

GAO

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

March 1991

MAIL MANAGEMENT

The Department of Veterans Affairs Can Further Reduce Its Postage Costs



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United States
General Accounting Office
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General Government Division

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

Dear Mr. Chairman:

This report responds in part to your request that we review the effectiveness of federal agencies' management of their mail programs.¹ In an earlier phase of this work, we reported on the effectiveness of General Services Administration (GSA) leadership of federal agencies' mail programs and governmentwide opportunities for major cost reductions in agency mail programs. This report is our evaluation of the opportunities to reduce the Department of Veterans Affairs' (VA) postage costs through improved mail management. We reviewed VA's mail management program because it was one of the most costly among civilian agencies in fiscal year 1989.

Results in Brief

VA incurred \$48 million in postage costs during fiscal year 1989 and obtained about \$6.3 million in postage discounts. However, VA could save an additional \$4 million annually by increasing its mailing of prescription drugs and other pharmacy items at the fourth-class rate. VA medical centers' concerns about fourth-class timeliness of service in some geographic areas, while valid, could be overcome by changing VA's prescription renewal schedule policy or using alternative private sector mail carriers when fourth-class service is not considered adequate.

During our review a VA official said that VA had no plans to increase the use of fourth-class mail because it was considering centralizing the mailing of prescriptions. However, this plan was in the proposal stage and was not expected to be operational until 1992 or 1993. In the meantime, VA is not saving money.

Background

VA operates programs that directly benefit veterans and members of their families. Benefits include compensation payments for disabilities

¹Mail Management: GSA Needs to Improve Support of Agency Programs (GAO/GGD-90-49, Aug. 1990).

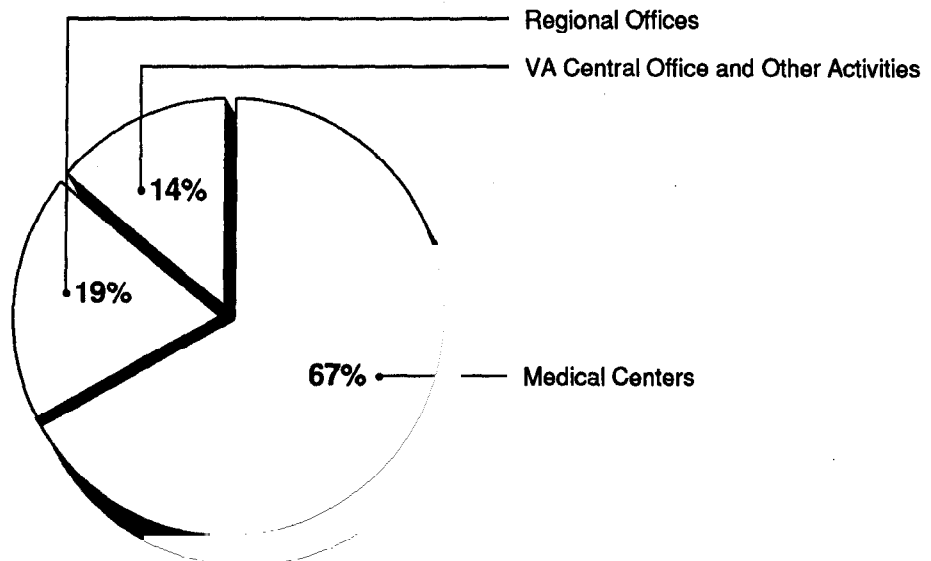
or death related to military service; pensions; education and rehabilitation; home loan guaranty; burial; and a medical care program incorporating nursing homes, clinics, and medical centers. VA consists of the central office, 172 medical centers, 113 national cemeteries, 58 regional offices, 236 outpatient clinics, 1 prosthetic distribution center, 3 supply depots, and 3 data processing centers. These sites use the mail to communicate with and provide medical supplies to beneficiaries.

VA's postage costs for fiscal year 1989 were \$48 million. VA has been able to keep postage costs relatively stable during the 5-year period from fiscal year 1985 through 1989 even though VA's total budget grew by about 14 percent, and the U.S. Postal Service's (USPS) first-class rates increased by about 25 percent during this time. However, charges for first-class postage increased 15 percent and priority class increased 19 percent on February 3, 1991, when USPS' new postage rates took effect.²

Of VA's total \$48 million in postage costs for fiscal year 1989, about \$32.3 million, or 67 percent, were incurred by the medical centers through VA's pharmacy mailout program, which sent items such as prescription drugs, prosthetics, dental molds, and eye glasses. About \$9.2 million, or 19 percent, of the costs were for regional office mailings to veterans concerning benefits information. The remaining \$6.5 million, or 14 percent, consisted of mail sent by the VA central office and mail generated by other VA components. (See fig. 1.)

²Priority-class mail is first-class mail weighing between 12 ounces and 70 pounds.

Figure 1: VA Fiscal Year 1989 Postage Cost Breakdown, by Department



VA's Mail Management Program

VA mails under two basic categories—penalty and direct accountability. Penalty mail is official correspondence or mail that is generally sent by federal agencies without prepayment of postage and authorized by law. Agencies sample their outgoing penalty mail four times a year to estimate their penalty mail costs and then pay USPS their estimated costs. At the end of the year, USPS reviews VA's estimates and determines any balance due amounts. Direct accountability mail is mail that USPS requires to be individually counted through the use of a postage meter, permit imprint, or stamps. Most medical centers, VA's central office, and the National Cemetery System exclusively use penalty mail. The regional offices and the eight medical centers connected with a regional office meter their mail.

Regional offices meter their mail in order to take advantage of presort discounts offered by USPS. Presort is a method by which mail is sorted by ZIP code before it is turned over to the post office, in order to obtain postage discounts. USPS offers varying discounts depending on how finely the mail is sorted. To qualify for presort discounts, mail must either be metered or have a permit imprint so that it can be accounted for when delivered to the post office. Penalty mail does not qualify for presort discounts.

VA's central office allows the medical centers not connected with a regional office to use penalty mail. The physical characteristics of this mail—prescription drugs and other pharmacy items—do not allow it to be presorted easily. Consequently, VA officials said metering each individual piece of medical center mail would be labor intensive and expensive. The National Cemetery System and other VA operations continue to use penalty mail because their mail volumes are too low to qualify for presort discounts.

Objective, Scope, and Methodology

Our objective was to identify opportunities for reducing VA mailing costs through improved mail program management. To determine what postage discounts VA was taking advantage of and to identify other postage discount opportunities, we interviewed VA officials at the central office and the Philadelphia regional office and medical center. We selected the Philadelphia regional office for review because it (1) is responsible for a wide variety of operations; (2) offers the same basic services as other regional offices; and (3) is also a data processing and insurance center, making it the largest VA regional office.

We also analyzed VA mail policies and procedures, internal studies on mail operations, and postage usage and cost data. We obtained information on a mail order prescription drug program sponsored by Blue Cross and Blue Shield to determine how this organization mailed prescription drugs and other pharmacy items and to compare its mailing practices with VA's prescription mailing practices.

We did not validate VA's postage costs because these data are audited by USPS. We discussed the results of our work and our recommendations with VA officials and incorporated their comments where appropriate. We did our work from August 1989 to November 1990 in accordance with generally accepted government auditing standards.

Recent VA Actions to Reduce Postage Costs

In fiscal year 1989 VA obtained about \$6.3 million in postage discounts by (1) taking advantage of a reduced rate negotiated with USPS for mailing prescription drugs and other pharmacy items, (2) eliminating business reply mail envelopes, (3) presorting mail, and (4) using alternative mail carriers.

VA's 1985 zone-rate agreement with USPS reduced its postage charges by about \$4.1 million in fiscal year 1989.³ In 1985, VA negotiated an agreement with USPS whereby all priority and fourth-class mail would be charged the zone 3 rate. In contrast, most government agencies are charged the more expensive zone 5 rate, which, according to USPS, is an appropriate average rate for most mail.

Business reply mail services allow a mailer to pay postage on mail returned from customers. USPS charges VA the postage costs plus an 8-cent per piece accounting surcharge. In 1988, VA eliminated using business reply mail envelopes in prescription refill notices to veterans. This initiative reduced VA's fiscal year 1988 postage costs by about \$1 million and saved about another \$300,000 in fiscal year 1989.

VA officials estimated that they saved \$752,000 in fiscal year 1989 by taking advantage of USPS's presort discounts. Thirty-seven of the 58 regional offices presorted their mail, resulting in an estimated \$332,000 savings. In addition, the Austin, Texas, and Hines, Illinois, Data Processing Centers presorted their mail, saving an estimated \$260,000 and \$160,000, respectively.

Another VA cost-saving initiative involved using an alternative mail carrier to deliver bronze grave markers to qualifying veterans' grave sites. The agency estimated this initiative reduced mail costs by \$126,000 in fiscal year 1989.

More Can Be Done to Reduce Postage Costs

In fiscal year 1989, VA medical centers spent about \$25 million for postage and fees to mail items such as prescription drugs, dental molds, and prosthetics under the pharmacy mailout program. However, only about 10 percent of these mailings used the fourth-class rate.⁴ Mailing medical center items first class in fiscal year 1989 cost \$11.7 million. However, we estimated that mailing these items at the fourth-class rate would have cost only \$7.3 million, a savings of over \$4 million annually.

³A postal zone pertains to the distance between the origination point of mail and its destination. USPS has established eight zone rates. Zone 1 represents a radius of 50 miles from the origination point, zone 3 represents 300 miles, and zone 5 represents an area within 1,000 miles of the mailing area.

⁴Fourth-class mail is a lower cost mail service available for packages that weigh up to 70 pounds for which USPS does not guarantee delivery within a specified time. Fourth-class mail is subject to deferred service, therefore delivery times may vary based on the volume of higher priority mail being processed.

A June 1989 VA study of the pharmacy mailout program concluded that medical centers' pharmacies should increase the use of USPS' fourth-class rate when mailing prescription drugs and other pharmacy items. Switching to fourth-class mail would achieve savings with no additional expense. Medical centers, however, opposed using fourth-class mail because of concerns about timeliness of delivery. To ease these concerns, the study recommended that VA's central office work with national and local USPS officials to improve the timeliness of fourth-class mail delivery. During our review a VA official said that the use of fourth class needs to be evaluated at each of the medical centers, because the last time the medical centers reviewed the use of fourth class for mailing prescriptions and other pharmacy items was over 4 years ago.

The study also recommended using alternative carriers, such as United Parcel Service (UPS), in areas where fourth-class delivery is not timely. UPS delivery times are 1 to 6 days nationwide. A USPS official said that delivery time for fourth-class mail is 3 to 10 days, although fourth class is subject to deferred service. In addition, UPS rates are lower than USPS first-class priority rates. However, there would be costs involved with using UPS. One-time costs for computerized scales and printers that would produce documentation, parcel identification, and labels to meet UPS requirements would range from \$2,000 to \$8,000 per site. On the basis of the VA study, we found that additional labor costs for creating required UPS documentation would cost about \$19,000 at high-volume sites needing a full-time employee and \$9,600 at low-volume sites for a part-time employee.⁵ In addition, UPS charges a \$4.50 per week pick-up charge for each site.

The study also recommended revising prescription renewal schedules to allow more time for delivery. Current VA policy allows a prescription to be renewed 10 days before it is needed. However, this period could be extended. A federal employee prescription plan generally allows an enrollee to obtain a prescription for a 90-day period and to renew that prescription within 25 days prior to depleting existing supplies.

During our review the central office mail manager told us she had no plans to follow through on the recommendations because the pharmacy service was considering the centralization of prescription mailings.

⁵Full-time employee cost is based on the 1991 GS-3, step 5 salary of \$15,319, plus a 26-percent fringe benefit cost of \$3,983, for a total cost of \$19,302. Part-time employee cost is based on the total cost of the full-time employee for a 20-hour work week ($\$19,302 / 2 = \$9,651$).

Under this proposal, most medical centers would no longer mail VA prescriptions; the prescriptions would be mailed from only a few locations. Consequently, the mail manager did not want to modify mailing of prescriptions until centralization was complete. However, this idea was only in the proposal stage, and, if approved, would not be implemented until 1992 or 1993. In the meantime, VA is losing millions of dollars in postage savings. We believe that the study recommendations will resolve the medical centers' timeliness of delivery concerns.

Conclusions

In recent years, VA has taken positive actions to reduce and control postage costs. However, sound mail management practices need to be applied to their fullest for VA to realize the fullest possible savings. VA should reconsider its study that recommended that medical centers mail prescription drugs and other pharmacy items at the fourth-class rate. By using fourth class for all prescription items, VA could save about \$4 million annually. Concerns about fourth-class timeliness of service, while valid, could be overcome by changes to VA's prescription renewal schedule policy or using alternative mail carriers at centers where appropriate.

Recommendations

We recommend that the Secretary of Veterans Affairs

- revise the prescription renewal schedule to allow veterans to renew prescriptions more than 10 days before they are depleted;
- direct the medical centers to reevaluate the adequacy of fourth-class service at each center and require the centers to mail prescription drugs and other pharmacy items fourth class where service is determined to be adequate; and
- direct the medical centers to consider use of alternative mail carriers, if cost effective, at centers where fourth-class service is not considered adequate.

Agency Comments

We discussed a draft of this report with VA officials on February 20, 1991. VA officials said that they did not want to extend the 10-day prescription renewal period because the 10-day period reduced the chances of a beneficiary becoming confused with prescriptions and taking more than one dose at a time. VA officials also said that, in their opinion, VA is currently using fourth-class mail service as much as possible. They could not, however, provide evidence indicating that fourth-class service was inadequate. In fact, VA officials said that the last time fourth-class

service was evaluated was in September 1986 and that no results of this study were available for review. Without a more recent study, VA does not know whether fourth-class service would meet its needs. VA officials stated that most medical center mailings were delivered to the Postal Service 6 to 7 days before a prescription was depleted. Postal Service officials said that fourth-class mail sent about 150 miles, the average distance for VA medical centers, would be delivered in 4 days. VA officials agreed that alternate carriers may be appropriate for the medical center mailings and said that they would test the use of an alternate carrier in the near future.

We continue to believe that VA should also reevaluate the use of fourth-class mail (the planned pilot test would be one opportunity) and also reconsider extending the renewal period if this would be necessary for timely delivery of fourth-class mail.

We are sending copies of this report to interested congressional committees and subcommittees, the Secretary of Veterans Affairs, the Director of the Office of Management and Budget, and other interested parties.

The major contributors to this report are listed in the appendix. If you have any questions or need additional information, please call me on (202) 275-8676.

Sincerely yours,

A handwritten signature in black ink, reading "L. Nye Stevens". The signature is stylized with a large initial "L" and a cursive "Nye Stevens".

L. Nye Stevens
Director, Government Business
Operations Issues

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