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SUBJECT: Stamp Out Breast Cancer Act and Stamp  
(RG-MA-98-007)

In order to provide proactive feedback to United States Postal Service (USPS) management, we performed a review of USPS actions to implement the Stamp Out Breast Cancer Act (Act). We identified several issues concerning implementation of this legislation that warrant further attention. This Management Advisory Report highlights our observations related to these issues and offers suggestions for improvement. We have summarized your comments after each suggestion in this report and included the comments as Attachment 1.

To perform this review, we evaluated the USPS' estimates of projected revenue and costs and management controls over the tracking and reporting of stamp revenue and expenses. Our work was conducted during July and August 1998, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections.

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## **Results in Brief**

The USPS has taken aggressive action to implement the Act as evidenced by the development of a comprehensive advertising and promotions plan and the early availability of the Breast Cancer Research Semipostal<sup>1</sup> stamp (the Stamp). This Stamp was available July 29, 1998, less than 1 year after the Act was signed.

While significant progress has been made, our review disclosed that USPS management could strengthen controls in the following areas: project budgeting and tracking incremental

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<sup>1</sup> Semipostal stamps are special stamps bearing a surcharge over the normal postage rate.

costs;<sup>2</sup> defining incremental costs; and implementing a Memorandum of Understanding with the Department of Defense (DOD) and the National Institutes of Health (NIH). Because the Stamp will be available to the public for only 2 years, we believe that USPS management should give these issues prompt attention. This would permit USPS to properly monitor costs incurred to produce, market, distribute and sell the Stamp and maximize the total contribution towards breast cancer research. We plan to perform additional work on the sale of the Stamp in 1999.

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## **Suggestions**

On the basis of our review, we offer the following suggestions to USPS management officials:

Suggestions for the Chief Marketing Officer, Senior Vice President:

1. Develop a detailed operational budget for identifying costs and revenues specifically attributable to the Stamp. Additionally, the impact of the new first class rate should be considered in developing revenue estimates.

Suggestions for the Chief Financial Officer, Senior Vice President:

2. Issue guidance to all offices that incur costs in connection with the Stamp informing them to use the assigned finance number and identifying where and how to report these costs.
3. Identify and define what constitutes reasonable incremental costs incurred in carrying out this Act and develop a policy that incorporates this definition. Disseminate this information in a Postal Bulletin.
4. Expedite the completion of the Memorandum of Understanding with DOD and NIH to ensure research payments are made as required.

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<sup>2</sup> Incremental costs are costs that are not normally incurred in connection with regular commemorative issues, such as the costs associated with printing special receipts for this stamp.

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**Background**

On August 13, 1997, the President signed into law an Act that mandated USPS establish a special first-class postage stamp within 12 months. This law affords customers the opportunity to voluntarily contribute to breast-cancer research through the purchase of these special stamps. The Act mandated that the cost of the Stamp be equal to the first-class rate, plus a differential (not to exceed 25 percent or \$.08).



In accordance with the Act, the USPS Governors approved the differential at the maximum 25 percent, and the USPS issued the first 40-cent nondenominational<sup>3</sup> Breast Cancer Stamp on July 29, 1998. The Stamp will be available to the public for a 2-year period. Seventy percent of the amounts becoming available for breast cancer research will be paid to the NIH and the remaining 30 percent to the DOD Medical Research Program. Payments are to be made under an agreement except that these payments shall be made at least twice a year. The differential may be reduced by an amount sufficient to cover reasonable costs for items such as printing, selling and distributing the stamps prior to payment to NIH and DOD.

The Act also provides that the General Accounting Office perform a review on the Breast Cancer Stamp operation before the end of the 2-year period.

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**Management Accomplishments**

USPS officials have taken numerous actions designed to ensure the success of the Stamp. Specifically, USPS “developed a comprehensive advertising and promotions plan to support the national launch of the Breast Cancer Research Stamp.” Promotional initiatives included: “field kit(s) sent to USPS offices; TV/radio interviews and a video news release featuring First Day of issue ceremony; postal communications, including: Postal Life, Vision, Link, Marketline and Marketplace; and a Press Kit sent to major media and health organizations.

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<sup>3</sup> Nondenominational stamp has a value equivalent to the current first-class postage stamp.

Major media placements to date include magazines expected to cover stamp: People, Women's Day, Cosmopolitan, Good Housekeeping, and others; Rosie O'Donnell Show announcing the stamp on the July 27, 1998, airing of the show; nationwide TV coverage of the May 9, 1998, stamp unveiling at the Revlon Run/Walk for Women in California; nationwide newspaper coverage and additional coverage; featured unveilings in Washington, D.C., Chicago, Boston and others."

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**Observations**

Our review of management controls over the tracking and reporting of stamp revenue and expenses, revealed that improvements are needed regarding: project budgeting; tracking incremental costs; defining incremental costs; and implementing a Memorandum of Understanding.

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**Project Based Budget**

USPS has formulated estimates of total revenues and costs. However, to control spending on incremental costs incurred with implementing the Act, officials should establish target-spending levels and a national operating budget.

The current USPS budgeting method does not entail the establishment of thresholds for various spending categories specifically attributable to the Breast Cancer Stamp. In order for USPS to minimize costs associated with the Stamp (thereby maximizing contributions to NIH and DOD), a national operating budget is needed that delineates specific spending limitations for each component. This operating budget should be formulated based on allocations of resources to the individual components within USPS participating in the project (e.g. Stamp Services).

Without a national operating budget, total incremental costs incurred for the Stamp could significantly exceed expectations. Our discussions with USPS officials disclosed that they could not readily provide information such as the nationwide target spending levels for items such as advertising, printing, etc. Accordingly, there is no mechanism in place for management to monitor whether costs incurred are exceeding projections.

USPS Stamp Services officials advised us that they are currently developing an operating budget for Fiscal Year 1999. However, this budget will not include cost estimates for the other USPS components incurring expenditures relating to this project.

In addition, the new first-class rate will take effect on January 10, 1999. This increase raises the current \$.32 first-class rate to \$.33. This factor may impact the USPS' contribution to fund breast cancer research.

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**Tracking  
Incremental  
Costs**

USPS has provided some guidance on tracking costs relating to the Breast Cancer Stamp, however, additional guidance is needed to ensure that all attributable costs are reported and tracked.

Prior to issuing the Stamp, USPS Administrative Support Manual was amended in June 1998, and identified those offices within Headquarters required to track, or as appropriate, estimate cost information in connection with the special postage stamp. However, detailed guidance was not provided to component organizations that addressed specific procedures for tracking incremental costs related to the Stamp. Such guidance should specify the assigned finance number to be used and identify where and how to report these costs. Without accurate cost data, USPS will not be able to accurately determine the amounts to be remitted to NIH and DOD.

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**Defining  
Incremental  
Costs**

The USPS has not defined which incremental costs associated with the Stamp will be offset against revenue. The Act allows USPS to recover "reasonable costs" including those attributable to the printing, sale, and distribution of the Stamp. Incremental costs may include clerk training; retail system programming; tax receipts; promotional items; and other labor; material and overhead costs attributable to the Stamp. By identifying and recovering reasonable costs associated with the Stamp, USPS will be able to accurately determine the appropriate contribution towards breast cancer research and issue payments to these agencies as intended by the law.

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**Mutual Agreement**

On July 15, 1998, USPS requested that DOD and NIH designate points of contact. However, USPS does not yet have a Memorandum of Understanding in place with each agency regarding when payments are to be made. Such agreements are needed to enable USPS to remit payments to these agencies as required by the Act.

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**Suggestions**

We have the following suggestions for the Chief Marketing Officer, Senior Vice President and the Chief Financial Officer, Senior Vice President to help the USPS successfully implement this legislation:

Suggestions for the Chief Marketing Officer, Senior Vice President:

- 1. Develop a detailed operational budget for identifying costs and revenues specifically attributable to the Stamp. Additionally, the impact of the new first class rate should be considered in developing revenue estimates.**

**Management's Response**

The Office of Stamp Services has prepared and submitted a detailed budget plan for FY 1999. The Breast Cancer Program (BCP) was implemented outside of the normal budget cycle. An operating budget for the Breast Cancer Stamp was not established for FY 1998 for the following reasons: the FY 1998 budget had already been approved and locked in place; and it was not until early June of 1998 that the USPS Board of Governors approved the implementation plan and established the amount of the differential.

USPS has also projected revenues based on the level of awareness they hope to generate; these projections are difficult because they have no history to base it on.

**Evaluation of Management's Response**

We recognize why management had not prepared an operating budget for the Breast Cancer Stamp project for FY 1998, and that Stamp Services has prepared and submitted a detailed budget plan for FY 1999.

Management should ensure that the national budget for operating the Breast Cancer Stamp program incorporates all USPS components and includes all detailed expected variable costs.

In their reply, Management stated their intention to forego any of the incremental costs. Since these costs will not be recovered, a preventative cost controlling mechanism such as a variable cost budget with spending ceilings is needed. This will help to ensure that unexpected costs will be brought to management's attention before they are incurred, and will aid in assessing the completeness of the actual costs reported by corporate accounting.

Suggestions for the Chief Financial Officer, Senior Vice President:

- 2. Issue guidance to all offices that incur costs in connection with the Stamp informing them to use the assigned finance number and identifying where and how to report these costs.**

### **Management's Response**

USPS will continue to track all costs although senior management has determined that incremental costs involved in administering and selling the Breast Cancer Stamp will not be offset against the established differential. USPS anticipated that Stamp Services at Headquarters would incur the bulk of the costs relating to the stamp, therefore, management intentionally did not provide the program finance number to Retail Units or District Accounting Offices for control purposes. Additionally, corporate accounting has been pro-active in issuing procedures in regard to cost tracking. For Breast Cancer Stamp expenditures corporate accounting is reviewing all source documentation for accuracy.

### **Evaluation of Management's Response**

In their response management explained the rationale for not providing Retail Units and District Accounting Offices with the program finance number. The

decision was based in part on the assumption that Stamp Services Headquarters would initially incur the bulk of the costs. Management should consider distributing the program finance number to Retail Units and District Accounting Offices at this time for efficient administration of the program.

- 3. Identify and define what constitutes reasonable incremental costs incurred in carrying out this Act and develop a policy that incorporates this definition. Disseminate this information in a Postal Bulletin.**

### **Management's Response**

The Postal Service is tracking all costs associated with the BCP. The Postal Service has identified and defined what constitutes reasonable incremental costs incurred in carrying out this Act and the offices responsible for tracking costs. The policy was published in June 1998 in Administrative Support Manual Section 645. This information was also published in a Postal Bulletin article to ensure that there was a clear understanding among headquarters offices of the responsibility for maintaining information on tracking costs.

Senior Management has determined that the incremental costs involved in administering and selling the stamp will not be offset against the revenue received in excess of the First class mail single piece rate. The Postal Service has issued guidance to track all costs which was disseminated to the various offices as needed. Therefore, there is no need to further disseminate this information in a Postal Bulletin.

### **Evaluation of Management's Response**

The intent of our suggestion was aimed at having USPS spell out specific types and monetary thresholds. The ASM 645 (dated June 1998) clearly states: "ASM 645 does not spell out the types or amounts of "reasonable costs incurred by the Postal Service...That decision is to be made at a later date."



USPS management has subsequently decided not to recover any incremental costs against revenue received from the differential. We realize the sensitivity of this issue. However, we believe that the decision to absorb all administrative and selling costs could be construed as a donation by the USPS for breast cancer research. This donation would become an involuntary contribution by all ratepayers from established revenue rates and could be a precedent for administering any future semipostal stamps. We are continuing to explore these issues.

4. **Expedite the completion of the Memorandum of Understanding with DOD and NIH to ensure research payments are made as required.**

#### **Management's Response**

Management does not agree with the suggestion to expedite the completion of the Memorandum of Understanding (MOU) with DOD and NIH. Management is aware that the Act requires semi-annual payments to DOD and NIH. Management stated they have been proactive in meeting their obligations. The MOU with DOD and NIH is in draft form. Finance management held a meeting with DOD and NIH on September 3, 1998, to finalize the MOU. At that meeting the other government agencies (DOD and NIH) requested that the payment be made on November 1, 1998. Management stated they know that MOUs between government agencies historically have taken considerable time to be signed even when agreements have been worked out. Nonetheless, USPS is not at risk of failing to ensure that payments are made as required.

#### **Evaluation of Management's Response**

We recognize that executing formal agreements between agencies can take considerable time. We believe that having signed agreements in place before any payments are made would facilitate payment administration and minimize possible misunderstandings. We request that the OIG be provided with a copy of the MOU after it is executed.

We have prepared this assessment in order to provide you with feedback and to keep you fully apprised of our work. We plan to perform additional work in this area.

We appreciate the cooperation and courtesies of your staff in performing the review. If you have any questions or would like to discuss these issues further, please contact [REDACTED], or me on (703) 248-2300.

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