels must be controlled by the supervisor. Keep unused labels in original plastic bags and shipping carton until needed, for protection and to prevent undue exposure.

715.5 Consolidating and Closing Out the Unit

- 1> The unit close-out person is responsible for verifying the receipt of PVI activity reports from individual clerks and the consolidated unit PVI activity report.
- 2> Each day, consolidate all clerk disks that have been "booted up" on an IRT with a PVI.
- 3> Review the unit Form 1412 "PVI Activity Report" and make the necessary adjustments to AIC 109 on the unit Form 1412 if you discover an out-of-balance condition.

72 Mail Without Postage Affixed

Mallers may be authorized to mail material without affixing postage. Procedures detailing acceptance requirements are in DMM Module P.

721 Handling Payment

721.1 Accepting Payments

Customers pay at the time they mail or through an advance deposit account. Checks accepted at bulk mail entry units (BMEUs) must have "BMEU" recorded on the front of the check. Postmasters will apply the usual criteria for accepting business checks for new permit holders and clients of permit holders.

- >> Examine checks before acceptance to be sure that the payee is either the U.S. Postal Service or the postmaster. See section 312.1.

721.2 Recording Payments

Non-IRT

Receipt	Disposition	
Form 3544	Original	Customer
	Duplicate	Support to Form 1412
	Triplicate	Unit maintaining accounts

IRT

Receipt	Disposition	
Form 3544	Original	Customer
	Duplicate	Unit maintaining accounts
	Unit list	Support to Form 1412

721.3 **Collecting on Nonsufficient Funds Checks**

The Postal Service may contact the check writer of returned checks or may immediately submit nonsufficient funds (NSF) checks to a collection agency after a second deposit attempt. NSF checks go to the check collection agency for collection without further collection efforts by the Postal Service. Collection efforts will be pursued only against the writer of the check, whether the permit holder or client of the permit holder.

721.4 **Additional Collection Alternatives**

If the writer of the NSF check is the permit holder, the Postal Service, after notification, may reduce the permit holder's accounts by the amount of the NSF check and applicable surcharge if the permit holder does not pay upon demand. If the amount in the permit holder's account does not cover the whole amount of the NSF check, the remainder of the amount owed is treated as a revenue deficiency. The procedures for handling revenue deficiencies are in Management Instruction DM-140-89-2, *Collecting Revenue Deficiencies*, June 16, 1989.

722 **Handling Revenue**722.1 **Recording Revenue**

>> To control payments and mailings, use Forms 1412, 3083, and individual account forms related to the specific revenue category.

Revenue Category	Form	Descriptions
Permit Imprint	Form 3609	Record of permit imprint
Periodicals	Form 3543	Record of periodical postage
Express Mail	Form 25	Express Mail corporate accounts
Postage due/business reply	Form 25	Additional postage required/business reply mail

Offices using approved automated systems such as the permit system and express mail reporting system (EMRS) will not transfer data to the Postal Service forms listed above.

722.2 **Reporting Revenue**

BMEU employees must prepare Form 3083, entering for each category the beginning balance, the total of all applicable Forms 3544 as deposits, the

APPENDIX D: SOURCE CODE LISTINGS

A. Source Code and Program listing for analysis of Reversals

Program revall: Unix shell script that executes the following programs

Program - sorttmp.sm - Sorts PERMIT transactions by finance number, permit number, and transaction date.

Input file: PERMIT transaction file documented in LR-H-108 Appendix A
output file: trans.sort - sorted transactions

Program - reverreg.f Fortran program to match reversal records to original entry and subsequent re-entry.

Input file: - trans.sort

Output files:

- resolved.x - Listing of STD(A) reversed transactions which both the original and subsequent transactions could be identified.
- re-entry.dat.x - Listing of STD(A) transactions where reversal could not be matched to subsequent re-entry and surrounding transactions.
- rec_tally.txt.x - STD(A) transaction statistics by finance number
- rev_tally.txt - STD(A) revenue statistics by finance number
- byfin.conv.3np.x - revenue, pieces and weight of transactions reversed from STD(A) nonprofit to regular rate by finance number and permit number
- byfin.conv.3rd.x - revenue, pieces and weight of transactions reversed from STD(A) regular rate to nonprofit by finance number and permit number
- new.tran.np.x - listing of transactions reversed from STD(A) nonprofit to regular rate; original transaction, reversal, re-entered transaction.
- new.tran.reg.x - listing of transactions reversed from STD(A) nonprofit to regular rate; original transaction, reversal, re-entered transaction.

Excel Spreadsheets

reversed from regular.xls - summary table of transactions reversed from STD(A) regular rate to STD(A) nonprofit.
input file - byfin.conv.3rd.x

reversed to regular.xls - summary table of transactions reversed from STD(A) nonprofit to STD(A) regular rate.
input file - byfin.conv.3rd.x

reversed stats by node - inflation and calculation of volumes reversed in permit system from one STD(A) class to the other.

Input files:

rev_tally.txt.x

rec_tally.txt.x

B. Source code listing for BMEU survey

Program: select_np.f - Fortran program that randomly draws sites based on STD(A) nonprofit permit imprint revenue.

Input file : strata.41414 documented in LR-H-108 Appendix A

output file : select_np.out - Finance numbers of selected offices

Program: rollvol_pmt.f - Fortran program that aggregates STD(A) revenue, pieces and weight by indicia type and finance number.

Input file : STD(A) nonprofit PERMIT system transaction file documented in LR-H-108 Appendix A

Output file: npbyfinpmt.96 - STD(A) nonprofit revenue pieces and weight by indicia type and finance number.

Excel Spreadsheets:

npinflate.xls - summary table of nonprofit revenues and pieces.

Input file: npbyfinpmt.96

disqcalcp.xls - inflation of survey results