

December 3, 1999

DEBORAH K. WILLHITE
SENIOR VICE PRESIDENT, GOVERNMENT RELATIONS

SUBJECT: Cost and Benefit of the International Collection Program (Report Number RG-MA-00-001)

This management advisory report summarizes the results of our review of the financial performance of the United States Postal Service's International Collection Program. We conducted the review based on a congressional request.

Results in Brief

The review disclosed that costs for the International Collection Program exceeded commissions earned under the program by ██████████ during the period January 1997¹ through September 1999. We also found that 98 percent of the marketing and administrative costs of selling international stamps had not been charged to the program in the Postal Service accounting system.

Program managers stated that the economic benefits were not the primary objective of the program and that the program had other objectives, which offered other, less tangible benefits to the Postal Service. While our review focused primarily on the costs and revenues of the program, we identified documentation, which suggested that some of the less tangible benefits appeared to have been partially achieved.

We offered management two suggestions for improvement. Stamps Services management agreed with our suggestions. Management stated that they did not contest the financial aspect of the review but reiterated that, beyond revenue generation, the primary objective for the program was to create awareness and invest in the future of the hobby of stamp collecting. Management's comments are included in their entirety in Appendix B.

¹ The inception of the program.

Background

The Postal Service Stamp Services Division manages the International Collection Program. Its mission is to provide stamps to the general public in a reliable and efficient manner, while promoting goodwill and generating incremental revenue for the Postal Service.

Beginning in 1978, the Postal Service contracted with agents and foreign postal administrations to act as sales agents for Postal Service stamps and philatelic products in exchange for commissions. It was not until 1997, when the Stamp Services Division established the International Collection Program, that the Postal Service began entering into agreements to act as an "agent" for foreign postal administrations to market their stamps and stamp products to Postal Service customers.

In support of the program, the Stamp Services Division began marketing the International Collection Program as part of the 1997 summer issue of the USA Philatelic catalog, which was previously used only to market Postal Service stamps. The catalog featured stamps from Great Britain, Ireland, and Canada. In the spring of 1999, Stamp Services started issuing a separate catalog for the International Collection. The summer 1999 issue of the catalog featured stamps from Australia, Israel, Ireland, Great Britain, Canada, Mexico, and the United Nations.

The catalog provides for orders to be placed by mail, facsimile, and telephone; and be fulfilled through the Kansas City Stamp Fulfillment Services.

Objective, Scope, and Methodology

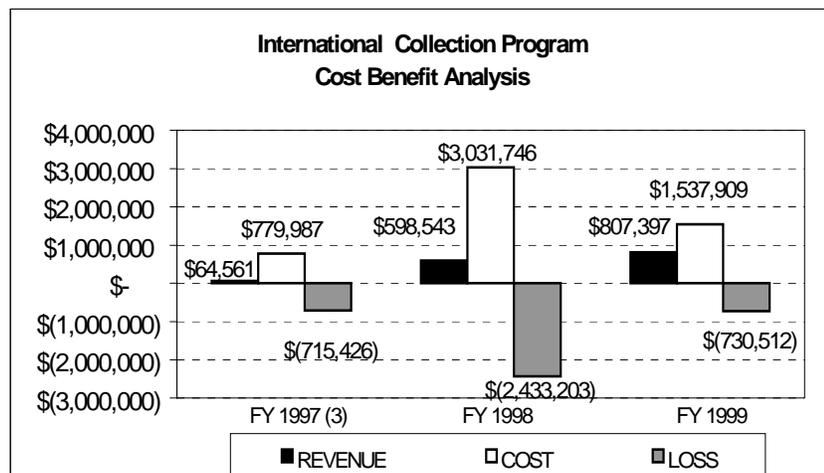
The objective of this review was to determine the financial performance of the International Collection Program. Specifically, we identified the revenue generated through International Collection Program and associated costs to determine if the program had generated a profit or loss since its inception. We interviewed Postal Service Headquarters and field officials and visited the Kansas City Stamp Fulfillment Services facility, where stamp orders were fulfilled. Also, we reviewed revenue, cost, and payment reports; and invoices and mailing statements pertaining to this program from its inception through September 1999.

The review was conducted from October 1999 through November 1999 in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections.

Costs Exceeded Revenue Earned

The review disclosed that the International Collection Program costs exceeded commissions earned under the program by ██████████ since its inception in January 1997 through September 1999. In addition, we determined that 98 percent of the costs for administering and marketing international stamps had not been charged to the finance number established for the program in the Postal Service accounting system.

The International Collection Program earned about ██████████ in commissions--approximately ██████████ percent of the \$4.90 million in international stamp sales since the program's inception. For the same period, we determined that the costs for the International Collection Program totaled about \$5.35 million. These costs included \$4.46 million for designing, printing, and mailing of the catalog and over \$850,000 for direct labor costs, bank charges, and administrative costs.² The following chart shows the revenue and costs associated with the International Collection Program over the period January 1997 through September 1999.



²: The table in Appendix A shows a more detailed description of the revenues, costs, and loss for the International Collection Program.

³: Since the program's inception.

Postal Service management stated that costs, such as those for catalog design, printing, and mailing (\$4.46 million) had not been charged to the International Collection Program because they were charged to the Direct Marketing Program where catalog costs were budgeted. They also stated that certain operating costs, such as bank and phone charges would have been incurred even without the program. However, because these bank and phone charges were based on the number of calls and method of payments and some calls and payments could have been exclusively for international stamps, we have included a portion of these charges in the International Collection Program costs. We excluded some costs from the program, such as rent and utilities, because we recognized that they would continue even if the program were canceled.

Also, we noted that as of September 30, 1999, \$1.83 million worth of international stamps remained in inventory at the Kansas City Stamp Fulfillment Services facility. We found that over \$14,000 was incurred in the fourth quarter of fiscal year (FY) 1999 for returning stamp stock to the appropriate countries. If the program were discontinued, the Postal Service would incur additional costs for returning the stock to the appropriate countries or destroying the inventory.

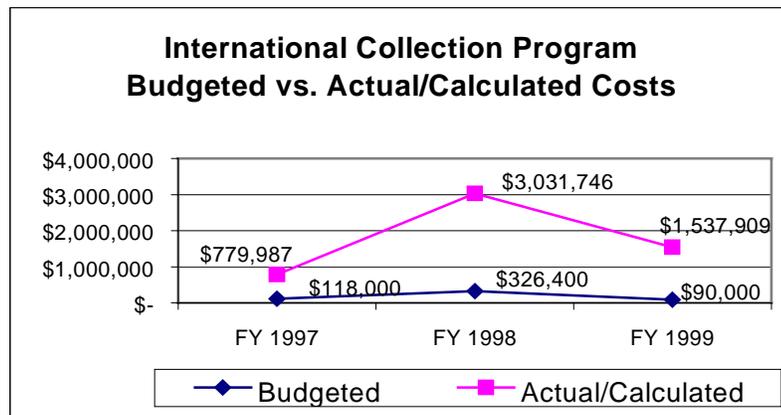
While costs exceeded the commissions for the International Collection Program, Stamp Services management emphasized that economic benefits were not the primary objective of the program. In this regard, we noted that the February 1999 (revised October 1999) International Collection business plan did not contain any revenue projections and instead focused on the following objectives:

- Stimulate interest in the collecting hobby by expanding the number and variety of products available to our customers;
- Increase philatelic sales revenue by encouraging current domestic customers to collect in different ways; and
- Foster cooperative working relationships with other countries' postal administrations to promote and expand the hobby of stamp collecting worldwide, developing and preserving the philatelic market of the future.

Our review focused primarily on the costs and revenues of the program; however, we noted that a number of the objectives appeared to be partially achieved, but at a loss to the Postal Service.

For example, the International Collection Program increased the variety of products available to Postal Service customers and increased the Postal Service's gross revenue. However, as previously stated, the \$5.35 million in costs for the program exceeded its [REDACTED] in commissions, resulting in a loss of [REDACTED]. Further, we noted that the actual and calculated costs for the International Collection Program had exceeded its \$534,400 budget since inception through September 1999, by \$4.82 million.

The following chart shows the budgeted costs compared to the actual costs we identified and calculated.



Regarding the objective of fostering cooperative working relationships, Stamp Services management stated that four of seven foreign postal administrations doing business with the Postal Service under this program commented that it had benefited them by increasing awareness and sales of their stamps. Although the program may have provided some non-financial benefits to the Postal Service, it is the Postal Service's mission to provide efficient services to the public.

As part of our review, we determined that Title 39, sections 404 (a)(5) and (b) authorize the Postal Service to provide

philatelic services and special non-postal or similar services. However, there is proposed legislation, H.R. 198, which would prohibit the Postal Service from offering "commercial non-postal services." This legislation, if passed, may affect Postal Service's ability to continue this program.

Suggestions

We offer the following suggestions to the senior vice president, Government Relations:

1. Consider the financial performance of the International Collection Program in determining whether to continue the program in the future.
2. If the program is continued, prepare a business plan that includes revenue and cost projections and ensure that costs for the program are charged to its finance number in the Postal Service accounting system.

**Management's
Comment**

Stamp Services management agreed with our suggestions. Management stated that they did not contest the financial aspect of the review but reiterated that, beyond revenue generation, the primary objective for the program was to create awareness and invest in the future of the hobby of stamp collecting.

**Evaluation of
Management's
Comment**

Management's comments are responsive to our suggestions.

We appreciated the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact [REDACTED] or me at (703) 248-2300.

Sylvia L. Owens
Assistant Inspector General
for Revenue Cost Containment

Attachment

cc: James C. Tolbert
John R. Gunnels

INTERNATIONAL COLLECTION PROGRAM					
REVENUE AND COST ANALYSIS					
	FY 1997	FY 1998	FY 1999	TOTAL	
A. REVENUE					
COMMISSION ⁽¹⁾					
B. COSTS					
	FY 1997	FY 1998	FY 1999	TOTAL	% OF ALL COSTS
I. CATALOG					
CATALOG DESIGNING	\$ 104,130	\$ 523,748	\$ 255,739 ⁽¹⁾	\$ 883,617	16.52%
CATALOG PRINTING	\$ 346,611	\$ 1,279,817	\$ 514,147 ⁽¹⁾	\$ 2,140,575	40.01%
CATALOG MAILING	\$ 257,160	\$ 776,452	\$ 403,662 ⁽¹⁾	\$ 1,437,274	26.87%
TOTAL CATALOG COST	\$ 707,901	\$ 2,580,017	\$ 1,173,548	\$ 4,461,466	83.40%
II. PERSONNEL					
HEADQ. QUARTERS/STAMP SERVICES	\$ 13,998	\$ 28,262	\$ 19,494	\$ 61,754	1.15%
KANSAS CITY SFS	\$ 24,526	\$ 187,041	\$ 176,397	\$ 387,964	7.25%
TOTAL PERSONNEL COST	\$ 38,524	\$ 215,303	\$ 195,891	\$ 449,718	8.41%
III. NON-PERSONNEL					
TOLL FREE SERVICE FEES	\$ 23,781	\$ 162,497	\$ 101,962	\$ 278,260	5.20%
BANK CHARGES	\$ 2,136	\$ 17,900	\$ 12,941	\$ 32,978	0.62%
CREDIT CARD CHARGES	\$ 3,346	\$ 33,162	\$ 32,873	\$ 69,381	1.30%
TRAVEL ⁽¹⁾	\$ 4,299	\$ 32,868	\$ 20,673	\$ 57,840	1.08%
OTHER COSTS ⁽¹⁾	\$ 19	\$ 35,196	\$ 3,441	\$ 38,656	0.72%
TOTAL NON-PERSONNEL COST	\$ 33,561	\$ 238,427	\$ 168,470	\$ 438,458	8.20%
TOTAL ALL COSTS	\$ 779,967	\$ 3,021,746	\$ 1,437,909	\$ 5,249,642	100.00%
	FY 1997	FY 1998	FY 1999	TOTAL	
C. NET REVENUE/(LOSS)					

(1) These amounts are actual figures; all other figures are calculated.

Major Contributors

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